Money with Roots

by Ken Meter

How farm families subsidize the U.S. economy

Crossroads Resource Center

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This review of U.S. farm policy, documenting the impact of federal policy on rural communities, was originally published in 1990 by Crossroads Resource Center.

This second edition, published in 2001, is unchanged in content. Charts and type have been made more readable. Although the critical importance of local credit sources to rural communities remains highly relevant, it should be remembered that several specific events cited occurred in the 1980s. Not all of these events would be interpreted in the same way today.

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Gordy Bates, beaming in his house overalls, beckoned us into the warmth of his living room. Bill Harjes and I rapidly accepted, riding a flood of frigid January air through the doorway. Extending a burly hand, Gordy beckoned us into the circle of farmers. Opened beers appeared in our palms before we could settle into our chairs.

We were the last to drift in after the evening milking. This group of farmers, who had been close neighbors on Green Isle for two decades and more, launched into stories enthusiastically. It was the first time these neighbors had been together for months.

At one time, such meetings were commonplace. That was 30 years earlier, when prices were higher and equipment smaller, and the community more focused on itself. The workday was "a hell of a lot less then what these guys put in now, the guys who are really milking a lot of cows," recalled farmer Kenny Narr.[1]

"I can remember my grandfather. When it came to be six in the evening, the horses were put in the barn. Every dang night, that was it. After dinner there was time with the newspaper, to play cards, or to hitch up the team and ride to the neighbors for a visit."

Gordy Bates added, "I can remember when I was a kid in the lake country. If she rained, there wasn't a single farmer in the whole neighborhood who wasn't out on the lake at seven o'clock every morning, and you fished all day. If it rained five days straight, then you fished five days straight. If a farmer wasn't out on the lake, then you figured he had pneumonia or something."

Not to suggest these farmers are lazy, for this group in Green Isle are people who were cautious borrowers and hard workers. All of them survived the 1980s farm crisis. But they also know they have taken on more acres and more animals than they feel is healthy. And they remember the time when there was a limit to work. What a modern financier might view as "unproductive" time the community used to build bonds – to learn about each other in a way that working together does not teach.

Relaxing on a rainy day was one way of respecting natural cycles. The church celebrated the passing of the seasons in a fervent, immediate way. Caring for an elderly neighbor or sharing a hobby with a schoolchild were natural ways of building community.

Similarly, a farm couple could start to farm simply by starting to farm. They did not have to first appease an outside lender – though they might have to convince a neighbor or relative it was worth giving them a chance.

Starting Out

Another farmer in the group told how he and his wife had gotten their start. "Ginny and I started out in 1952 on shares. [Rather than paying cash rent, they gave the landlord a share of their produce.] We had a little over 300 chickens. We sold candled eggs. When we finally left there, we'd put money in the bank. I'm not kidding. But eggs were around 50 cents a dozen. Before the bottom went out of the market. For two or three years we did that; every once in a while we'd have $50 or $100 to put into the bank."

In time, they were able to buy the farm they run today. Self-starting was not simply the Kreger's way; it was also a community-wide ethic. It was expected that you could finance yourself. Federal programs created a climate in which this was possible by holding farm income high. If a farm family could not finance themselves, they might seek out credit from a father. If that didn't work, they might ask an aunt, uncle, or grandparent. A trusted neighbor might offer to help.

"That's when I started," added Gordy Bates. "It was like a sin to borrow money. Only as a last resort would you go to a bank. And even then they would laugh at you, as if to say, 'Why should a farmer need to borrow money?' But borrowing was the only way I could get started."

Gordy and his wife, Sherrie, now own a large dairy, hog, and cash grain operation in Green Isle. They are helping their five children through college with that farm, fighting hard against dairy cutbacks. His children have already begun to raise their own animals as a step toward a farm or purchases of their own. But those animals will not go far toward a mortgage.

Today a small operation like Kreger's seems almost quaint. If you want to say, "I raise eggs," you have to contract with a major chick producer, borrow for a $100,000 barn, and sell everything you produce to a single buyer. If you behave and don't bend the rules, the supplier won't repossess your equipment before you repay your debt.

"Modern" style farmers would argue that this is indeed a better way to farm: we produce more eggs at lower cost, eat more eggs, have bigger processing plants. We feed more people per farm.

The Kreger's first operation seems inefficient by comparison though it was the best they could do on their own. A relatively small circle of people was helped by their work. They could buy grain from a neighbor if they didn't raise their own. They could buy feed supplements from the local elevator if needed. Local merchants sold them clothing made in Minneapolis, butter from their neighbors' cows, and handmade German sausage. The local mechanic would fix their tractor better than anyone else. The school was filled with students. Eventually the local bank gained a loan. Taxes were paid.

Nearby, hundreds of others did the same. Community was built around what people produced for each other. Even banks helped to build community by investing their money wisely for the general good.

Green Isle exported crops to distant markets and brought equipment from factories far away. Unlike today, however, the community sold its surplus for export. It did not depend on exports for sustenance. It had not yet forgotten how to raise its own food or to repair its machines. Farm equipment was manufactured at a local factory.

A surplus was generated which cycled through the community. People could afford to take time to do things for each other: church groups and 4-H clubs became vital centers of community life. There was a limit to work. When Jim Kreger's parents retired, they could build a small second house on the homestead. The elders could have privacy, be near the family, and still be useful in running the farm.

A Livelihood, Not Just a Job

The Kreger's farm produced a **livelihood**, not jobs. It furthered a tradition. More important, it could be bootstrapped. A young farmer, age 20, had all the resources he needed at his or her disposal to begin farming. It was self-generating.

This is a natural process: plant a seed of corn and get hundreds back. Raise a cow and a bull, and soon you are blessed with a half dozen new cattle. If our economy cannot support this miracle of growth, then what can it accomplish?

Unfortunately, our economy is squandering its resources by exporting factories abroad, buying expensive weapons systems, tying up capital and credit in unproductive corporate mergers.

The family farm once mirrored natural processes of increase and production. A family farm generated a new family farm. A plot of land was carefully worked by generations of sons and daughters who observed old ways and tried new ones.

By contrast, if Jim were a young man today, he might feel lucky to get a job at a fast-food restaurant where he would punch a cash register button marked "scrambled eggs." Rather than learning the intricacies of incubating chicks, he would be forced to follow someone else's prescribed procedures. The profit from his labor would leave the community immediately. He would have almost no hope of buying a farm.

What was different in 1950? Back then, federal policy supported livelihoods, not jobs. Rather than provide welfare payments to large, wealthy farmers, as current policy does, federal policy **set rules that helped rural communities to be self-sustaining**.

Such policies blended the best of conservatism with the best of liberalism. Rather than claiming to keep federal hands "off," such policies offered **new choices** to rural communities.

Credit as a Lens

Whether a rural community has the chance to take advantage of its new options depends a lot on whether it has access to credit on fair terms. Many good ideas fall by the wayside for lack of credit; many fortunes are squandered by those who borrow foolishly.

Credit is, in fact, a powerful lens for looking at the farm economy. As we have seen, credit has always been the bone of contention between farmers and rulers. One of the first tests of the newly independent United States came in 1776 when angry farmers demanded that Massachusetts legislators declare a moratorium on debt payments. Though flushed with Revolutionary fervor, Massachusetts formed a militia to crush Shay's Rebellion.

Credit has come to be the point of balance between rural communities and the rest of the country. Credit is also one of the major links between agricultural sector and the federal government. A rural community could be entirely self-sufficient if it chose, using its own seed, manure, homemade tools. It could choose to feed none but themselves, and could live quite well with no outside credit sources.

Credit is a neglected gauge that could help to measure the economic health of a rural community. Credit reflects a complex range of factors: the costs of machinery and farm inputs, the price of commodities, the impact of climate and soil. It is hard to know when a farmer, or a rural community, has "enough" or "too much." Sufficient credit is different in Virginia than in Wyoming, or from one side of a mountain range to the next. The proper answers are local answers, made in a specific context. Credit does not lend itself well to sweeping federal formulas. For that reason it is often ignored. For that reason it is important to understand.

Credit is interrelated with a variety of other indicators we now use to gauge economic "health." We may say that farm prices are improved, and feel that they farm economy is healthy. But what if other prices increase faster?

We may say that land prices are higher, and feel the farm economy is stronger. But what if prices are so high farmers cannot afford to plant?

We may say that farm income is high, and then feel the farm economy is improved. But how does that farm income relate to farm expenses?

We may say that farmers are buying more equipment, and say the farm economy is healthy. But what if they cannot afford that equipment?

One measure that blends all of these into one equation is credit. Credit is a gauge of both the money flowing **into** a rural community and the money flowing **out**. It measures a **balance** between income and expense.

A given rural community, with certain soil and climate, certain access to markets, with a certain number of skilled people, selling their crops at a certain price level, with certain input costs, land costs, and a certain interest rate, has a specific **capacity** to assume debt. If it takes on more debt than it can handle, the community exposes itself to dependency. If it takes on less than it can handle, it may pass up important new opportunities.

