Washington, DC, November 15, 1921.

To the President:

Before reporting in detail on the work of the Department of Agriculture during the past year, it seems proper to speak of the condition of agriculture in the nation. The experiences of recent years have shown more clearly than ever before that an efficient agriculture is of vital importance to all the people. During the darkest days of the war success or failure turned on an adequate food supply. Every discovery that reduces the cost of production or increases the efficiency and economy of distribution of farm products benefits all consumers. Any circumstances which depress agriculture, making it impossible to exchange products of the farm for the products of the factory on a fairly normal basis, make for closed factories and unemployment in industries. The promotion of our agriculture is, therefore, in the interest of all the people. Conditions which are harmful to the producers and which tend to jeopardized future production must be noted with concern by all of our people and the national energy should be turned toward improving such conditions.

The farmer receives his money wages in the form of payment for his crops and livestock. These wages are not paid regularly every week or every month, except in part in the case of some dairy farmers, but at irregular intervals varying from 3 months to a year or more, depending upon the nature of the crop. Neither rate of wages nor hours of work is agreed upon in advance. The consuming public pays, but it makes no agreement as to the amount it will pay. The farmer is urged to produce abundantly, but the price paid him for what he produces is set after the amount of his production is known. The buyers drive the shrewdest possible bargain. The more the farmer produces, the less the buyers want to pay. Thus we have large production penalized. Very often — indeed, it is the general rule — a large crop brings the farmer fewer total dollars than a small crop. And often a large crop sells at less than it costs the farmer on an average to produce it. Such is the condition this year. The energy and the intelligence with which the farmer works, the number of hours he works, the cost he incurs in producing crops — none of these is considered in determining the price.

Farmer Produces on Faith.

The farmer, therefore, must work on faith. He must himself carry all the risks of weather, of heat and cold, of flood and drought, of destructive storms, of insect pests, and plant and animal diseases. He must plant enough to make sure that there will be food for all, with the practical certainty that in unusually favorable seasons the result may be a large surplus, and that this surplus, which can not be hidden, probably will cause prices lower than the actual cost of production. He must be willing to accept these low prices with the best grace possible and adjust his living expenses to meet his reduced income. The American farmer always has done this. He is a philosopher, as every man must be who works with nature and is subject to nature's varying moods. And he feels his responsibility to feed the people. If the farmers of America should cease work for a single crop season,
millions upon millions of people would suffer for food. They have never ceased to work, no matter what the trials and hardships.

In an orderly world the farmers are able one year with another to so adjust their production to the needs of consumption as to enjoy a fairly reasonable share of the national prosperity. During the period of development when farm land is increasing in value, landowners look upon the enhanced value of their land as accumulated compensation to offset unprofitable crop years. This thought has consoled them under many distressing conditions of crop failures and low prices. As they advance in age and come to the time when they must cease hard work, they have been able to profit by this accumulated value either by sale of the farm or by rending on the basis of value. The people of America have until very recent years been fed at a price below the actual cost of producing farm crops, if all of the factors which properly enter into that cost are considered and if the farmer should be allowed a wage no larger than the wage paid for the cheapest labor. In the case of the investor or speculator, increase in the value of farm land may be unearned increment. In the case of the farmer it is earned increment.

**Farmer Feels Responsibility to Public.**

The farmer must carry also those risks due to changes in business, both at home and abroad, which influence the demand for farm products; that is, his prices are influenced by the ups and downs of business over which he has no control. In periods of disturbance, which interrupt foreign trade or interfere with home industries and thereby decrease demand for farm crops, the farmer suffers through the reduction of his wage by decreased prices for his crops. When such periods come at a time when the cost of production is unusually high, and especially if one bad year has followed another and thus finds the farmer heavily in debt because of the losses of the previous year, the result is serious and makes trouble for the farmer and everyone else. But the farmer always works. He always produces. He always grows food in abundance.

The crops of the year 1920 were produced at the greatest costs ever known. These costs were justified by prices which prevailed at planting time. They were incurred willingly because the farmers had been told over and over again that overseas there was a hungry world waiting to be fed and that there would be a strong demand for all they could produce. The production was large; the farmers worked very hard, and climatic conditions favored good crops. But before the crops were harvested prices had so decreased that at market time the crops sold for far less than the cost of production, considering the country as a whole. Hundreds of thousands produced at heavy financial loss.

