PROSPERITY UNLIMITED

The American Way

The answer to our Economic Problems

By Carl Wilken

c1947

Price $3.00

Dedicated to

CHARLES B. RAY, Chicago, Ill.

DR. JOHN LEE COULTER

Two men who have given much of their time without reward in analyzing our National Economy

and

J. CARSON ADKERSON

President American Manganese Ass'n

Preface

To understand is to know. Carl Wilken understands. In his book, *Prosperity Unlimited the American Way,* after years of study and nine years of research, he has painstakingly and carefully written this understanding of world affairs in such a way that this knowledge can be be readily understood by everyone. Every American citizen whether he or she works on the farm, in the house, in industry, or in a small or large business should think of this book as necessary reading.

The second World War has been won. But the future confronting us is so uncertain that without knowledge and understanding how can we know which way is the way to prosperity and permanent peace?

In every period of our history leaders have arisen equipped with the sound reasoning to guide our faltering footsteps toward the light. These men have been plain men, men without personal vanity; but, men so endowed by birth that they spend their lives for the betterment of our people and nation.

Now, in our present chaotic dilemma, we find ourselves without a plan, or without leadership. Carl Wilken, a plain Iowa farm boy by birth who through personal sacrifice and years of study and research, has in this book given us an infallible formula for continuous prosperity. This formula taken from the records of our national economy is so written and each segment graphed in such a way that his knowledge will bring understanding to all who read it.

Wilken started his study of national economy when he returned to his Iowa farm after serving as an Infantry captain in the first World War. The first corn crop he raised netted only 27 cents per bushel for his labor. He thought, why should this be, there must be some

unsound reason for such a condition? A student of engineering and economics at Iowa University, he decided to tackle the problem of why this state of affairs should exist in our nation. As he said, "I wanted to take our national economic system apart and see what made it tick."

This he has done. For several years past he has been in demand as a public speaker before agricultural, stock and sheep raising, mining, oil, railroad, and other groups. Each audience has desired the information in printed form in order to glean a more permanent understanding of his 1-1-7 formula, and positive rule of future trends.

So, in *Prosperity Unlimited the American Way,* we have a guide to protect our present and future generations against depression and political fallacy. We hear talk of a third World War and are faced with fears and doubts. Can we prevent this uncertainty; can we solve the unsound economic problems of our nation; can we have continuous prosperity? Carl Wilken, an outstanding thinker of today, says we can.

ALB

Introduction

In 1932, the world witnessed the greatest economic fiasco since the Dark Ages. The pages of past history have recorded the rapid growth of the United States during 150 years of uninterrupted progress.

Almost unbelievable stories had circled the globe, telling of this land of freedom and plenty. Citizens of other nations looked with longing eyes toward the Western Hemisphere as letters from their relatives in the United States described this land of milk and honey, their ownership of automobiles, homes, farms and business institutions. Yes, many of these letters were filled with an actual demonstration of plenty, in the form of remittances of money, for those who had to remain in the mother country.

History, as the result of World War I contained the record of this great nation which had proved itself powerful enough to cross the sea and invade Europe to win a war. It recorded the sending of millions of tons of food from American abundance to feed the war-stricken people of France and Belgium.

And in the post-war this nation, in spite of the war and its load of debt, demonstrated its latent power by moving into an industrial period that produced millions of cars, radios, homes and miles of paved highways. This industrial expansion became a legend of economic miracles. Then, something happened in this march of progress.

Almost overnight this same nation, which in the eyes of the world was a sort of dream land, fell into a state of economic collapse. It had millions of unemployed, and, in spite of abundant crops from the most fertile soil in the world, many of its people were hungry. The world has had other periods of want and privation but never has witnessed a nation buried under tons of food, yet unable to eat. Then followed the strangest and most senseless program of all times. This great nation destroyed some of its crops and livestock while millions were without food.

In reviewing this period, I often wonder just what the citizens of other nations thought of us. They must have felt that this great land of their dreams was after all just a dream. They must have thought that we had suddenly gone crazy or berserk because of too much of everything in the way of food, homes and luxuries.

I have often wondered whether the psychological effect of the complete breakdown in our economy contributed to the growth of totalitarianism as evidenced by Hitler and Stalin. Think of the devastating effect upon the morale of the peoples of other lands to see this nation which Abraham Lincoln had proclaimed the land of freedom with its representative form of Republican government—"of the people, by the people and for the people," a failure. Surely they must have felt that this form of government was another mirage built on a foundation of wishful thinking.

Of far greater importance however, is the question, what was the effect on our own citizens? The history of the New Deal with its program of scarcity and the destruction of wealth in the form of food, even though the world was hungry, contains that answer. We forgot the fundamentals of economics, the production of new wealth from the soil. We initiated a program under which we were to become prosperous by spending money obtained by placing a mortgage upon our future income and that of our children.

After eight years of such a policy of lend and spend we were still in a depression with 8 million unemployed. Then came World War II. We won the War but in doing so we incurred a debt which today totals $260 billion, a sum beyond the realm of imagination. To illustrate its magnitude, I will point out that it is only $40 billion less than would have been required to buy up the United States in 1940—lock, stock and barrel.

As a result of this debt and other costs from World War II the President has asked for a budget totalling $37.5 billion for the fiscal year July 1, 1947, to June 30, 1948. To drive home the size of this budget we need but compare it with our national income of 1932, in the amount of $39.9 billion. Supposing we were to have a recurrence of 1932 price levels and only had $39.9 billion of national income. It ought to be self-evident that chaos would follow.

Yet, that is a question which we as citizens of this nation have confronting us. What is there to prevent the recurrence of the low

prices of 1932? What can we do to prevent such low prices and low national income? That is the question which I am answering in the chapters of this book entitled "PROSPERITY UNLIMITED—THE AMERICAN WAY." I am merely trying to analyze the record of the United States so that its people through their representative form of government can avoid disaster and preserve the finest form of government and the most productive economy ever created by man.

A careful analysis of the history of nations will disclose that most of the human problems such as war, poverty, depressions and social disorders can be traced to unsound and selfish economic policies. Theoretical policies often based on the selfish desire to exploit another nation by expecting to buy goods below their rightful value, have displaced fundamental facts and laws of exchange.

A basic law of exchange is set out in the Bible, namely, "Every laborer is worthy of his hire." It is my intention to point out from the factual economic record of the United States that this law of exchange or equity governs our entire economy. Because of this law of exchange the attempts of the human race to buy something cheap, destroys their income with the result that cheapness of price for goods and services becomes the badge of poverty in the midst of plenty. The record reveals that the different groups in our economy cannot shortchange each other in the market place without suffering a direct loss in the future.

The time has come when we must make a decision if our system of free enterprise is to survive. We must decide whether each group wishes to have its share of an income created by equitable exchange values or parity of price for production, or whether, each segment of our economy wishes to destroy its own income and that of the nation by a rather foolish and selfish struggle to obtain an unfair advantage.

We must decide whether it is better for each group to share equally an income which means prosperity, or whether we will have an equal share of poverty as represented by too small an income to consume production. Stated in other terms we must decide whether the various segments of our economy such as agriculture, manufacturing, trade, etc., are going to have an equal participation in the whole, in order that we may exchange goods to the fullest extent.

This does not mean that the individual in each group will get

an equal share, but rather that he will receive a proper return for his services within his particular segment of our economy. Natural differences in ability should and will bring about varying incomes for the individuals in each economic group even though the laws of exchange keep the income of major groups in balance with each other. For example, parity of price for agriculture does not mean the same income for each farmer. It means simply that each farmer will be paid in proportion to his ability to produce.

Our nation with approximately 6% of the world's population, has 25% of the available supply of raw materials. We can have a prosperity which will over-shadow anything in the past. On the other hand, if we fail to recognize existing laws of exchange, we will have a repetition of the starvation in the midst of plenty which we experienced in the thirties.

The men who framed the Constitution of the United States gave us a pattern of government under which we can attain permanent freedom and prosperity. Do we have the vision and the unselfishness to perpetuate the United States? Time alone can tell, and it is my hope that the material presented will aid in penetrating the fog of confusion which brought about the unnecessary depressions of the past. If repetition of the "booms and busts" is permitted, it will mean another depression; our form of government and our system of free enterprise may not survive.

Some of my readers may feel that to stabilize prices at the point of equal exchange will mean regimentation of our daily lives. This does not happen to be the case if we think in terms of right and wrong. For example, in theory we should all be good citizens and therefore law enforcement should not be necessary. The experience of time has proved the need of a police force to protect our welfare. Law and order is not considered regimentation. In the same manner proper price levels mean prosperity instead of chaos.

In the chapters that follow I will illustrate how each $1 of gross farm income will create approximately $1 of factory payrolls and a minimum of $7 national income. Failure to create the $1 of gross farm income causes the nation to lose $7 of national income. Proper farm prices therefore are a must measure to protect the economic welfare of the American people.

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CHAPTER I

Free Enterprise Needs a Governor

What is free enterprise? What has it done for us? What must we do to make it work and to protect it from the trend toward government control over business? The depression of the early thirties brought about the entry of the government into many fields of activity formerly carried on by free enterprise. What will the next depression, if it is permitted to come, do in the way of government controls? These are questions which 141 million people living in the United States ought to be asking themselves.

Unless these questions are properly answered and steps taken to preserve free enterprise and make it work, our American economy may become entangled in the economic revolution that has been sweeping the rest of the world.

It is not enough to say that it can't happen here. We have too much at stake to ignore the problem. The time has come when we must study our system of free enterprise along the lines of the questions listed above. We must find out what makes it work and what we have to gain by maintaining it.

WHAT IS FREE ENTERPRISE?

Free enterprise is distinctly the product of the Constitution of the United States. The right of representative government to determine the laws which protect the rights of free men is the foundation upon which free enterprise is built. In conjunction with this right of representative government, we have an economic framework which gives the citizens of the United States the right to own and hold property against seizure either by government or by individuals. It gives the citizen the right to develop and own the resources of the nation and

to benefit from the production of new wealth. Free enterprise means the right to produce and to enjoy the full benefits and fruits of toil. Therein lies the incentive for the individual to forge ahead.

Basically then, our economy rests on a foundation made up of individuals. As individuals prosper from the production of goods and services, in that ratio the nation prospers. A good income to the individual automatically means a prosperous community, a prosperous state and a prosperous nation. On the other hand, low prices for new wealth produced and low wages mean depression for the individual and in turn for the community, for the state and for the nation.

Such was the situation during the depression. Our remedy, we thought, was to go to the government; but the very fact that the citizen had no income precluded the government from having an income through tax collections. It became necessary, therefore, for the government to mortgage the future of the nation in an attempt to create income, thus violating every rule of sound economics. A nation, like a business, must earn its income from the annual production of goods and services if it is to remain prosperous and solvent.

On this foundation of individual ownership or free enterprise, our nation has built an economy that has never been equaled in the history of the world.

All told, we have approximately 9 million individually owned business units. Of this number approximately 3 million are non-agricultural and the other 6 million consist of the number of farms which we have in our agricultural industry.

Each farm has every right to be called a business unit. The capital investment per farm is equal, for all practical purposes, to the average investment in the non-agricultural business unit. In fact, agriculture has approximately two-thirds of the capital invested in productive enterprise in the United States. These farms, in addition to being producers of raw materials, are small factories. Millions of tons of grasses and feed grains are processed through livestock into other forms, such as meat, dairy and poultry products. As an end result, these farms produce 65 per cent of all raw materials used by our manufacturing industry.

54,000,000 of our population and roughly 20,000,000 of our labor force live on these farms and in the rural communities that service them. Their income is directly the result of their income equation—the number of units of farm products produced and the price per unit. As farm income rises and falls, the vast agricultural segment of our economy gains and loses its income and purchasing power in direct ratio.

With a grand total of 9,000,000 business units and a labor force of 55,000,000, we see that one out of each six individuals in our labor force owns his own business. We are still a nation of small business units, with 96 per cent of the non-agricultural business units employing 19 men or less per unit. Our farms average approximately 190 acres per farm, a distribution of ownership which cannot be found in any other large nation.

We should make a comparison of this with nations having state ownership, or with the economy of other nations where large holdings of business units exploit labor by taking the greater share of the income. Cuba is a good example of cartel ownership. American capitalists own 56 per cent of her sugar industry, while other foreign nations own 22 per cent. This leaves 22 per cent of the Cuban sugar industry for the Cubans. They do not get the full earnings of their production, and this lack of income is translated into limited trade with other nations, as compared with what they might have under a system of free enterprise such as ours.

In many of the other nations, planning is done by a few. In the United States, the planning is carried on by 9,000,000 individuals, with no fetters on their ability, their energy and their ambition. This simple factor of individual planning by millions rather than a few is the secret of the dynamic economy which the United States has used to outstrip the world in well being. It is the best argument that can be used against centralized control. No government planning can ever equal the efficiency and thoroughness of the individual, with his knowledge of local conditions, his selfish interest in the success of his business.

The proof of this is in the results which private enterprise has given us. The record and comparison with the other is so amazing as to be almost fantastic.

WHAT HAS IT DONE FOR US?

In the 170 years from 1775 to 1946 we have grown from a nation of approximately 3,000,000 to a nation having a population of 141,000,000. Our productive ability has expanded in even greater ratio.

At present we have about 6 per cent of the world's population. We have 50 per cent of the telephones, 70 per cent of the automobiles, 50 per cent of the radios, and use 34 per cent of all the electrical power produced in the world. We use 60 per cent of the oil, 65 per cent of the silk, 50 per cent of the rubber, 52 per cent of the coffee, and produce approximately 47 per cent of the world's dollar business.

With this record of past achievement under a system of free enterprise, we should indeed hesitate before casting it lightly aside for some of the new "isms" that have been sweeping the world.

WE MUST MAKE FREE ENTERPRISE WORK

Instead, we should take stock of ourselves and free enterprise in order to understand it. We should find the reasons for the failure of free enterprise to provide employment in the thirties. We should search out the reasons that may tend to create unemployment in the post-war era.

Free enterprise, because of its very nature to plan efficiently and produce abundantly, is its own worst enemy. It lacks the coordination to maintain the stability which it must have to distribute. Competition, while it is called the life of trade, at times is unethical and so severe that it destroys our incomes and in turn our ability to consume.

In periods of prosperity, the surge of the 9,000,000 planners to expand their operations is almost an irresistible force. On the other hand, with a downward trend in our price level, the rush to sell before the other fellow does, easily leads to unnecessary chaos and a complete breakdown in our economy. *What we need is a governor to control our system of free enterprise.* Proof of the need of such a governor can be obtained from a study of our economy.

In the period from 1925 to 1929, our national income averaged $78 billion per year, with a high in 1929 of $83 billion. During this period industry developed rapidly; there was practically full employment;

our automobile industry, for example, in 1929 produced and sold 4,500,000 cars. Then came the downward spiral of price, and the same nation, in 1932, had an income of but $39 billion; factories closed; 15,000,000 men were unemployed; people starved and farmers revolted because of low prices and foreclosures. What was the reason for this almost unbelievable collapse which cut the income of every group in our economy approximately 50 per cent? Stated simply, the price for production was too low.

During the decade from 1930 to 1939, we tried to correct it with government spending. At the end of the 10-year period, we still had 8,000,000 unemployed, and the national debt had increased approximately $3 billion per year—and it is still unpaid. What about the post-war years? Are we going on with further increases in our national debt, or are we going to return to fundamental economy and free enterprise, with the income of the nation at a level which will not only mean full employment but repayment of the debt which has been accumulating since 1929? If free enterprise is to work, then we must operate our economy without any great aid from the government. Furthermore, the record of the nation during the past 20 years can furnish the yardstick for sound economic policies.

In 1940 our nation had an income of $76 billion. Then came the war, with our own entry in 1941, and free enterprise went to work to win the war. Production increased and our national income rose rapidly, until in 1944 we found the nation that had had an income of less than $40 billion in 1932 had an income of $159 billion. This was the same nation, the same people, the same resources—and it is up to free enterprise to maintain this production and price level in the post-war era if it wishes to survive.

In analyzing this difference in income, we find two principal factors which caused the change. One was the price per unit of production and the other the increase in the number of units produced in 1944 as compared with 1932. The increase in price can hardly be called inflationary, as our general price level in 1946 was only approximately 25 per cent above that of the 1925-1929 price level. This increase in the price level is in reality price recovery from too low a level during the depression.

Using 1929 and 1942 as end years for the period, the record reveals that our nation lost $473 billion because of the failure of free enterprise to maintain a proper price level on production. That amount is what the depression *cost* us. If 1929 prices had been maintained, we could not have had a depression during the thirties. We had the resources and the kind of an economy to produce the goods. Our failure to maintain the price level, with the resulting loss of purchasing power, prevented distribution even though we had a continually increasing market as the result of an increase in population.

If price level and production are maintained in the post-war era, our nation can use 6,000,000 cars a year and build 1,500,000 new homes without the aid of government. Will the price be maintained? *It must be if we are to have the national income to remain solvent.*

The very fact that our income in the four years from 1941 to 1944 spiralled upward at the rate of approximately $25 billion per year ought to warn free enterprise that it can spiral downward just as rapidly.

It is our job to find the key factor which operates our economy with such velocity. Again the record of the nation reveals the answer.

In 1775 about 9 men out of each 10 were producing raw materials. There was little trade or industry. The increase of our efficiency under free enterprise has rapidly changed this ratio. By 1850 only one out of two of the labor force produced raw materials, with a corresponding increase in industry, trade and service. Today it requires only one laborer in 5 to produce the raw materials. This increase in efficiency is the gauge by which we can measure the speed of our economy.

THE ADVOCATES OF LOW PRICES

Before analyzing the results of proper raw material prices, it might be of value to discuss briefly an economic theory of low price which has fastened itself on our system of free enterprise.

The word "cheapness" in an economy such as ours is a fallacy. Cheap goods and cheap wages mean a cheap nation and a low standard of living. We need only to take a look at the rest of the world, with 60 per cent of the labor force working for 25 cents per day or less. What do they have? Misery, want, starvation, instead of cars, homes, electrical equipment, etc.

We hear too often the expression that technological improvement should result in lower prices. That is true to a certain extent, but technological improvement must also result in higher wages, increased profits (with which to pay taxes for the support of schools and government costs) and enlarged funds for capital expansion and new industries.

Technological improvement creates unemployment. Technological improvement must create increased buying power, through increased wages or increased capital earnings, to build new industries or to expand the old; otherwise we cannot create the new jobs and consume the new product.

There is no such thing as a cheap product. For example, interest rates have been reduced. In 1941, the total capital value of the United States was approximately $400 billion. To reduce the average capital earnings on a $400 billion business 2 per cent means to reduce income from invested capital and, in turn, the earnings of the nation $8 billion.

At the present time we have a concerted effort to obtain cheap electrical power through the setting up of river authorities under government control. If this program comes to pass, the lower rates will destroy income in proportion to their extent; some of the earnings for capital expansion under our system of free enterprise, some of the earnings for higher wages and some of the earnings to pay the taxes with which to finance our national debt will be destroyed.

Cheapness is an illusion promoted by human selfishness. Low prices have always meant a depression. Proper prices for goods have always meant periods of expansion and consumption. We need but to look at the record of the United States for the proof.

RAW MATERIAL INCOME

Surplus Complex . . . .

One of the principal reasons for the theory of cheapness is the thought that surpluses cannot be sold except through a lower price. This theory is a fallacy. The price reduction destroys the very income needed to consume the additional production.

With prices stabilized at parity, any increased production above the normal, or average, needed for our economy will result in increased income, increased consuming power and increased consumption. Sur-

plus production is the very essence of trade. Without a surplus we would have nothing to trade for goods which we do not produce, nor would we have the materials with which to expand our economy so as to keep pace with population growth and technological improvement.

Excessive surpluses should be treated like the surplus in a mercantile store. No merchant permits a few items to destroy his entire price structure. The sale of the surplus production at a lower price does not make a great loss if spread over the whole. For example, if we were to lose a billion dollars in disposing of surpluses to maintain a national income of $150 billion, it would be far better than to permit the surplus to wipe out $75 billion of income through a general lowering of price levels. A reduction of our raw material prices to 1939 levels would result in a loss of $75 billion.

Raw material income, the new dollar exchange created through production, passes from hand to hand in our system of distribution. In 1850 our national income was two times our raw material income. Today, it is five times the raw material income. As a result, our cycle of income can be called a five-times cycle. The need for stable raw material prices has increased with the increase in efficiency.

In the same way, the ratio of farm income to national income has expanded very rapidly. Since 1921 each dollar of farm income has been translatable into $7 of national income. Applying the ratio to the post-war period, a drop of $10 billion in farm income would wipe out seven times $10 billion or $70 billion of national income.

The problem, then, of free enterprise is to stabilize farm prices and keep them at parity with finished goods. This is the governor which we need to utilize our economy to the fullest extent. It so happens that if farm prices are stabilized at parity, all groups will be stabilized to that extent. For example, the volume of retail sales represents 60 per cent of the national income, with very little fluctuation. With $150 billion of national income, we can expect a minimum of $90 billion in retail sales. If we permit our farm income to drop, reducing our national income to $80 billion, our retail market will be 60 per cent of that, or $48 billion. In like manner, factory payrolls hinge directly on farm income, as do the incomes of other groups such as mining, manufacturing, construction and transportation. There is no escape from these laws of exchange. Each segment of our economy benefits

from any increase in farm income and loses when farm income falls off. Higher farm prices automatically help the income of every group. The net result of the ratios which exist is that at parity the income of the nation is in balance with the amount of goods produced. At 10 per cent below parity, the nation lacks 10 per cent of the consuming power; and with farm prices 10 per cent above parity, a surplus of income is created as compared with the available amount of goods.

Farm prices at parity would gear our economic machine to run at full capacity. A 10 or 25 per cent drop in farm prices reduces the speed of our economy in proportion. Factory production and employment in the period extending from 1921 to 1940 echoed the percentage of farm parity. On the other hand, the value of manufactures and factory payrolls responded directly to farm income. With both the physical movement of goods and our income in ratio to agricultural prices and production, there is only one answer to our economic problems. We must maintain farm prices at parity if we wish to have the foundation for full employment and prosperity.

Pure logic ought to indicate the truth of these ratios. In our economy, the producer is also the consumer. In the cycle of manufacturing we have the raw material cost, transportation, factory labor, etc. These charges are paid out prior to the sale of the finished product. If the manufacturing industry pays out only 90 per cent then it must follow that it can sell only 90 per cent of its production. To require the payment of parity prices to the farmer and to maintain a proper wage level means to maintain a full market for our production. It is the governor which we need for the protection of free enterprise and the future expansion of our economy.

Industry must realize that profits should be made through efficiency in production rather than the up and down swing of the price level.

A stable price level does not remove the incentive to produce but protects it.

The efficient producer makes more profit than the inefficient one —and should. A stable price level is detrimental only to the few who exist because of the margins created by price fluctuations. Free enterprise should not be sacrificed for a few. If we are to repay the national debt, free enterprise is needed badly. There is no other economic system which can create the income to keep the United States solvent.

CHAPTER II

Agriculture

Agriculture, the industry which creates a continuous flow of new wealth from the soil, is the foundation of the economy of the United States. From the production of raw materials, all human and animal life obtains the energy to perform the labor basic to all production and economic progress.

Agriculture's raw materials furnish the physical production for labor. The units of agricultural production times the price per unit gives us the gross agricultural income. This in turn governs the total national income, and, consequently, the income of all segments of our economy. The income of other segments of our economy follows the trend of gross agricultural income with almost mathematical precision, changing as efficiency and new products replace the old. In spite of the various fluctuations, however, the mathematical ratio of the other segments of our economy to agriculture can be traced with an accuracy comparable to that of other sciences. In short, our economy is a science based on agriculture, which is the key to economic welfare and prosperity.

Benjamin Franklin, one of the founders of the American system, pointed out that there were three ways in which a nation might become wealthy:

1. By war, or taking by force the wealth of other nations.
2. By trade, which to be profitable requires cheating; for example, if we give and receive an equal amount of goods and services through trade, there is no other profit than that obtained in our own production cycle.
3. By agriculture, through which we plant the seeds and create new wealth, as if by a miracle.

The records of our economy bear out the wisdom of Franklin's analysis. There may be those who, because of their environment and fixation of thought resulting from economic teachings, will not agree that agriculture is the governing factor in our economy. Our advice to them is to read this analysis taken from the record of the nation, which we will set forth in the chapters to follow. We are not trying to present some theory of economics. The record speaks for itself, as

made under our form of government which gave rise to the best economic system that the history of the world reveals. In fact, with the abundant supply of mineral and agricultural raw materials which nature supplies from year to year, we have an almost complete economy within our own borders. For the few items which we need to add to our production, we are capable of producing surpluses which the world will gladly accept in trade.

In order to guide the thinking of others in their reading of this analysis, we will give the reasons, as we find them, why agriculture is the governing factor in our national economy.

1. We have a capital economy. Agriculture's capital investment is two-thirds that of all productive enterprise. To short-change the income of agriculture through low prices for its products is in reality to force a depression. In comparison with other segments, for example, agriculture has over 10 times the capital investment of the steel and automobile industries combined. Further, it employs 10 times as much labor as do the two industries mentioned.
2. Agriculture furnishes 65 per cent of the new wealth, or raw material income, of the nation. Other raw material income furnishes the remainder of all raw material income, and in an almost perfect ratio of two parts gross agricultural income to one part gross mineral production (including coal, petroleum, etc.).
3. The past record reveals that an increase in agricultural income precedes the rise of factory pay rolls and the income of other segments of our economy.
4. Agriculture, because of its peculiar situation as an industry dependent upon climate and other natural conditions, is always in full production with approximately full employment. The production factor changes only as governing weather conditions change. The reason for this is quite simple. A farmer pays full tax on his acreage whether he owns or rents his productive factory. Not having any control over production, it is only natural that he plants his full acreage, subject, of course, to a policy of rotation which will permit the utmost production.
5. Agriculture is the foundation in the production of raw materials which enter into our non-durable manufactures or those items of manufactured goods which have a rapid turnover or consumption; in other words, those essentials of human existence

which can be briefly summarized as food, clothing, and household operation.

6. Agriculture must feed and nurture the future labor force of the nation if it is to be available for human progress. In our estimate of the labor force available, we include all of the population above the age of 14. Hence, it becomes necessary for agriculture to feed our increase of population up to the point that they become available for economic growth or expansion. Agriculture, therefore, precedes the rest of our economy by 14 years.
7. The most important reason why agriculture is the governing factor is the natural labor force which we have in our livestock population.