Community Capacity

Currently, we do not measure a community's capacity for credit. It is likely to prove difficult to pin down, especially if we continue to allow farmers to plant without knowing what price they will receive for their crop.

There are, however, some measurements that can be made with data that is already being collected. One is to look at the balance between individual and institutional loans. Another is to ask if expansion in farm production **adds to** or **reduces** farm debt.

A healthy farm economy will have a **variety** of sources of farm credit. Farmers will have choices among several creditors offering favorable terms. A dependent farm community will have a limited number of options – often these will be controlled outside the community.

Individual lenders (and certain bank loans) are important because credit can be viewed as a way of building community. An uncle can express his wish for his niece's success by loaning her money to farm. A rural bank can make it possible for a young farmer to enter the community.

When such loans are not available, it is important to have more impersonal options as well – loans that are more likely to allow a farmer to test a new technology, or that allow a younger farmer to operate differently than his relatives.

When individual credit is too important, the abuses that southern cotton farmers suffered under the crop lien system became possible. On the other hand, when certain lenders become the only source, credit can fragment community.

Individuals have often been the most common source of farm credit in the U.S. On the frontier, for example, much of the credit came from speculators who loaned to homesteaders well before banks entered a given territory. Until 1916, there were no federal farm credit programs, because rural communities obtained credit from private sources.

In 1920, 70 percent of all farm mortgage debt was held by individuals. When the Depression hit nine years later, that figure had dropped to 45 percent.[2]

From 1920 to 1934, the percentage of new mortgages extended by individual lenders fell from 60 to 14 percent of total loans.[3] In the five years ending in 1934, the percentage of new farm mortgage loans offered by banks fell from 23 to 8 percent. New farm mortgages by insurance companies dropped from 14 to 3 percent. The federal government emerged as the prime lender.[4]

Individuals who lent money continued to be an important source of farm credit during the Depression. They held about 40 percent of the outstanding debt even though the total amount loaned declined. Not until the late forties would their share of outstanding debt increase, after federal lending pumped funds back into the rural community once again.[5]

The Importance of Individual Lenders

In 1950, the USDA considered 72 percent of the nation's 1.5 million farms as free of mortgage debt. Total farm mortgage debt was merely $5.6 billion, down $4 billion from 20 years before. As Table 1 shows, 42 percent of the farm mortgage debt was held by individuals. Most of these were relatives or neighbors of the farm borrower.

Table 1. Percent of Farm Mortgage Debt Held by Major Category[6]

	1950	1985
Federal Credit System	16 %	42 %
Farmers Home Administration	1	10
Banks	17	11
Individuals	42	26
Insurance Companies	21	11

Note: Technically, the term "Federal Credit System" did not yet exist in 1950.

By contrast, in 1985, 52 percent of farm mortgage debt was held by federal agencies. Individual loans receded to 26 percent.

Expansion and Debt

Table #2 shows that the post-Depression recovery created farms that were larger, more debt free, and less beholden to interest payments. There were important regional variations but overall, rural individuals were in a better position to lend to each other when the need arose.

Table 2. Changes in Farm Mortgage Debt From 1930 to 1950[7]

Year	Number of Farms	% Free of Mortgage	Amount of Debt	Interest Payments
1930	2.5 million	60	9.6 billion	577 million
1935	2.3	66	7.6	414
1940	2.4	61	6.6	300
1945	1.7	71	4.9	222
1950	1.5	72	5.6	250

The farm expansion of 1970 to 1980 was starkly different. In this period, farm productivity rose sharply to the point that agriculture became the most "efficient" sector in the economy (if measured in crude dollar terms, without accounting for the environmental, social or emotional costs of the expansion). New markets, new capital, and new technology conspired to **increase** farm debt as the economy expanded:

Table 3. Farm Debt (Real Estate and Non-Real Estate Combined)[8]

1970	$ 39.4 billion
1973	50.0
1975	64.5
1980	113.7
1985	222.1

1950, then, marked a watershed in the farm economy. That year marked the last era in which a farmer was free to believe that "it's a sin to borrow money" and still farm in the mainstream economy. Green Isle, in fact, was one of the last communities to hold this belief. 1950 marked the last era in which rural communities could supply their own credit needs. It marked the beginning of the era in which farmers would be considered valuable by lenders, not for what they produced, but for what they **consumed** in equipment, chemicals, and debt.

As Wes Jackson was to say in the 1980s, farmers began to "launder" capital for urban banks. Massive amounts of capital entered, and quickly left. No longer did farm dollars cycle back primarily to local business. The majority of farm dollars purchased combines, trucks, chemicals, or seed from distant sources. The local merchant was merely the retail outlet, no longer as central to weaving the fabric of community.

An even more helpful way to measure the health of a rural economy is to look at interest payments. Interest measures the cost of money. It is a completely unproductive transfer of funds. In a healthy economy, payments will remain relatively low and stable.

When interest is paid to local credit sources, the money cycles back through the community, just as principal payments do. When the creditor is outside the community, however, interest is almost totally lost. It returns to the lender and is invested elsewhere. Chronic, high interest payments to outside lenders mean a chronic loss of capital.

Interest payments are more sensitive than debt levels since debt is a more ambivalent measure. Falling levels of debt can mean stagnation; rising levels can mean solid new investment opportunities. Interest payments are always a flow of money away from the borrower. Even if a borrower is profiting off interest payments, the borrower is likely to take steps to reduce interest paid, if possible.

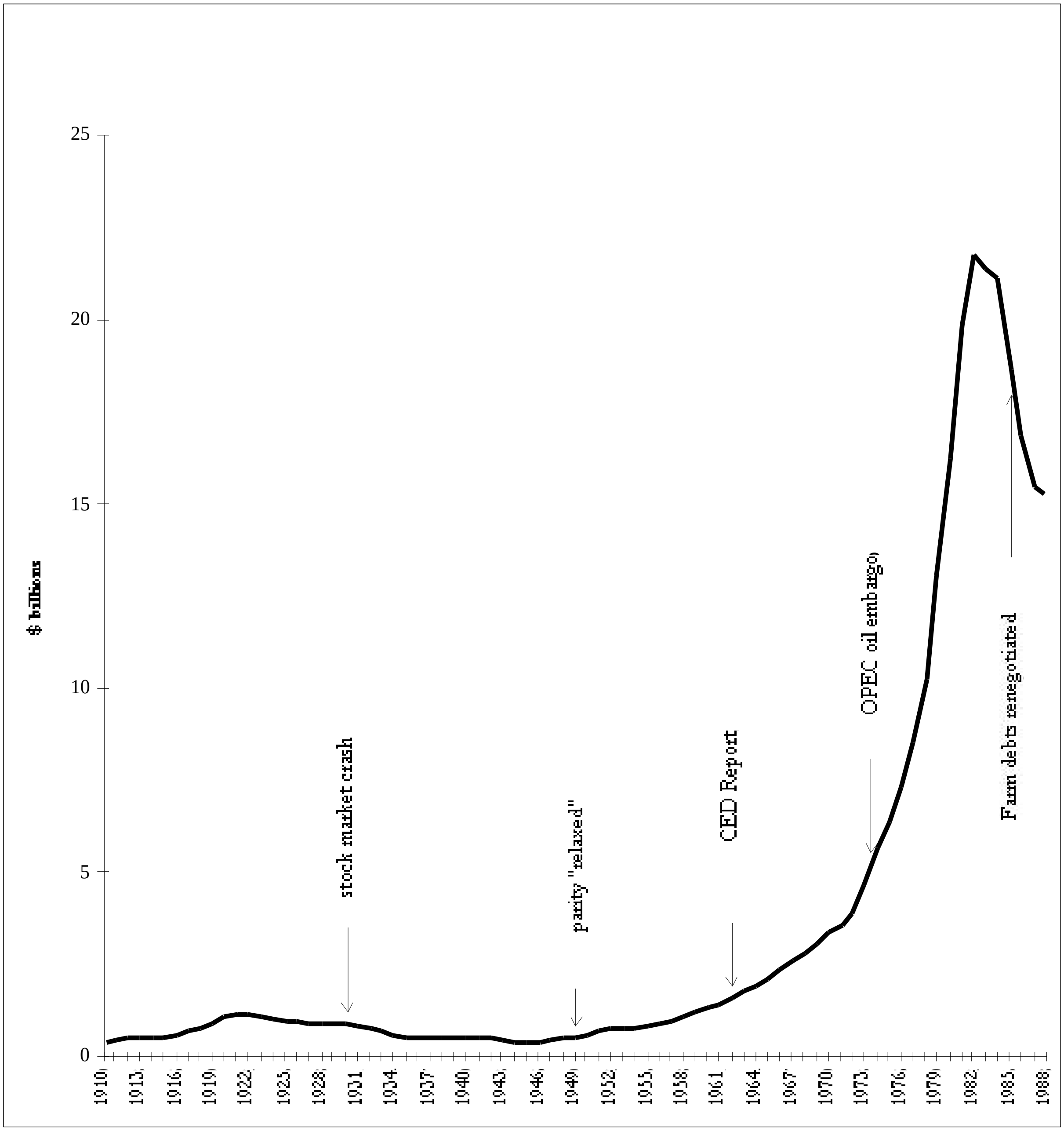
Interest Payments Soar

The graph on the next page shows interest payments made by farmers in the U.S. for both real estate and non-real estate debt. During the Depression, interest payments slowly subsided. Payments bottomed out at the same time the Truman administration began to dismantle parity pricing. Interest levels rose more rapidly after about 1964. Following the oil crisis, interest levels skyrocketed until the farm crisis of the 1980s set in.

