

## Agriculture and the Economic Depression

By Arthur R. McDougal

The position of the greatest of our primary producers, the agriculturist, all over the world in the last six or seven years, and chronically off and on for ages, has been one of general depression varied by brief periods of prosperity. The last depression, coinciding with a general world-wide depression in all trade has been particularly severe, and a ruthless inquiry into it and its causes should be a preliminary to any attempt to formulate a policy. In no other subject is there so much preconceived opinion and prejudice, and in no other is so much fundamental fact ignored.

The depression is world-wide, existing under all conditions in almost all civilised countries, so if there is any common cause it should be visible. We have it in countries

1. Under Free Trade (here till 1932) and under Protection.
2. On the gold standard and off it.
3. With large armies and Armament Bills, and in practically unarmed countries.
4. Which received payment of war debts, etc., and in those paying them.
5. In Republics, Dictatorships, Democracies, etc.

All the above conditions are cited at times as causes, but since the depression exists everywhere there must be some other cause working underneath, and our difficulties, intensified by many wrong policies are still due to one main common cause. What is it?

Everywhere, unthinking people exclaim against the present plentiful supplies and low prices, as if they were an evil. Surely the one object for which men work is to have a plentiful and cheap supply of the goods and services man wants.

The surface symptom of our distress is that the consumer cannot buy the producer's goods at a price that the producer can afford to take. The result is a seeming surplus of foodstuffs, along with millions who are not getting enough to eat. It is the old Henry George problem of starvation amidst plenty. . . Progress and Poverty.

Now the question is *why* is there this price gap . . . Why has the consumer too little money. . . Why is there unemployment. Why are the producer's costs too high? . . . The incompatibility, applicable to Agriculture and Industry whose problem fundamentally is the same, may be due to three main causes.

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1. Excessive costs of Distribution and Transport, and Profiteering.
2. Enhanced costs due to Taxation, Tariffs, Quotas, Trade Restrictions, Monopolies, Marketing Boards, etc.
3. The stupendous toll taken by Land Values from consumer and producer alike, which appropriate to themselves ultimately the benefits of all progress and invention, leaving bare subsistence or less, to labour and capital.

We may take as obvious the following axioms :—

1. Anything that increases the cost of goods without adding to their real value, *reduces consumption and causes unemployment.*
2. Similarly *anything that impoverishes the consumer without rendering a real return reduces consumption and causes unemployment.*

I feel convinced it is on these lines that any inquiry into Agriculture should be conducted. Henry George in his books *Social Problems* and *Progress and Poverty* carried out such an inquiry and found beyond all controverting, that the great universal robber was Land Values and uncontrolled and untaxed private ownership of the gifts of Providence.

Of the three causes suggested above (Item 1) Excessive Costs of Distribution and Profiteering are undoubtedly a cause in some cases, but not sufficient to cause the great depression. Further, even if they were removed, it would only result in our Protection-mad Governments annulling all benefits caused thereby, by increasing Tariffs, Quotas, etc., and once more intensifying the Scarcity campaign. Apparently the civilised world's Governments are convinced that Scarcity means Prosperity. Of the others, Tariff Restriction, etc., in Item 2 are certainly responsible for a great deal of the Economic Depression and their removal would confer many benefits on humanity, but again if they were removed and Trade and Agriculture flourished, it would only lead to a further colossal rise in Land Values which would absorb all the benefits. We thus are driven to Land Values (Item 3), which seem to me to be the one main cause of our depressions.

What, then, are some of the favourite alleged causes for our Agricultural Depression, that seem so obvious and that most people accept :—

1. Heavy Taxation. 2. Inefficiency of Farmer. 3. Infertile Land and Poor Crops. 4. Lack of Capital. 5. Over-production. 6. Low Prices. 7. Fundamental faults in the Land System including Rackrent, Excessive and Uncontrolled Mortgaging of Land.

Let us examine these.

1. *Heavy Taxation.*—This can be dismissed at once because at present in most countries we find that Agriculture is probably receiving in State Aid in various forms, far more than it pays in Taxes. In Great Britain this is so to a tremendous extent. State Aid here amounts to well over £40,000,000 per annum, enough to pay every worker in Agriculture 19s. per week.

2. *Inefficiency of Farmer.*—This also can be dismissed, as in the main, the Farmer is as efficient technically as any other class, and one finds writ large over Agricultural history that the Farmer's efficiency does not ensure him or the workers any permanent benefit. Wherever efficiency increases, Land Values rise and rob the efficient of their just reward.