In the thinking of the ancient economists and philosophers, agriculture predominated. As a result, the symbol of wealth was cattle. In their way of thinking, more wealth could be attained only through more cattle, and further thinking led to plowed ground and crops to produce more feed for more cattle.

This basic thinking was a natural sequence of the valuable contribution of free labor which nature gives us in our livestock production. For example, in the United States we have at the present time 80,000,000 head of cattle, plus many millions of hogs, sheep and poultry. What are these animals doing for us? Nature's primeval urge for survival keeps them busy gathering crops and processing them into usable form for the human race.

In our own nation, we have approximately 1,060,000,000 acres of farm land. About half of this total is improved farm land and the other half is unimproved. Without livestock, there would be no return from the unimproved farm land, because the human being must have more concentrated food than grass.

Besides gathering the crop, gratis, on one-half of our farm land, these animals consume the grass and tame hay from much of our improved farm land, plus approximately 85 per cent of all feed grains produced. They are, in fact, labor and factory concentrated into a machine which operates without wages and works without strikes or capital return. These animals and persons employed on the farms constitute the greatest labor force in the nation.

Agricultural labor consists of more than the actual labor on the farm. To agricultural labor must be added the labor force which

services the agricultural industry through small towns. The total rural population is approximately 54,000,000. On an average, our labor force is approximately 40 per cent of our total population. Using this ratio, on the basis of 54,000,000, the labor force employed in our agricultural industry is about 20,000,000. Comparatively, agriculture employs or creates directly jobs for 20,000,000, as compared with less than 1,000,000 jobs in the steel and automobile industries combined.

THE EXPANSION OF AGRICULTURE

In 1850, our economy had approximately one farmer for each laborer in the factory. At that time the railroads were built with government aid to open up natural resources. They were built in spite of the opposition of some of our leaders at that time. Daniel Webster, United States senator in 1852, in the senatorial debate on the building of the Pacific railroads stated:

> "What do we want with this vast, worthless area, this region of savages and wild beasts, of deserts of shifting sands and whirlwinds of dust, of cactus and prairie dogs? To what use could we ever hope to put these great deserts or those endless mountain ranges, impenetrable and covered to their very base with eternal snow? What can we ever hope to do with the western coast of 3,000 miles, rock-bound, cheerless, uninviting, and not a harbor on it?
>
> "Mr. President, I will never vote one cent from the public treasury to place the Pacific Ocean one inch nearer to Boston than it is."

Mr. Webster was speaking of the areas responsible for our national progress, the areas that built Chicago, Kansas City, Omaha, Minneapolis, Sioux City, Sioux Falls, Denver, Salt Lake City, Los Angeles, San Francisco, Portland, etc.

Wouldn't Mr. Webster's face be red if he could see what the building of the railroads opened up to the generations of tomorrow?

In the same way, progress is being blocked by those who are today preaching conservation of almost unlimited resources in the west. Unlimited production of minerals and farm products wait only for the ingenuity of man to harness the resources of water, which today are causing floods instead of agricultural production, so badly needed by a starving world. In fact, today we hear many of our leaders advocating curtailment of agricultural production, which Benjamin Franklin saw as

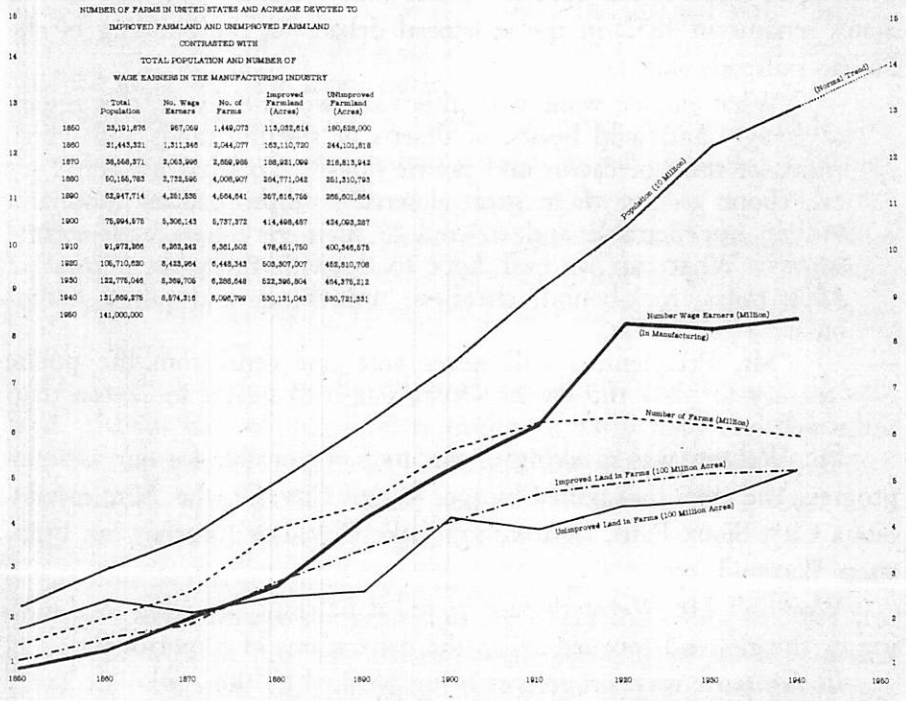
the only source of wealth, excepting war and exploitation.

The expansion of our economy is revealed by Chart I. An analysis of the record from 1850 to 1920—70 years of growth—indicates that employment on the farm and in the factory maintained the same ratio which existed in 1850; namely, one man on the farm for each man in the factory. This constant ratio of employment on the farm to employment in the factories is merely the reflection of the use of raw materials in our factories as our agricultural economy expanded its production. Without these raw materials from our farms, our so-called American industry could never have been built.

CHART I

NUMBER OF FARMS IN UNITED STATES AND ACREAGE DEVOTED TO IMPROVED FARMLAND AND UNIMPROVED FARMLAND CONTRASTED WITH TOTAL POPULATION AND NUMBER OF WAGE EARNERS IN THE MANUFACTURING INDUSTRY

	Total Population	No. Wage Earners	No. of Farms	Improved Farmland (Acres)	Unimproved Farmland (Acres)
1850	23,191,876	957,059	1,449,073	113,032,614	180,628,000
1860	31,445,321	1,311,246	2,044,077	163,110,720	244,101,818
1870	38,558,371	2,053,996	2,659,985	188,921,099	216,813,942
1880	50,155,783	2,732,595	4,008,907	284,771,042	351,310,793
1890	62,947,714	4,251,535	4,564,641	357,616,756	355,501,864
1900	75,994,575	5,306,143	5,737,372	414,498,487	424,063,237
1910	91,972,266	6,262,242	6,361,502	478,451,750	400,546,575
1920	105,710,620	8,433,264	6,448,343	503,307,007	455,810,708
1930	122,775,046	8,369,705	6,288,648	522,396,804	454,378,212
1940	131,669,275	8,574,315	6,096,799	530,131,043	530,721,231
1950	141,000,000				



In the period from 1850 to 1920, the average rate of expansion of the agricultural industry was approximately 5,000,000 new acres of improved farm land per year. It is interesting to note, from the chart and the record, that since 1920 our agricultural plant has not been in-

creased from the standpoint of harvested acreage. In fact, the number of harvested crop acres today is no greater than in 1920.

There has been an increase in marketings of farm products, or the amount of farm production going into the channels of trade. This has been the result of the transition from horsepower and the use of grain for feed to the use of tractors and motor fuel for mechanical power. This transition made available for market the products of approximately 50,000,000 acres, or roughly an increase of 14 per cent, of the 350,000,000 acres harvested for crops in 1920 and 1945.

During the past three or four years there has been an additional increase in agricultural production as the result of favorable weather conditions, but this cannot be taken as a permanent increase.

The tabulation shown on Chart II gives the record of nine principal crops for the 50-year period from 1896 to 1944. Interesting to note is the fact that the average yield per acre of the nine principal crops was approximately the same in the 25 years from 1895 to 1920 as it was in the 25 years from 1920 to 1944.

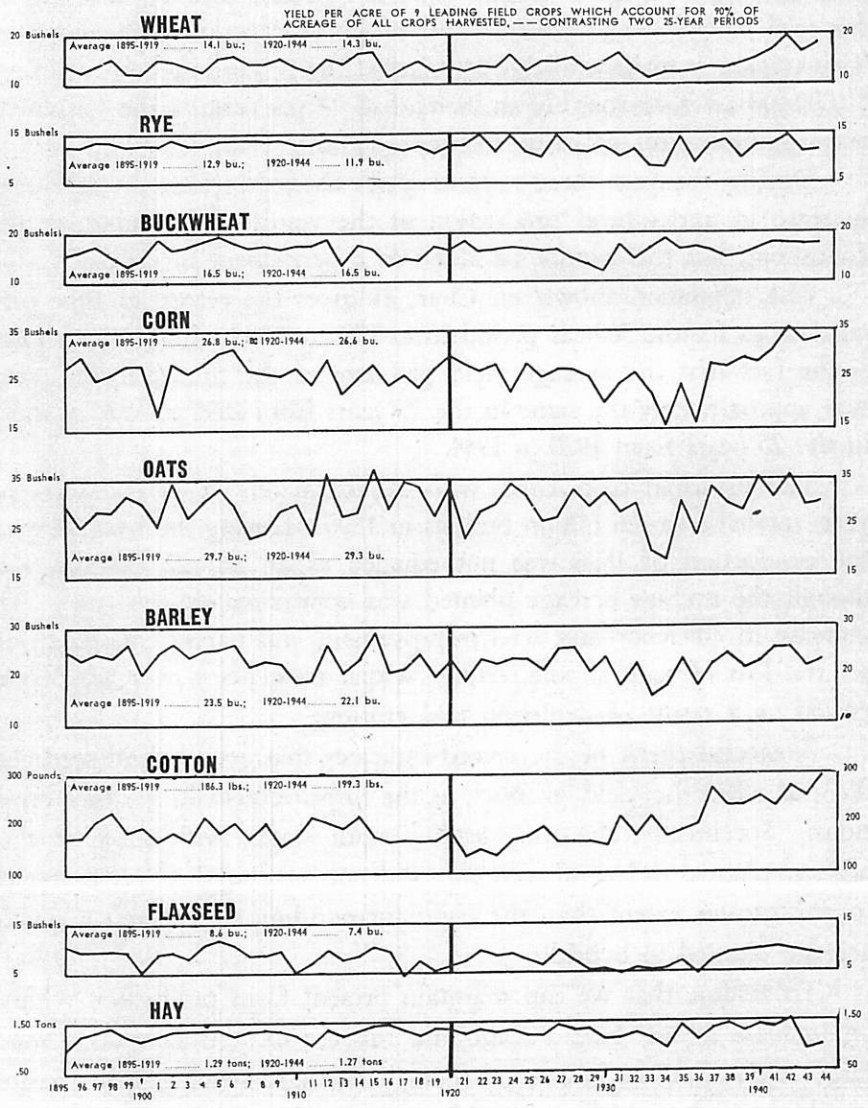
The principal crop, corn, with approximately 95,000,000 acres per year, totaled over 2.6 billion bushels in 1896. During the next 50 years, the production of 1896 was not equaled as an annual average, even though the average acreage planted was approximately the same. The increase in efficiency and seed improvement was barely enough to offset the loss of natural soil fertility which took place over the 50-year period as a result of depletion and erosion.

A careful check of the record indicates that even hybrid seed corn did not affect the yield so much as the improvement in weather conditions. Specifically, the four leading corn states, with most of their acreage planted to hybrid seed corn did not increase their per acre yield to any greater extent than the eight surrounding states, with a smaller acreage planted to hybrids.

To assume that we can maintain present farm production without an increase in our base acreage and the use of fertilizers on a much larger scale than we have used them in the past would be the greatest possible mistake which we could make in planning future expansion.

Chemically speaking a corn crop is 98 per cent moisture and sunshine. Approximately 2 per cent of the corn crop is taken from the

CHART II



elements in the soil. Future production will always be mostly dependent upon the weather.

At the present it requires approximately four acres of improved farm land per capita to feed our population. On that basis, because of our increasing population we should plan on expanding our farm production by adding at least 4,000,000 new acres per year, or their equivalent, through reclaiming the submarginal acres by irrigation, drainage, or the rebuilding of soil fertility lost because of depletion and erosion.

There are those who advocate conservation of ability to produce by supplementing our production with imports. Such a program is unsound. How can we help a hungry world by curtailing food production in the United States?

The best form of conservation is a proper price for farm products in order that submarginal farms can be rebuilt and the soil on the good farms maintained in a state of high fertility by proper rotation and soil practices. Too low a price for farm and mineral products will mean the high-grading of our good agricultural land and mineral deposits in an attempt to meet the economic necessity which low prices force upon the producer. In fact, good farm prices will really mean a reduction in acreage planted and increased overall production of farm products.

The theory of the Triple A of curtailing crop production by building up soil fertility with legumes was a fallacy. The end result which we witnessed during the war had to be increased production when this increased soil fertility was matched with an increase of rainfall and other favorable climatic conditions. The production during the war years should prove that we still have a productive farm plant.

SURPLUS PRODUCTION

The record also reveals that the so-called surplus of the thirties was almost entirely imaginary. It can at least be stated that our agricultural economy, as a whole, did not have overproduction. During the period from 1922 to 1941, inclusive, *we had a net importation of agricultural production.* In the years from 1934 to 1941, this net importation was equivalent to approximately 50,000,000 acres annually. The

author is frankly of the opinion that the propaganda as to farm surpluses was nothing more than an expression of the selfish desire of a few industrialists to export manufactured goods in exchange for cheap farm products. They failed to realize that in exchanging for cheap farm products, they created a cheap market in other nations and at the same time reduced their domestic market to the same cheap level of foreign markets.

That the farm problem was not one of overproduction can be clearly ascertained from a comparison of our production in the two years 1928 and 1932, one a year of prosperity and one a year of depression. These years indicate that our farm problem and, in turn, our economic riddle, was one of agricultural prices. The tabulation which follows gives the production of our major farm items and also the income for the farm, the workers in our factories and the nation as a whole.

PRODUCTION OF CORN, OATS, WHEAT, BARLEY, RYE AND FLAX

1928	5,333,000,000 bushels
1932	5,253,000,000 bushels

PRODUCTION OF BEEF, PORK, MUTTON AND VEAL

1928	17,000,000,000 lbs.
1932	16,800,000,000 lbs.

INCOME

	Farm	Factory	National
1928	$11,700,000,000	$11,400,000,000	$82,000,000,000
1932	5,300,000,000	5,200,000,000	39,900,000,000
LOSS	$ 6,400,000,000	$ 6,200,000,000	$42,100,000,000

Farm production of our principal food crops and meats was approximately the same in both years. Our population in 1932 was 4,000,000 larger than in 1928 and our potential market was greater. As the result of the drop in farm prices, the farmer suffered a loss of $6 billion; the men in the factories $6 billion; and the nation as a whole lost $42 billion, or more than the entire war debt of World War I. This loss was sustained in 1932, even though we had the same form of government, the same economy, and approximately the same farm production. Why? Because we did not maintain farm prices.

From this tabulation of crop production and income, we pointed out some years ago the formula 1-1-7, meaning that each dollar of farm income at the present time will generate income to pay $1 of factory

pay rolls and will create a grand total of $7 of national income. (Gross farm income should be used in setting up this formula.)

The ratio 1-1-7 has been almost constant since 1921. Applying the seven times turn of the farm dollar to our economy during the 1929-42 period, our total loss of farm income because of subnormal farm prices, in 1930 to 1941, was $67.5 billion. This, translated into a similar loss of factory pay rolls and through the seven times turn of the farm dollar, becomes a loss of $473 billion of national income, which we could have had without cost to anyone.

Taking our agricultural economy as a whole during that period, we did not have surplus production. Our exchangeable surplus of farm products for export trade consisted of approximately $500,000,000 per year in wheat and cotton. It would have been far more desirable to have dumped this amount of cotton and wheat into the ocean and charged it up to profit and loss in the annual operation of our economy than to lose an average of almost $40 billion per year in income, as the result of below-parity prices for farm products.

Any merchant would be glad to adjust such a write-off in his business if he could maintain his business volume. In the post-war era, if we permit farm income to drop to the levels of 1939 it will force us to accept an annual loss of $75 billion per year. It ought to be self-evident that we must stop considering what the cost will be to maintain farm income through proper surplus disposal and stabilization of farm price levels; we must start to think of the loss each group in our economy sustains when we do not stabilize our farm prices because of a surplus which we could easily donate to world charity instead of permitting that surplus to create a depression.

The simple facts are that our problem was not a question of overproduction but one of underconsumption. There is a serious question as to our ability to produce enough for our nation, if we maintain farm prices at parity with the consumption this would bring about.

The world is hungry and ill clad. We can exchange our few surpluses for those things we do not have or of which we do not produce enough.

If we are to have world trade, we must produce a surplus of some things in order that we may have goods to trade. It might as well be

cotton as some other product. The problem is to handle this surplus without impoverishing the cotton farmer, and use the surplus to get full value from other nations. We might point out in this connection that if we sell our surpluses at world price levels and buy back at world price levels we always get full value, regardless of price. Money is merely a medium of exchange.

A simple farm program to stabilize prices can be enacted without any regimentation and with benefit for all groups.

The foundation of our agricultural economy is made up of seven basic crops: wheat, corn, oats, barley, cotton, flax, and soybeans or rye. These crops make up roughly 85 per cent of our total harvested acreage. Permanent commodity loans at 90 per cent of parity, callable at parity, with provisions for surplus disposal, would stabilize farm income and in turn the entire economic system of the nation.

New industries could be encouraged to utilize any surpluses not disposable in world markets. To permit new industries to utilize farm surpluses at less than parity or a normal price should not be looked upon as subsidy. Utilization of any surplus above our normal needs will always mean an increase in our standard of living. In addition, our normal expansion, as the result of efficiency and increased population, should average at least 2 per cent per year. Such expansion would be impossible without new industries and surplus production to create the needed supply of raw materials.

For example, if we can use 2½ billion bushels of corn at a parity price level in a normal economy, any additional production used in the manufacture of alcohol for rubber and fuel will mean additional income and jobs for the economy as a whole. If we remember the seven times turn of the farm dollar, we can estimate the increased income with accuracy. If the corn that we call surplus is used at 50 cents per bushel, it will mean an increase of seven times that, or $3.50, of national income. Failure to produce this surplus will curtail both the materials for greater employment and the additional income which is needed annually in a growing economy.

In like manner, surplus products exchanged in the world market, even though at a lower price level, will add to the total income and increase the standard of living. Selling at the world price level cannot be called dumping, because, under any form of operation, we are

forced to do just that. We cannot expect to pay taxes for schools, roads, etc., which comprise our standard of living in competition with foreign labor which is exploited and denied a wage which would permit the standard of living this nation insists upon. In the postwar period we will have added to the cost of distribution the taxes required to service the national debt. Many sections of the world will not have such cost factors, and this is particularly true of South America and Africa.

SURPLUS

Our surplus problem is not one of curtailing production but rather a problem of using it efficiently in world trade or in new industries. We cannot control production, because the weather determines the yield we are to have. Like the operation of life insurance companies, we can level off the production cycle and, with proper reserves, maintain a normal flow of products in to our channels of trade.

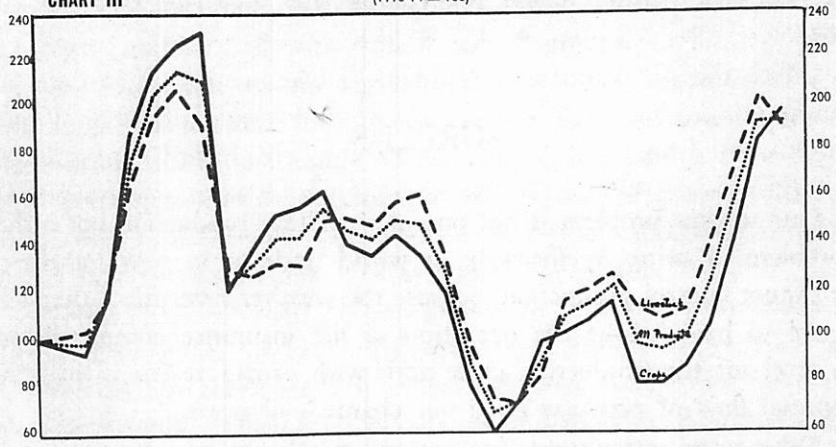
Taking our agricultural economy as a whole, we have been deficient since 1922, having a net import each year without exception up to 1943. This may be a contradiction of the propaganda which led us into paying our farmers not to produce in order that we might import farm products to pay for manufactured goods. These imports reduced our farm prices and, in turn, our national income with which to buy, and added to the surplus imported—the surplus of underconsumption. Attempts to subsidize the farmer merely resulted in a market for the foreign producer at our expense.

Chart III gives the farm price structure from 1910 to 1914, with the production of farm products in ratio to the increase in population and the increase in improved farm land.

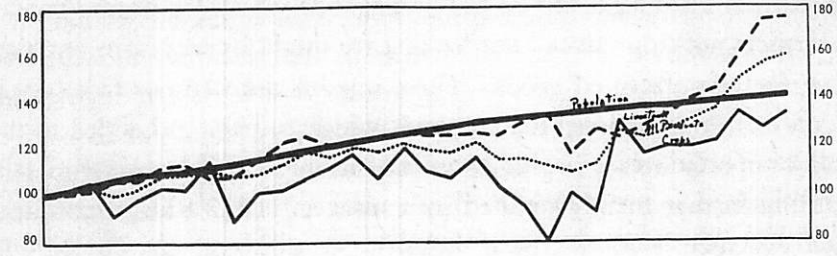
It will be noted that our production of all farm products did not keep pace with our increase in population from 1910 to 1940. Few economists seem to recognize the fact that ours is a rapidly growing economy. At the present time it requires approximately four acres of improved farm land for each citizen. The increase in population, on the basis of 1,000,000 per year, will require an expansion of 4,000,000

Index numbers of prices received by farmers for crops, livestock products and all farm products, 1910-14 to 1944. (1910-14 = 100)

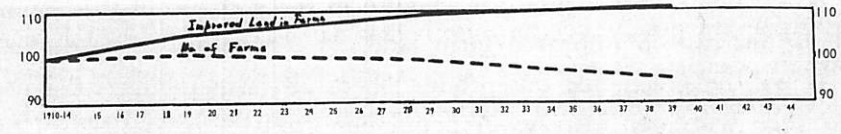
CHART III



Index numbers of quantity of agricultural production—crops, livestock products and all farm products contrasted with national population, 1910-14 to 1943 (1910-14 = 100)



Index numbers of improved land in farms and number of farms, 1910-14 to 1939 (1910-14 = 100)



acres per year or its equivalent in production if we are to maintain our present standard of living.

In the same way, some economists overestimate the importance of foreign trade as compared with the domestic market. Each five years will find our domestic market increasing so as to equal all export trade at the beginning of the 5-year period. For example, since the beginning of World War II, our domestic market has expanded to equal more than all the export market of 1940.

With the development of synthetic rubber we can utilize our surplus grain production. A bushel of corn, for example, will produce enough butadiene to make one automobile tire, having an equivalent of 6 pounds of rubber. At full parity prices for corn, we can produce synthetic rubber at a cost per pound no greater than the average price we were forced to pay for natural rubber.

From the standpoint of national defense, we should produce at least 75 per cent of our own rubber supply. This would mean a minimum of 600,000 tons of rubber, which in turn would utilize 200,000,000 bushels of grain. In addition, we have available a good market for industrial alcohol in the production of high octane motor fuel at a cost which will not increase the per mile cost for the motorist of tomorrow.

Our experience during the war would indicate that we will have to expand our normal grain production if we are to furnish the grain for the livestock industry and new industries such as rubber.

Our cotton surplus should be manufactured into cloth. As cloth, it would find a ready market in all parts of the world, in exchange for things which we do not produce or of which we do not produce enough. Our export market for raw cotton is limited to a few textile industries in foreign lands. Cottonseed and its products are not in surplus production, as we have been deficient in fats and oils for many years.

Cottonseed will produce approximately 87 pounds of cottonseed oil per acre, plus the protein feed in cottonseed meal. To curtail the cotton production in the South and convert to dairying would not help the southern farmer. The average production of the dairy industry of butterfat per cow is approximately the same as the cottonseed oil from two acres of cotton.

Vanderbilt University in a recent survey estimated that it would require twice the acreage to produce $100 of income with dairy cows as with cotton. The net result of such a conversion program, being contemplated by some of the experts in the United States Department of Agriculture, would mean a reduction in the income of southern agriculture and a disruption of much of southern industry engaged in processing cotton and its by-products.

Records of production prove that the South cannot grow grains and corn in competition with the North. Cotton and peanuts, both oil-producing crops, yield the greatest return per acre for the southern farmer.

TO KNOW WE ARE ACCURATE

We can have a national yardstick for each segment of our economy in the approximate ratios set out below as examples.

1. Farm income, 14 per cent of national income.
2. Mineral production, 7 per cent of national income.
3. Transportation, 7 per cent of national income.
4. Factory pay rolls, 7 per cent of national income.
5. Retail sales volume, 60 per cent of national income.
6. Value of manufactures, 80 per cent of national income.
7. Total construction expenditures, 15 per cent of national income.
8. Factory production and employment in ratio to the percentage of farm parity.
9. Combined farm and mine income, 20 per cent of national income.

   (Total raw material income—farm and mine—is the profit of operating the nation as a business and represents the possible earnings on all capital investment in the nation. This factor will be analyzed in the chapter on finance.)