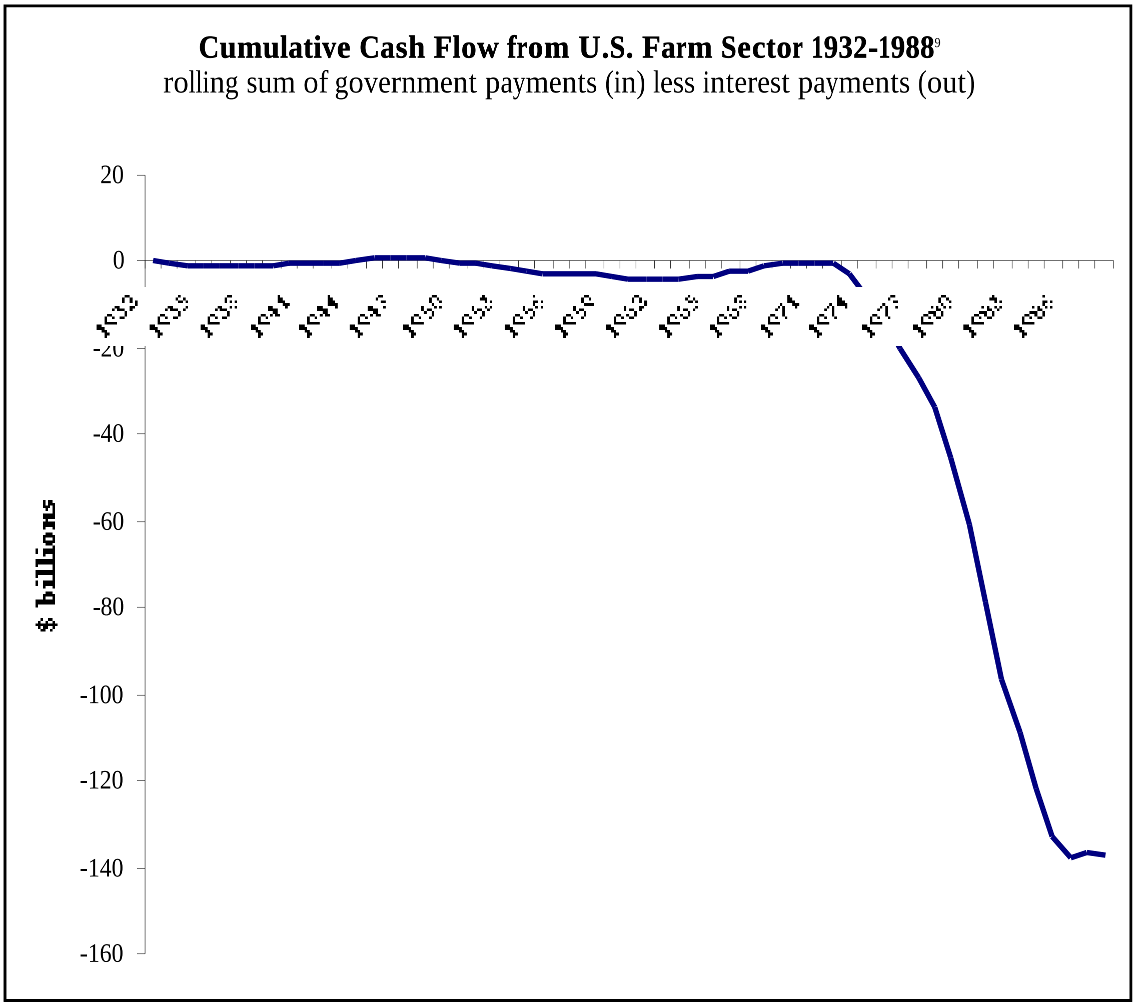
Though it could be argued that this rise in interest payments might be offset if farm income rose enough, this has not happened. Net farm income dropped steadily from 1973 to 1983, when it bottomed out at $13 billion. Farmers paid out nearly **twice** (169%) that amount in interest payments that year!

This look at interest payments made by farmers also clears up the common misunderstanding that farmers are somehow unfairly propped up by government support payments. Of course, some individual farms do obtain unfair windfall payments. But this is hardly true for the farm sector as a whole.

Interest Payments by Farmers 1930-1986[9]



From 1933, when the government first began to make direct payments to farmers, until 1972, payments to farmers roughly equalled what farmers paid out in interest. However, the export-driven farm economy thoroughly upset this balance. As the chart below shows, interest payments in the seventies far outpaced government income supports. The farm sector lost three-fourths of the year's net farm income, more than $18 billion, in 1982 alone. In the space of merely fourteen years, a total of $138 billion was transferred away from rural communities – three years' worth of net farm income (1986-1988).



These graphs portray only the economic side of the story, of course. When the local dealer succumbs to national chains, the community loses in less tangible ways. Good managers get promoted to a larger outlet in a bigger town. New, inexperienced people take their place. The community does not develop a core of local businesspeople who learn to work together to take leadership. Nor do they stay long enough to build close ties with farmers.

In this era, farmers were caught up in new systems of dependence that they did not ask for or want. A few strong-willed families kept to the old ways, thousands of others were forced out of farming and labelled as backward. Rural communities lost the sense of defining their own lives. Many of the remaining farmers became "hooked" on large machinery and massive debt. Soil began to be addicted to chemicals.

This dependence would worsen in the 1980s. One of the most perceptive groups to notice this change was the U.S. Catholic Bishop's Conference.

A Blind Spot

The first public draft of the Bishops' economic pastoral (quoted earlier) did not include a section on agriculture. One was planned, but the writing committee was not of a single mind. They delayed the farm chapter.

The Heartland Report ("Strangers and Guests," published in 1979)[10] had made a poetic, compelling appeal for justice in the food system, for protection of small family farmers and the decentralization of economic power. The Bishops wondered if these moral calls would stand up under the light of economic realities.

According to Bishop George Speltz of St. Cloud, Minnesota, the group was divided. "There was a gap between the Eastern seaboard and the heartland members of the panel. There's a tendency for those from the Eastern seaboard to take for granted that food and fiber will be available. That was a blind spot they had.

"The turning point came when one of the more astute economic minds on the panel came to the realization that it is not good for food to be produced on large-scale industrialized farms. Increased capitalization makes the farm sector unstable, because capital is mobile enough to move out."[11]

Rural communities – like urban ones – need capital that "takes root."

Money That Takes Root

"Taking root" means that when a farmer earns $100 selling his produce, a good portion of it cycles through the community helping others there to make a living as well. A farmer might hire a local welder to repair a part for his tractor, pay a neighbor's daughter to feed his livestock, or pay interest to a local bank. All of these contribute to the flow of money through the community, if all of these people use their money close to home.

Money changes hands, but it is more than a market change. It also builds bonds of mutual interdependence among neighbors, and helps to weave the fabric of community.

In such a place, money is more than money. It becomes related to a series of gifts that people give each other. When a farmer hires a local welder, he also is saying, in effect, "I value your work and I want you as my neighbor. I want to be able to depend upon you for this one thing." The welder, in turn, responds, "I want my skills to be useful in solving problems my neighbors face. I want to have a place here."

Both the farmer and the welder also have similar links to others in the community. The welder might buy milk from the creamery the farmer supplies. Both pay school taxes. The banker might look for a machinist to lend to, so that both the welder and the farmer can make better tools.

In such a place, money cycles through networks. The work of one person in the community may augment the work of others. One person's profit may become another person's income. One person's need draws out another's talents. People make a living by exchanging their personal talents.

On the other hand, those who believe in "mobile capital" as an ideal also believe in isolated people who interact quite impersonally, who trade only on the market. The farmer buys his new parts from a corporate warehouse a thousand miles away. His neighbor's son is unemployed while the farmer pays for Arabian fuel. The interest payments to Chicago banks get loaned to soybean growers in Brazil. The farmer might not know who his neighbors are. Or he might know their names but not value their talents. He would feel he is not dependent upon them.

In such a place, farmers merely launder money. Money whisks in as massive debt, and whisks back out, barely roosting in the farmer's checkbook. Such communities find themselves raising commodities for export while they neglect their gardens. People stop nourishing each other. They become hungry in the midst of stockpiles of food.