**Disproportionate Reduction in Farmers’ Income.**

The farmers had taken it for granted that war prices could not continue. They had expected lower prices for their own products. They had not thought that their prices would drop as low as they did, but during the winter they accepted these very low prices with their usual philosophy. They borrowed more money to keep themselves going, and in the face of a continuing decline in prices of almost all of their crops they put out ample acreage in the spring of 1921. At that time prices of farm products were very much below the cost of production and far lower relatively than the prices of other commodities. The farmers’ wages had thus been reduced to about the prewar level, but the wages of other people, whether paid direct or through the products of their work, remained very near the war level and from 50 to 100 percent or more above the prewar level. This was a disturbing condition, but the farmer hoped and had a right to expect that by the time his crops of the year were ready for market other workers and other manufacturers, for the farmer is both, would be willing to accept their share of the burden of economic rebuilding and that the prices of other things, including wages, which have the greatest influence on such prices, would come down to a fairer and more nearly normal relation to the price of farm products. There was no attempt on the part of the farmers to restrict production. In some cases, as with the cotton farmers of the South, there was an effort to readjust acreage by substituting one crop for another. But it can not be said that the farmers of the United States combined to hold up their wages. They showed their good faith and their sense of responsibility in trying times by planting plentifully, reducing their own expenses in every possible way, and working harder
and longer hours. As in wartime, many women and girls worked in the fields because reduced income made impossible the employment of other help. As the result of large acreage, very hard work, and a favorable season, the crops of 1921, while not as large as in some years, yielded more than we need for our own use, but prices are most unsatisfactory....

**Surplus Needed by Hungry Peoples.**

Had some way been found for the people in need to buy our surplus at prices which would cover the cost of production, the American farmer would have been prosperous and the country would have prospered with him. It is a terrible indictment of modern civilization that with such abundance here there are millions of people overseas suffering for the bare necessities and other millions starving to death. And surely we are sadly lacking in our understanding of economic laws or in our adjustment to them when the production of bounteous crops grown by the hard labor of 12 million farmers and farm-workers and their families is permitted to play such a large part in paralyzing our industries and business at home. For that is what has happened. The purchasing power of the principal farm crops of the year 1921 at the present time is lower than ever before known. In times past some of these crops have sold at lower prices per sale unit expressed in dollars and cents, but probably never before have our farmers generally been compelled to exchange their crops per sale unit for such small amounts of the things they need. The purchasing power of our major grain crops is little more than half what it was on an average for the five prewar years of 1910-1914, inclusive.

When we remember that approximately 40 percent of all our people live in the open country and are dependent upon what grows out of the soil, the baneful effect upon the nation of reducing the purchasing power of that 40 percent so far below normal is obvious. The farmer is compelled to practice the most rigid economy, to wear his old clothes, to repair his old machinery, to refrain from purchasing everything he can possibly do without, and to deny himself and his family not alone luxuries but many of the ordinary comforts of life. This in turn has forced the manufacturer to restrict his output to the lessened demand, reducing his own purchases of raw material, and greatly reducing the number of his workmen. Men out of work must live on their savings and are in turn compelled to practice economy by reducing their own buying, and thus still further restrict the farmers’ market. And so we find ourselves in a vicious circle which we are having difficulty in breaking through.

**Effect of High Freight Rates.**

Nor is the foregoing a complete tale of the difficulties and discouragements of the farmer. The cost of getting farm products from the farm to the consumer’s table has increased tremendously during the past three years. The freight charge is very nearly doubled, and in some cases more than doubled. When wheat was selling at $2.50 per bushel, corn at $1.75, cattle and hogs at $16 to $22 per hundred [pounds], cotton at 30 cents per pound, the increased freight rate was not a serious matter. It amounted to but few cents relatively and was a small item in the total price. But with wheat at $1, corn at 48 cents, cattle and hogs at $7 to $10 per hundred, cotton at 17 to 20 cents (all these being primary market prices, not farm prices), the addition of even 10 cents per bushel or per hundred pounds imposes a burden grievous to be borne. When farm prices are ruinously low any addition to the freight charge means added distress. At the present time the cost of getting some farm products to market is greater than the amount the farmer himself receives in net return. And the heaviest freight burden naturally falls on those farmers who live in our great surplus-producing states.