INDEX NUMBERS OF NATIONAL INCOME AND GROSS FARM INCOME CONTRASTED WITH VALUE OF SAN FRANCISCO BANK CLEARINGS.
1925-1942 1929 = 100

CHART IV

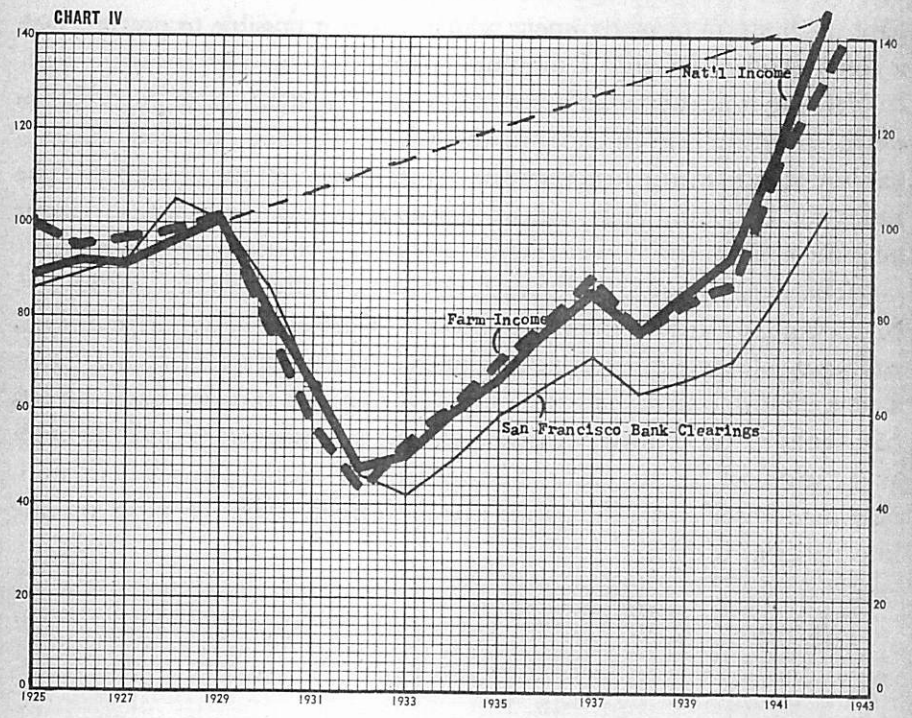


Chart IV shows the correlation between gross farm income, national income, and bank clearings at San Francisco, California. The excess bank clearings in the period 1925 to 1929 were due to installment buying. The correction of their correlation to farm income had to come with lower earnings by all groups after the depression in 1929. If at that time we had maintained farm prices, the depression could not have lasted more than a few months.

If, in the post-war period, farm prices drop back to 1939 levels the nation will lose $75 billion annually, with each segment of the economy losing in ratio to the loss in agricultural income. The total loss of each segment listed in the tabulation of ratios can be ascertained by taking their percentage of the $75 billion.

Are we again going to permit a surplus of $500,000,000 of wheat

and cotton to force us to take a loss of approximately $40 billion per year for 12 long years? Whether we do or not will determine the future of free enterprise and our form of government. Our forefathers gave us the form of government which makes it possible to prevent such a loss. Arithmetic will determine its future.

In the chapters which follow, I will analyze each segment in detail, pointing out its ratio to the whole, so that each may have a yardstick with which to follow the future course of our economy. The ratios set out will likely remain constant in the immediate post-war period.

The reader should study these ratios carefully, as they can be useful in gauging future trends in income. Charles B. Ray, an industrial engineer, Chicago, Illinois, is a pioneer in the study of farm income as a governing factor in our economy. During the past five years he has been able to pre-estimate national income six months in advance with an accuracy of 98 per cent. The reader can do the same, after familiarizing himself with the ratios that govern the turn of farm income into national income.

CHAPTER III

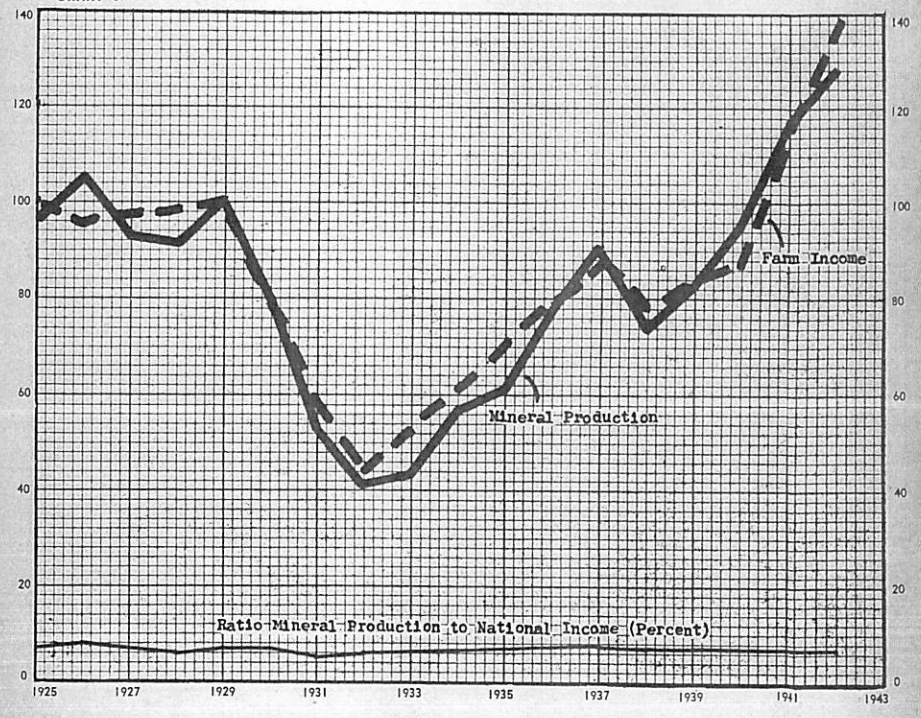
Mineral Production

Mineral production is the other principle source of raw material used by industry. Under mineral production are listed various items, such as petroleum, coal, the various metals, and building materials such as gravel, cement, etc.

During the past 20 years, the gross value of mineral production has been approximately 35 per cent of the total farm and mine income. The ratio of farm income is approximately a constant of $2 of farm income to $1 of mineral production. Chart V shows the correlation. It will be noted that mineral production is approximately 7 per cent of national income.

INDEX NUMBERS OF VALUE OF TOTAL MINERAL PRODUCTION IN THE UNITED STATES CONTRASTED WITH FARM INCOME; ALSO RATIO MINERAL PRODUCTION TO NATIONAL INCOME.
1925-1942 1929 = 100

CHART V



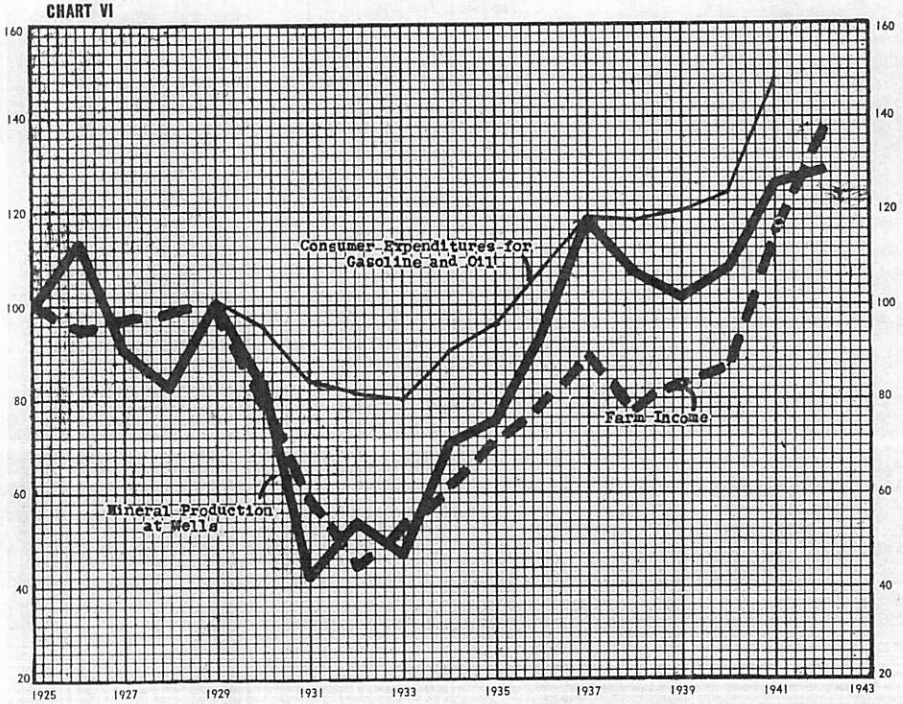
An interesting factor in analyzing our mineral production is that of petroleum and coal. The use of the internal combustion motor was in direct competition with coal for power and fuel oil a competitor for heat. In spite of this competition, the growth of our economy expanded sufficiently to use both the coal and petroleum in ever increasing amounts.

The value of both petroleum and coal production will follow the ratio to farm income as shown by Charts VI and VII.

The use of these products can be likened to that of food and cotton. Food is rapidly consumed and never drops over about 10 per cent below normal consumption, while consumption of cotton, which could be called a semi-durable product, drops to approximately the parity level of exchange, or the average consumption, of all products. Petroleum being used for personal transportation is a necessity almost

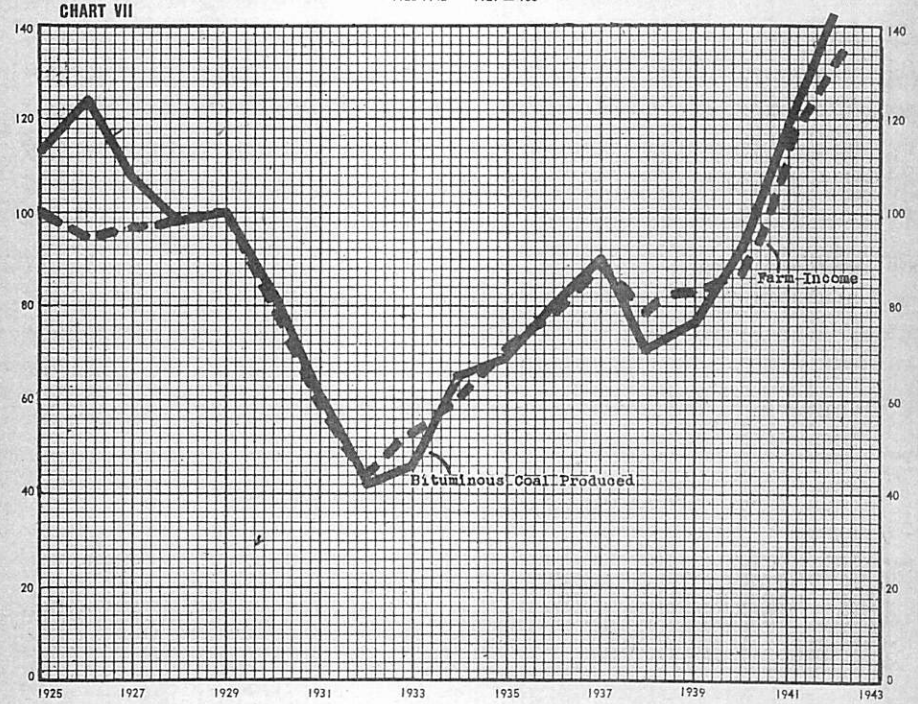
INDEX NUMBER OF VALUE OF PETROLEUM PRODUCTION CONTRASTED WITH FARM INCOME AND CONSUMER EXPENDITURES FOR GASOLINE AND OIL.
1925-1942 1929 = 100

CHART VI



INDEX NUMBERS OF VALUE OF BITUMINOUS COAL CONTRASTED WITH GROSS FARM INCOME.
1925-1942 1929 = 100

CHART VII



as great as food, and, although the value of petroleum at the wells dropped in ratio to farm income, the expenditures for petroleum were approximately the same as that of non-durable goods. Coal being used in the manufacture of heavy materials or durable goods held at the approximate average of all factory production, or the percentage of parity of farm products. An analysis of durable and non-durable manufactures will be found in the next chapter on manufacturing.

Petroleum and bituminous coal are the two prime movers in our mineral production. Other products such as iron, copper, lead, zinc and building materials, contrary to general economic thinking, are the result of the operation of the remainder of our economy. *A prosperous operation of non-durable goods production, most of which are made from farm products, creates the profit for the purchase of durable goods, such as automobiles, houses, etc.*

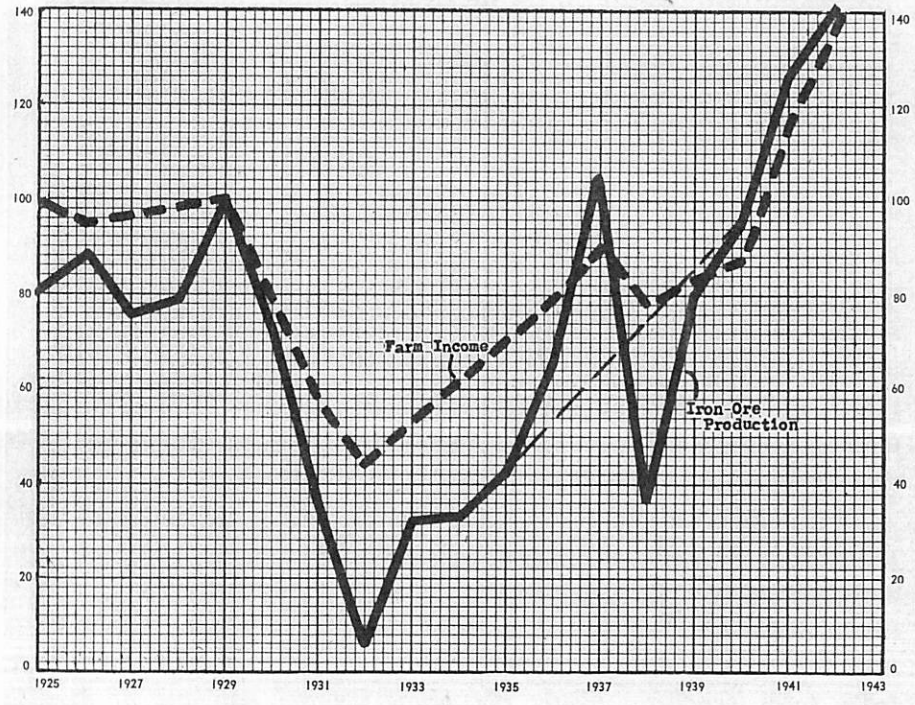
IRON ORE

In 1929 the production of iron ore had reached 73,000,000 tons. At the bottom of the depression in 1932, production had dropped to 9,847,000 tons. A good example of the use of iron and the lag in a recovery period can be found in the automobile industry. In 1932 our automobile production had dropped to 1,250,000 cars as compared to 4,500,000 in 1929. The 1929 level of production was not regained until 1941, when farm prices had again reached approximate parity (98 per cent).

Many of our economists think of the steel industry as the prime mover in our economy. Chart VIII proves the fallacy of their theory. In 1937 the iron ore production expanded rapidly as industry became quite optimistic and exceeded the governing factor of farm income.

INDEX NUMBERS VALUE OF PRODUCTION OF IRON ORE COMPARED WITH GROSS FARM INCOME.
1925-1942 1929 = 100

CHART VIII

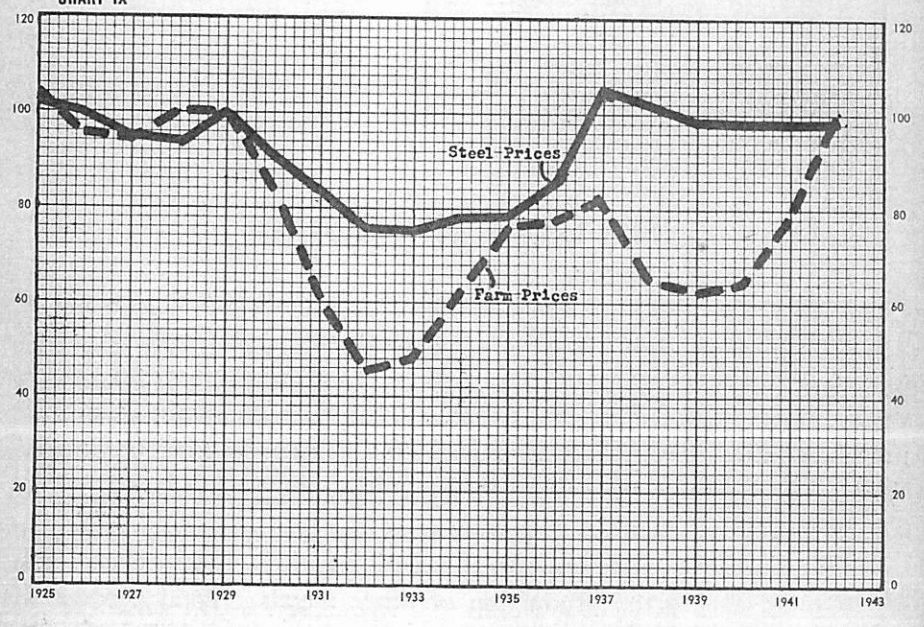


With the drop in farm income in 1938, iron ore production dropped back below the normal farm income to the same extent that it had exceeded farm income in 1937. The projection of the normal rise in iron ore production proves how it is regulated by the farm income.

Another theory expressed by economists is that supply and demand should bring about a price balance. Charts IX and VI give the price of steel and retail value of petroleum in relationship to farm income. Neither product followed farm income down to the 1932 low because of fixed charges and price control, which does not permit parity of price in a depression. Price balance between raw materials and finished goods can be obtained only through specific pricing of raw materials at parity.

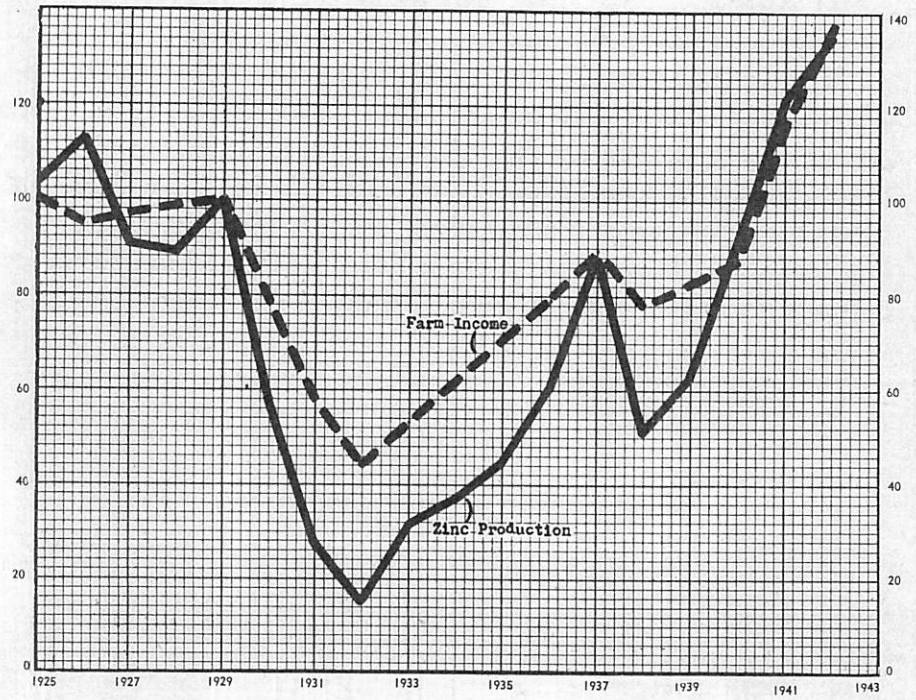
INDEX NUMBERS OF PRICES OF OPEN HEARTH STEEL BILLETS (PITTSBURGH) COMPARED WITH WHOLESALE PRICES OF FARM PRODUCTS.
1925-1942 1929 = 100

CHART IX



INDEX NUMBERS VALUE OF PRODUCTION OF ZINC COMPARED WITH GROSS FARM INCOME.
1925-1942 1929 = 100

CHART X



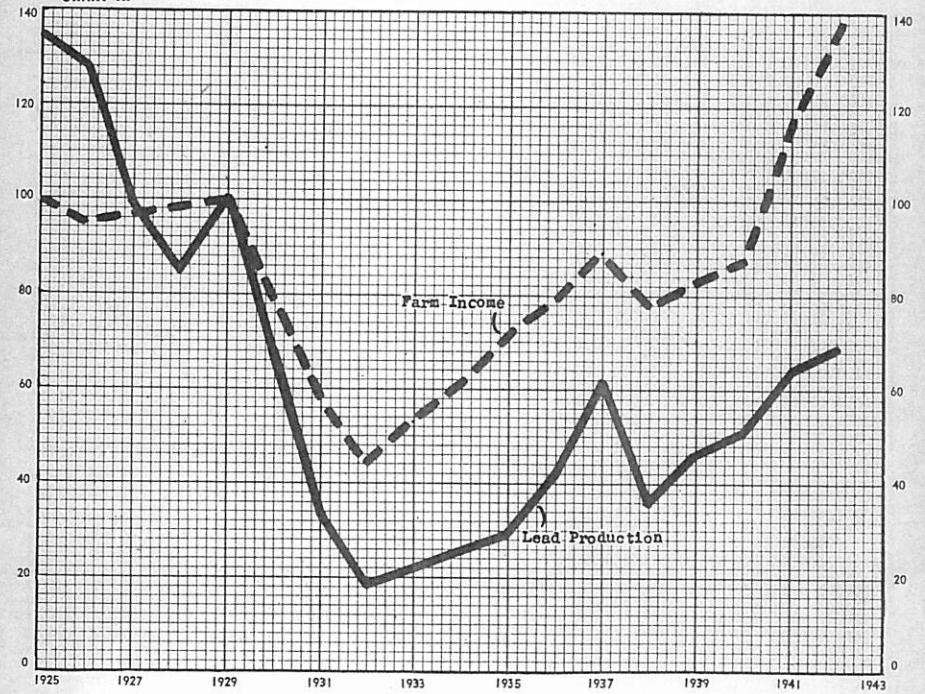
ZINC, LEAD AND COPPER

These metals followed quite closely the course of steel production. The production of zinc totaled 612,000 short tons in 1929, 207,000 short tons in 1932 and 652,000 short tons in 1941. Lead production was 774,600 short tons in 1929, 263,000 short tons in 1933 (the low point in the depression) and 570,900 short tons in 1941. Copper production totaled 1,980,000,000 pounds in 1929, 445,000,000 pounds in 1932 and 1,951,000,000 pounds in 1941.

Silver, used by some nations as a base for their fiscal policies, followed quite closely the production of other metals. Total production in the United States was 63,000,000 fine ounces in 1929, 23,000,000 fine ounces in 1933 (the low point) and 72,000,000 fine ounces in 1941. The importance of silver will be discussed in a chapter on foreign trade and fiscal policies.

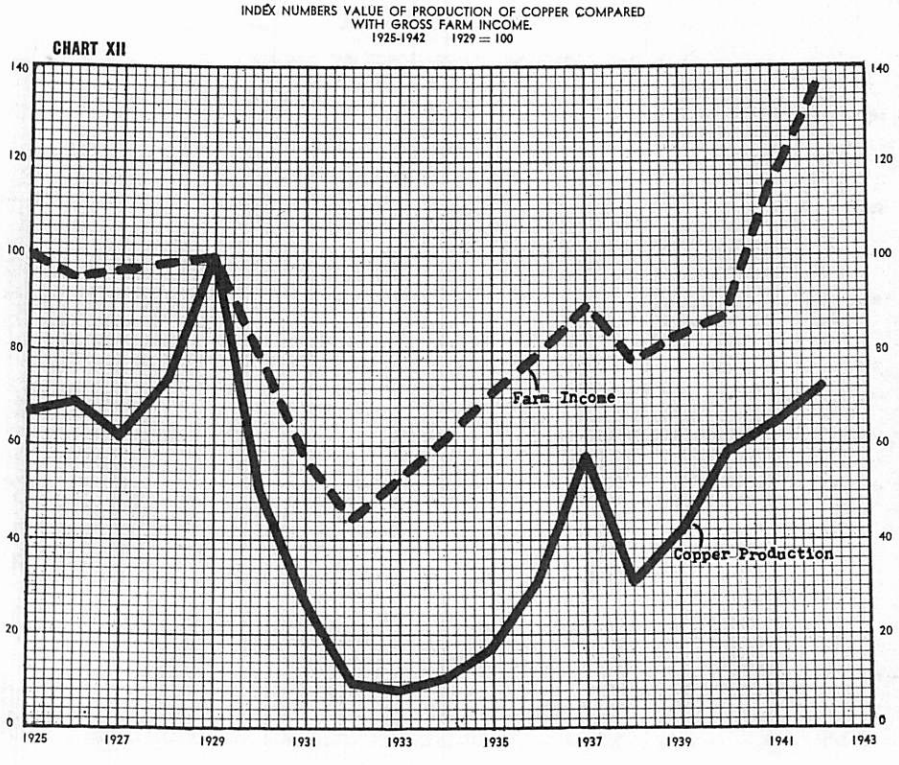
INDEX NUMBERS VALUE OF PRODUCTION OF LEAD COMPARED WITH GROSS FARM INCOME.
1925-1942 1929 = 100

CHART XI



Silver, as a metal which can be used by industry for luxury products, such as silverware, has a large market in periods of prosperity. This market, and the use of silver as money, is of great importance to our western mining industry. Many of our western ores are of a composite nature containing copper, zinc, lead and silver. The price of silver in the production of these other metals therefore becomes an important factor. Oftentimes low silver prices force the closing of mines or limit the use of the ore body to high-grading the richer veins of ore.

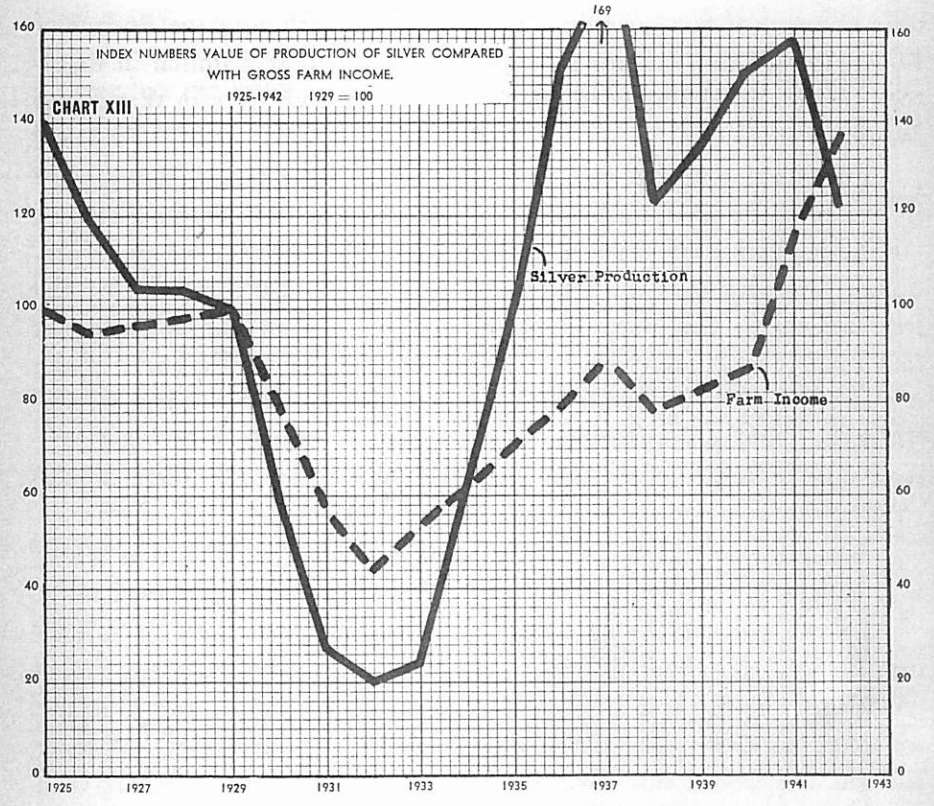
We have many economists and policy makers in government who think in terms of conservation of natural resources and therefore advocate the importation of ores from other countries. Such a policy can become the poorest kind of conservation. It can lead to the high-grading of our mineral deposits and the passing by of many ore bodies which



could be utilized with a proper program of an American price level for our mineral production.