Networks of community break down. An isolated entrepreneur, the farm manager has a series of one-way relationships with several distant suppliers. Farmers buy retail and sell wholesale, since they cannot negotiate over price.[12]

Farms become islands, wholly dependent upon outside support. Capital, as the Bishops said, is mobile enough to move out.

Mobile Money

The history of agriculture in America could be viewed in the terms proposed by Bishop Speltz: as a conflict between community rootedness and mobile capital.

This sharp conflict has deepened since the days when Green Isle farmers had their own sources of credit. The postwar migration from rural areas to the cities – the largest migration in the history of the world – forced millions of farm families off their land, even as farmers became the most productive industry in America.

Those who idolize mobile capital effectively forced farm prices low in order to extract capital for urban or foreign investment. Farm families, as seen by those who held this view, lost their humanity. Depersonalized as factors of production, farm families were said to harbor "surplus labor," that should be "exported" to industry.

Such planners faced a strategic dilemma. They wished to displace farm families off the land. Some honestly believed this was best for farmers. In order to keep wealth flowing, they needed to do so without disturbing production. They also needed to convince farmers that such changes were in their own interests.

Their answer was to convince farmers to accumulate massive debt – rather than to demand cash income. By "substituting debt for income," as Nebraska banker Vince Rossiter puts it, farmers had more money to spend, and could purchase bigger equipment, new chemicals, and more consumer goods. The hitch was, farmers would become more and more dependent on financial centers. Increasingly, to obtain credit meant pleasing a creditor.

Under this strategy, farmers unwittingly participated in the demise of their own communities. They came to see profit and prestige as more important than the rural values that once sustained them. They began, like urban people, to live beyond their means, propped up by a "fix" of chemicals, credit, technology, and ideas – all manufactured outside the farm community – and brought in to reinforce this downward spiral of dependence.

The Populist Movement – How Farmers Devised an Economic Program

To fully understand this enforced depletion of rural communities, it is necessary to delve even further back into history, to a time when rural people devised some of the most brilliant proposals ever conceived for making America a more democratic nation. The heart of this rural program was a thorough transformation of the American economy.

During a twenty year period at the end of the 19th Century, farmers educated themselves about the American economy, mounted a sophisticated campaign that aimed to overturn an oppressive debt structure, and forged a grassroots movement that led to the formation of a new political party, The People's Party. Now this Populist era is almost forgotten.

Active throughout the South and Midwest, Populist leaders mobilized more than a million farmers into a national movement. The foundation for this movement was thousands of county-level chapters with 25-50 members each, where farmers learned together, sometimes performed secret rituals, and struggled to survive. They established a huge network of local, farmer-owned cooperatives financed with capital scraped together by desperately poor rural people earning $300 to $1000 per year.

This movement was so inspired that many of its core proposals now stand as the basic financial insitutions Americans take for granted. Yet the program was so threatening to the business elite that the Populist leaders who proposed these reforms were beaten down before their proposals were considered. The Populist program for democratic money was stripped of its essential democratic core, and adopted as law in a form that would ensure that business interests could continue to dominate.

Their program for self determined communities was diluted by lawmakers into a national banking system that kept capital mobile. As a result, wealth was more systematically extracted from rural areas worldwide, and invested in industrial expansion. This crippled farm regions throughout the world, weakening the global economy enough that when capitalists made foolish investments on artificially inflated stock, a global depression ensued. The Great Depression was not just am American calamity – it was a worldwide crisis in which rural areas around the world were forced into common economic dependencies. The farm crisis was a major cause – but this fact, too, has been obscured.

The Populist movement emerged out of the frustrations of cotton farmers who labored under a ruthless system called "crop lien" in the wake of the Civil War. To understand the plight of these farmers, a little background on the 19th Century economy is useful.

Not only had the war killed and maimed the soldiers who struggled in the battlefields, it also wrought havoc on the American economy. The victorious Union invalidated the Confederate currency, but this put pressure on the Union dollar. As slaves were liberated, crop production plummeted. With financial reserves drained by the costs of battle, bank after bank failed in the South.

One hundred twenty-three counties in the state of Georgia were left with no banking facilities of any kind. The entire South had only one-fifth as much money in circulation (through national banks) as did the state of Massachusetts alone. Arkansas national banks held merely 13 cents in accounts per resident; Rhode Island had $77.16.[13]

The Crop Lien System

In many southern locales there were simply no cash loans to be found. The only source farmers could turn to was local creditors – individuals who could loan seed or supplies, taking payment at harvest from the farmer's crop. In exchange, the creditor claimed a "lien" on the farmer's produce. Often the interest charged ran as high as 200%.

But this same creditor was the farmer's sole supplier. The farm family had to buy cloth, sugar, salt, meat, and other essentials from that same person. No one else was nearby. Lawrence Goodwyn, one of the most knowledgeable historians of the era, recounts in his book, The Populist Moment, a "simple scene [that] occurred daily, year after year, decade after decade, in every village of every southern state" after the Civil War:[14]

> "The farmer, his eyes downcast, and his hat sometimes literally in his hand, approached the merchant with his list of needs. The man behind the counter consulted a ledger, and after a mumbled exchange, moved to his shelves to select the goods that would satisfy at least a part of his customer's wants. Rarely did the farmer obtain everything he asked for. No money changed hands. The merchant merely made brief notations in his ledger. The scene might be repeated two weeks or a month later.
>
> "At 'settlin-up' time, the farmer and the merchant would meet at the local cotton gin, where the fruits of the year's toil would be ginned, bagged, weighed, and sold. At that moment, the farmer would learn what his cotton had brought. The merchant, who had possessed title to the crop even before the farmer had planted it, now consulted his ledger for the final time. The accumulated debt for the year, he informed the farmer, exceeded the income from the cotton crop. The farmer had failed in his effort to 'pay out' – he still owed the merchant a remaining balance for the supplies 'furnished' on credit during the year. The 'furnishing merchant' would then announce his intention to carry the farmer through the winter on a new account, the farmer merely having to sign a note mortgaging the next year's crop. The lien signed, the farmer, empty handed, climbed in his wagon and drove home, knowing for the second or fifth or fifteenth year he had not paid out."

Thousands of tenants who ran their credit dry under the crop lien were forced to surrender their land and move to the Western frontier. Others stayed, but burned out the soil or tortured their muscles trying to pay off the crunching debt load.

Even for more prosperous farmers in the South and Midwest, the post-Civil War years were disastrous. Credit was incredibly tight. Although the government said it was leaving business unfettered under "laissez-faire," there was in fact massive federal intervention into the business economy. One of every five acres of Kansas farmland, for example, was owned by railroad firms. The hundreds of thousands of immigrants flooding to America to set up farms had trouble finding good soil. Oppressed by feudal landlords in Europe, these farmers often wanted to escape from the confines of village life. They dispersed to frontier areas.

Government authorities encouraged this dispersion. New territories sought settlers for a variety of reasons that had nothing to do with building lasting, solid communities. Settlers were encouraged to till new lands since their presence pressured Native American tribes to leave. More settlers also meant more businesses, more tax base, more voters. This population growth may have helped politicians enter a claim for statehood, but it did little to promote communities to form a lasting connection to the land.

Land laws like the Homestead Act brought in new settlers – but only those who already owned wealth enough to purchase sizable acreage and develop it in five years. This was an effort to import middle class people into the countryside, not a "cheap land" program.

Railroads were the most highly touted symbol of this "progress," this expansion. They were hailed for bringing "new markets" to the farmer. But more importantly, they brought massive new competition. A grower who had once raised food for sale to a local grain company now found himself competing with farmers from a thousand miles away, and even from Europe. Large grain companies could ship grain by sea from Chicago to England for less than it cost a farmer to ship by rail from the Dakotas to Minneapolis.[15]

Certain railroads also placed restrictive limits. The Northern Pacific refused railroad cars to farmers unless they shipped their grain through specific terminals dominated by the firm.[16]

Compounding farmers' woes in this tumultuous rural economy was a lack of credit, even for more prosperous farmers, who confronted a cash economy that was itself a casualty of the war.

What the Victor Lost

The Union had borrowed massive amounts of capital to wage the war. It financed its war effort by selling war bonds. New money was printed, but there was no corresponding increase in production. This caused inflation. When the war ended, the government owed bondholders twice what it had borrowed.

To those who had money enough to invest in war bonds this financial pinch promised windfall profits. Not only would their bonds be retired at face value, but the number of dollars in circulation was so small that each dollar was worth nearly twice as much as it had been.

Washington policymakers decided to shrink the supply of currency, rather than raising taxes or writing down some of the debt. No new money was minted, though productivity was once again improving after the war's end. The dollar became even stronger. This helped bond holders even more. But this also meant the value of a bushel of wheat decreased. Farm prices fell.