Not only do the very large advance in freight rates impose a heavy burden on the producers of grain and livestock, cotton, and wool, but on the growers of fruits and vegetables as well. Indeed, some of the latter have been compelled to see their products waste in the fields because the prices offered at the consuming markets were not large enough to pay the cost of packing and transportation.

This transportation matter is one of vital importance to agriculture. The country has been developed on the low [cost] long haul. Land values, crops, and farming practices in general have been adjusted to this development. Large advances in freight rates, therefore, while bearable in a time of high prices, if contin-
Freight Rates and Foreign Competition.

More than this, inasmuch as our heavy consuming population is massed so largely near the eastern coast and our surplus is produced long distances in the interior, substantial advances in transportation costs have the effect of imposing a differential against our own producers in favor of their competitors in foreign lands, especially to the south of us, who have the benefit of cheap water transportation, and who, in many cases, can lay down their products on our eastern coast more cheaply than our own people can ship their products to the same points by rail.

Rail transportation is essential to our agricultural production. Good rail service is of tremendous importance. Our farmers realize that our railroads can not be maintained and operated efficiently unless permitted to charge rates which will cover all fair operating costs, maintain their roadbeds and equipment, and pay a fair rate on the money invested. No one has a greater interest than the farmer in efficient transportation. At the same time the economic aspects of material changes in railroad rates must be considered more carefully than in the past. If these changes are made without due consideration of their effect on agricultural production, inevitably they will create profound disturbance and impose great injustice.

With the increased charge for transportation have come increased handling charges all along the line from the farm to the market. Including freight, it now costs the grain and livestock producer just about twice as much to get his products to the primary market and sell them there as it cost him before the war. At the same time the prices paid at these primary markets are lower than they were before the war, and in the case of corn, our largest grain crop, the price at Chicago is lower than the average price at this time for the past 15 years, while on the farms in the heaviest producing states the prices are lower than for 25 years.

Land Prices and Rents.

The four years 1916-1919, inclusive, were prosperous for farmers in general. Prices of grain, livestock, cotton, and wool were relatively high, and thrifty farmers got money ahead. These higher prices caused a large advance in the price of farm land. Not all of this was due to farmer buying. The shrewd trader and speculator scented some easy profits and bought to sell again. Also promoters of easy business virtue deliberately set snares for unwary purchasers and induced them to go over heavily in debt for land bought at prices which included unfair profits. Many young farmers who had saved several thousand dollars during the prosperous years were induced to buy farms on contract at the price peak, making small payments down, with provision for yearly payments of interest and on the principal on pain of forfeiture of all sums previously paid. The sadly unprofitable year of 1920 wiped out thousands of these fine young men, and the even worse year of 1921 will finish more of them.

During the prosperous years land rents went up rapidly, doubling and trebling, and in some cases going even higher. It was human nature that renters should prefer to pay cash rent in a time of good farming profits. The drop in prices for crops in 1920 caused many of these renters to lose not only their labor for that year but their savings as well. But for the leniency of their landlords thousands upon thousands of other renters would have lost everything they had.

Difficulties of Producers a Matter of National Concern.

The cynical or thoughtless man is disposed to say: “What have I to do with all of this? Those unfortunate purchasers and renters exercised bad business judgment. They took their chance and lost. They are simply victims of business misfortune. The same sort of thing will happen to me if I show no better judgment. Of course, I am sorry to see them lose, but really it is no affair of mine.”
Nevertheless it is a matter of concern to the nation at large and it is the affair of every good citizen when any considerable number of hard-working men get into financial difficulties so serious that their ability to produce is impaired. And surely it is a matter of concern to the community at large when food producers of the nation so generally find themselves in a condition not only financially unprofitable but which threatens continued production.

The unprofitable year of 1920 compelled large numbers of farmers to borrow heavily to meet excessive costs of production, which could not be paid for out of crop proceeds. Interest rates were high, and through our ill-adapted system of credit for farmers’ needs, particularly in such times, most of these loans had to be renewed every 90 days. The unprecedented drop in prices of farm products in 1920 came as a stunning surprise to the majority of farmers. They had expected some decline, but nothing so severe as what actually happened. Consequently for a time they tried to avoid heavy sacrifice and continued their borrowings. Their bankers shared their belief that the situation would adjust itself and were willing to lend, but prices went lower, and these loans, together with loans previously made, soon added volume to that mass of frozen credit, of which we have heard so much talk during the past year.