In the case of silver, if it had a domestic price of $1.29, its monetary value, our natural reserves of lead, zinc and copper would be increased tremendously and the supply of these ores would become almost unlimited. A proper price for metals, based on the American standard of living, would open up the vast resources of the West for the future expansion of our own mineral production.

Again, the policy makers seem to be influenced by a desire to import mineral raw materials as a means of getting paid for the export of manufactured products. Industry has been blinded by the economic theory that we can import our raw materials cheaper from other nations. Cheap raw materials are a delusion, and the laws of exchange do not permit an advantage through cheapness. For example, a pound of copper produced in Arizona at 17 cents per pound creates a market



for 17 cents' worth of finished goods. A pound of copper in Chile at 8 cents per pound may cost less, but it will also reduce the exchange market for manufactured goods in exact ratio. Industry, instead of having a market for 17 cents of finished goods for each pound of copper it uses, will have a market for only 8 cents. If this policy forces the Arizona miner out of a job, then industry will have to pay taxes to keep him on relief out of the 8-cent market in Chile. In the approximate words of Abraham Lincoln, if we produce something ourselves we have both the goods and the money. That conclusion will always be sound, and our profitable foreign trade will always be limited to an exchange for products we do not produce or of which we do not produce enough. Any product which we can produce at the parity level of all commodities should be produced in the United States.

This is true not only from the standpoint of enhanced income for our nation but also from the standpoint of national defense. The atti-

tude of some of our government departments, including the Bureau of Mines, toward our mining industry has been almost criminal in its effect on the production of needed materials in both World War I and World War II.

For illustration we will use manganese. Manganese is necessary in the production of steel. We have manganese deposits in 25 states. At the beginning of the war, due to low import duties, we were producing approximately only 40,000 tons of the 800,000 tons used by the steel industry. Our supplies during the war, when our consumption had risen to 1,400,000 tons, had to be shipped from all corners of the world—Africa, South America, Cuba, etc. Under the pressure of war needs, our domestic producers increased their tonnage to 240,000 tons. It should be remembered that under priorities and a shortage of machinery the expansion of production was slowed up.

Mines are often made by development rather than found as a natural discovery. It often requires 10 to 15 years to develop a good mine.

Let us examine the gain from these imports, and then let us take the loss into consideration. With a proper tariff on manganese, which would increase the cost approximately $10 per ton to the steel industry, we could produce our own manganese and be independent of other nations. We would not have to exploit the slave labor of Siberia and the low-wage areas of the Far East. The added cost per ton of steel would be 14 cents, using our own production.

Our failure to produce our own manganese caused the loss of many of our young men in the latest war, as well as in World War I. The concentration of German submarines off the coast of South America was mainly to sink the merchant ships which were bringing manganese to the United States to keep our steel industry in operation.

A check of the prices of steel will convince anyone that the American public did not have cheaper steel as a result of these imports of manganese prior to the war.

Again, if we had maintained our own production at our own price level, we would have enhanced our own income and saved the lives of the seamen who were killed.

In like manner, we have the future of our petroleum production. The planners, as represented by the National Planning Association,

Washington, D. C., are contemplating the importation of 1 billion barrels of petroleum in the post-war period at 75 cents per barrel. Such a procedure will close up many of our independently owned oil wells and prevent the expansion of our petroleum industry. Again the excuse is conservation.

Let us take a look at the petroleum industry. In 1918, at the end of World War I, known reserves were 6 billion barrels. In the years from 1918 to 1943, we used over 28 billion barrels, and our reserves increased from 6 billion barrels in 1918 to 20 billion barrels in 1943.

Oil is where you find it, and a proper price level for production would expand still further our petroleum supplies. If it should happen that we do run short of petroleum, we have enough oil-bearing shale and coal deposits to furnish us with motor fuel for 200 years.

From the standpoint of national defense, let us look into the future. Suppose we permit our domestic production of minerals, farm production, etc., to lapse, under a misguided policy of a peaceful world and cheap products from foreign lands. In the first place, we would bankrupt the nation and reduce our standard of living. Secondly, with the outbreak of another war, we would have no materials. The development of the atomic bomb might easily preclude the bringing in of supplies from other nations. Such a condition would leave us helpless.

The theorists are, of course, steeped in the ideologies of one world and perpetual peace. The recent farce at Moscow which ended in complete failure of the Big Three to arrive at any terms for settlement is not too happy an omen for the end of all wars.

In fact, economic needs and racial hatreds are such that it is almost possible to forecast the next alignment of power. Russia intends to mechanize her farms and therefore she needs petroleum. Iran beckons her as a source of supply. Her troops are in that area. Let us visualize the possibility.

Supposing the Arabs were to attack the Jews in Palestine and England came to the aid of the Jews; if Russia joined with the Arabs, as a means of obtaining the oil she needs, what steps would we take? Would we again be dragged into another world-wide conflict on the side of England?

And when? It might be three years, five years, 10 years, or 20 years. The possibility is there, and the author feels that our nation must

adopt a realistic attitude and keep our nation strong in its ability to produce and be ready for any eventuality. What have we to gain? First, by producing from our own resources at an American price level, we can prevent a post-war depression. Secondly, we can keep ourselves ready to protect our own at all times. This sort of an attitude is not "isolationism" in an economic way, nor is it detrimental to international co-operation for peace.

Our nation has an abundance of almost everything. Why should we reach out into the world for goods and trade which others need and which we can use only to displace our own production? Our position in world affairs should be that of a referee, an example of the benefits which representative government has and can provide for a people.

Ours is the task of utilizing our production to maintain our prosperity. Instead of such a policy making us the enemy of the world, it will put us in a position of being able to help the rest of the world out of its poverty and misery, by using the economy of the United States as a foundation for a sound world economy, a prerequisite to world peace.

Historians, after wars are over, usually record the cause as economic. Surely our future does not depend on American capital exploiting the resources and labor of foreign nations. Such an economy left Great Britain bankrupt. It will bankrupt the United States, for the simple reason that we cannot help the world permanently with extensions of capital loans. Our help should consist of bringing about a price level for the raw materials of farm and mine so that other nations can earn their exchange instead of borrowing it. Loans to other nations without a proper price level for their production will again make it impossible for them to pay, and we will again be called "Uncle Shylock."

For example, our loans to England since the beginning of World War I have been over $30 billion. We have 140,000,000 citizens, and England, through the British Empire, controls the price level of 700,000,000. Why should we loan them funds which they can earn in the same way we must earn the money for the loans; namely, units of production times price.

We will gain nothing by making these loans if England insists on exploiting the Far East on the basis of 20 cents per day for labor in the production of both farm and mine raw materials.

CHAPTER IV

Manufacturing

Manufacturing, or the art of processing raw materials into a finished and usable form, is one of the largest segments of our economy. In 1940 our factory employment was approximately the same as that of agriculture. The growth of the manufacturing industry into large combinations for the efficiency of mass production has given it a glamour that has misled much of our economic thinking in the past 20 years.

Edison said, "All wealth comes from the soil." Many of our economists think of steel and automobiles when they think of prosperity and employment. They fail to realize the magnitude of the many industries which should, in reality, be classed as agricultural but which are listed as manufacturing.

It has been pointed out in the chapter on agriculture that the natural labor force, our livestock, which transforms grasses and grains into meats, fats, and oils, has thereby a process that industry has not been able to duplicate.

A proper analysis of manufacturing would indicate that approximately two-thirds of the manufacturing industry is an expansion of the initial farm production of the nation. In colonial days, the farmer made his own cloth, processed his own foods and meats, and, in fact, performed most of the services which today are classed as manufacturing. He relinquished this processing when efficiency made it possible for him to hire the work done. The farmer today employs the men in industry, indirectly, of course, and, through farm production and price, creates the income to pay the salaries of factory labor and management and capital return.

All of our economy, on a proper analysis of the record, depends for its wages and its jobs on agriculture. Edison was right, "All wealth comes from the soil." When industry becomes selfish and bites the hand which feeds it by underpaying agriculture, it loses in direct ratio to the damage it does to agriculture.

Through publicity, our mass producing industries have grown vain

and egotistical, though we are still a nation of small industries. We have approximately 3,000,000 industrial units of all kinds, including everything from a barbershop to a large corporation. Of this total, 96 per cent employ 19 men or fewer.

The steel industry and the automobile industry, two glamour girls in our economy, employed approximately 1,000,000 men in 1940. That is a goodly number of jobs, but less than 2 per cent of the total labor force at that time. Why should economists feel that these industries are the governing factor in our economy? If our prosperity were due to automobiles, then why haven't other nations enjoyed prosperity similar to that in the United States? They, too, have known how to make cars, as well and as long as we.

It is simply that other nations did not have the wealth resulting from raw material resources and agricultural production to exchange for the cars on a scale to make mass production possible. It was the farms of America which made possible the automobile industry. It was the farms which made possible the steel industry and the outlets for its products.

The record in 1940 listed $65 billion of capital invested in the agricultural industry as compared with $6 billion invested in both the steel and the automobile industries. The steel and automobile industries are the tail of our economic system, and agriculture is the dog. They are merely the servants who collect the taxes and other monies from the consumer to pay factory pay rolls for the farmer. They are the hired men of agriculture.

Unless that thought can be driven home to our industrial leaders, they will destroy the very system of free enterprise which made them great. They will continue to operate our economy upside down, with agriculture, the industry which is directly or indirectly responsible for all jobs and all salaries, forced into bankruptcy because it was given only the crumbs from the table which it prepared for its guests. Our failure to recognize the importance of agriculture is merely a repetition of history. Nation after nation has decayed, fallen and vanished from the scene of greatness because it permitted agriculture to be robbed of its rightful place in the scheme of things.

Almost two-thirds of our economy is an extension of agriculture made possible through technological improvement of agricultural meth-

ods. The packing plants, the textile mills, the lumber plants, the garment shops, the flour mills and food plants are in reality phases of agriculture, once part of the work done on the farms.

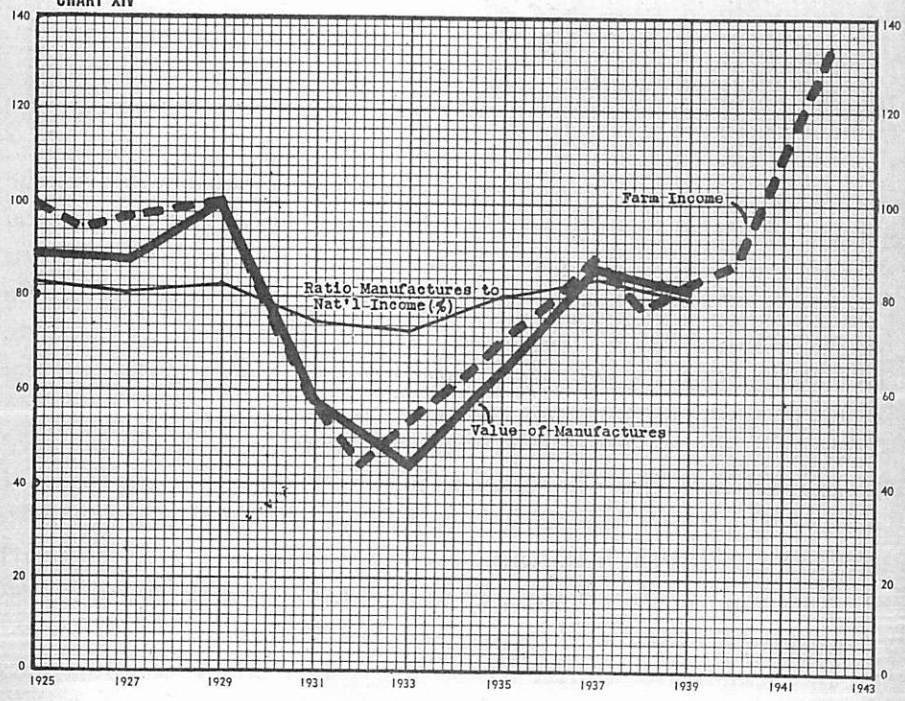
In case of a severe collapse of our economic system, the farmer could revert to processing his own products, while the rest of society would be cold, naked and hungry.

That part of our economy which belongs to agriculture and yet is listed as manufacturing is the foundation of the majority of the non-durable goods production. The remainder of the manufacturing industry, machinery, automobiles, etc., is classed as durable goods. Briefly, we can class non-durable goods as daily necessities and durable goods as luxuries which a proper income will warrant.

Chart XIV gives the correlation between the value of all manufactures and farm income. Chart XV gives the correlation between the physical production of the factories and farm parity. It must be borne in mind

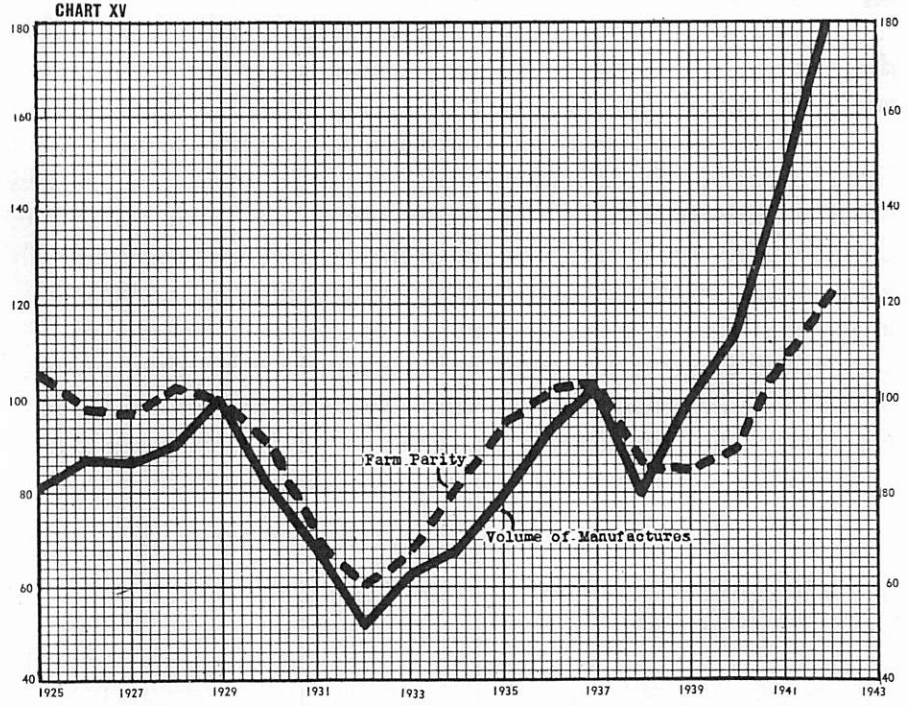
INDEX NUMBERS COMPARING VALUE OF TOTAL MANUFACTURES WITH FARM INCOME, AND RATIO VALUE OF MANUFACTURES TO NATIONAL INCOME.
1925-1942 1929 = 100

CHART XIV



INDEX NUMBERS OF VOLUME OF MANUFACTURES CONTRASTED WITH FARM PARITY
(RATIO OF PRICES RECEIVED TO PRICES PAID, INTEREST & TAXES).
1925-1942 1929 = 100

CHART XV



that there are two factors in our economy, the dollar value or the amount of exchange medium created through prices and the physical unit of production. We could barter the physical production of our factories for farm products and other services, but a monetary system has been devised by the human race to facilitate the exchange of goods. Too often economists and others have permitted money to displace real wealth in their analysis of our economy. A glaring example of this can be found in the records of import and export trade. Exports are listed in domestic monetary values, while imports are listed at the point of origin. Hence a comparison of dollar values of imports and exports is misleading, and often quite worthless. For example, in 1939 one barrel of cement in our export list was worth in dollar values three barrels of imported cement.

In attempting to analyze our economy, therefore, we should always think of both the monetary value and the physical exchange.

Note that both agricultural income and value of manufactures in Chart XIV in 1932 had dropped to about 47 per cent of the 1929 levels. Chart XV reveals that the exchange value or the percentage of farm parity and the physical volume of factory production had dropped to only approximately 65 per cent of the 1929 level.

A similar correlation of factory production to farm parity could be traced back to 1921 with about the same results. Briefly, assume that for each 1 per cent that farm prices are below parity our factory production will be 1 per cent below its normal level. Further, we can assume that the dollar value will be in ratio to farm income.

It will be noted that in Chart XIV the value of manufactures remained approximately 80 per cent of the national income. In simple terms, the value of manufactures represents roughly the cost directly and indirectly of operating the nation as a business.

In the economic cycle, as the farmer and miner are paid for their raw materials the price includes all their consumer expenditures for goods and services, their taxes and any profit to which they are entitled on their capital investment. In the next step, the payment of handling charges, transportation and factory labor includes similar items. As an end result, the difference between the value of manufactures and national income, or approximately 20 per cent of the national income, is the combined farm and mine income, the new wealth produced. In terms of money, it constitutes the interest or dividend return on all capital investment. This will be analyzed in the later chapter on finance.

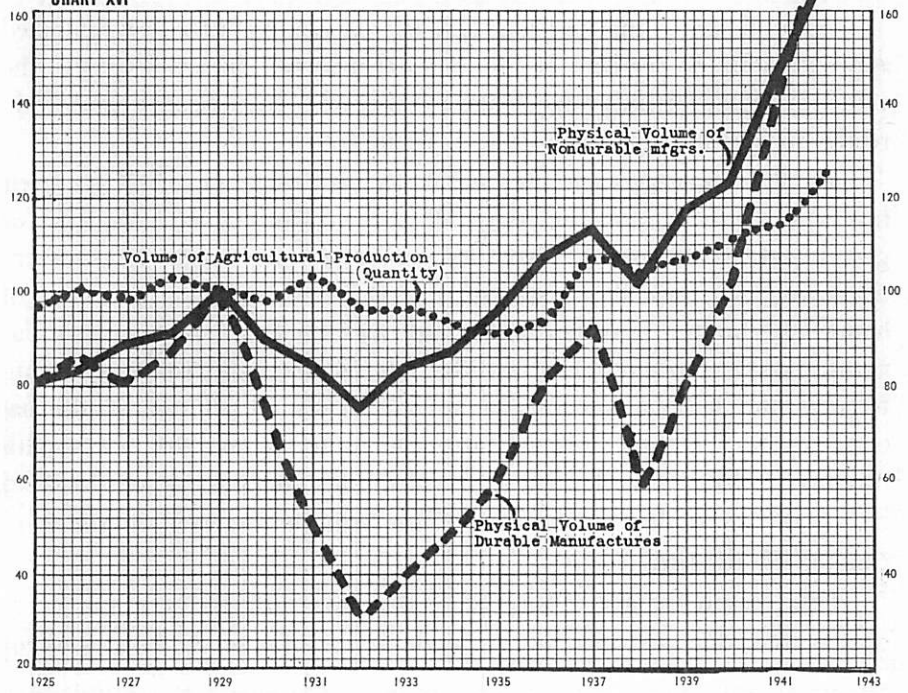
One reason for agriculture being the governing factor in our economy is that, due to its peculiar dependence on climate, the farmer plants all his acreage, keeping in mind a proper rotation for full production. In the case of a price change, the farmer will receive the benefit of full production while manufacturing receives an increase in income as it proceeds to expand the production it has curtailed.

This factor is illustrated by Chart XVI. Note that the physical farm production was constant except for fluctuations resulting from weather conditions. This was not true of both non-durable goods production and durable goods production. Durable goods production, the result of prosperity in agriculture, shows the greatest drop.

A careful survey of the record reveals that agricultural income during the recovery period from 1932 to 1933 increased 20 per cent as compared with 17 per cent for all manufacturing and 6 per cent for the national income as a whole. It would not have been possible for agriculture to increase its income 20 per cent, in the face of only a 6 per cent increase in national income or consuming power, if agriculture were not the governing factor.

INDEX NUMBERS OF AGRICULTURAL PRODUCTION COMPARED WITH VOLUME OF DURABLE AND NONDURABLE MANUFACTURES.
1925-1942 1929 = 100

CHART XVI



An analysis of Chart XVI shows that the production of non-durable goods, most of which are made from agricultural products and are necessary for human existence, had recovered their 1929 level by 1935-36, and, also, that they never dropped below the 1929 level in the subsequent years shown on the chart.

On the other hand, durable goods, which many of our economists believe to be the governing factor, did not recover the 1929 level of

production until 1940. In other words, durable goods production lagged behind for four years in the recovery period. We can, therefore, assume, on the basis of the past record, that full production of durable goods cannot be attained without a parity price for farm products and other raw materials. The only exception to this assumption is that any other full recovery of durable goods production must be the result of a deficit by industry, or, in the case of war, a deficit by the nation as a whole. It ought to be evident that a small national deficit such as we had during the 1931-39 period will not bring about full recovery for durable goods production.

One important factor which our industrial leaders must recognize is that markets are created through the production cycle. The law of supply and demand can function only as the consumer earns the income with which to pay.

Therefore, industry, in paying for raw materials, transportation, factory labor, management, and interest on capital and taxes, sets the market it enjoys and does so prior to the marketing of its goods. The capital used in the temporary process of manufacturing must be recovered from the consumer if industry is to continue operation. If industry pays out to the farmer and the miner and others engaged in the cycle of production and distribution only 90 per cent of parity, equal exchange value, then industry can market only 90 per cent of its potential production. The past record proves this to be a fact and not a theory.

For example, if A is producing corn and B producing shoes, on the basis of one bushel of corn for one pair of shoes, if A can produce two bushels of corn and B two pairs of shoes, A can trade one bushel of corn for a pair of shoes. Translating this into monetary terms, at $1 for corn and $1 for shoes, they have equal value. If B proceeds to price his shoes at $2.50 for two pair while the price of A's corn remains $1 per bushel, then A must borrow 25 cents from B to make a trade. After making four trades of this kind, A will owe B a bushel of corn. On the fifth trade, A will have to turn over a bushel of corn for his debt, and A will have no shoes while B will have a pair of shoes he doesn't need and cannot dispose of.

The result is an unbalanced economy, and the record reveals that industrial production and sales operate in ratio to the percentage of

parity one group receives as compared with another. *Parity prices or equal exchange values are the key to prosperity.* If A and B maintain the balance between the corn and the shoes, and increase efficiency 100 per cent, then A and B can both have two pairs of shoes and two bushels of corn. They can double their standard of living.

The corollary is that with equal exchange value for production, any increase above the normal would result in a higher standard of living.

Industry, the farmer and the laborer must realize that increased profits should come from more efficient production, not from price manipulation.

Industry cannot survive on low prices for raw materials, low wages and large profits per unit of production; agriculture cannot have low labor costs and low priced finished goods and dispose of its production. Labor cannot have high wages, low living costs and full employment. The laws of exchange will not permit it.

The author wishes to emphasize the fact that the necessity of equal exchange values does not mean the stifling of ability. With a stable price level, both the inefficient and the efficient should, and would, be rewarded on the basis of performance. For example, if we were to stabilize farm prices at parity, the man who is able to produce 50 bushels of corn per acre would receive double the reward received by the man producing only 25 bushels per acre. In the same way, the laboring man who can lay 500 bricks per day should receive double the wage paid a man who can lay only 250 bricks per day. The author realizes that this matter of ability to produce has too often been lost sight of by the labor leaders.

Russia, which started out with a communistic theory of paying all alike, has been forced to recognize the difference in human ability. On the other hand, our labor leaders have in many cases forgotten human ability and have demanded equal pay for all, thus destroying the efficiency and the incentive which has made our system of free enterprise the most dynamic of all economies since the beginning of time. In this connection, we find that the biblical reference regarding the men with the talents applies especially well; the man who increased his talents to three was given the greatest praise and reward.

We should not mistake equality of opportunity, which would be

provided by a stable price, for equality of ability, or of performance, whether it be in the field of labor, agriculture or industry.

Parity means equality and parity of price is the very essence of the full distribution of our potential industrial production. Industry cannot market its full production if it is not willing to permit a price level which gives the consumer the income with which to buy full production.

Industry establishes its market in the purchase of raw materials and other services.

FUTURE MANUFACTURING

The future of manufacturing will depend almost entirely on what happens to agriculture and whether we can erase some of our economic misconceptions. Manufacturing can expand only in ratio to agricultural production and price. Agriculture, producing 65 per cent of the raw materials, must expand if materials are to be available for the expansion of manufacturing. And, with the national income dependent upon agricultural income, farm prices must be maintained if industry is to sell its product.

Some of the misconceptions which may hinder reconversion and permanent prosperity are related both to the matter of price and production.

There has been considerable confusion in industry as to post-war reconversion. Our economy will continue and expand in line with the income of agriculture. For example, in a depression, or in a period of war, non-durable goods production continues unabated because people must live. During the 1930 to 1932 depression period, the farmer produced just as much grain, livestock and other products as he did in the 1925 to 1929 period. The packing plants, the grain industry, the food processing industries and the distributing systems required almost as much labor as in a period of prosperity.

In like manner our reconversion in manufacturing after World War II consisted primarily of shifting approximately 4,000,000 workers from ship building, aeroplane factories and munition factories to construction and mechanical service industries, such as auto repair, etc.

If the farmers continue producing, transportation, meat packing, textiles, food processing, etc., will go on without any interruption.