3. *Infertile Land and Poor Crops.*—This also can be dismissed. One remarkable symptom of the present depression here was that it was the farmers on the better land that suffered most. If fertility and crops ensured farming prosperity surely we would find the Egyptian farmer with his three crops per annum in a state of great wealth and prosperity, whereas he is in reality in desperate poverty. Why? The answer in both cases is *high Land Values*.

4. *Over-production.*—Heavy crops are accused of bringing over-production and this is alleged by many as the cause of our troubles. All statistics in Great Britain and I think elsewhere show that there is as yet *no over-production* and that it is gross *under-consumption* that is the cause of the Unconsumed Surplus.

One need not labour this point. Milk will suffice. It is said authoritatively by Economists that if the Milk Consumption in Great Britain rose to the level of America or Norway or to the level that our Public Health Authorities say it should, then there are not nearly enough cows in the Kingdom to supply it. Yet in fact we find that owing to the foolish policy of Monopoly Milk Boards, over 30 per cent of our Milk supply was last year a *surplus* and as such sold at a few pence per gallon for manufacturing purposes whilst a monopoly price of 2s. per gallon was demanded for fresh milk for consumption.

5. *Lack of Capital.*—This may be dismissed. There is no lack of capital available for Agricultural development, but it cannot be employed safely because of the cost of land either in rent or price, or because of unsatisfactory conditions of tenure. Money spent in merely buying land is not money developing land.

6. *Low Prices.*—Here we come to the favourite cause, yet it cannot bear close examination.

History shows here that as prices rise in a period of prosperity then rents and Land Values and other costs rise also and then when the slump comes the farmer finds himself tied to high costs, some of which are fixed such as price paid for his farm, or fixed for a period such as rents, and interest on mortgages. It is these fixed charges which he undertook in the boom that cause his ruin in the slump.

In Great Britain prior to the Napoleon Wars the British Farmer thrived well enough with wheat at 53s. in say 1797, but was ruined with wheat at 74s. in 1815. *Why?*

The answer is simple. Wheat rose 40 per cent, Poor Rates rose from 50 per cent to 100 per cent or more, whilst *Rents* rose from 250 per cent to 1,000 per cent. In the period between 1797 and 1815 when peace came wheat had often been as high as 120s. per quarter, and it was the enormous increase in Land Values caused by the belief that wheat and other prices would remain at high levels like that, which caused the ruin in 1815 and subsequently.

Exactly the same thing has worked out in recent years. A high price draws out bigger supplies, and in fixing and holding the world wheat price artificially at too high a level the various wheat boards or pools caused (1) An excessive increase in supplies; (2) A monstrous rise in Land Values with accompanying orgies of excessive mortgaging and expenditure.

The result is, of course, eventually Slump and Ruin.



7. *Faulty Land System. Excessive Mortgaging and Rackrent.*—Here in my opinion we come to the one fundamental cause of our agricultural depression, and our industrial depression also. Here we shall find the one great robber who adds to the costs of production without adding to the value of the produce, and who takes toll of the consumer ; impoverishing him without rendering him service in return.

As regards farming one example in my own district should suffice. In 1800 there were two farms, Upper Addinston and Nether Addinston, both good land of about 600 acres each and very similar in value. These were both let on life-rent at £45 and £50 per annum respectively. In 1850, one life-renter had died and his farm had been relet at a rackrent of £600 per annum to a new tenant who subsequently went bankrupt, whilst the old life-renter was thriving at his old rent of £45. In neither case had the landlord spent a single penny on either farm.

*Mortgage.*—Now it may be said, what about the Occupying Owner ? He represents about one in four in this country and probably the majority in America and Canada. Rising Land Values it might be said, should not adversely affect him in a slump.

Unfortunately inflated Land Values have a fatal effect on the Occupying Owner in many cases. The facility with which land may be mortgaged leads to the Occupying Owner buying more land than he can finance, which by causing increased competition, inflates the price.

A prosperity boom leads him to still further mortgage it, either for proper development, or for extravagance or speculation. In either case the result of a long boom is that one finds land everywhere mortgaged to the hilt, on the base of boom values. It is clear that when the slump comes these farmers are ruined in greater or less degree. This is the root cause of distress and depression amongst the occupying owners the same as rackrent is the cause of the tenant farmers' distress. If there is one man in the whole world who can stand unlimited economic crashes, monetary vagaries, slumps and depressions it is the Occupying Owner provided he is free from debt.