Continued Production Depends on Fair Prices.

So we find that, speaking generally, the economic conditions which affect agriculture are in a bad state, with ruinously low prices for grains, with farmers laboring under heavy financial burdens, and with their difficulties having been communicated to practically every other line of industry, commerce, and general business.

In setting forth this situation so candidly, my thought is not to add to the discouragement but rather frankly to bring the situation with all its difficulties clearly into view. The condition must be recognized exactly as it is if it is to be alleviated. Ignorant optimism is just as harmful as doleful pessimism. We must accept the cold fact that agricultural production in adequate measure can not be continued any length of time on a basis which does not give the producer a fair price. If conditions continue under which workmen in other callings, whether laboring men, skilled workmen, manufacturers, or businessmen generally, receive pay which is so very much higher than the farmer receives, there will be a steady drift from the farm to industries and business, thus increasing the number of consumers and decreasing the number of producers, and this will result in prices for farm products so high that conditions will be reversed and the burden will be transferred to the people in the cities. It is not to the advantage of the nation that any large group of our people be placed at an economic disadvantage.

Fortunately, there is a brighter side to the picture I have presented. Prices for livestock are much higher relatively than prices for grains. In the case of corn, for example, which is our largest grain crop, the farmer is receiving very much more for this grain when fed to hogs and cattle and sheep and marketed in that form than he is receiving for his corn when marketed as corn. Speaking generally, about 80 percent of our corn crop is fed to livestock, and those farmers who have maintained their livestock production are not suffering so severely as might be indicated by the price of grains. The prices of dairy products also are higher relatively than the prices of grains and feeds, and in those sections where dairying is practiced there is a steady income and the farmers are getting along.

The cotton crop of 1920 was large, and when the foreign outlet was so restricted prices dropped far below the cost of production. The situation was so serious throughout the cotton states that the bankers, merchants, and businessmen generally joined with the farmers to bring about a reduction in the acreage in 1921. This effort was successful, and the acreage was reduced about 28 percent. The crop was still further shortened by the ravages of the boll weevil, so that the final figures will indicate a reduction of nearly 50 percent below last year’s production. When this situation became known there was a rapid advance in the price of cotton. The price doubled within a period of a few weeks. The effect was beneficial not only to the cotton planters and others who held old cotton, but to all business interests in the South, and reports from that section have been much more hopeful during the past two months.
Constructive Legislation by Congress.

The marked decline in the prices of farm crops during the fall of 1920 was noted with some satisfaction by the consuming public. Although prices of farm products on an average had not increased as much as the prices of most other commodities and had not increased as much as wages in industry, nevertheless our people had been accustomed to cheap food for so long that any increase in price, whether actual or relative, met with indignant protest. The drop in prices paid to the farmer, however, was not followed by a corresponding drop in the prices which the consumer paid for his foodstuffs, and before the summer was well advanced the thinking business public began to see that the severe drop in the prices the farmer received was having a very bad effect upon business and industry in general and that such a marked reduction in the purchasing power of the farmer might result disastrously. When Congress met in April 1921, the danger to our agriculture was in the minds of Senators and Representatives, especially those from the agricultural states, who had firsthand knowledge of the situation, and there was an earnest casting about for measures of relief. Many bills were introduced in the hope of helping the farmer. Members of the staff of the Department of Agriculture were called into council on these measures. Much time was given to the preparation and submission of statistical matter and other information asked for by legislators. It became evident that there were no shortcuts by which an immediate return to agricultural prosperity could be insured, but some laws were enacted which already have had a helpful influence. Most of these were directed toward making credit more easily available for worthy borrowers. The joint-stock land banks were helped back into business by the measure which authorized them to increase the interest rate on their bonds issued based on farm loans. The power of the War Finance Corporation was greatly extended, making large sums available for agricultural needs. The machinery for getting out these loans is now working well and most helpfully in the surplus-producing states. Provision was made for increasing the capital of the Federal farm land banks, thus enabling them to extend their farm-mortgage loans, and the better demand for bonds based on these loans is making rapid extension possible. An act was passed bringing the packers and market agencies under government supervision, and another act extending government supervision over grain exchanges. Never in the same length of time did Congress give more serious attention to farm needs.