Whether industry will reconvert and continue to create jobs for these 4,000,000 men in six months, or a year, will depend upon governmental policies.

At the present time, labor and the government are asking for higher wages and a price ceiling which does not reflect the increased overhead of the national debt.

Many of our economists and industrialists think of future markets as the result of public spending of war savings. This thinking is the greatest threat we have to future stability. *Each year's production of goods and services times price should create the income to operate the nation as a solvent business and consume its production.*

In this process we of course require an expenditure of approximately 12 per cent in new capital building, as capital expansion of our economy, to create additional jobs for the labor displaced by efficiency, and new and additional homes for the increase in population.

Excessive expenditures of this sort from past savings are inflationary when added to the normal income created by our production cycle. Under the chapter on "Finances," we shall discuss the danger to our financial structure through heavy spending of war savings.

If farm prices and farm production are maintained, there can be no serious unemployment nor any serious depression. With stable farm prices, it will take years to fill the backlog of unfilled demand for goods resulting from both the depression and the war.

For example, with a continued national income of $160 billion, the automobile industry can produce 6,000,000 cars per year—35 per cent more than in 1941, year after year without end. Development of the production of electrical appliances has an almost unlimited field, but with one question to answer which is true for the future of all manufacturing: WILL WE MAINTAIN OUR FARM PRICE AND OUR FARM PRODUCTION?

Manufacturing will flourish in direct ratio to the percentage in which we do maintain farm prices. As pointed out, the value of manufactures will be, on the average, 80 per cent of the national income. With gross farm income at approximately $21 billion, the seven times turn of farm income will generate approximately $150 billion of national income, and the value of manufactures will approximate $120 billion. If, however, we permit farm income to drop 50 per cent,

either through curtailment of agricultural production or lower prices, then our national income will be $75 billion, instead of $150 billion; and the value of manufactures will be $60 billion instead of $120 billion.

Yes, our industrialists have an important stake in agriculture. They should bend their knees every night in prayer for full farm production and parity prices for that production. Without that as a foundation, they cannot fully employ or utilize our potential production of manufactured goods.

The greatest danger to industry is the acceptance of the theory that it must have a large export market to maintain employment. On the basis of $150 billion of national income, of which 80 per cent will be value of manufactures, it will take approximately $6 billion of exports to employ 3,000,000 men. This is not a net gain, however, and we will import the equivalent of an equal amount of labor or more as payment for the exports. Briefly stated, there will be no gain in employment from exports.

On the other hand, one man employed in producing raw materials in the United States will create jobs for four others in our cycle of production, processing and distribution. In addition, each dollar of total raw material income (farm and mine) will create a market for $5 of goods and services in the United States. Therefore, the future of American industry is based on the income from American production and the use of that production in the American market. Our export market for which we can expect payment will not exceed 5 per cent of our national income and depends on domestic prosperity for volume.

With domestic volume 95 per cent of the value of manufactures and services produced, it is almost idiotic to assume that the 5 per cent of exports determines our prosperity.

Since 1910, the national income has been determined by the raw material income times the quotient obtained by dividing the total labor force by the number engaged in raw material production. To displace one man producing raw materials will displace four other jobs and five times his wages in national income or consuming power.

CHAPTER V

Construction

The construction industry is the end result of prosperity in the other segments of our economy. It also reflects the confidence, or lack of confidence of the general public.

Homes and other buildings, either for replacement or expansion of the economy, depend on past savings of capital funds and capital loans with which to supplement the savings. It is only a natural result that in times of depression such savings are not being created, nor does the public have the confidence in the future to establish a building program to bring about employment.

Because of the slow depreciation of buildings, a depressive period finds the construction industry at the bottom of the heap. For example, in 1925 to 1929, the average expenditure for new construction was $10.8 billion per year. In 1932, the same type of expenditures had dropped to $2.5 billion. A condition of general unemployment in the construction industry was a natural result.

Chart XVII gives the correlation of new construction and farm income for the period 1925 to 1942. Total construction and new construction and maintenance, expenditures in stable periods, are approximately the same as the gross farm income. Total construction divides itself into approximately 75 per cent for new construction and 25 per cent for maintenance. These percentages were fairly constant during the period 1922 to 1929, the last period of full employment and prosperity before the outbreak of war.

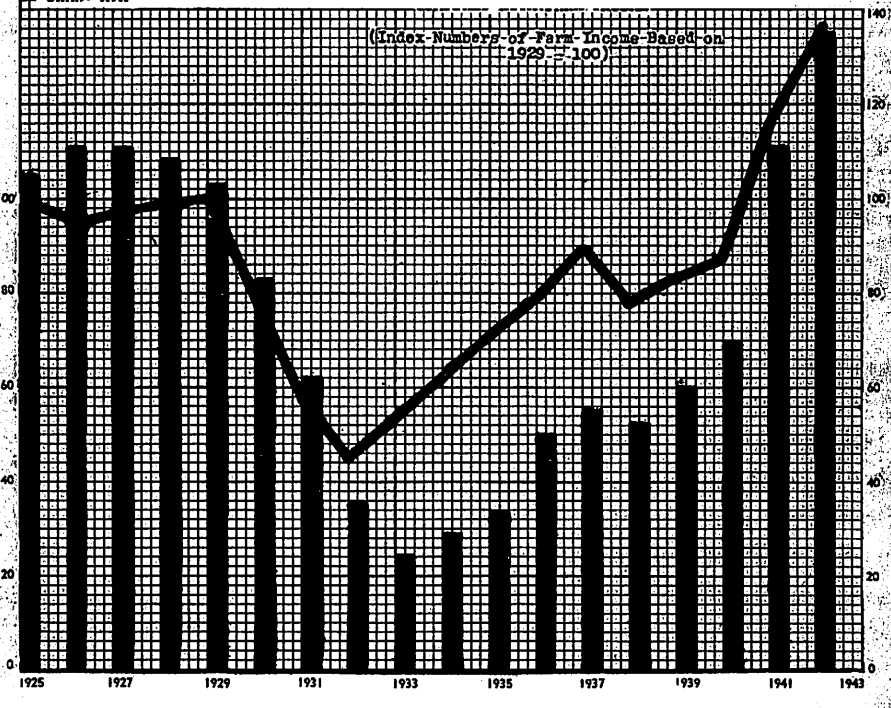
New construction likewise divides itself quite accurately into 80 per cent of new construction expenditures by private citizens and 20 per cent of new construction expenditures by our public subdivisions.

During the 1925 to 1929 period, new construction averaged approximately $10.8 billion per year, or approximately 12 per cent of the national income.

On the basis of a national income of $150 billion in the post-war period, new construction should approximate $18 billion and maintenance $4.5 billion, if the construction industry is to keep pace with our economy operating at that level.

VALUE OF TOTAL NEW CONSTRUCTION IN THE UNITED STATES COMPARED WITH FARM INCOME.
(Index numbers of farm income based on 1929 = 100)

CHART XVII



In turn, new construction by private individuals should total approximately $14 billion and new construction by our public subdivisions should approximate $3.5 billion.

New construction by private individuals and corporations can again be divided into two segments of almost equal amounts. Homes and farm construction will represent approximately half of the new construction, while other building—factories, public utilities, railroads, etc. —will make up the other half.

A tremendous backlog exists in the construction field. The depression of 1930 to 1941 caused a pile-up of approximately $60 billion for new construction. To this can be added the backlog resulting from the shortage of materials during the war. Roughly, we can approximate a waiting reserve of $100 billion for new construction in the United States.

Analyzing this briefly in terms of home building, we can build 1,500,000 new homes per year at an average cost of $5,000 each. On the basis of stable price levels and income, and on a basis of depreciation of 32 years for each home, we can build and build on into the future.

The increase in population since the war started represents a need for 2,000,000 new homes. There has been much discussion in regard to cheap pre-fabricated homes. It is the hope of the author that the American people will refuse to accept them. Mass production of homes will help to destroy the individuality of our citizens, and cheap homes in turn mean cheap people and a cheap standard of living. We have the materials and the labor and can have the income, through proper pricing of our production, to have good homes equipped with the modern conveniences such as lighting, air-cooling and heating. On the basis of our resources of building materials, the homes in this nation are a disgrace.

This condition will not be cured by a government program of cheap financing for home building. It can be cured only through the proper operation of our economy. We must produce the materials at the proper price level, thus creating the income and savings with which the individual can build the kind of homes we can and ought to have in the United States.

Such a philosophy is not Utopian. The record of the nation proves beyond question that in the 1930 to 1941 period our nation lost $473 billion of income which we could have had by proper operation of our economy. Of this total which we lost in the short space of 12 years, approximately $60 billion was money that could have been used to employ the idle labor during that period in the construction of new homes and other buildings.

In the same manner, a return to 1939 levels of farm production and farm income in the post-war period would wipe out $75 billion per year of national income, and, in the process, wipe out $9 billion of available earnings for new construction. The other groups in our economic system cannot permit this to take place again.

The expenditure of government funds should be placed on a positive basis. Our subdivisions of government should spend approximately

$3.5 billion a year for new construction; and taxes to pay for school teachers and other public employees must be made in ratio to state income and national income, if the government is to do its part in keeping our economy at a prosperous level.

This will require a lot of education. For example, let us use the state of Iowa. The people of that state had an income of approximately $1 billion in 1939. Their income at present is over $2 billion. The same condition exists in the income of every county in the state. But these counties and the state are not collecting double the taxes and expending them for construction by the state as government costs.

Of course it was impossible to spend this money for highways, etc., during the war, but attention is called to the subject for consideration of the states in the post-war period. The matter is important both to the construction industry and to our educational system.

School teachers today, after four years of college training, receive less pay than a common laborer. This disparity has already led to a demand for federal subsidies to help pay school teachers. The wages of the school teachers are the problem of the locality, and if, through neglect, they force national subsidies, then they will have helped to bring about centralized control of education, entirely contrary to free enterprise.

In this connection it should be added that the job of the national government is to maintain our price level so that local subdivisions will have the income to operate without federal aid. Under a free government, it is not the duty of the government to finance each citizen. A system of free government must depend on the citizen to finance the government, to pay the taxes with which government carries on its function of umpiring the game we call "economics."

The citizens must realize their responsibility and be willing to pay the taxes and make the disbursements, so that money spent for public construction will be in balance with the income of the citizen and the nation as a whole.

Congress should work out a sound program of national expenditures for construction of highways and public buildings. Such a program need not be so extensive as to provide full employment for all; rather, it should be limited to a normal expenditure, which past ex-

perience has indicated is required to keep public construction in balance with the rest of our economy.

Federal expenditures for flood control and irrigation are of a different nature and should be treated as a joint investment by the people of the nation, to bring about the proper expansion of our national economy.

It should be pointed out that with a national income of $150 billion per year, the construction industry in the post-war period can absorb 3,000,000 men, who may be disemployed in industries previously engaged in war production.

The need for new construction, repair and remodelling is apparent on every hand. Given confidence in the future, expenditures for construction will create employment in other fields.

New types of homes and advanced systems of lighting and heating will bring about the obsolescence of the old homes to make room for the new.

With a proper income level, the income and savings will continue to be available. Private capital must be given assurance of the future insofar as it is possible, through positive legislation to maintain a stable farm income, from which in turn will be generated a stable national income. With such assurance, the need of government building will revert to the minor role which it should have.

CHAPTER VI

Factory Payrolls and Employment

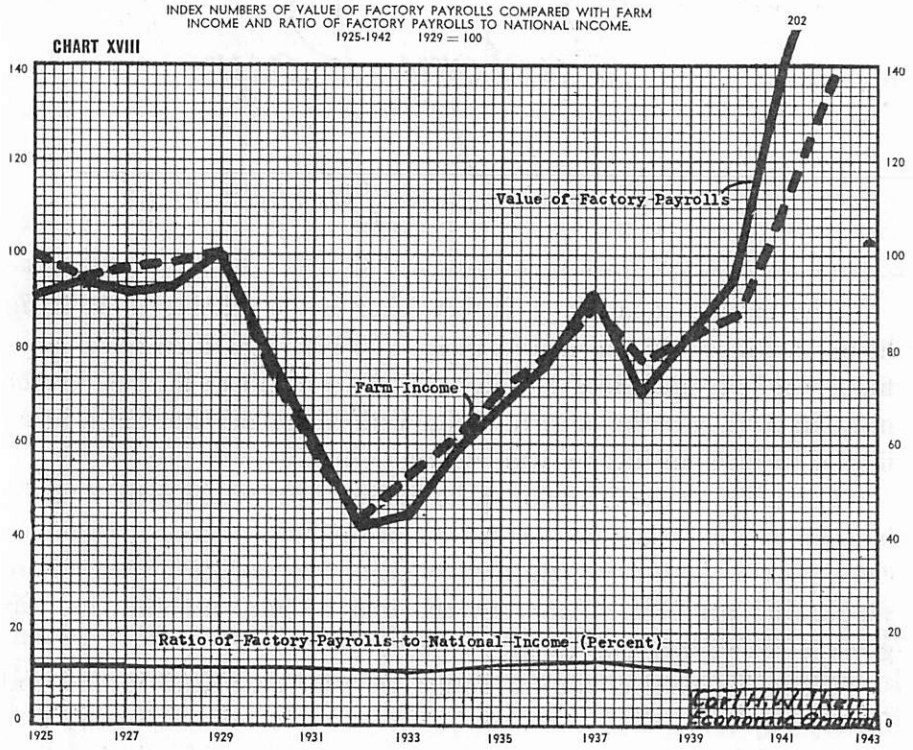
The income equation of factory labor is the number of working hours multiplied by the hourly wage. To pass legislation for a minimum wage per hour does not solve the matter of labor's income. Labor must, in turn, have the opportunity to work the proper number of hours if it is to have an income with which to buy.

For labor to work steadily 40 to 45 hours per week, there must be both the raw materials and the market for the finished goods. Again we come back to agriculture, the foundation of our economy. Agriculture supplies 65 per cent of our raw material income, and this, in turn governs the factory pay rolls.

Chart XVIII gives the correlation between gross farm income and factory pay rolls. The ratio can be set out in a formula stating that a dollar of farm income creates a dollar of income with which to pay factory labor. Against the argument that employment is the first factor, it can be said that employment is a necessary corollary of farm prices, but employment follows the upward or downward spiral of farm prices, spread over a period of about six months.

This ratio of $1 of farm income and $1 of factory pay rolls has been quite constant since 1921. Any changes have been the result of short periods of overexpansion by industry, of which a notable example is the year 1937.

The drought had created a shortage of farm products in 1936, and farm income had advanced as a result. To this had been added the soldiers' bonus. The result was a wave of optimism among businessmen, who, in 1937, paid out more in factory pay rolls than the farm income warranted. Farm products sold at a lower price level in the latter part of 1937 and during 1938, resulting in a reduction of farm income of approximately $1 billion.



Factory pay rolls dropped in 1938, forcing industry to discontinue the overpayment of 1937 and get back in line with farm income. All other segments of the economy dropped back in ratio, and the national income, in 1938, dropped in its ratio of seven times the farm income. It should be self-evident that if employment by industry were the governing factor, the recession in 1938 would not have come about.

Since 1925 there has been tremendous growth in the power of labor organizations. Special legislation has been passed from time to time, and yet the percentage that factory pay rolls are of national income has not been increased; the simple facts are that factory pay rolls cannot be increased above farm income. Labor therefore has a vital interest in farm income as a prerequisite to full employment at a good wage level.

Allan W. Rucker, in his book, "Labor's Road to Plenty," published in 1939, points to this relationship with the conclusion "that farm income is a ceiling beyond which factory pay rolls cannot go."

Many people are under the fallacious impression that industry deliberately disemployed labor. A careful analysis of the record shows that industry tried to maintain employment in the downward spiral of the depression from 1930 to 1933. In fact, industry took capital losses year after year, keeping up larger pay rolls than were warranted by operational income. Industry cannot keep factory pay rolls at a higher level than farm income except through overexpansion or deficit in operating costs.

The question of proper wage levels can be answered by stating that they should be kept in line with the price of commodities, which determine the real buying power of labor income. Efficiency, translated into lower prices, benefits labor indirectly. Both lower prices for goods and services and higher wages for labor increase the purchasing power of labor groups.

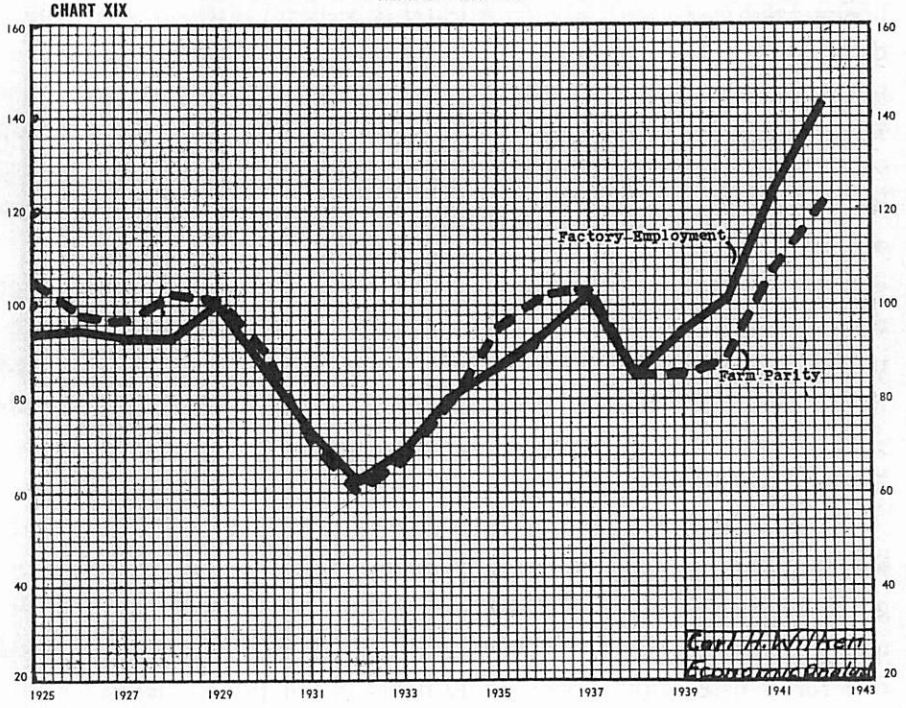
Any stable period of five years may be used as a yardstick to establish the price balance between farm prices, factory pay rolls and finished goods prices which balance would constitute an accurate guide in determining wage policy. The period 1925 to 1929 would be a good one for a base with proper adjustments up to present levels.

In this connection it should be pointed out that efficiency on the whole should not be translated entirely into lower prices. Efficiency disemploys, and it is necessary that increased capital profits be created for expansion or investment in new industries if new jobs are to be created. In like manner, labor must receive increased wages as a result of increased efficiency in order that it may consume the additional production created by the new industries. This fact can be illustrated by the the efficiency in midwestern farm operations. In spite of increased per man production since 1910-14, the farmer must have present parity prices to consume his share of our national product.

The importance of maintaining a price balance between the various groups can be ascertained by Chart XIX, which shows the correlation of factory employment to farm parity. A similar correlation exists between factory production and the percentage of farm parity.

INDEX NUMBERS OF FACTORY EMPLOYMENT CONTRASTED WITH FARM PARITY
(RATIO OF PRICES RECEIVED BY FARMERS TO PRICES PAID, INTEREST & TAXES).
1925-1942 1929 = 100

CHART XIX



The value of manufactures, factory pay rolls and farm income must be kept in balance to create the exchange medium for different groups to trade their products.

On the other hand, the physical movement of factory production and the number of factory workers is dependent upon the price balance. The end result is that farm prices determine the dollar wage, and the per cent of price balance or parity determines the number employed.

With full farm production, the gross income of agriculture at a parity price level provides the foundation for full employment at an income level consistent with national prosperity. Each 1 per cent loss in farm income will be reflected in 1 per cent loss in national income, 1 per cent loss in factory pay rolls, and 1 per cent loss in employment

and factory production. This is a mathematical law of exchange which industrial organizations, labor organizations and farm organizations cannot alter.

It is time that this law of exchange be given full recognition for the benefit of all. Rather than argue about farm prices, wages, etc., it would be better to work together to maintain farm prices at a level which will allow the income necessary to maintain full employment and factory production. Not until we bring that condition into being can we utilize the efficiency of our production to bring about a standard of living in line with our productive resources.

We have the productive ability, and we need the distribution. The per cent of price balance will determine our ability to consume; the law of supply and demand is nothing more than a reflection of the income of the production cycle. If the farmer, the laborer, or the industrialist is short-changed, we cannot exchange all our production.

The cycle begins with the farm, and the speed or power of our economy to create or improve a standard of living depends upon farm production and farm prices.

POST-WAR EMPLOYMENT

There has been so much discussion of post-war employment that a sort of fear has arisen in the minds of the people. Actually, the record of the past indicates that employment can be had for all who wish to work if farm production and farm prices are maintained. Raw materials and income at a proper price level automatically create the ability to consume. Production times a parity price creates the demand for full consumption.

Certain leaders have been discussing employment in terms of 60,000,000 jobs, although available statistics indicate that 56,000,000 jobs are all that are required for full employment at a prosperous level. These same leaders discuss employment in terms of factory production, when the record indicates that post-war employment will be in other lines of endeavor. Chart XIXa was prepared by Dr. John Lee Coulter, Independent Economist, Washington, D. C., to show the trend of employment from 1910 to 1940.

CHART XIXa

A GENERATION OF FREE CHOICE OF ACTIVITY OF UNITED STATES POPULATION 14 YEARS OF AGE AND OVER: 1910-40

Indicating That Only Half of All 14 Years of Age and Over Are in the Labor Force and Only Half of These Are Employed In Production of Raw Materials, Manufacturing, Construction, Transportation and Communication Services and Utilities.

	1910	1940	Index 1940 1910—100
Total Population	91,972,266	131,669,275	143.1
Population 5-13 Years	17,019,650	20,024,927	117.6
Population 14 and Up	64,221,000	101,102,000	157.4
Labor Force 14 and Up	38,167,000	52,189,000	136.7
Females Married, 15 and Up	17,684,687	30,087,135	170.0
Secondary and Higher Education	1,466,608	8,616,212	655.0
Secondary Schools			
Males	453,999	3,500,507	771.0
Females	578,465	3,593,797	621.2
Higher Schools			
Males	209,577	892,250	425.7
Females	145,638	600,953	412.6
Agriculture, Forestry, and Fishing	12,630,115	8,869,301	70.1
Mining	965,169	1,043,523	108.1
Manufacturing and Construction	10,617,208	14,235,116	134.0
Transportation, Communication and Utilities	2,676,757	3,336,781	124.6
Trade, Total	3,633,265	10,606,901	291.9
Males	3,160,562	7,853,100	248.4
Females	472,703	2,753,801	582.5
Public Service, Total	431,442	1,810,849	419.7
Males	426,606	1,457,994	341.7
Females	4,836	352,855	729.6
Elementary Teachers	481,543	598,807	124.3
Professions, Excluding Elementary Teachers	1,229,732	3,283,326	266.9
Males	884,932	1,816,545	205.2
Females	344,800	1,466,781	425.4
Domestic and Personal Service	3,772,559	4,378,843	116.0
Clerical, Total	1,737,053	4,612,356	265.5
Males	1,129,849	2,236,853	197.9
Females	588,609	2,375,503	403.5
Lawyers and Judges	114,704	165,353	156.5
Physicians	151,132	165,353	109.4
Clergymen	118,018	135,090	114.4

Employment in agriculture, mining, manufacturing, transportation, construction and public utilities in 1940 was about the same as in 1910. Employment in this 30-year period took place in the trade and service industries. Educational facilities were expanded, increasing the number in high schools and colleges approximately 7,000,000 during this time.

It is reasonable to expect the same pattern to be followed in the post-war era. Increased efficiency in the production of raw materials and factory products will produce an increased amount of commodities for our system of distribution. Trade, service and construction will be the fields of expanded employment. It is doubtful whether more than 12,000,000 will be employed in factories in the post-war period.

Many have visions of a vast export market to create jobs in industry, but such a program will not work out. Imports will either offset the increase in jobs or displace men who are now working in other fields. Our supply of raw materials makes us 98 per cent self-sufficient, and our export trade is limited by these natural conditions to an exchange of goods we don't produce at all or of which we do not produce enough. To import other products would react against our own welfare.

With a high income level, recreation could become an outlet for labor. In this nation we have an incredible variety of entertainment and vacation areas unequalled in any nation. We own approximately 70 per cent of the motor cars in the world. With an expansion of the highway system across the nation, a high income level, our tourist business would become an outlet for labor in providing the necessary services. 40,000,000 families, spending an average of $100 per family for an annual vacation would produce $4 billion in business. This amount is approximately equal to all our export trade in 1940.

LABOR ORGANIZATIONS

A point which should be stressed is the futility of labor organizations in their attempt to obtain more pay without being willing at the same time to provide the foundation of agricultural income which makes wages possible. The same thing can be said of farm and business organizations.

All the different segments in our economy are dependent upon farm income. With a proper farm income, there can be no surplus production, except for brief seasonal periods, and this surplus, if handled for the beneft of all groups, would result in a higher standard of living and more jobs. In a period of continuous price balance between farm products and factory goods, labor will become a competitive item, and supply and demand will tend to keep wages in balance with the income of industry and agriculture.

The constant labor return from an industry can be analyzed quite closely for each of the major industries. For example, in the case of the railroads, compensation to employees during the period 1925 to 1942 ran almost constantly 46 to 47 per cent of gross operating revenues. Another example is that of the bituminous coal industry, in which the labor cost is quite constant and approximately 60 per cent of the value of the coal.

Labor organizations ought to check these facts in order that they may realize that there are certain factors which limit any effective demand for higher wages.

The ideal situation would be one in which agriculture, industry and labor would, by the use of a yardstick of values based upon past records, keep all three groups in balance.

So-called full employment through government aid is not the answer. If conditions are such that private industry cannot employ the available labor, then we have reached the point of disintegration as a free and democratic people. The government has no money, and jobs created by the government must be created by deficit financing, which will eventually break down our system.

Labor's problem is to break down the theory of cheapness and low wages, a theory which seems to have fastened itself upon the nation. It must be remembered that the producer is also the consumer, and

unless the proper price is maintained on production and the wages of labor, we will fail to create the dollar income with which to consume. Price means little in the final analysis; the problem is to keep relative prices in balance.