He can live on his land and live well. Compared with the City unemployed man his lot is luxurious. He has a home and food and a certain amount of income from sales at any prices.

It is only the fatal lure of Land Values, and the mortgage that lead him to ruin. Further, the whole system of landlord and tenant is a bad system and has never worked well.

Finally our whole system of Rating and Taxation being based on the taxing and rating of all improvements and industry and leaving untaxed those huge Land Values created solely by the community, at once impoverishes the consumer and raises the producers' costs thus causing under-consumption and unemployment, all of which react to the detriment of the Agricultural industry. If all houses were derated there would be at least £10 per family extra consuming purchasing power. This alone might well solve our agricultural surplus problem.

*Points Ignored.*—Incidentally the Ownership of Land and Land Values is a point consistently ignored by all Governments in dealing with Agricultural Depression. They persist in speaking of Farmers only, forgetting entirely

the fact that the farmer must eventually hand on his extra benefits and losses also to his landlord in higher or lower rent. In Great Britain this is a point shamelessly and intentionally ignored and the whole aim and object of all Agricultural Policy here since 1931 has been to maintain or raise food prices in order to maintain present inflated Land Values and thus safeguard the Landowner and Mortgage-holder.

*Profits of Farming.*—In Scotland an inquiry into the profitability of farming has been carried out by the Department of Agriculture, with results which should be carefully noted and acted upon. In 1932-33, the worst year of the slump, we find that out of 206 average selected farms all over Scotland the figures were that for every £100 of Farm Produce sold, Wages took £36, Rent took £17 10s., whilst the Farmer lost £3 10s. Their latest survey for my own area in the Scotch Borders for a big group of representative farms showed the following return for every £100 produce sold: Wages took £32; Rent took £18; whilst the Farmer lost 3s. 6d.

*Divisible Surplus.*—The practical point at issue now is: (a) Is the Divisible Surplus now available from farming sufficient to yield a reasonable return to all three parties? (b) How should the Divisible Surplus be divided between the three parties. Wages, Rent, and Farmer's Profit:—

(a) First, speaking as a biggish farmer of 40 years' experience I say definitely that there is ample divisible surplus available in British Farming to yield a reasonable return to all parties. Even in the worst years of the slump, provided rents had been adjusted, there was enough to avoid distress for anyone.

(b) Let us take the figures given above for the Border Area and show a suggested division reasonable and causing hardship to none.

Why not divide the surplus as follows:—

			Old Division		Suggested
			as above.		New Division.
			£	s.	d.
Wages, for say 9 or 10 men	...	...	32	0	0
Rent for use of Land, etc.	...	...	18	0	0
			<hr/>		
			50	0	0
Farmer's Salary and Interest on Capital					
	Loss		0	3	6
			<hr/>		
Total Divisible Surplus ...	...		£49	16	6
			<hr/>		
				Profit 7	0 6
			<hr/>		
			£49	16	6

It must be noted that the farmer's capital is generally as much as the landlord's and he is as much entitled to a return on it as the landlord, and in fact more so, as he is the active partner taking all risks, and his capital is all real capital and not merely a capitalized value of the power to withhold land, as so much of the landlord's capital is. If the divisible surplus were properly divided on lines suggested above there would be no agricultural depression in Great Britain, and no talk or need of State aid, subsidies, quotas and other futilities.

One solid fact that clearly demonstrates that in reality there is no agricultural depression at all, but merely a maladjustment of rent, is the extra-



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ordinary prices farms for sale are making. Good farms are making on sale from £10 to £40 and £50 per acre. Only a few weeks ago I noted a 500-acre farm made £12,500.

Clearly that shows that there is ample reserve in Land Values to wipe out all depression and that the distress in agriculture amongst workers and farmers is entirely due to the *Rent* taking far too big a share of the Divisible Surplus. In the case of the Occupying Owner the real cause of distress is the mortgage undertaken when he bought his land at a ridiculous boom price. Personally I may say, that I have been keenly desirous of buying a good farm for many years but prudence always forbade me paying the wild prices that many other men, now howling that they are ruined, were paying. When the agricultural land pound has fallen to 6s. 8d. prosperity will return to town and country.

Meantime we continue to be taxed, and sweated to maintain quite preposterous Land Values.