All of this legislation is of a constructive character and will be more helpful than is now realized. Concerning the efforts to make easier credit conditions, there is this to be remembered: Better prices for the crops the farmers have to sell and lower prices for the things they have to buy are far more needed than an opportunity to go further in debt. Easier credit will be helpful mainly in enabling the farmer to tide over this period of severe stress without being compelled to sacrifice his livestock and crops and without losing his farm. Money made available through the new facilities provided by legislation should be used mainly for carrying loans on which payment is demanded and for buying livestock to consume the surplus crops. If loan companies and insurance companies which hold farm mortgages will freely grant extensions of payment of both principal and interest, that will help conditions very much, and they can do this without danger of loss.

As is always the case in such periods of depression, many well-meaning men come forward with ill-considered measures. Visionary schemes of all kinds are presented. Some would have the government take charge of the larger business enterprises; others would have the government undertake to fix prices either arbitrarily or indirectly by buying up surplus crops. The experience of 3,000 years shows the impracticability of such efforts.

Much is to be hope for from the agricultural inquiry which has been underway since midsummer by a joint committee of the Senate and House. The department has aided this committee in every way possible, and especially by preparing a great mass of statistics bearing on the economics of agriculture. The result of the committee's studies should be very helpful in enabling us to plan wisely in the future.

Must Consider Economics of Agriculture.

In addition to contributing what it could of helpfulness to Congress and to other agencies seeking means of relieving the uncomfortable situation, the
department has been working earnestly in its own field. Agents have been sent to Europe to study conditions there in the hope of finding ways to enlarge our exports of farm products. We have not met with large success in this direction because of economic conditions abroad. Continued inflation overseas and drastic deflation at home put us at a decided disadvantage in selling our products. However, much exceedingly helpful information has been gained, which, while not promising the full measure of immediate relief we would like, will help us to plan more wisely and to adjust our production more perfectly to the foreign demand. The effect upon our agriculture of economic and financial policies put in force by nations which import foodstuffs has not had the attention in this country which the matter merits.

Had we in the past given as much attention to the economics of agriculture as we have to stimulating production, it is not too much to say that at least some of the troubles which now beset us might have been anticipated and avoided. Firmly convinced of this, one of my first acts upon taking office was to inquire into the economic work being carried on in the department. I found this mostly in two bureaus and one office of bureau standing. Last winter Congress provided in the agricultural appropriation act for the consolidation of the Bureau of Crop Estimates and the Bureau of Markets. In considering this consolidation I found that to secure the greatest efficiency in our study of economic problems it would be wise to include in this merger the Office of Farm Management and Farm Economics as well. To make sure that nothing might be done without due thought, I appointed an economic council, consisting of five bureau heads, and asked them to consider the economic work of the department and make their recommendations. After much study and investigation this economic council prepared a report. Several highly qualified men from different parts of the country were then asked to come to Washington and go over the plans submitted. They did this and approved the plans, which contemplate the consolidation of the Bureau of Crop Estimates, the Bureau of Markets, and the Office of Farm Management and Farm Economics and the rearranging of the work of these three bureaus under appropriate divisions. Not having authority to formally complete such consolidation, I consulted with various members of the agricultural committees of the Senate and House, and upon receiving their approval ordered that the work be so arranged as to virtually effect the consolidation. In the estimates for the next fiscal year I have asked legal authorization to complete it.

New Bureau to Meet Needs.