Official wheat prices, which had been one dollar per bushel in 1870, fell to 80 cents in 1885 and 60 cents in the 1890s. But actual farm prices were considerably less. Dakota farmers actually received only 35 cents per bushel. Kansas corn producers were paid as little as ten cents per bushel of corn in 1889.[17]

Farmers now attempted to pay their debts with dollars that were rising in value. But the crops they counted on to earn those dollars were falling in price. Many had no alternative but to raise more wheat.

Moreover, with capital scarce, interest rates increased. Even in some urban areas capital was simply not available. The entire nation hovered dangerously close to financial collapse, riding closely the waves that buffeted the farm economy. To pay harvest costs, western banks drew so much capital from the reserves of eastern banks that industrial lending often ceased. Waves of recession hit the country. Major panics erupted in 1873 and 1892.

The hardships created by America's untenable money system prompted repeated cries for economic reform. Debtors wanted the government to expand the money supply, to pump paper money ("greenbacks") into the economy to lighten their debt load. Creditors, who realized that if more money circulated, they would lose the potential windfall from their war bonds, retaliated with a forceful propaganda campaign for "hard currency" backed by gold. In 1873, Congress sided with the creditors and placed America firmly on the gold standard.

Farmers searched for hard ground. Only 12 years after the end of the Civil War, a group of poor Lampasas County (Texas) farmers formed a group known as the "Knights of Reliance." They met to educate themselves about their woeful economic straits. This in turn spawned larger groups. None quite took root.[18]

Farmers Alliance

After five years of trial and error, Texas farmers had built 120 local farmers associations in a dozen Texas counties. One year later, in 1883, farm activists finally developed an organizing tool that threatened the stranglehold of the crop lien system. In these cooperative "trade stores," Alliance members could purchase essentials on more favorable terms. A small foothold was won that brought more and more farmers into local organizations. Two years later a statewide organization, the Texas Farmers Alliance, was formed. It claimed 50,000 members.

Joining other campaigns, farmers learned even more. They began to sell their cotton in bulk. Certain cotton traders came directly to Alliance warehouses and offered higher prices than the local merchant. Many traders, however, refused to deal with the Alliance.

The farmers then joined a boycott in support of laborers who struck the emerging Texas railroads. Corporate owners successfully crushed the strike, but farmers regrouped with even more enthusiasm. Organizations flourished. The Alliance attracted new members at the rate of 20,000 per month in Texas alone in 1886. At the January, 1887 conference in Waco, Texas, the Alliance boasted a membership of 200,000.

Grassroots efforts in other states also emerged, built upon the bedrock of county-level associations which coalesced to form statewide organizations. The Texas Alliance went on to merge with the Louisiana Farmers Union. This union in turn spawned a massive new cooperative, the Texas Exchange, that purchased supplies and marketed crops. The new co-op offered the potential power of a central credit source and joint marketing.

Farmers Alliance organizers moved into the neighboring states of Arkansas, Mississippi, Alabama, Georgia, Tennessee, and the Carolinas. Remarkably, 40,000 farmers served as "lecturers," criscrossing 43 states in grueling speaking circuits from county seat to county seat. Alliances were organized in 20 states, with more than 1.2 million members. One of every six members was black. All in all, Goodwyn calls the Populist movement "the most elaborate example of mass insurgency we have in American history."

A Daring Risk

However, bankers would not loan to the upstart cooperatives, even when the farmers offered extensive security to back up the loan. The small local co-ops were vulnerable because of their size. Populist leaders realized they could not continue to recruit members unless the cooperatives had more clout.

Some farmers did control one important asset, however. Some prosperous farmers actually held land titles. In a daring move, Texas Alliance leaders called upon their members to exercise the power this asset offered. But to do so was also to risk their ownership of the land.

In 1887, the Texas Alliance unveiled a new mutual support scheme called the "joint-note" plan. It called for farmers of means to stand behind the loans taken out by poorer farmers.

"Landowning farmers in the Alliance were asked to place their entire individual holdings at the disposal of the group," Goodwyn writes. "Landowners and tenants alike would collectively purchase supplies for the year from the cooperative on credit. Those who were landowners would sign a joint note. For collateral they would put up their land, and endeavor to protect themselves against loss by taking mortgages on the crops of the tenants. The farmers would sink or swim together."[19]

In six months, this program gathered $20,000 of paid-in capital stock (at $2.00 per person). Loans totaling more than $200,000 were approved, backed up by more than three times that amount of collateral. The Exchange placed orders for more than $100,000 of goods for member farmers.

Still, bankers refused to loan funds to the Exchange. The Alliance board called upon its members to help out. On one day, June 9, 1888, thousands of farmers flocked to almost 200

Texas courthouses. They pledged support to the Exchange. Eighty thousand dollars was raised in that day. Another $140,000 was pledged by farmers who ultimately could not pay.

This was not enough. A year later, the Exchange floundered. Movement leaders concluded that major changes in the national economy were necessary if their program were to succeed. Their creative economic analyst, Charles Macune, brought forth a new program, the “sub-treasury,” that called for fundamental changes to be made at the federal level.

The Sub-Treasury

If successful, this “sub-treasury” program might have brought millions of dollars into the hands of rural Americans without the government entering into the commodity marketplace. This plan called for the government to print new paper money that would not be backed by gold or silver, but by the produce of the farmers themselves. Since the new money would be backed by new production, it could be minted without causing inflation. By funnelling money directly into local “sub-treasury” offices in rural communities, the plan would have eased the tight credit supply.

This federal program might also have built more self-determined rural communities. They would have a source of credit they might democratically control, circumventing the powerful merchants and creditors of the crop lien system.

Macune unveiled his plan at an Alliance convention in December, 1889, in St. Louis. He proposed that the federal government build a warehouse to store crops after harvest in each county that raised at least $500,000 of farm produce each year.

Farmers who stored their commodities at the sub-treasury warehouse would be given treasury certificates (essentially a loan of money backed by the federal government), up to a value of 80% of their stored items. They would pay minimal interest for use of the money. Farmers had to redeem these certificates within a year. They could use them to pay back lenders and suppliers – who in turn could exchange them for federal currency. If they chose, farmers could also redeem the certificates directly for cash. Meanwhile, the farmers could hold their crops off the market at harvest time, when prices were low, and wait to sell at the best possible price.

The sub-treasury plan was inflationary, but that was exactly what farmers needed at the time. It meant more money would flow in rural communities. Ultimately, it would benefit urban economies too, since farmers who earned more could consume more.

The plan contained many concepts that were not widely accepted by American economists until much later. For example, Populist leaders realized that putting cash in the hands of consumers would stimulate overall economic growth – a common sense notion that was not adopted by policymakers until Keynes. Then, it became an antidote to the economic ravages of the Great Depression and World War II. The New Deal also gave birth to the Farm Credit System, a cooperative lending institution built upon the economic groundwork laid by the Populists.

The Populists' call for government loans to stimulate production was also central to the Federal Reserve Bank, founded in 1914. The Fed was also established as a network of cooperatives. But new currency was channeled to bankers, not to producers. The potential for democratic money was ignored.

The sub-treasury was a brilliant proposal for a democratic money system, but it also elicited a sharp reaction. Bankers were not about to watch their power be drained away by such a proposal. They fought back hard.

The proposal also demanded that farmers wage an entirely new political struggle on the national level. However, their political base was centered on local chapters. To elect national officials was a major challenge. The farmers had little expertise or clout on a national level.

To credibly put forward such a dramatic proposal in a short time, the Populists sought out candidates who were already nationally prominent. Those who were well known, however, had not endured the same struggles as Alliance members. The man the Populists eventually chose to run for president in the 1892 election, William Jennings Bryan, simply did not understand the "sub-treasury" plan. His emotional "Cross of Gold" speech was memorable rhetoric, but it ignored the potential power of injecting credit directly into farmers hands at the grassroots. Limited to silver, Bryan's appeal missed the point. He advanced a mongrel program that offered no true reforms to the farmers.

Populist successes in organizing at the grassroots level throughout the South and the Midwest also caused those who opposed grassroots power to mount even more effective opposition. William McKinley, the successful candidate, mounted the very first "national" campaign for the presidency. Previously, campaigns had been run state-by-state, since states were seen as the primary unit of government. McKinley's first use of the whistle-stop campaign train and his reliance on mass-market advertising shaped politics in a profoundly new way. From then on, campaigns were run more centrally, more separate from grassroots needs.

McKinley's victory in 1892 was the death knell for the popular movement. With no clear remedy to their credit woes, with no capital for their carefully-constructed cooperatives, with no political leadership who could carry their economic program forward, the Populists waned rapidly.

Bryan ran again in 1896, and lost again. He still symbolized the Populist movement but he could scarcely revive it.

In only two years, President McKinley succeeded in focusing America's attention away from economic injustice at home. Now, he used a foreign "enemy" to galvanize the population. Community activism became preoccupied with fighting a war against Spain. Rather than resolve farmers' grievances, powerful interests pushed the nation to become an empire.