As an example, let us look at the problem of wages from the standpoint of the retail merchant, who is the final outlet for goods. Over a period of years, the record shows that retail sales volume is approximately 60 per cent of national income, and for all practical purposes this percentage remains constant.

If the average wage is $10 per day, the retailer will then have $6 of sales. If the wage level is $4, he will receive only $2.40. The retailer cannot gain from a reduction in wages and, in turn, in our total income.

Another item to be stressed is the matter of the 30 hours per week theory. The record would indicate that such a step would be against the interests of labor and the nation as a whole. In fact, if labor drops the 40-hour week in favor of a 30-hour week, then labor will have its potential living standard reduced 25 per cent. A standard of living depends on goods, and not on hourly wages. To admit that a 30-hour week is the answer to our economic problem is to admit that the nation has too much of everything. But such is not the case, and there is no reason, if price levels are maintained in proper balance, why labor cannot work full time, recognizing, of course, the point of maximum efficiency.

Another point which labor must recognize is that low farm prices do not, as an end result, mean cheap food. Low farm prices will mean cheaper food *prices,* but the reduction of wages forced upon labor by low farm prices will mean less meat and other foods for the laboring man's family.

Our recent war period, and every other period in our nation's history, if analyzed, proves that labor consumed more food when farm prices were at parity or above than when farm prices fell below parity. In addition, high farm prices left the laboring man with more money in his pocket to buy other things. The 1-1-7 ratio of $1 of farm income, $1 of factory pay rolls, and $7 of national income has been almost constant for 25 years. Labor must recognize this as a yardstick in determining wage demands. We must live and let live.

Finally, labor leaders have been led astray by following an administration which is bent on a large foreign trade. The best customer for the output of labor is the raw material producer, the farmer and the miner. How can labor benefit in trying to support a program to sell to foreign producers, who, in many cases, receive less than 20 cents per day? The importance of foreign trade has been greatly overrated. Export trade will not average over 5 per cent of national income, unless we wish to give away goods.

For comparison, an increase of $100 annually in our domestic wage level will create a market, when spread over 55,000,000 workers in the United States, greater than all our foreign trade. To maintain our domestic consuming power is the greatest assistance we can give to other nations.

Imported goods must be consumed, and the higher the domestic income, the more imports will be required. Again, it is a question of which comes first, exports or imports? With the United States representing 50 per cent of the world's dollar industry, American prosperity is the governing factor in world trade. *Our labor cannot continue to receive an American wage, if we are willing to permit raw material products to come into the United States at less than the parity price level.*

CHAPTER VII Transportation

Transportation is our major service industry engaged in collecting raw materials and distributing finished goods.

The rapid expansion of our economy dates back to the opening of our natural resources through the building of transcontinental railroads. The agricultural resources of the middlewest, the grazing lands and mineral deposits of the western states furnished materials and new income to build the greatest industrial plant in the world. During the war, we were producing as many war materials as all the rest of the world combined.

To those who look afar for raw materials, it should be pointed out that our war production was from our own resources; we can do the same in peace time, at least up to 98 per cent of our needs.

There was a continuous expansion of the railroad mileage, until the invention of the internal combustion engine and its adaptation to the automobile. Some people may have the idea that the competition which ensued was detrimental to the railroads, and in the case of some of the short line railroads, they were forced to discontinue; but on the whole, it helped the railroads. Shipments of petroleum, coal, steel and even of automobiles, brought about an additional increase in freight tonnage.

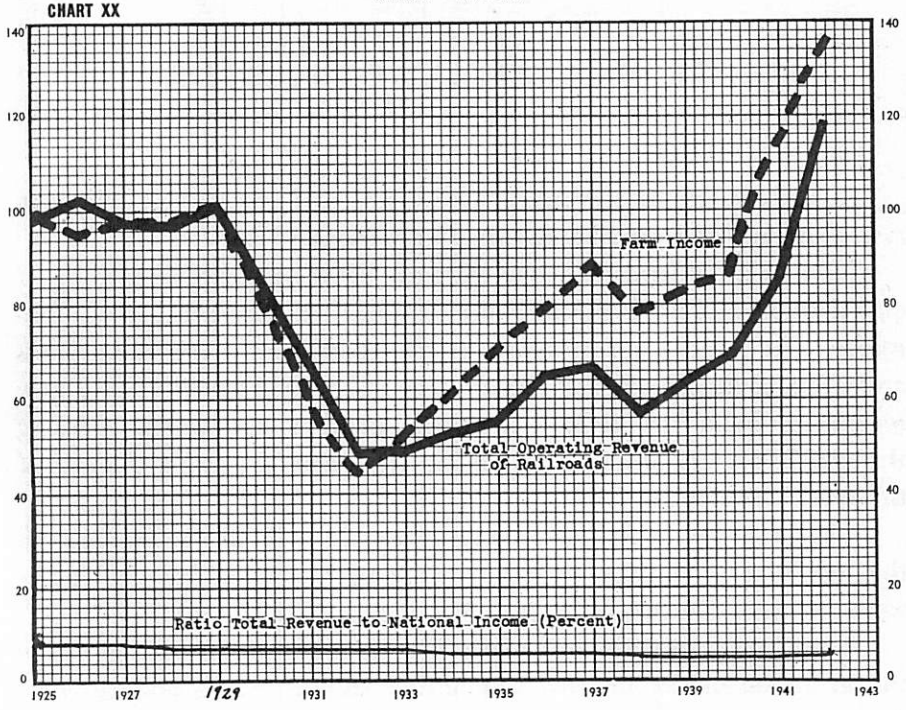
The total revenue of the railroads gradually increased until the depression of the thirties, when the drop in farm income forced railroad income to drop in the ratio shown by Chart XX.

It is interesting to note that the drop in freight charges per ton mile was minor (3%), and the loss in freight income was due to the loss of tonnage, which is in ratio to farm parity. The income of the railroads followed farm income. From 1930 to 1941, because of low farm prices, the Class I railroads suffered a loss of $35 billion in income, principally from the loss of 6 billion tons of freight that would have been needed if farm prices had been maintained.

In the post-war period, should farm prices recede to 1939 levels,

INDEX NUMBERS OF TOTAL OPERATING REVENUE COMPARED WITH FARM INCOME
ALSO RATIO OF TOTAL OPERATING REVENUE TO NATIONAL INCOME.
1925-1942 1929 = 100

CHART XX



the railroads will lose $4½ billion to $5 billion a year. This loss will come about regardless of management.

The service performed by the railroads for the country during the war was far greater than the general public realizes.

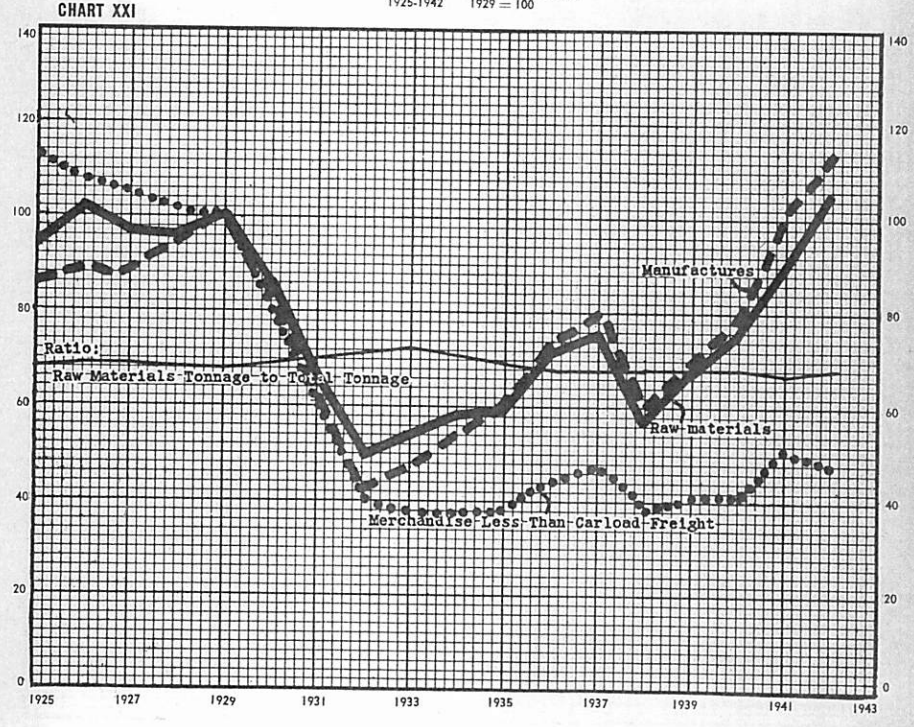
As a result of the depression and the loss of freight tonnage during 1930 to 1941, the railroads had reduced the number of box cars 25 per cent below the 1929 level, and with the outbreak of war, they were confronted with additional tonnage and priorities which prevented their getting additional cars. But this handicap, by agreement and proper allocation of cars, was overcome.

The railroads hauled almost double the amount of freight hauled in World War I, when they were under government control, and hauled it 150 miles further per ton than in 1940.

Politicians, from time to time, have accused the railroads of excessive rates, but this accusation is not supported by the record. From 1925 to 1929, the rate per ton mile was approximately 1.1 cents; during

INDEX NUMBERS OF REVENUE TONS ORIGINATED—RAW MATERIALS, MANUFACTURES,
AND MERCHANDISE LESS THAN CARLOAD FREIGHT, ALSO
RATIO OF RAW MATERIALS TO TOTAL.
1925-1942 1929 = 100

CHART XXI



the depression it dropped to .945 cents. Actually the railroads performed the tremendous service of wartime transportation at a charge 20 per cent under the general price level.

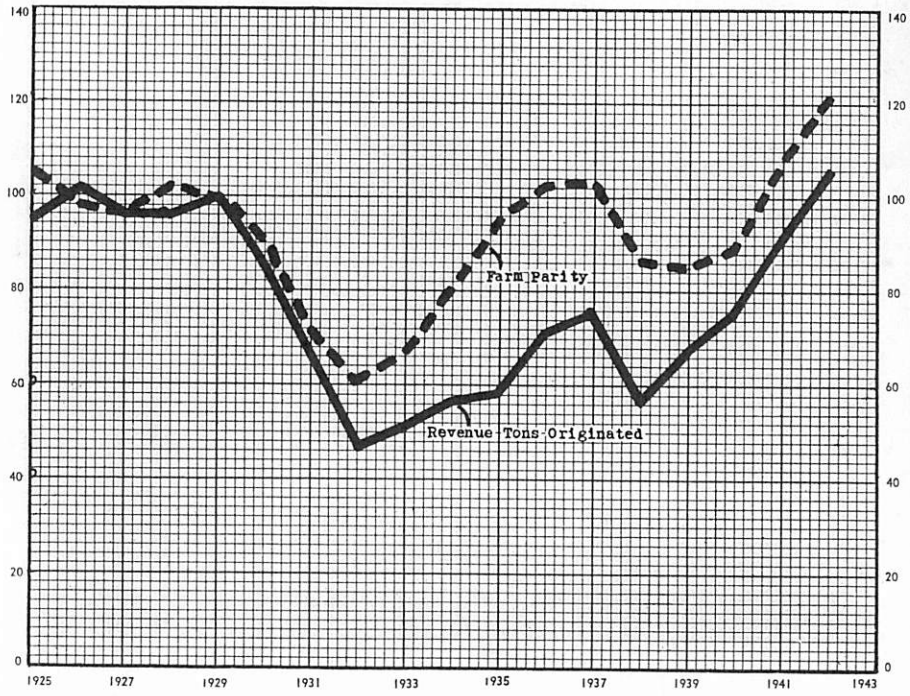
Surely this indicates that the procedure of establishing railroad tariffs under the supervision of the Interstate Commerce Commission has not been contrary to public interests.

Further proof that the railroads do not have a monopoly is shown in the increase of truck transportation and personal transportation (automobiles) in the period from 1929 to 1942. The Class I railroads have had a steady decline in their percentage of total tonnage transported in the United States, but total transportation tonnage can be such that all forms of transportation can prosper, if farm production and farm price levels are maintained.

Let it be noted that approximately 70 per cent of the freight tonnage of the railroads consisted of raw materials from the farms, the forests and the mines (Chart XXI). The railroads have a deep and

INDEX NUMBERS OF TOTAL NUMBER OF RAILWAY REVENUE TONS ORIGINATED CONTRASTED WITH FARM PARITY (RATIO OF PRICES RECEIVED TO PRICES PAID, INTEREST & TAXES).
1925-1942 1929 = 100

CHART XXII



vital interest in farm and mine production. In the exchange of this tonnage for manufactured goods, they also have a very vital interest in the price level because total tonnage will be in ratio to the percentage of farm parity, as illustrated by Chart XXII.

In discussing transportation, it is well to call attention to the cheap transportation which we have. Compare the amount of human energy which would be required to carry twenty 100-pound bags one mile. In building airfields in China, that mode of transportation was used; then consider that over our system of railroads during the war it was possible to transport twenty 100-pound bags for less than 1 cent. Only then can we appreciate the American system, in spite of the rabble-rousers who curse the railroad system for being a monopoly.

During the post-war years there will be plenty of tonnage for all forms of transportation, providing farm production and price levels

are maintained. Following World War I, not only was freight tonnage hauled during the war equalled, but exceeded. Likewise we can expect in the future to have even more freight tonnage for all kinds of transportation to share than during World War II.

The railroads are a very important contributing factor to general prosperity; approximately 46 to 47 per cent of their gross revenue is paid to employees and another 20 per cent for fuel and materials. Railroads should spend annually a minimum of $750,000,000 for new equipment and replacements; in addition, during periods of prosperity, huge sums in taxes and dividends on $25 billion of capital investment must be paid out.

The total income of transportation in the United States is a constant percentage of national income; it averages approximately 50 cents for every dollar of farm income, with income from mineral production and transportation combined approximating the rise and fall of farm income.

It is of interest to note that transportation income reached its low point in 1933, a year after the low point of farm income. This is further proof that farm income is the governing factor, and that it precedes transportation income.

In the post-war period a proper income level for the nation will mean the streamlining of railroad operation. The ancient coaches called into service during the war will be replaced with comfortable, air-cooled streamliners.

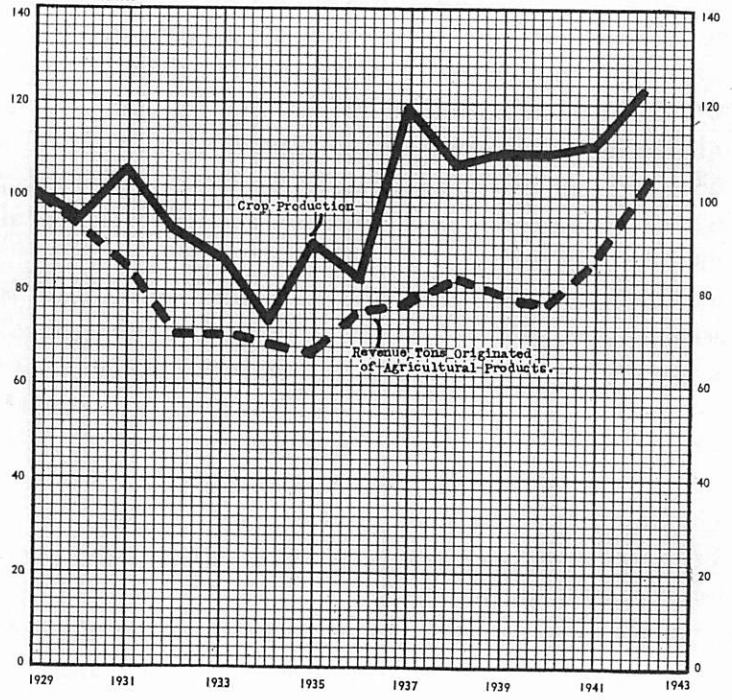
Railroad labor and management ought to unite to provide good and sufficient service, and they, too, will obtain their share out of total transportation.

The amount of air transportation and freight will depend upon the income level of the nation; a high income level will create a demand for freight tonnage and passenger transportation to keep all forms of transportation at a prosperous level.

Railroads, with their agricultural development associations, could do much to carry on an educational program as to the need of parity prices for agriculture, for they have a selfish interest in the production and price of all raw materials. Idle box cars do not create revenue, and their tonnage is in direct ratio to the price balance (parity) that exists between farm prices and finished goods.

INDEX NUMBERS OF VOLUME OF PRODUCTION OF ALL CROPS CONTRASTED WITH RAILWAY REVENUE TONS OF AGRICULTURAL PRODUCTS ORIGINATED.
1929-1942 1929 = 100

CHART XXIII



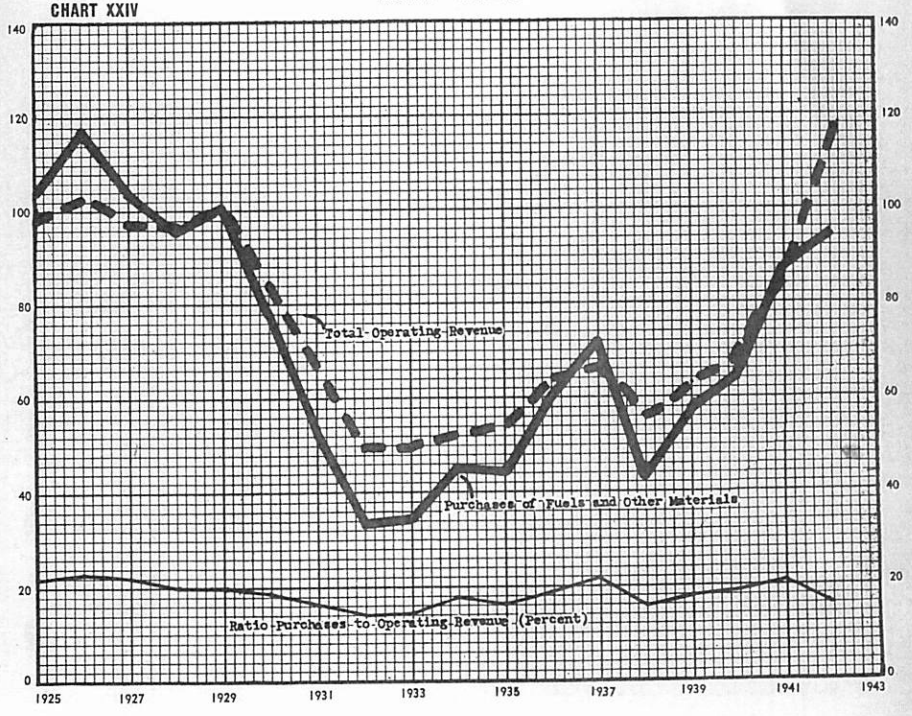
Railroad tariffs are a good example of the need and soundness of parity prices for the farmer. A great many economists consider parity prices for the farmer to be price fixing, but it is no more price fixing than proper railroad tariffs.

Competition is the life of trade, but the same competition, if carried to extremes, could demoralize our transportation system in the same manner that widely fluctuating farm prices demoralized the income and distribution of income of the nation.

In fact, unrestricted competition in railroad transportation, rebates and special rates, finally forced Congress to set up the Interstate Commerce Commission as an umpire with proper rules and regulations to assure the nation a stable and uninterrupted system of transportation.

INDEX NUMBERS OF VALUE OF RAILWAY PURCHASES OF FUELS AND OTHER MATERIALS COMPARED WITH TOTAL RAILROAD OPERATING REVENUE, AND RATIO OF PURCHASES TO REVENUE.
1925-1942 1929 = 100

CHART XXIV



It is far more necessary with $7 of national income depending upon each $1 of farm income to have a commission to provide stable farm prices in order that we may have a continuous supply of raw materials for both employment and income in all segments of our economy.

The railroads like the farmer are entitled to parity of income or a rate per ton in line with overall cost factors.

Chart XXIII shows the volume of production of all crops contrasted with railway revenue tons of agricultural products originated. Chart XXIV gives value of railway purchases of fuels and other materials compared with total railroad operating revenue, and ratio of purchases to revenue, and Chart XXV illustrates compensation of railway employees and total operating revenues of railroads.

INDEX NUMBERS OF COMPENSATION OF RAILWAY EMPLOYEES AND TOTAL OPERATING REVENUES OF RAILROADS.
1929-1942 1929 = 100

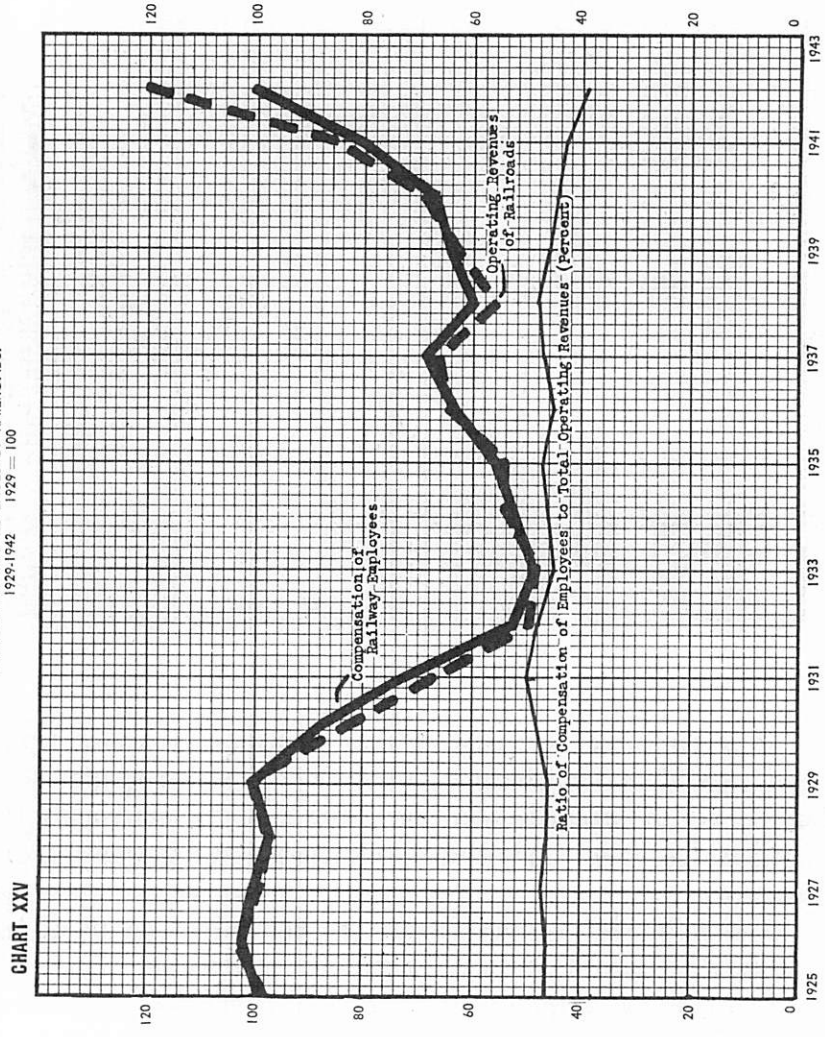


CHART XXV

CHAPTER VIII

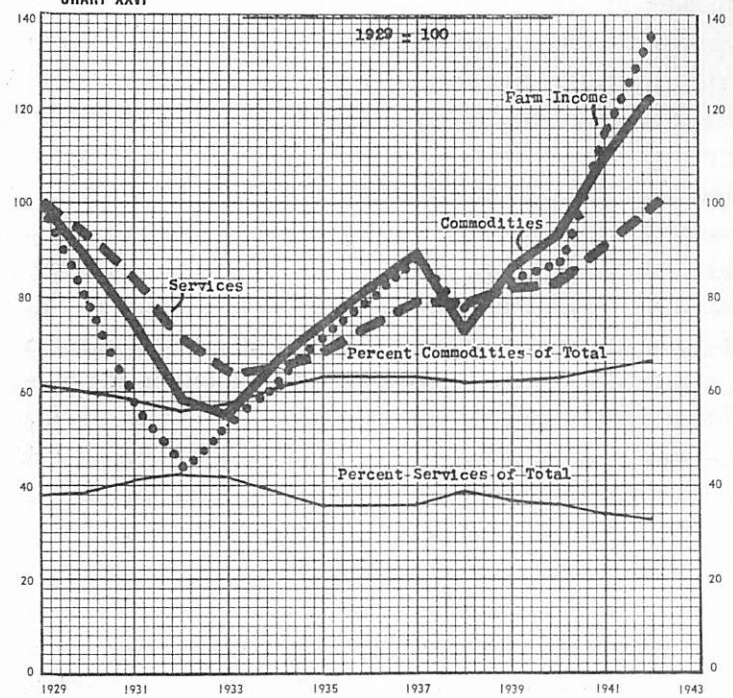
Retail Sales

The end result of our economy is the final sale to the consumer. On the average, it requires approximately six months for raw materials to pass from the producer to the factory and finally to the consumer. It is only natural, therefore, that a drop in raw material prices precedes a fall in national income by approximately six months.

Total consumer expenditures can be divided roughly into two classes, namely, consumer expenditures for goods and consumer expenditures for services. Chart XXVI gives the correlation of consumer expenditures for goods and services with farm income. It will be noted that expenditures for goods and services are a constant percentage of

INDEX NUMBERS OF CONSUMER EXPENDITURES FOR COMMODITIES AND SERVICES CONTRASTED WITH FARM INCOME.
Also percent commodities and service expenditures of total consumption expenditures.
1929 = 100

CHART XXVI



national income. The ratio was approximately 62 per cent of total consumer expenditures allocated for consumer goods, and 38 per cent for services, during the period from 1929 to 1942.

During periods of depression, the percentage spent for goods will drop slightly, while expenditures for services will increase. This is due to the fact that many of our services, such as railroad transportation, interest on mortgages, and taxes which pay for the government services do not drop in ratio to consumer income.

During the period from 1930 to 1935, there were greater totals of consumer expenditures than the national income in those years. This was the result of both industry and individuals drawing on reserves. The failure of this extra spending to halt the downward trend of the price level ought to prove the fallacy of so-called "pump-priming" by the government. In 1932, consumer expenditures were approximately $48 billion, as against a national income of $39.9 billion.

Chart XXVII gives the correlation between retail sales and gross farm income. The bulge shown in the period from 1925 to 1929 was the result of our splurge in installment buying and overspending of anticipated income.

It will be noted that after the severe depression in the early thirties, retail sales averaged approximately 60 per cent of national income. In any period of normal prosperity and full employment, retail sales can be expected to average a minimum of 60 per cent of national income and 62-65 per cent of consumer expenditures.