I have suggested that the name of this new bureau should be the Bureau of Agricultural Economics. It is proposed to merge into this one bureau all the forces of the department which are engaged in agricultural work. The purpose is to inquire into every economic condition and force which has an influence upon either production or price, for the one depends on the other. We shall begin with the study of farm management, types of farming, cost factors, market grades, and practices as they bear on farm management. The cost of production and distribution will be studied at each stage along the way. Investigations will be made in land economics with a view to encouraging a wholesome system of land tenure, land resources and utilization, land settlement and colonization; the marketing of farm products with a view to better organizing distribution, market conditions, standardization, and grading of products; collection of statistics of production and distribution; crop and livestock production both in the United States and in foreign lands; prices of farm manufactured products; historical and geographical studies in production and distribution with a view to interpreting the trend of agricultural prices and production, the development or decline of markets, and generally the geography of the world’s agriculture; methods of finance; insurance of buildings, livestock, and stocks in storage; taxation and its relation to production and distribution; the financing of rural public utilities and other group enterprises; agricultural conditions in countries which compete with the United States; the characteristics and changes in rural home life and its relation to agriculture; the trend of agriculture and population; in short, everything which may be helpful to the farmer in producing with judgment. Such studies and investigations will be just as helpful to the consumers as to the producers, for the ultimate purpose is to make sure that our people are abundantly supplied with the products of the soil at prices which will both sustain our agri-
Much of the work outlined above already has been underway in the department, some of it for many years, but I am sure that this bringing together in one bureau of the major economic projects of the department will both reduce expense and make possible the better working out of these projects.

The organic law which created the department back in the 1860s contemplated exactly this sort of development. By it the department was charged with the duty of acquiring and diffusing “information on subjects connected with agriculture in the most general and comprehensive sense of that word.” The thought that the sole duty of the farmer is to produce, and, having produced, take his crops to the nearest market, sell them for what he can get, and then go home and produce some more, is no longer entertained by well-informed men. It is now generally recognized that the farmer has a very direct and personal interest in the efficiency with which his crops are handled until they reach the consumer’s table. The production of food has long been considered as a sacred obligation, but it is an obligation not in any sense more binding than the obligation to get that food to the consumer with the least possible waste and at the least possible cost. Nor is the obligation to produce more binding than the obligation to produce intelligently with due regard to the needs of consumption. It is just as important that the producer know what to produce and how best to get it to the consumer as it is to know how to produce at all.

* * *

Conclusion.

In the foregoing I have tried to present truthfully the adverse conditions affecting our agriculture at the present time and the bad effect these conditions are having upon industry and business. The troubles by which the farmer is surrounded are not of his making. In large part they are due to worldwide conditions over which he had no control and the inevitable result of the World War. It is not to be expected that by some miraculous transformation this period of adversity may be turned overnight into a period of prosperity, but there seem to be good reasons for believing that the worst is over and that we may reasonably hope for gradual improvement from now on. A clear recognition of the conditions as they exist should help us to realize this hope.

When finally we emerge from this distressing period we shall find ourselves at the beginning of a new agricultural era. Heretofore we have produced more food products than were needed by our own people. We had land in abundance and of great fertility. Our population is increasing rapidly. We have taken up most of our easily cultivated land. We are not far from the time when home needs will require practically all that we produce in the average year. This means a more intensive agriculture, with larger production per acre and lessened cost, if we are to meet foreign competition and still maintain our standards of living.

The Department of Agriculture is planning to meet these new conditions by strengthening its work in certain directions. Its appropriations from the Federal government are set forth in the pages which follow. A study of the regular appropriations will show that very nearly two-thirds of the money is spent for regulatory and service work which is of more direct value to the consuming public than to producers on the farm. The money made available for scientific research and its application to farm practice should be increased in the national interest. As has been said, such money is in the nature of an investment. It results in vast additions to our national wealth. The amounts asked for the coming year, and which have been approved by the Bureau of the Budget, have been reduced to the minimum. In the future these appropriations should be increased just as rapidly as the organization and administration of the department gives reasonable assurance that increased money will be used wisely.

It is planned during the coming year to strengthen certain phases of the work of the department, more especially the scientific research, the application of the results of research to farm practice, more extended studies of marketing farm crops with a view to reducing cost, investigations of both production and consumption at home and abroad for the purpose of better adjusting our own production to market needs, and studies looking toward making available to the farmer those devices of modern business
which provide needed credit on easy terms and which may help us to distribute production risks more equitably.

This is a creative department. Also it is a department of service. Its task is to conserve and increase national wealth through the wise utilization of the soil and its products, having in mind constantly the maintenance of the fertility of the soil for the use of the generations to follow us.

In such a task the department should have both the liberal financial support of the government and the sympathetic interest of all our people.

Respectfully,

Henry C. Wallace,
Secretary of Agriculture.