Having discovered the immense grassroots urge for democracy in the rural South and Midwest, Washington moved to undercut the power of the Populists. Their land, labor, and crops were massively devalued – not by direct confrontation but by opening new lands abroad. These foreign colonies were rich with mineral wealth, fertile cropland, and laborers whom U.S. opinion could be turned against.

In 1898, the U.S. invaded Cuba, the Philippines, and the Dominican Republic. The new colonies brought more competition, more sources of food production, and more opportunity for capitalists to invest. The invasions short-circuited the farmers' hopes for independence.

Agriculture and the Global Depression

Thirty years later, Americans endured the Great Depression. Amidst hunger and despair countless neighbors helped each other through hard times. While it was a tragic era, the American people found in themselves a source of inspiration, as well.

Americans focused in on themselves. The crisis forced Americans to confront the fact that the country was not all-powerful, and was not destined to grow continually. Some people killed themselves when the dream exploded; others settled in and found new roots.

There was still a cost attached to looking inward. Caught up in their own despair, many Americans forgot that the crisis was international – and ignored the fact that America contributed to the financial disaster. Countries like Australia, Germany, and Canada were particularly hard hit since they depended on capital from U.S. banks.

One Australian novel of the era, *Tomorrow and Tomorrow and Tomorrow*, described how that country was rocked by foreign events:

> "Australia was in fact quite helpless, because, despite the illusions of independence, despite the confidence of success and merit it advertised, she was bound with chains of gold to the world overseas. A debtor country and exporting country, she felt the least tremor in overseas markets. It took only a murmur of disquiet, amplified by the sounding-board of the overlarge national debt, to bring the Australian pound tumbling down. World prices of wheat and wool fell steeply. The national income fell with them. The effect was felt in every quarter. Unemployment figures rose steeply."[20]

The book was written by two Australian women who used the pseudonym M. Bernard Eldershaw. Another novelist from Australia painted a picture that could have been set in America. Katherine Prichard, in *Intimate Strangers*, recalled that:

> "Sheep were being driven into the sea because it did not pay to send them to market: potatoes were rotting in the ground because the people who needed them could not afford to buy potatoes: wheat was being devoured by birds and vermin because the farmers only added to their debts by trying to sell it."[21]

American financial tentacles were so long by the 1930s that our trading partners suffered with us. Out of this crisis, though, came some of the most inventive and effective farm policies American has had in this century. These federal programs were far from perfect – they offered no security to tenant farmers or farmworkers – but they did nurture family farm agriculture back to health. They also helped to restore prosperity to the entire nation.

The Great Depression showed how important farmers were to the rest of the country. The cause of the Depression was not so much the stock market crash of October, 1929, but rather an economy that had been drained by eight years of farm depression and by rapacious investment practices.

As economist John Kenneth Galbraith, one of the best known chroniclers of the era, explains, "Had the economy been fundamentally sound in 1929, the effect of the stock market crash might have been small."[22]

Americans often forget that the Depression was not limited to our borders, but was actually worldwide. On a world scale, the Depression grew out of a sort of "civil war" between agriculture and industry. Those countries which depended upon agricultural production were put through an economic wringer. When crop prices fell they could not purchase manufactured goods. This, in turn, led to a crisis in industrial nations, who lost consumers for their products.

Farm Led

By denying that agricultural producers were in crisis, industrial owners deepened the crisis, and helped plunge the world economy into deeper disarray. Industry was the rising force in America. The number of family farms peaked in 1910. Three years later, industrial exports ($1.2 billion) overshadowed farm exports for the first time in American history. Farmers began to prosper, not because the rural economy was strong, but because immigration into urban areas meant millions of new mouths to feed.

A major banking reform, the Federal Reserve System, was established in 1913. This institution responded to the needs Populists had addressed, by expanding credit and founding regional credit reserves, but it neglected the Populist's call for rural self-determination and a currency backed by crop production.

These years, 1910-14, are still legendary as the era in which agriculture and industry were in balance. The "parity" formula used by the USDA to gauge crop prices is based upon the balance of these years.

The war, however, soon followed. If one ignores the families who sent sons to be killed on the European front, one could say that World War I was prosperous for farmers. As European armies dug trenches and mined battlefields on their home lands, Europe's agriculture was devastated. European capitalists loaned money to the U.S. to ensure a flow of food. The U.S. loaned to Europe so they could purchase American food. New machinery became available. Production was expanded. Prices held high.

After floundering for so long, farmers speculated on their newfound prosperity. Land prices were rising. Farmers could borrow more and more to obtain new fields or new machinery. Inside the U.S. there were still more immigrants.

When the war ended, the bubble burst. European nations began to produce their own food again. Foreign markets dwindled. Now, U.S. banks loaned to European producers instead of American. Prices in the U.S. plummeted. Between 1919 and 1921, the price of corn dropped from $1.50 a bushel to 52 cents. Wheat prices fell from $2.19 to $1.03. Net farm income collapsed from $9.1 billion to $3.4 billion.[23]

Eight years before the stock market crash, farmers were swamped. Industry was still expanding, however, since loans were plentiful in urban areas. The rural crisis largely went unnoticed by urban Americans.

In fact, most studies of the Great Depression neglect the importance of agriculture in the financial collapse. Many ignored farming altogether. But every major study that examined the role of agriculture found that it was a primary factor.[24]

Global Dimensions

One particularly helpful study was produced by Vladimir Timoshenko, an economist for the University of Michigan School of Business Administration, in 1933. Timoshenko's study is one of the few that examined agriculture, and one of even fewer that dealt with the global dimensions of the Depression.[25]

He compared "agricultural producer" countries (Canada, Argentina, Australia, and others, who were not highly industrialized at the time) with the industrial countries (the U.S.

and many European nations). Timoshenko found that a financial crisis for agricultural producers worldwide played a key role.

Timoshenko did not look closely at the farm crisis in the U.S. But clearly rural America shared certain characteristics with other agricultural producer regions.

United States investors looked abroad during the 1920s, Timoshenko explained. Five billion dollars, or half the funds loaned by the four major lenders (the U.K., the U.S., the Netherlands, and Switzerland) went to agricultural countries outside of Europe from 1924 to 1929. Tropical planters were able to boost exports of sugar, rubber, coffee, cotton, grains, and other agricultural items. Important wheat producers (Canada, Argentina, and Australia), who at this time were the United States' only competitors, produced in large quantities. There was a glut of food on the market.

The capital newly flowing into agricultural-producing countries was often used to simply buy manufactured goods from abroad rather than for investment in new production. Imports exceeded the growth of exports.

Other shifts also spelled doom. World population growth slowed, restricting markets. As horses were replaced by tractors, oats lost much of their value as a commodity. Cotton and silk gave way to synthetics.

As Europe successfully rebuilt its food production, European countries raised tariffs against food imports. The market for U.S. produce narrowed even further.

At this time, agricultural commodities were of fundamental importance to world trade. The top 15 commodities accounted for almost one of every four trade dollars. They were even of greater importance to the agricultural producing nations. For them, these same commodities amounted to one of every two export dollars.

"The situation of the leading agricultural countries had become endangered as early as 1928," Timoshenko says. "Any strain on the international capital market, or any unfavorable crop year was likely to upset the whole system."[26]

Agriculture producers had expanded production, not because of internal growth, but because loans were available from industrial nations. When markets dwindled, they were unable to repay foreign debts, though they had paid a total of $1.4 billion in 1928.

These countries also could not purchase goods from industrial countries. The crisis then filtered back to Europe and the U.S. Their loans had been like a "fix:" they created business that could not be sustained.

Then, weather spurred the 1929 crisis. Farmers in America, Latin America, and the Pacific had miserable crops. At the same time, Europe reaped immense harvests. They now dominated the export trade. The crippled producers sold a dismal harvest at depressed prices. In the midst of this, the stock market took its nosedive.

Those countries with poor harvests were strapped for cash. They stopped trading gold on the world market, in an effort to protect their gold reserves and hold the value of their currencies higher.

Industrial-nation lenders stopped lending immediately after the crash, but floated new loans in 1930. Total loans abroad increased, in fact. But there were still few markets for the crops. The loans could not be paid back. As the U.S. crisis deepened with two waves of bank failures in 1930 and 1931, loan funds absolutely dried up.

Timoshenko goes to great lengths to show that the crisis was caused more by these imbalances in supply and demand for agricultural produce than by the tumult in money supply after the crash. Not only was the supply of money adequate, Timoshenko concluded, there was too much credit given to agricultural producer nations. Crop production outpaced demand.

While the panics of 1873 and 1892 had been caused by too little credit, this one was caused by too much – extended first to U.S. farmers and then to foreign producers. As industrial-nation lenders extended inappropriate loans abroad – devoted to the hope of profits rather than to building stable rural communities – the entire world economy collapsed.

In each financial crisis, farmers suffered.