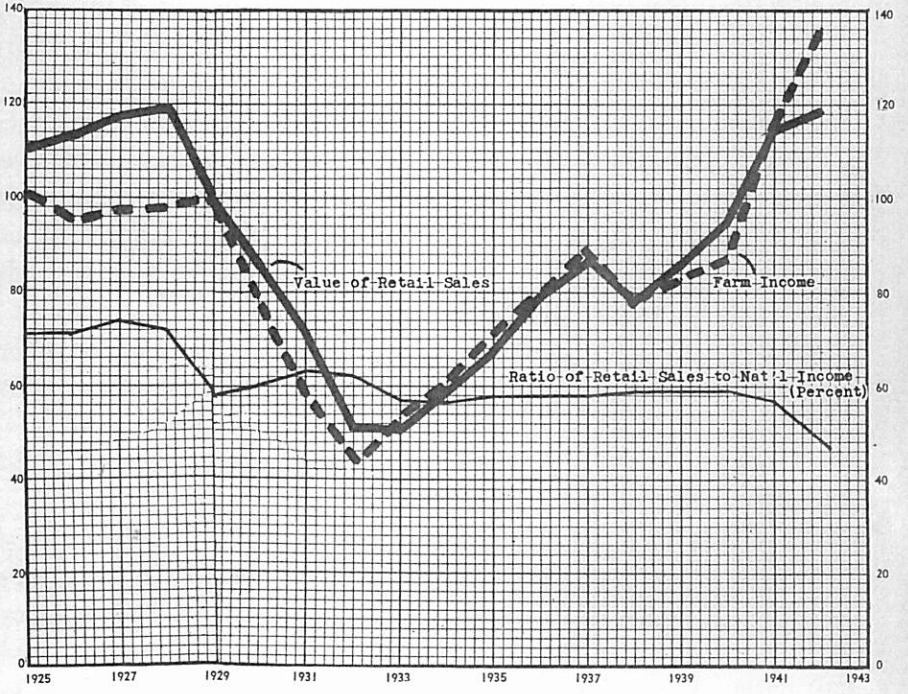
It will also be noted that the percentage dropped sharply when the war created a shortage of goods for the domestic market, but in post-war years, retail sales can be expected to average at least 60 per cent of national income. On the basis of a national income of $150 billion, retail sales should approximate $90 billion, or $25 billion above the 1944 and 1945 levels.

The increase will come primarily in durable goods, such as machinery and electrical equipment, automobiles and building materials. There will also be some increases in other lines as returning soldiers again become customers of private business.

On the whole, the different kinds of expenditures for consumer goods remain constant in their percentages. Our population is large enough and our distribution of income is such that the average expen-

INDEX NUMBERS OF VALUE OF RETAIL SALES COMPARED WITH FARM INCOME AND RATIO OF RETAIL SALES TO NATIONAL INCOME.
1925-1942 1929 = 100

CHART XXVII

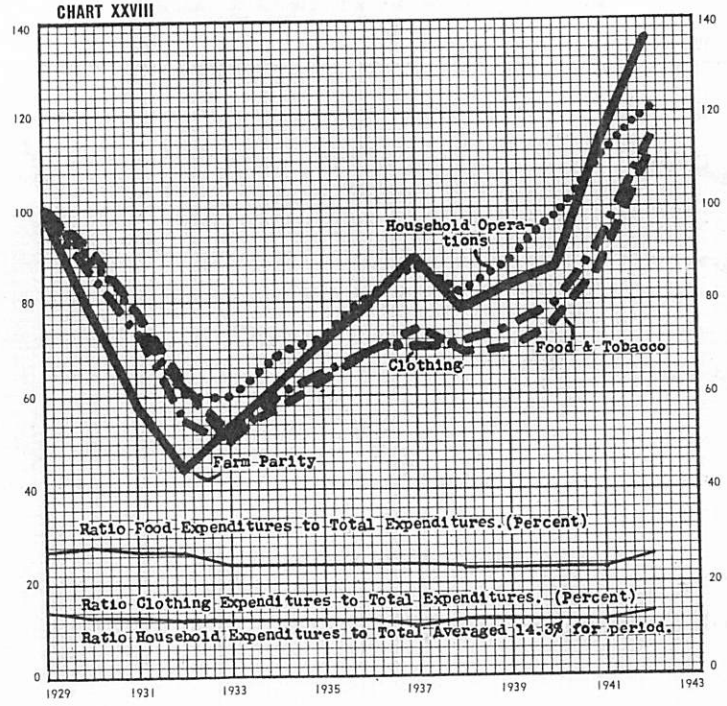


diture for various items likewise remains constant. Necessities, of course, fluctuate the least. Chart XXVIII gives the correlation between farm income and expenditures for food, tobacco, clothing, household operation (the latter includes such items as electrical equipment, fuel, electricity, gas and water).

Again it will be noted that the percentage of total consumer expenditures for each item remains a practical constant. The conclusion to be drawn from this is that the demand is available and in ratio to the income of the individual as he earns in our production cycle. Of interest are the comparative expenditures in 1932 and 1944. In 1932, total expenditures for food, tobacco, and beverages were approximately $13.7 billion; during 1944, 12 years later, the total expenditures amounted to $43 billion for the same items.

INDEX NUMBERS OF CONSUMPTION EXPENDITURES—FOOD, CLOTHING & HOUSEHOLD OPERATIONS—CONTRASTED WITH FARM PARITY (RATIO PRICES RECEIVED TO PRICES PAID, INTEREST & TAXES).
1929-1942 1929 = 100

CHART XXVIII



The average consumer expenditure for food, tobacco and beverages from 1929 to 1942 was about 25 per cent of the total, regardless of the national income. The constant ratio of food expenditures proves that the theory of higher farm prices bringing higher living costs is fallacious.

This can be explained by the fact that as farm prices increase, the farm income naturally increases and through the seven times turn of the farm dollar spreads out to all groups, giving each the added income to meet the increase in the retail price of food.

In fact, per capita consumption of food by quantity was approximately 20 per cent greater in 1943 than in 1935. The effects of the depression in the thirties were very noticeable in the heavy rejections for military service because of many physical defects. Lack of proper food for children growing toward military age during the thirties resulted in poor vision, underweight, poor teeth and other physical defects.

And yet we had the ability and resources to produce the food needed.

A misconception of our economy caused us to blame low farm prices on surplus production, and we plowed under crops that should have been produced and consumed by our population. If proper fiscal and economic policies had resulted in parity prices for these farm products, there could not have been a surplus.

It should be pointed out that, if a small excess of farm products is permitted to reduce the farm income, then consumer buying power will be reduced and a surplus from under-consumption will be added to the surplus of production. On the other hand, if prices are maintained, surplus production will create the additional buying power to consume the increased production.

Clothing and shoe expenditures during the period from 1929 to 1942 averaged approximately 12.8 per cent of total consumer expenditures, while expenditures for household operation averaged 14.3 per cent. The three items of food, clothing, and household operation comprised 52 per cent of all consumer expenditures.

With the percentage of each item a constant percentage of consumer expenditures regardless of income levels, it ought to be apparent that our economy operates with a definite mathematical ratio of one segment to another. Retail merchants must decide whether they prefer a farm and production price level, which will generate $150 billion or more of potential purchasing power, or lowered price levels and an income of but $75 billion. A minimum of 60 per cent of national income will be the volume in retail sales in either case. From this it is apparent that retail merchants have a considerable stake in farm income, and it is to their best interest to support a parity price level for farm products.

Retail sales of durable goods, such as building materials, machinery, etc., suffer the most severely in a depression. Essential items, such as food and clothing, fluctuate but little. At the bottom of the depression, per capita consumption of food dropped approximately 11 per cent below the 1929 level, while construction materials were a drug on the market.

It should be reiterated that durable goods products are not the governing factor but rather depend on prosperity in the production and distribution of farm products. Retail sales of building materials, cars,

and machinery involve large amounts of money and require either consumer savings from income or consumer credit. It takes time for consumers to save enough from their income to make the necessary down payment to establish a foundation for credit. In comparison, necessities are purchased from daily or weekly earnings.

An interesting example of this is the consumption of cotton. Cotton is half-way between food and durable goods, and its consumption bears a close relation to the average of all manufactures and the percentage of farm parity. If the price level had been maintained at the 1929 level, cotton consumption in 1940 could easily have been near 10,000,000 bales instead of 6,000,000 bales. The under-consumption of cotton from 1930 to 1941 was equivalent to over 30,000,000 bales, or three times the much-talked-of surplus on hand before the war. By maintaining the present income level, it is reasonable to anticipate the consumption of 10,000,000 bales of cotton and double the amount of rayon now being produced.

The tremendous loss of dollar volume sustained by retail merchants in the period from 1930 to 1941 can be determined with approximate accuracy. With a loss of $473 billion in national income in the 12-year period because of low farm prices, our retail merchants lost 60 per cent of that, or almost $285 billion of sales volume.

An interesting angle with regard to post-war employment can be gained from a study of retail outlets and business units rendering service. In 1941 there were about 3,300,000 business units of all kinds. During the war, the shortage of materials forced the closing of about 500,000 of these units. Hence, in the post-war years, we will have to re-establish the 500,000 units forced to close, and add another 200,000 to carry on post-war distribution of goods and services for our increase in population.

These 700,000 new business units will provide both an outlet for capital investment and employment. The number of business units required can be quite accurately estimated on the basis of population. For example, our labor force is approximately 40 per cent of the total population, and, in normal periods, one business unit is required for each 16 persons in the laboring force. An increase above one business unit for 16 in our labor force will force others out of business.

CHAPTER IX

Finance

Under finance are grouped banking, insurance, brokerage and real estate. In 1929, income from finance was approximately 12 per cent of national income. That percentage dropped off during the thirties, and by 1942 it had dropped to only 7 per cent of national income, with most of this loss sustained in the brokerage and real estate fields of service. The low level of income from 1930 to 1940 kept not only construction but sales of properties at a low level. During the war, priorities kept income from these sources at a low level, and competition of government agencies also helped to reduce the income of private business engaged in finance. It became instead the income of government.

Finance, such as banking and insurance, represents much of the investment savings and money for capital operation. They perform a service for the nation at large and make possible the borrowing of funds temporarily needed in the operation of our economy.

Our system of money can be likened to a reservoir of water. As industry draws upon its capital in banks and other capital obtained through borrowings, it has the funds to pay for raw materials, transportation, factory pay rolls, etc., which enter into the costs of manufacturing. When the finished product is sold to the customer, the money to pay these loans and capital advanced must be recovered, along with any profit obtained through the processing of raw materials.

In this cycle, the production of raw materials and the price per unit determines the flow of money from capital reserve to pay for the annual production of new wealth. This flow of raw material income serves as profit to the nation, and to each group as it receives income, profit, if any, is included. For example, when the farmer is paid for his product, he receives the money with which to pay his costs of living, expenditures for services, etc., and the income thus received must also contain his share of the national profit.

In the cycle of processing, the value of manufactures represents roughly the costs of operating the nation as a business. As shown in the chart relative to manufacturing in Chapter IV, the value of manufactures averages approximately 80 per cent of the national income. Gross farm income and gross mine production represent roughly the difference of 20 per cent between the value of manufactures and national income.

Using this as a basis for calculating national worth, we find that in 1940 we were worth approximately $300 billion, the gross farm and mine income during that year being roughly $15 billion, which, in turn, represents an average return of about 5 per cent on the total capital value of $300 billion. At the present time, with a raw material income, both farm and mine, of over $34 billion, we can earn an average of 5 per cent on $670 billion of capital value for the nation as a business.

If, in the post-war era, farm and mine income is permitted to drop to 1940 levels of $15 billion, we will be able to pay only 5 per cent on $300 billion. In that event we would lose annually $90 billion in national income, as the result of reducing the farm income approximately $13 billion. We would also be forced to liquidate $370 billion of capital assets upon which we now earn an average of 5 per cent.

Many of our financiers and insurance company officials do not realize how essential the income of agriculture is to their safety as financial institutions. They have come to feel that their operations govern business conditions, but they are mere servants of the public and have little effect on our economy. In fact, they are helpless in the case of reduced raw material income, which in turn reduces the funds with which people pay loans and interest.

From 1929 to 1932, farm income dropped approximately 54 per cent, from $11.9 billion to $5.3 billion. Finance income in the same period dropped to its low in 1933, further indicating that finance follows the rise and fall of farm income. The drop in finance income was from a total of $10 billion in 1929 to $4.7 billion in 1932, or approximately 53 per cent. Bank clearings, which reflect the movement of goods and services, will respond as accurately to the rise and fall of farm prices.

Many small country banks closed during the depressions of 1921 and 1932. Because of low farm prices, their assets in farm lands and chattel

mortgages evaporated, and they were unable to repay the despositors.

One danger in the post-war years to our financial system will be a similar drop in farm prices. Income of all groups will drop, bank deposits will shrink and the forced selling of bonds, which make up over 50 per cent of assets in the banking structure, to pay deposits, could force our banks to close their doors.

Under the Federal Deposit Insurance Act, the deposits are supposed to be protected, but in a general depression the government couldn't maintain the bonds at par, except through the medium of issuing currency which might touch off an inflation.

The financial condition of agriculture after this war will be much different from that in the similar period following World War I. Many remember the years from 1930 to 1940; they have been paying off their mortgages, for without the weight of a mortgage, they can weather any depression that may come. The farmer who is out of debt, with abundant food to live on, can hole up and wait on his farm until society recognizes the importance of agriculture. The farmer has never been responsible for any of our depressions. In fact, from a purely economic standpoint, a depression in the United States is an indictment of our economic leadership. We have 25 per cent of the available raw material supply in the world, and only 6 per cent of the population. For the United States to have a depression is to refuse to recognize that two times two makes four. It is malpractice of economics.

Our depressions are due entirely to price dislocation, which is nothing more than a lack of parity for the products of one group as compared with another. The record of the United States, with almost exactly the amount of farm production in 1932 as in 1928, shows a difference of over $40 billion. Such a record is inexcusable and should not be repeated.

As a result of the depression, our financiers became the target for blame, even though many of them were entirely helpless. A few were to blame because of a theory they held in regard to money; some of them felt that prices were too high and deliberately advocated a reduction in prices, not realizing that the cycle of our economy would force the reduction on every segment.

In the years that have passed, we have been able to establish a

stable measure of weight, length and volume that never varies. We have never been able to bring about a stable dollar. Though there is talk about dollar stability, nothing is done about it. We can have a stable dollar by the simple process of maintaining a parity price relationship between farm products and finished goods, and that is the only way we can do it. A dollar measures goods, and if the price of the goods drops, the value of the dollar increases, and vice versa.

Men are put in jail because they give a person too little of this or that product in terms of pounds. Yes, we even send men out to check and inspect scales in our different business units that buy and sell goods according to weight. No one objects, for it is agreed that the public must be protected. But how long are we going to permit a monetary system that short-changes the productive cycle and brings starvation in the midst of plenty? There is no greater regimentation or loss of liberty involved in a stable measure of value than in having a stable measure of weight. Our forefathers gave Congress the right to regulate the value of the dollar. Congress can bring this about through a program of permanent parity of price for agricultural production.

Should Congress pass such legislation, they would remove the causes of depression with one exception, that of failure to produce the needed farm products to create income. With proper reserves, we could level off the weather cycle by use of these reserves, in the same way that insurance companies carry reserves to level off the death ratio.

All that is needed is a change in thinking processes. If a life insurance company has a good reserve and surplus of money, we think of it as a sound institution. Then why should the United States have a depression, because of a seasonal period of heavy farm production, if the surplus is placed in the reserve account as a protection against a smaller crop another year? The same principal is involved and again we ought to think in terms of fundamentals. The money in the bank doesn't create the farm production. Farm production through price created the capital to make the bank possible, and it creates the income to keep the bank in operation. If the farm income is shut off, the banks will close as surely as two times two makes four.

We have had some experience with the futility of trying to stop

depressions by fixing the tail of our economy, the banking structure. Our Federal Reserve System was established with the theory that it would stop depressions and boom periods. The theory was to curtail loans and increase interest rates when in a period of too high a price level, and to extend credit to prevent prices from going down. The theory didn't work, because a drop in raw material prices precedes a depression by at least six months and oftentimes several years. The depression of 1929 started in 1925, the point at which raw material prices in both the United States and the world as a whole started a steady spiral downward.

The theory worked fairly well in shutting off credit and forcing a stock market crash in 1929, but in 1932 the banking fraternity was helpless in extending credit. Again the answer is simple. When raw material prices drop, the very collateral for the extension of credit evaporates, along with much of our so-called capital. As pointed out earlier in the chapter, if farm prices are reduced to 1939 levels in the post-war period, we will have to liquidate $370 billion of capital values, the very collateral needed for loans.

The drop in national income from the 1929 level of $83.3 billion to $40 billion in 1932 wiped out approximately 50 per cent of the capital values which existed in 1929.

In simpler terms, the farmer had collateral in a crib of corn worth 90 cents per bushel in 1929, but in 1932, with corn at 10 cents a bushel, what few banks there were with doors still open didn't have the courage to make a loan; and if they did, the amount of the collateral was so small that it didn't help anyway.

Another reason the extension of credit to prevent a depression will not work is that the velocity of our economy is so great that such steps are too late and too little. Our turn of the farm dollar at present is seven times; in other words, the velocity in upward and downward spirals has reached approximately $35 billion per year.

Proof of this can be found in the period 1941-44, when an increase from $96.6 billion to $159 billion in national income was shown. It can drop back just as rapidly. The only way such a recession can be prevented is to take the positive step of stabilizing farm prices and

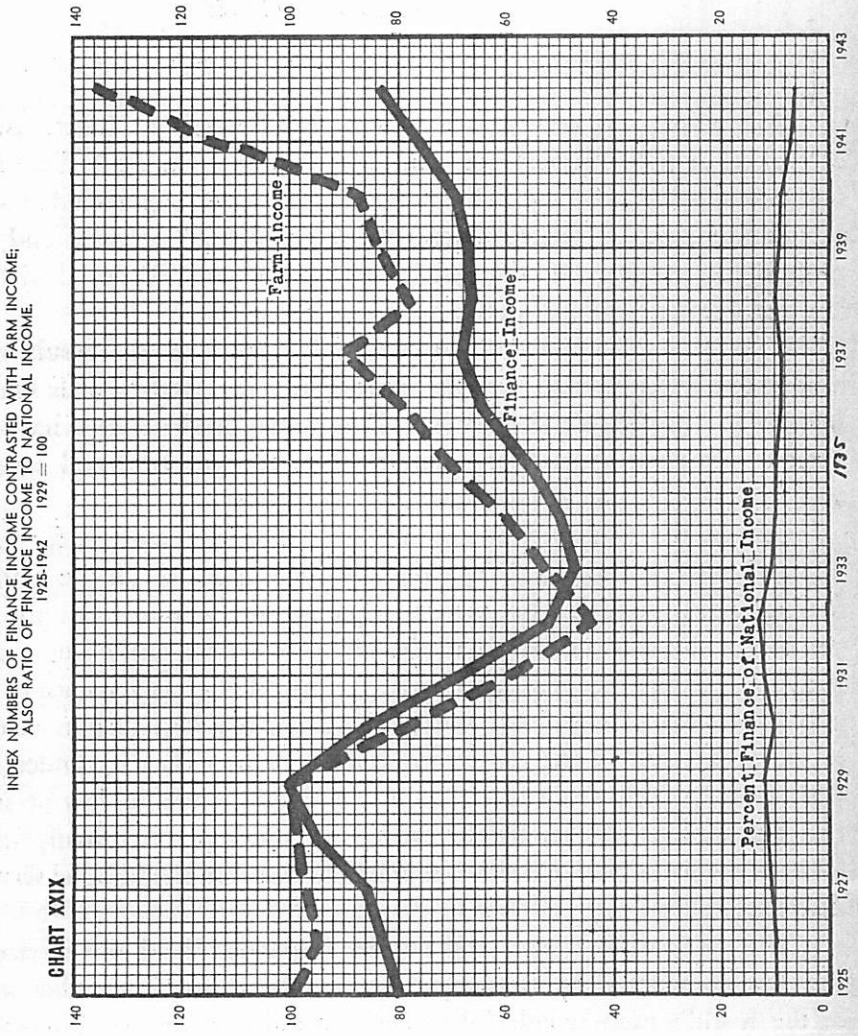
maintaining full farm production. In doing so, we will protect the welfare of all groups and keep our financial institutions from going through the same wringer that squeezed them dry in the depression of the thirties.

Our financial institutions are a good example of how depressions bring on unsound theories. In 1933 the government started to bail out farmers and other groups with low interest rates. In doing this, they had to take away the income from those who had funds to loan and give the reduction to those who wanted to refinance mortgages by way of a lower interest rate.

As pointed out, the laws of exchange create an average return of 5 per cent on capital investment through the turn of the raw material dollar in the income cycle. To have the average interest rate below that point reduces the income from capital earnings throughout the nation, and, in turn, the national income.

For example a reduction of 1 per cent on capital earnings for a business such as the United States, which today is worth approximately $670 billion, means to reduce the national income $6.7 billion annually. In our economy there is no such thing as a cheap product. Low prices mean a reduced income for all, and higher prices result in increased income for all. With prices at parity we can pay our national debt. Without it we will be forced to liquidate.

Chart XXIX gives the correlation of finance income to gross farm income. Note the reduction in national percentage because of low interest rates, and income from real estate sales due to a subnormal price and income level.



CHAPTER X

Service

Government, in reality, is a service even though its functions are carried on by public subdivisions, and it should be included in discussing service industries. In the field of private enterprise are included such service industries as hotels, tourist camps, household services, and the professional groups. In the public field there are the postal system, law enforcement groups, public roads, schools, etc.

A large service industry automatically comes as the result of a high standard of living. Service can be only in equality with the efficiency of our productive capacity. Those who produce must have the taxable income to furnish the public funds for governmental services and have the income to maintain private services.

One of the best examples is that of the service stations for gasoline and auto accessories. When the auto first appeared on the market, the individual supplied his own tire pump and gasoline, but the expansion of the auto industry and the highway system opened up a new field for free air, gas pumps and other items for the convenience of the public. It created new jobs, which, of course, required surplus income in the pocketbook of the car-driving public. This service expanded and was of further help from an economic standpoint when the low pressure tire was developed, thereby increasing the miles per tire many times over; as the nation became travel minded, tourist camps and hotel services flourished.

The future promises a still further expanded field for service in the development of the tourist industry. The United States has some of the world's most wonderful scenery, spread over an area almost too immense for the ordinary individual to conceive. With the maintenance of a proper price level will come an increase in vacation travel, supplying still more jobs and still more income.

One of the outstanding benefits derived from public service is the pure food laws and their enforcement. When first introduced, the food

industry opposed them, but the years have proven them to be of benefit to all; because of them we have the most sanitary food and the greatest variety of food of any nation in the world. This translates itself into good health and a longer span of life for our citizens. By comparison, in India the average life span is 27 years, as compared with over 65 years in the United States.

This inspection of foods under the regulations of the pure food laws costs many millions of dollars, but it is taken as a matter of course; in the same way, proper price levels could be of benefit to all. Adopted as a national policy, everyone would come to accept and desire to continue this method of obtaining full distribution of the products which we are capable of turning out.

Education is another example of public service. Free schools have contributed immeasurably to the growth and development of a high standard of living, in which education and technological improvement are partners in developing. Each gain in technology means still greater income and further enlarged funds for more education. One of the most amazing factors in our economic development from 1910 to 1940 was the steady increase in the number of boys and girls in our high schools and colleges, until, at the end of this 30-year period, there were nearly 8,500,000 in attendance. *Literacy and prosperity are the best safeguards of a free people.*

The development of public service has a direct bearing on future economy. A happy balance must be maintained between government service and private enterprise, for public servants cannot be expected to work for the best interests of the public on a meager salary. Too often the political effect of reduced taxes results in low wages for teachers and other public employees. A proper relationship must be maintained —and can be. As national income increases, total revenue for public expenditures must increase in ratio in order that fair salaries may be paid. The income of the various states today is double that of 1939, and yet adjustments in salaries for public employees have been slow in coming, a situation particularly true in the educational field.

Today the educational forces of the nation work for less than the wages of the common laborer. It ought to be glaringly evident that

this condition must be remedied to supply the incentive for better education and still greater expansion of our economy.

The value of education and technological know-how was clearly demonstrated by the armed forces of this nation during the war. In a conversation about the Civil War, it was remarked that everyone who could read and write was a general, while in World War II, every American soldier was a general, if the need developed.

The need of education and its use in developing a new science of distribution cannot be overemphasized in an analysis of our economy. Billions of dollars are expended on research in production methods and little or nothing on a program of proper price relationships, so necessary if we are to exchange our production with each other. *Distribution is the riddle which must be solved, and eventually all of us must accept the conclusion that the matter of distribution revolves around the price per unit of production which is the nation's source of income.* Money must become in reality what it has always been, a medium of exchange.

From 1929 to 1942, service expenditures by the consumer averaged 38 per cent of all consumer expenditures. This gives an idea of the tremendous scope of the service industries and the need for a high income level if the standard of living now prevalent is to be maintained. During this period, they remained quite constant and in ratio to agricultural income.

Economists too often think only in terms of price when dealing with other nations, confusing low living standards and low costs with efficiency, when in reality these low costs are the result of inefficiency and exploitation. For example, the cost of food for the American worker, in terms of labor, is about 1.7 hours, while the cost of the same food in Europe is about 5.2 hours of labor. Instead of price, it is necessary to think in terms of goods; only then is it possible to realize fully that the United States has the most efficient production in the world, even though, from the standpoint of price, our costs seem high. This factor has been highly misleading in discussions of tariffs and export markets.

The Chinese laborer will not be a prospective customer for an American made automobile as long as he receives only $65 a year for his labor. Our ability to buy cars is the result of technological improvement increasing earning capacity and income. Other nations have the

know-how to build cars, but, without efficiency of production, they could not create the income nor the materials to build them.

Applying this thought to the foreign field, if the United States were to remove all tariffs, other nations would be unable to compete with us in a free market and in self-protection, would levy tariffs against us. Their costs are low because they have little or no expenditure for the services which have given our nation the highest standard of living.

The building of transcontinental highways, vacation areas, television, etc., will provide an ever-growing outlet for both production and income in the years ahead; these expenditures in turn will generate jobs and income. Efficiency never disemploys for any length of time but merely releases labor to new fields.