*Remedy.*—What is the obvious remedy here? There is no need to cut wages, or raise prices. The obvious thing is to reduce Rent and Inflated Land Values to a level that will leave the farmer a profit, the worker a better wage and the Landlord a less but still substantial rent. Along with this should go a drastic scheme of Taxation of Land Values so that a rise in Land Values may be restricted, and so that the consumer and producer may be relieved of the taxation of industry and enterprise may be lessened and the burden shifted to the drawer of land rent.

The increase of consumption should be the main objective and that can only be obtained by increasing consumer purchasing power and reducing costs of production. This a Land Values Tax would accomplish. In any case it cannot be accomplished unless Land Values are taxed. Land being in reality a gift of providence, should be taxed on its real Land Value for the benefit of the community and in future the mortgaging of land should be made illegal, in order to prevent the hopeless over-mortgaging which is the fruit of every boom and slump. The objective should be an agricultural population of occupying owners free from mortgage, and paying a Land Values Tax to the State in accordance with the Land or Site Value of their farms excluding all values due to their own enterprise and initiative.

All State aid to agriculture should be stopped and all food taxes, quotas and other restrictions on free trade, repealed, and the industry of agriculture put on a debt-free basis safeguarded against the evils of inflated Land Values, rackrent and mortgage.

There must be a complete change in the Governmental outlook on the division of the agricultural surplus. At present rent comes first and the active agriculturists and their capital and workers come last. The proper order should be: First, a good house and a good wage to the worker. Second, adequate remuneration for the farmer's work. Third, a return on the farmer's capital not less than the return the landlord receives on the unexhausted value of improvements executed by him. Over-riding all there would be the Land Values Tax payable to the State on the unimproved value of the farm. This would, of course, vary with the land from very small sums to quite considerable amounts, and would fall heaviest in comparison on the least improved or most neglected farms. There would be no taxation or rating of improvements which is quite as bad as rackrenting a tenant on his improvements. Our

present system of taxation is based entirely on the taxing and rating of improvements and the letting go scot free of bare land, with the dire results we now have.

Speaking as a practical farmer I have no hesitation in saying that the present policy of subsidies, quotas, tariffs and marketing boards has definitely harmed the actual farmer and worker and that we would have been better with free trade and no government action at all. Of course there will be exceptions but everything considered, my statement is correct.

#### AXIOMS.

Anyone studying the problem of Agricultural Depression should carefully weigh and apply the following axioms to his inquiry.

1. Under-consumption and not Over-production is one of the Causes of Depression.

2. Under-consumption itself is due to the impaired purchasing power of the consumer due to heavy taxation borne by him which should be levied on Land Values and due to the heavy toll he has to pay to Land Values for the mere permission to use land. This is paid by the poorest, concealed in House Rent, which includes the Ground Rent. In Coals which includes the Mining Royalties and in fact on everything he buys and uses. It is also due to the increased costs of Production caused by costs for use of land and by heavy taxes which should be shifted onto these colossal Land Values solely created by the Community.

3. The price of the produce of the farm determines rent. It does not determine the remuneration of the worker or the farmer permanently. These are fixed by competition for land or for work.

4. The results of science and invention and research into animal diseases, plant breeding and culture, improved technique and farming practice does not permanently benefit either farmer or worker but inevitably is expressed in increased rent and price of land, and thus forms a fresh liability.

5. It is impossible to help the farmer or worker by State Financial Aid. One merely may increase Land Values.

6. In view of the fact that the majority of consumers have only a fixed and limited sum to spend on food, it is impossible to raise the price of food-stuffs all round, or to increase the total sum paid to the farmer for food, unless the purchasing power of the consumer is increased. Any attempt to do so merely causes under-consumption and more surplus.

7. Consumption is the sole end and aim of all production and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer.

8. We should welcome plenty and should devote all our efforts to see that this plenty is made available to all, be it plenty in food or in other things.

In view of these formidable axiomatic facts it is seen that the present world-wide policy of restriction of supplies and production, artificial price

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raising, and State subsidies is morally and economically *unsound* and doomed to failure.

In conclusion the issue seems clear to any impartial inquirer that the *primary cause of agricultural depression is not low prices and over-production. Instead, under-consumption, high Land Values and a faulty land system are the fundamental causes of our recurring depressions, both agricultural and industrial.*

*The remedy is to be found in the philosophy and teaching of Henry George.*

[For the further elucidation of "The Real Cause of Agricultural Distress," I would refer inquiries to my pamphlet with that title sold by the United Committee for Taxation of Land Values, 94 Petty France, London. Price 3d.]

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