Rebuilding

Activist farm women responded to the crisis by building community. They feed each other's families, supported strike actions, and met in sewing circles and church groups. This strong community fabric allowed the more overt – and better remembered – organizing efforts to succeed.[27]

One sober observer of the farm crisis was George N. Peek, president of an implement manufacturing firm. As early as 1921, he became concerned with the sudden expansion of industry.

Conventional wisdom at the time said low farm prices were good for such expansion since they meant the cost of feeding a workforce was lower. Yet Peek saw that low prices hurt his business.

He advocated that farmers and workers should get the same purchasing power for the same amount of work. When they did, Peek said the economy was in "parity."

Repeatedly, Peek lobbied for his formula to be written into law. Though it finally passed in 1927 and 1928, it was vetoed twice by President Coolidge.[28]

Peek's formula did not take hold until the Great Depression. The 1933 Agricultural Adjustment Act (AAA) incorporated parity pricing, but the law fell far short of what was needed. The law was ultimately declared unconstitutional. Under the AAA, farmers signed agreements limiting production of certain crops. Surpluses were somewhat reduced and prices improved. Overproduction continued.

This first effort at New Deal farm legislation also had drastic consequences for southern tenant farmers. The bill had been written by northern and western farmers who owned acreage. The benefits went to landowners. However, southern farmers were often tenants. When southern landlords reduced production, they simply forced tenants off their fields. The owners then pocketed the payments. Many tenants had no other choice but to move west.[29]

President Roosevelt also refused to order a moratorium on farm foreclosures. He merely asked creditors to be "lenient." He refused to take firm leadership on bank failures, as well. Not until thousands of rural banks had failed would he declare a Bank Holiday. By then many states had taken the same action themselves.

A Pricing Formula

After four more years an traditional idea was brought back to help stabilize commodity prices. Called the Ever Normal Granary, this program established federal grain reserves. A farm organizer in Iowa, Fred Stover, helped promote the plan.[30]

Under the Ever Normal Granary, the federal government purchased large quantities of grain. It was required to sell from its reserves at a price between 90 and 110 percent of parity. When prices tended to rise, the granary held them down – any buyer knew that the government would sell its grain below a certain price. By the same token, no farmer needed to sell for less than the minimum price because he knew he could sell to the government at that price or better.

The Granary was backed by nonrecourse loans, by which the government would loan money to farmers to plan their crops. After harvest, the government was forced to buy the crop from the farmer should the commodity price fall below 90 percent of parity. This gave farmers assurance the price would not fall below the minimum.

Production was limited in New Deal farm programs by acreage allotments. It proved difficult to write fair formulas that could take into account regional variations. For a while, county committees were empowered to set limits on which crops, and how many acres, farmers could produce in their county.

This effective farm program not only did not cost much money, it actually brought $13 million into the treasury from grain sales.[31]

This package of programs helped lead to the national recovery. Its success also depended upon other federal programs that created jobs. Consumers began to buy farm produce again, and then farmers could purchase industrial goods. The economy began to walk on its own two feet.

Still convalescing, the country was thrown into World War II. Rural America sent its sons and daughters to the fronts. Government orders for rations and European hunger once again stimulated new markets for those who stayed home to farm. Many farmers once again were able to purchase new equipment.

The rise in farm income did not mean that all farmers prospered. Larger farms benefited more than smaller. New middlemen took an ever larger slice of the food dollar. Urban poor people still went hungry.

The war also encouraged farm communities to look outside for sustenance. Farmers came to believe in the need for foreign markets. They began to make habitual use of agricultural chemicals. They profited to some extent from America's dominance of the world economy, through access to new markets.

Rural communities nevertheless emerged from the war with many traditions and values intact. Federal programs had given them one important boost to their own inner strength. And at this key juncture, when the farm economy was about to expand dramatically, rural communities had their own sources of credit – as the farmers of Green Isle can attest.

How Farm Families were Undermined

Still, greedy people were lurking in the shadows. Immediately after the end of World War II, business interests began to whittle away at the parity price formula that had protected rural communities such as Green Isle. Once again, the call went out that farmers were backward. Political leaders complained of agricultural "overproduction." Though President Truman publically supported the parity formula,[32] there is evidence he began privately to favor a "sliding scale" allowing the government to set a lower minimum rate.

Midwestern farmers rallied to protect parity. South Dakota Farmers Union organizers went into action. Statewide membership jumped from 8,000 to 22,000 in a single year, 1948. New members were urged to form strong local chapters.[33]

When these farm leaders refused to back the Korean War, calling it an unnecessary war launched to divert Americans from economic injustice at home, they were forced out of the Farmers Union – under pressure from the White House. Fred Stover, author of the Ever Normal Granary and then President of the Iowa Farmers Union, clearly recalls the incident.

"We were given orders to line up with Truman and we didn't do it. Some independent researchers who studied the matter told us later we really weren't kicked out because of our opposition to the Korean War. That was the issue that was used to embarrass us. If they had chosen to attack us on the basis of our consistent stand on parity that would have made us popular."[34]

"Surplus Labor"

As farm prices dropped, farmers tried to compensate by producing even more. Markets were dwindling, however, since European countries resumed their own food production. Once again, farmers raised surplus crops.

Yet to one influential group, the Committee for Economic Development (CED), farmers were "inefficient" producers. The New York-based group thought the answer to overproduction was to move farmers off the land.

Their 1962 report, "An Adaptive Program for Agriculture,"[35] is a classic expression of a corporatist position that looks at communities without seeing the people who live in them. In this view, the daily needs of common people are neglected in favor of abstractions like "labor" and "capital."

The CED reflects the prevailing assumption in corporate and political circles that resources should be mobile, extractable for outside use at will. Although this has been termed a conspiracy, there is no reason to assume that it is. The fact is that powerful economic actors who compete with each other for power all shared one major assumption – one which systematically devalues community.

Using a glorious euphemism, the CED concluded, "The movement of people out of agriculture has not been fast enough to take advantage of the opportunities that improving farm technologies, and thus creating capital, create.

"(Our) adaptive approach utilizes positive government action to facilitate and promote the movement of labor and capital where they will be the most productive and earn the most income." By "earn the most income," CED planners meant for industry, not for rural communities or farm families themselves.

The mechanism for this forced migration of labor was simple: a conscious effort to keep prices low. "(Government) support of prices has deterred the movement (of farmers) out of agriculture....Price supports for wheat, cotton, rice, feed grains and related crops now under price supports (should) be reduced immediately....What we have in mind in our program is a reduction of the farm labor force on the order of one third in a period of not more than five years."

Twelve years later, the CED published a follow-up report to show that their policies had been implemented: "The farm population (4.5 percent) is now so small in relation to total population that further migration from farms will not be substantial. Annual agricultural employment, which was 4.5 Million persons only ten years ago, is now about 3.5 Million persons, or only about four percent of the total labor force, and it is still declining. It represents approximately the optimum farm labor force that this committee envisaged for the 1970s in its statement, An Adaptive Program for Agriculture (1962)."[36]

The CED was correct; farm production could be kept high with less labor. But the costs were primarily borne by the rural community. No longer was there time to gather after chores to socialize with your neighbors. No longer could a farmer grow a diverse set of crops. Survival now became a battle that pitted neighbor against neighbor. Young people had basically no choice but to leave home to find work. Rural governments felt the powerlessness of being excluded from major decisions impacting their constituency.

Urban communities were also harmed, as water was polluted, soil eroded, and chemicals sprayed on produce. Urban workers found themselves competing for jobs with rural emigres.

Soviet Purchase

Then, another blow was dealt to U.S. farmers. In 1972, the Soviets made a massive purchase of grain – triple their previous order. Buying covertly through several channels, they penned agreements at low prices. Unwittingly, the U.S. government subsidized the sale. In effect, the Soviets bought at prices below domestic levels. A major potential source of farm income was lost.

The next year, crop prices skyrocketed. The government called upon farmers to save the economy from the oil crisis: the Balance of Payments was in trouble due to the sudden rise of OPEC prices. Fuel imports leapt from $9 billion (1972) to $32 billion.[37]

There was only one U.S. industry strong enough, and large enough, to come up with massive exports quickly in order to offset this drain on financial reserves. The government called on agriculture to help. The USDA pursued new foreign markets aggressively. Food exports jumped from $6.5 billion to $15 billion in the same two years.

Farmers, after years of meager returns, grasped at the new opportunities which new markets and higher prices offered. New tractors were purchased. New barns were built. New land was tilled. Secretary Butz egged farmers on. Gigantic tractors became the symbol of the "prosperous" farmer.

To finance this expansion, land which had been "free and clear" was once again put under mortgage, at interest rates that were refigured every year. Farmers who were once debt-free now faced interest payments of hundreds of dollars per **day**.

Increasing "volume" came to be seen as the cure-all for declining prices. One Minnesota farmer tells the story of a cooperative president who was exhorting his membership to expand in the face of lower grain prices. An incredulous farmer stood up in the back of the hall. "You mean, I'll be losing money on every unit but the increase in volume will make up the difference?"

"That's right," the exuberant president shot back.[38]

Paper Wealth

So farmers got a taste of paper wealth. They had the "opportunities" of new technology, but they had bigger debts, longer hours, and less help. Their equity was good only if they sold the farm.

Productivity increased dramatically. Now holding huge stores of grain, the government began to use food as a diplomatic "weapon." However, the threat of withholding grain mainly wrought havoc on American farmers.

A soybean embargo in 1973 cut farmers out of a booming market and aroused intense suspicions in the Japanese – who promptly turned to other suppliers and increased investment in Brazilian soybeans. The 1980 Soviet embargo cost the economy $11 billion in lost farm income and compensatory payments to traders – and the grain still got through to the Soviet Union.[39]

Even in smaller countries, where food as diplomatic muscle was more effective in the short run, the harms we tried to inflict came back to haunt Americans. By loaning funds to Third World countries that required them to buy grain from the U.S., America encouraged foreign producers not to raise their own food. They were told by development technicians to focus on export crops and industry instead. But the profits from such enterprises reached only the planters and factor owners. No general markets were built for U.S. goods.

Not only did Third World countries abandon their indigenous ability to feed themselves, they also became victims of the same "low price" policy that was forcing U.S. farmers into cities. Their income was too low to purchase goods from the U.S., and too low to repay foreign debts. Just as in the Great Depression (see page 25), industrial nations had laid the groundwork for their own demise in their foreign lending practices.

Back in the U.S., prices continued to decline. But farmers were still a good credit risk since the price of land kept rising. It rose well beyond the land's capacity to produce, fueled by pressure for suburban development and speculation.

Federal tax policy encouraged expansion. Those who borrowed and purchased more could write off more.

"Make Loans"

Federal lending had the same effect. The former loan chief of the Minnesota Farmers Home Administration (FmHA) recalls a directive from Washington in 1979, the year before a presidential election. "That was the theme of the administration. Make loans. Make loans. We were so busy making loans we didn't do a detailed analysis of borrowers' operations." People would walk in the door looking for $100,000 to repair their barn. They were told they would get no loan unless they borrowed $250,000 for a brand new one.[40]

The entire farm economy ran on one powerful assumption: that land prices would always increase. But in 1980, this was explosively proven false. Prices plummeted 25-30 percent in two years, and fell far lower by 1987.

At such times, when equity is decreasing, one has to borrow against anticipated return – which was next to nothing.

Once the stabilizer of farm incomes, the government had become the champion of boom-bust economics. Middle-size farmers were caught hardest in the squeeze. The largest and the smallest farmers grew in number, while the middle dropped out. By 1981, USDA studies showed, two-thirds of all farmer income was realized by only 1 percent of the nation's farmers – the very large. Small farms sprouted in urban fringe areas, built on off-farm income.

Those who survive this crisis are a complex lot. Some are the very cautious farmers who simply refused to expand in the 1970s boom. Many of these are older farmers who saw no need to take the risk. Other farmers have negotiated lower debt from their creditors, and can now cash-flow a reduced operation. Some sold off part of their land to save the rest.

Still, some farmers grew wildly more prosperous in the midst of this crisis. These are larger farmers who have reaped immense payments from Reagan-era support programs. Certain farmers received payments in excess of a quarter million. Or they are specialized growers with expanding or protected markets. Or those who can hire migrant labor at exceptionally low rates.

Cargill, the grain cartel, announced that its 1986 profits were up 66 percent to $409 million on $32 billion of sales.[41]

Meanwhile, more than half of the national farm income came from off-farm sources.

The farm community, once the generator of its own capital, had become a colony of dependents. "Do you realize," a Green Isle dairy farmer, Bill Harjes, once asked me, "How much easier is it for the banker to take one guy with 1,000 acres than to take ten little ones with 100 acres apiece? But this does not make for a strong community."[42]

Endnotes:

[1] Ken Meter, *Green Isle: Feeding the World and Farming for the Banker*, Minneapolis: Crossroads Resource Center, 1983.

[2] Harold T. Lingard, "Lender Distribution of Farm—Mortgage Recordings," *Agricultural Finance Review* 3, May, 1940, p. 25.

[3] Lingard, p. 25.

[4] Pete Daniel, "The Transformation of the Rural South 1930 to the Present," *Agricultural History* 55, 1981, p. 239.

[5] *Agricultural Finance Review*, Vol. 14 supplement, May, 1952. **See also:** Harold T. Lingard, "Farm—Mortgage Loans and their Distribution by Lender groups, 1940—1948," Washington DC: United States Department of Agriculture Circular No. 812, August, 1949.

[6] U.S. Bureau of Commerce, U.S. Census of Agriculture, 1950; **and** U.S. Department of Agriculture, Economic Research Service, Economic Indicators of the Farm Sector, 1985.

[7] U.S. Bureau of Commerce, U.S. Census of Agriculture, *Special Report on Farm Mortgage Debt, 1950*.

[8] U.S. Bureau of Commerce, U.S. Census of Agriculture, various years. 1985 figure from USDA.

[9] U.S. Department of Agriculture, Economic Research Service, 1988. Includes real estate plus non-real estate debt; excludes farm households.

[10] Midwestern Catholic Bishops, *Strangers and Guests, Toward Community in the Heartland*, Sioux Falls, SD: The Heartland Project, 1979.

[11] *National Catholic Reporter*, May 31, 1985.

[12] Thorsten Veblen was the first writer who pointed out this fact, in his *Theory of the Leisure Class*. I heard it first from F.B. Daniel, Cooperative Specialist for the Minnesota Farmers Union.

[13] Lawrence Goodwyn, *The Populist Moment,: A Short History of the Agrarian Revolt in America.* London: Oxford University Press, 1978, p. 22. **See also:** Lawrence Goodwyn, *Democratic Promise: The Populist Moment in America.* New York: Oxford University Press, 1976.

[14] Goodwyn, p. 22.

[15] Goodwyn, p. 70.

[16] Goodwyn, p. 71.

[17] Goodwyn, pp. 69-70.

[18] Goodwyn, p. 25.

[19] Goodwyn, p. 75.

[20] M. Bernard Eldershaw [pseud] *Tomorrow and Tomorrow and Tomorrow*, London: Virago, 1983.

[21] Katherine Prichard, *Intimate Strangers*, London: 1937.

[22]John Kenneth Galbraith, *The Great Crash*, Boston: Houghton Mifflin, 1954.

[23]*New York Times*, September 25, 1932.

[24] See Galbraith, *The Great Crash*. **Also** Milton Friedman and Anna Schwartz, *A Monetary History of the United States, 1867-1960*, Princeton, NJ: Princeton University Press, 1963; **and** Peter Temin, *Did Monetary Factors Cause the Great Depression?* New York: Norton, 1976; **and** Van L. Perkins, *Crisis in Agriculture*, Berkeley, CA: University of California Press, 1969; **and** Herman van der Wee, *The Great Depression Revisited*, den Haag, Netherlands: Martinus Nijhoff, 1972; **and** A.J.H. Latham, *The Depression and the Developing World, 1914—1939*, London: Croom Helm, 1981.

[25] Vladimir Timoshenko, *World Agriculture and the Great Depression*, Ann Arbor, MI: University of Michigan Business Studies, Volume 5, Number 5 (School of Business Administration, Bureau of Business Research), 1933.

[26] Timoshenko, p. 605.

[27] Karen Starr, "Fighting for a Future: Farm Women of the Non-Partisan League," in *Minnesota History*, vol. 48, No. 6, Summer, 1983, p. 255.

[28] Gilbert Fite, *George N. Peek and the Fight for Farm Parity*, Norman, OK: University of Oklahoma Press, 1954.

[29] See H.L. Mitchell, Mean Things Happening in This Land, Montclair, NJ: Allenheld, Osmun, 1979.

[30] Fred Stover, personal interview, June 5, 1984.

[31] Merle Hansen, personal interview, June 6, 1984.
[32] See Allen J. Matusow, *Farm Policies and Politics in the Truman Years*, Cambridge, MA: Harvard University Press, 1967.

[33] Merle Hansen, personal interview, June 6, 1984.

[34] Fred Stover, personal interview, June 5, 1984.

[35] Committee for Economic Development, "An Adaptive Program for Agriculture," New York, 1962. **See also:** Mark Ritchie, *The Loss of Family Farms*, Minneapolis, Center for Rural Studies, 1980.

[36] Committee for Economic Development, "A New U.S. Farm Policy for Changing World Needs," New York, 1974.

[37] Economic Report of the President, 1982 (US).

[38] Meter, Green Isle, p. 18.

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[39] Schnitker Associates, study commissioned by National Corn Growers Association, 1982.

[40] Niles Westby, then Farm Loans chief of Minnesota FmHA, personal interview, April 23, 1982.

[41] Minneapolis Star and Tribune, February 27, 1987.

[42] Meter, Green Isle, p. 28.