The fact that over one-third of our economy is composed of service industries that can result only through the efficiency of unit production of finished goods is the very fact that ought to point clearly to the importance of raw material production as the foundation of the income to support our economy. *Service income is the result of a prosperous production economy, and service industries cannot expand without proper income levels.*

The great forward strides made in all lines of service and education will continue if national income, maintained by production and proper price levels, will support and expand the present economy.

There is an old saying that those who would dance must pay the fiddler. Similarly, if we wish to have a high standard of living, it must be remembered that it, too, has to be paid for from the annual cycle of production and distribution.

The problem is to make this system of price, production and income serve the welfare of all the people, instead of robbing them through wild speculation and price fluctuation.

CHAPTER XI

A Parity Formula

In spite of the fact that we have been reading about and discussing parity prices for 20 years, there still seems to be a lot of confusion as to what parity prices actually mean. A simple definition is that parity prices for farm products gives the farmer the same relative purchasing power for his production as that of other groups. Price is merely a relative measurement, and we can have parity for the farmer with 50-cent corn, $1 corn, or $2 corn, depending upon the relative price of other products.

In 1910-14, the farmer was receiving parity with the average price of corn at 57.5 cents per bushel. Our present parity is more than double that of the period 1910-14. Post-war parity may be 20 per cent higher than the present, depending on wages and other cost factors in our economy.

Basically, the price of production ought to be such that our annual production in the nation will create the income to operate the nation solvently on a basis of full employment and full production. We can compare the method of determining the price with the millage levy in our tax structure. The millage levy is governed by the value of our property, and the budget which our county or states requires to pay for the functions of government. In like manner, the price of production must be determined by our ability to produce, the number of units of production and the national income needed to distribute our production to all groups.

In the case of our farm production being the governing factor, to create $140 billion of national income will require $20 billion of farm income. To have $175 billion of national income, it will require $25 billion of farm income, etc.

Using our labor force as another example, with 55,000,000 workers, an annual wage of $1,000 each will give labor a $55 billion income. An annual wage of $2,000 for each worker would give labor a $110 billion

income. We cannot create $150 billion of national income with 50-cent corn or with industrial labor at 50 cents per hour. In 1939, we had approximately that level of prices, and our national income was approximately $70 billion.

We have pointed out that the various segments of our economy receive their percentage of the whole with higher prices reflected in an increased income for all groups. For example, if wages are $10 per day, the retail merchant will receive 60 per cent of that amount in retail sales volume ($6.00). If wages are reduced to $4, the retail merchant receives 60 per cent of that amount ($2.40).

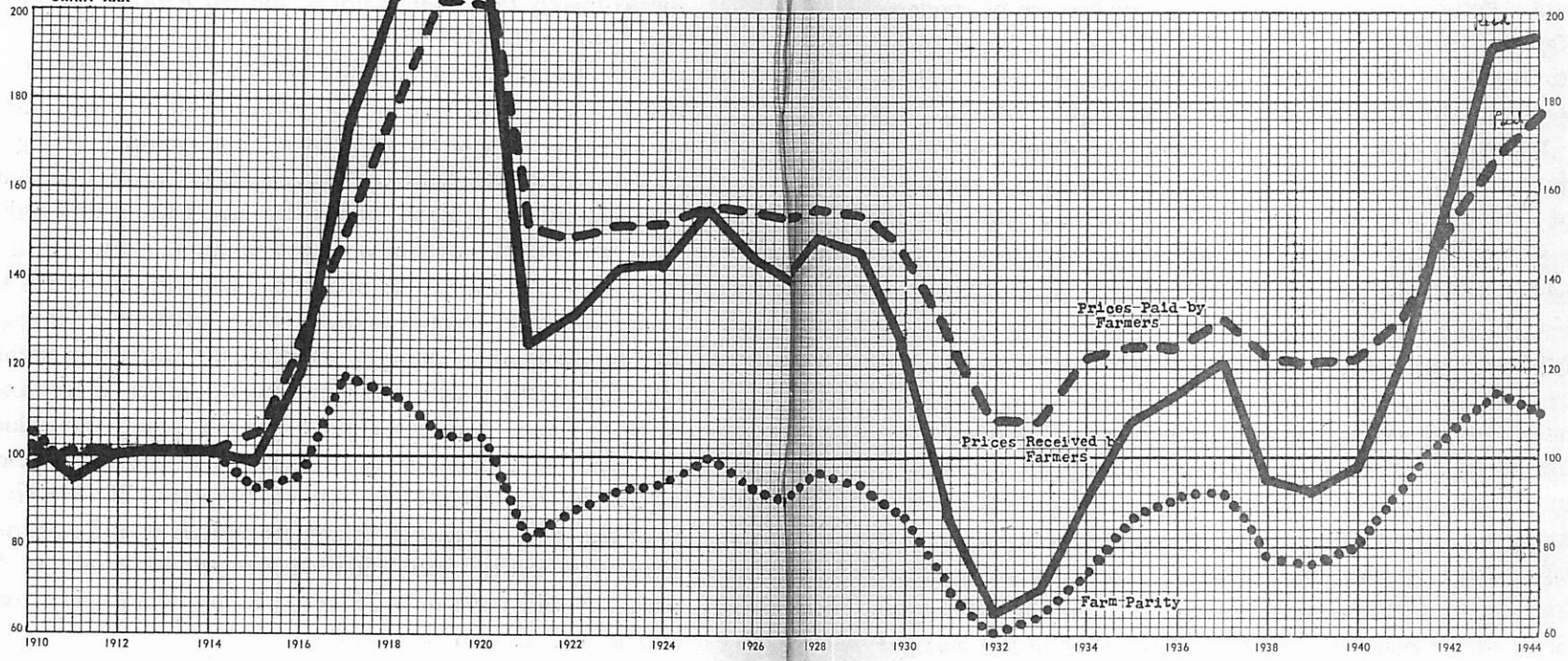
Under the powers granted in the Constitution of the United States, Congress was given the authority to regulate the value of the dollar, and to maintain a parity price for our production means simply to maintain a dollar with the same buying power at all times. In terms of price levels, it means a price for our production which will meet the needs of the nation as a business. A merchant prices his goods so that he can operate his business properly. If he were to mark his price tag at 75 per cent of what is needed, he would go bankrupt. In the same way, if the United States prices its production at 75 per cent of parity, it will have only 75 per cent of the income it ought to have, and it will also go bankrupt.

In determining the current parity price level, either the 1910-14 period or the 1925-29 period can be used as a base period. In the present formula, we are using the 1910-14 period as a base. The calculation of parity can and has assumed a complicated system of comparative prices based primarily on political pressure. A new formula should be arrived at and then used without any variation. The different charts used herein to illustrate the operation of our economy show that the equation is a law of exchange, and we merely confuse ourselves when we try to change it.

The simplest formula for parity is that of price relationship. For example, the average price of farm products in 1910-14 can be set up as 100. In like manner, the price the farmer paid for goods purchased can be set up as 100. Translating this up to the present, assuming that the items the farmer has to buy are 180 per cent of the 1910-14 prices, the farmer, to receive a parity price for his corn, should receive 180 per cent of the 1910-14 average price.

CHART XXX

INDEX NUMBERS OF FARM PARITY USING PRICES PAID BY FARMERS WITH PRICES RECEIVED BY FARMERS. 1910-14 = 100



MAINTAINING PARITY PRICES

After having set up the formula, the next thought is how can the price level be maintained? There is plenty of legislation at the present time to maintain parity, if properly used, and Congress has passed legislation providing for a floor at 90 per cent of parity for two years after the war. Prices can be maintained through commodity loans or in much the same manner that they were maintained during the war. Misinformation has caused the public to feel that the government has taken a loss in the operation. We cannot take a loss in stabilizing farm prices at parity, for each additional $1 of farm income generates $7 of national income. We suffer a loss in dollars only as we permit the farm income to fall below parity. If, in writing this book, we can drive home that fact, we will have accomplished our purpose.

Chart XXX gives the prices farmers received as compared with the prices paid, for the period 1910-44. The average in 1925-29 was approximately 5 per cent below the 1910-14 parity, but when translated into physical exchange of goods, the two periods are, for all practical purposes, the same. Technological improvement in some items of goods and lower prices offset each other, in the end result of how much did the farmer get for his money.

At present, the farmer is receiving above parity (April, 1947) primarily because of the comparative price estimates by the United States Department of Agriculture, with little regard for any formula and heavy exports for relief.

One point that should be borne in mind is that the basic farm crops which make up 85 per cent of our harvested crop acres are the foundation of our economy. The problems of maintaining farm parity

could be greatly simplified if stabilization at parity were limited to these basic crops. They are all non-perishable, and with proper reserves to level off the crop cycle, they could be stabilized at parity with no loss to speak of. Perishable crops can create losses because of spoilage before they can be distributed. These crops also are a seasonal problem, and nature removes all surpluses not consumed, by decay. This automatically creates the fullest outlet for these crops as dictated by demand the following year. In other words, we should segregate non-perishable crops from perishable, and only after they have been processed into a more or less non-perishable form, such as canned fruits, potatoes into starch, etc., should the stabilization of surpluses of perishable crops be considered.

RELATIONSHIP TO WORLD PRICE LEVELS

Our greatest obstacle in maintaining farm prices at parity is the complete confusion that exists as to world trade, both in theory and practice. Our economists have developed a theory that we can buy cheaper abroad than we can produce at home. This is a fallacy, and we will always have both the goods and the money, if we produce something from our own resources. This factor can be illustrated with a recent situation in the manufacture of watches. During the war our own watch companies were busy making timing devices for the armed forces. Switzerland, because of a tariff reduction by the State Department, in 1944 supplied our nation with approximately 8,000,000 watch movements.

In the post-war period, our manufacturers will require a 100 per cent tariff if they are to compete. The production of parts in the United States is almost the same as in Switzerland, but higher wages per hour in the United States make our finished watches of approximately the same quality cost twice as much as the Swiss watches. Our economists argue that, therefore, we should buy watches from the Swiss, which would force our own industry out of business. But the illusion of price does not mean that we can profit by doing so.

For example, assuming that an American watch is $30 and a Swiss watch $15, the economists argue that we should buy the Swiss watch

for $15 and use the other $15 which we might pay for an American watch to buy some other product. On the surface that sort of reasoning seems sound, but when put into practice it becomes very costly. The economists forget that, if we buy the Swiss watch, we displace the American watch and lose the $30 of income from producing it. To buy the Swiss watch, we have to use $15 of other income; as a result, instead of the Swiss watch costing $15, it costs $15 plus the $30 lost because we didn't produce the watch ourselves—or $45.

The simple facts are that we make money out of production and not out of trade. If we exchange something we have for something we do not have and give equal value, we receive another product, but we do not make a profit. The same is true in our own economy. We must give equal value, or parity, in exchanging our products if we wish to permit our economy to produce. In the exchange of goods in our economy, any profit other than the normal cost of the service rendered robs some other segment of the economy of its share.

Much of this economic theory that we depend on foreign trade is the result of an educational system dominated by exporters and importers of goods, the international cartels. There isn't any factual reason for the theory or propaganda in regard to the importance of foreign trade which constitutes about 5 per cent of the total national income, yet it is responsible for the fallacies which we teach.

To protect our price level with proper tariffs is not detrimental to foreign trade. In fact, we have always had more foreign trade with high tariffs than with low tariffs.

The demand for low tariffs comes from the traders who wish to bring products into the United States, which is the best market in the world, and from selfish industrialists representing about 5 per cent of our manufacturers, who want to import farm products and other raw materials to pay for exports of their product to other nations.

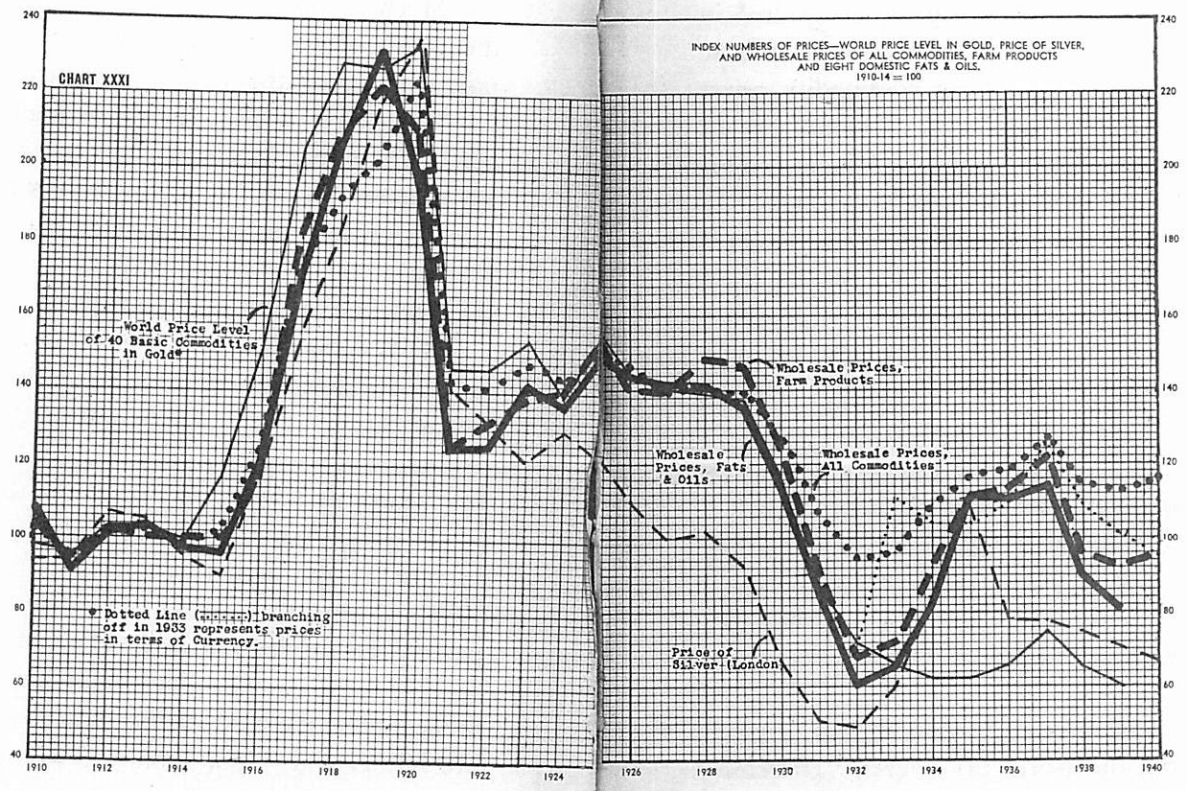
A good example of what such a policy has done to agriculture and, in turn, to the nation as a whole, is the trading record from 1934 to 1939. During this period, when we were going into debt as a nation, paying the farmer not to produce, the record reveals that we exported $6 billion of farm products, and imported $10 billion worth. On the other hand, the sale of manufactured products to other nations was $10 billion and imports, only $3 billion.

It might be of interest in this connection to quote from chapter eleven of Christopher Hollis' book, "The Break Down of Money," published in 1935.

"A money-lending country must be a Free Trade country, and the purpose of the money-lending power has been to impose Free Trade upon the United States. It has not been a purpose easy of achievement. For in the days when labor in the United States was scanty and valuable the American workingman succeeded in obtaining for himself a very much higher wage than the workingman of Europe. It has been generally, and rightly, recognized in the United States, that under conditions of Free Trade, American manufacturers would only be able to compete against European manufacturers if the American wage was reduced to something like the European level—to say nothing of the menace of the still cheaper labor of Japan. Though American Free Trade is just as necessary to the money-lenders today as was English Free Trade to the money-lender of the last century, yet the problem is

a very different one, and to solve that different problem merely academic discourses upon the beauties of low tariffs were of little effect. The Democratic Party, in a timid, compromising, half-hearted way, tried these tactics and was humiliatingly defeated at the elections of 1920, 1924 and 1928.

"In opposition to the sermonizings of the old fashioned Democrats had been the financier's policy. Their belief is that the only chance of getting the tariff down has been so to reduce the purchasing power of the American people that they can no longer even approximately consume their own products. As long as that purchasing power was adequate, the American manufacturer was indifferent to foreign markets. But with domestic purchasing power reduced, foreign markets became essential to him. And, the more that he can be persuaded to look abroad for his markets, the easier it will be to change his whole attitude toward wages. At present he is in favour of high tariffs and high wages, for he looks on the workingman as his customer. But, if he can be induced



to look abroad for his markets, then wages become merely an item of costs and it is to the manufacturer's interest to reduce them as low as possible. If they are reduced—and the odium for reducing them, of course, allowed to fall on the manufacturer—then American industry becomes at once a much more profitable investment for the financier, while the foreign goods can flow into Free Trade America to pay the interests on the foreign loans."

Chart XXXI gives the comparison of our domestic price level from 1910 to 1940, as compared with the world price level. The graph shows the 40 leading world commodities, farm prices, our domestic price level for all commodities, fats and oils prices and the price of silver, which is both a commodity and the monetary medium of such countries as China, India, and Mexico. The chart reveals the close correlation which existed between all these items and their price level in 1910-14. This relationship was maintained in World War I with all items reaching a high of approximately 230 per cent of the 1910-14 price level.

The trip back to "normalcy" in 1920 was accompanied by a drop in all prices given on the chart. The international financiers could have quite easily engineered this drop in prices to bring commodity prices back in line with gold which had remained at the fixed price of $20.67.

Relative prices in 1910-14 were as follows: gold, $20.67 per ounce; silver, 57 cents per ounce; cotton, 12.4 cents per pound; and corn, 57.5 cents per bushel. The English pound was worth $4.87. The price of silver dropped from $1.35 per ounce in 1920 to 80 cents per ounce in the first part of 1921, even though the production of silver had not been increased. This drop in silver, the monetary medium of two-thirds of the world's population, and other commodity prices reduced the income of all nations and we had a depression.

The United States passed tariff legislation in an effort to maintain our price level. You will again note from the graph how all prices leveled off from 1922 to 1929, and we entered a period of parity prices at a level approximately 145 per cent of the 1910-14 period. During this time, with farm prices at parity, we had a tremendous expansion of our economy and our resulting prosperity supported the rest of the world.

From this illustration, it is readily seen that both our periods of normal parity prices were also at the world price level. Therefore,

it is not impossible for the world to have the same price level as exists in the United States. In fact, we should insist that the rest of the world reorganize its fiscal policies so that our parity price level can also be the yardstick for world prices.

The price of silver and world commodities started a steady drop in 1925 which was really the beginning of the 1929 collapse. Our policies in 1930-41 were practically dominated by international influence and currency devaluation. Without adequate tariff protection, our prices could not recover, and we remained in a state of depression until the outbreak of the war in Europe. With a shortage of shipping shutting out imports, we started to recover our price structure, and in the latter part of 1941 had again reached farm parity with full employment and a national income of $96 billion, the highest on record up to that time.

At the present time, there is complete chaos in foreign exchange and a wide variation in commodity price levels, which represent the earnings of the different nations. Until world fiscal policies are stabilized and commodity price levels restored to a proper foundation, there cannot be much progress toward world peace.

The record of our economy indicates clearly that our first step as a nation is to have Congress pass legislation designed to provide permanent parity for our basic agricultural products. With such a foundation, or floor, under our economy, there would not be any great fluctuation of national income, nor would there be any serious unemployment.

By stabilizing the price level in the United States, we automatically stabilize 40 per cent of the income of the world. Thus, in turn, with full parity prices for farm products in the United States, we lay the first foundation stone in bringing about world prosperity as a foundation for world peace.

Congress should enact legislation protecting our price level with parity tariffs, until such time as the reorganization of world fiscal policies will permit us to trade on an equal price level with other nations, or with tariff protection. The tariff should be flexible, automatically representing the difference between our parity price level and the landed cost of any imported product. As world prices approach our parity price level, the tariff should be reduced and, with world prices at our domestic level, we would be on a free trade basis.

It should be borne in mind, however, that on a free trade basis and the same price level, our economy can out-produce any other nation in the world. For example, with only 6 per cent of the world's population, we produce approximately 25 per cent of the world's goods.

With such a small part of the population of the world and with the natural resources to produce 98 per cent of everything we need, our export trade is always limited. In other words, the importations, if too heavy, will displace our own production, and, in turn, our outlet for labor.

Stated simply, there is no foundation for free trade. Other nations would still require tariffs to protect them against our efficiency, if the domestic price and the world price were the same. We should serve primarily as a referee in helping the world maintain a proper price level for prosperity.

The British Empire has practically bankrupted itself with cheap raw materials in trying to make up for its inefficiency of production. For example, the British Empire has a population of approximately 700,000,000. With a price level which would permit its people to earn $400 per capita, or less than 40 per cent of our per capita income, the Empire would have an annual income of $280 billion. She would, in that case, have a market with her own people, much greater than her industrial capacity to produce.

England would then be solvent from production, instead of needing loans. If she is permitted to manipulate world prices as she has in her past exploitation of her colonies, she will have neither markets nor income nor can we lift her out of her bankruptcy with loans.

The world cannot have peace or prosperity with 60 per cent of the world's population receiving a wage of 20 cents per day. Neither can there be much world progress, with international cartels trying to control the production and price of raw materials. As a nation, we cannot afford to use our military forces and finance to protect their manipulations. Our economy is a productive economy based on a widespread ownership of our national resources. This diffusion of ownership must be maintained, in order that we may have the distribution of income which we need for our mass production and efficiency.

Our forefathers gave us the best form of government and economy which the world has been able to devise. It is up to us to study it and

protect it with the use of the simple truths which our forefathers handed down to us in the Declaration of Independence and in the Constitution of the United States.

England for generations stabilized the price of gold at $20.67 per ounce without assistance from other nations and without any great cost. Basically, gold is a commodity stabilized as a monetary yardstick. Gold, silver and enough basic commodities could be stabilized at parity to bring about a sound monetary system. The American parity price level should become world parity in the same manner that gold was the yardstick for world prices.

Like Thomas Edison, we must learn to realize that all wealth comes from the soil. If we price this wealth properly, we cannot have depressions. Our income from production will create the demand and consuming power for us to enjoy the best standard of living of all nations, and under a system of government which has in the past and can in the future give us the greatest amount of human freedom and prosperity under a system of free enterprise.

CHAPTER XII

Surpluses Needed for a Plus Market

Scarcity of production is an economic vacuum which creates neither jobs nor income. A surplus delusion, which blamed the low prices for farm products on surplus production, brought on the curtailment program of the thirties in which we legislated ourselves into a period of stagnation and permanent depression.

Had we corrected the situation with a floor under farm prices at parity in 1930, the depression would have been over in a few months, and we could have expanded our production without any fear of surplus. We should remember that production, through prices, creates income; and, in turn, its own demand. Surplus production of raw materials at a parity price level, if properly handled, will lead to an expansion of our economy and a higher standard of living.

Natural forces have provided a continuous cycle in our economy for most of the farm products either through consumption or decay. Again, it is one of the principal reasons why agriculture is the governing factor. The consumption of goods creates a market for further production, thus keeping our economic machine in motion.

Our new production at the parity price level creates the income to consume in ratio and at the parity level, the flow of income or consuming power, is geared to 100 per cent production and consumption.

During the 1925-29 period, our production of farm products was quite constant, and we did not produce the surplus needed for the expansion of our normal economy. In this 5-year period, we imported an average of $350,000,000 more farm produce than we exported. Had we produced this net import of farm products in the United States, our national income would have been correspondingly higher.

During the 1930-41 period, when we should have been expanding our farm production, we were curtailing production. In the latter part of the period from 1934 to 1941, we had a net import of approximately

50,000,000 acres per year. We must have appeared to other nations as fit for the insane asylum, trying to curtail production on one hand by government payments, and on the other hand importing the things which we were capable of producing. Yes, in addition, products which the rest of the world needed. Our purchase of farm products from other nations contributed to their hunger, a fertile field for the growth of Communism.

That we could have consumed our production and could have produced the farm products for full employment is revealed by a comparison of 1929 and 1942. In 1929 we created a national income of $83.3 billion, and in 1942, with the same price level, we had a national income of $122 billion. The same people, resources, etc., when permitted to produce at a proper price level (farm prices recovered the parity level in 1942) produced the products and also had the buying power to consume the increased production.

In the period of subnormal farm prices, from 1930 to 1941, the loss in potential national income was $473 billion. Our under-consumption was equivalent to three years' production of non-durable goods and six years' production of durable manufactures. Our railroads, during this period, lost 6 billion tons of freight, which represented the amount of goods which we could have consumed in addition to what was consumed.

An interesting study along this line is found in the book "Income and Economic Progress," published by the Brookings Institute in 1935. In this study, it is pointed out that we had a loss of $135 billion in the first four years of the depression. It is pointed out, further, that there was no surplus production, but, rather, a very marked underproduction of goods. In analyzing the potential of farm production, the book quotes from a source in the United States Department of Agriculture to the effect that if everyone had had an adequate diet during that period, we could have produced 75 per cent more farm products than we did.

In spite of these facts, we put our economy into reverse gear, and, through curtailment of production, destroyed the material for jobs, the income with which to consume, and consoled ourselves that we were having prosperity, even though our national debt was increasing at the rate of approximately $3 billion per year. There are those—and they

represent a powerful group both domestically and internationally—who would return to the same sort of a program.

The growth of the United States was the result of production from our natural resources. In the period from 1800 to 1940, our farmers had only two 5-year periods in which they received parity prices for their products, in normal times. The first period from 1910 to 1914 is often called the "Golden Age of Agriculture." In the second period, from 1925 to 1929, we had the greatest period of industrial expansion in the history of the world; yet we are afraid to maintain a parity price level for farm products.

During the 140-year period, our farmers received approximately 70 per cent of parity. The lack of parity was overcome by the development of new acres, free of debt, which were to be had for the asking. Our standard of living could have been much higher, if we had also maintained a parity price level over this period.

This natural development, however, is at an end, which makes the matter of price very important to the future. To obtain expansion of farm production in the future, we must develop new areas through irrigation, drainage, or by building up depleted soils. All these will cost money, and if we are to obtain production from these sources, we must have a price for farm products which will permit a profitable operation.

Our needs for increased production in the future are greater than ever. Our nation is larger, and, even though families are smaller, we can expect a minimum increase in population of 1,000,000 per year. At the present time, we use approximately four acres of improved farm land per capita. To maintain our present standard of living, we need therefore, to add 4,000,000 acres per year, or their equivalent in production.

Of greater importance, however, is the economic factor of technological improvement or efficiency. Technological improvement creates unemployment, and, to re-employ, we must expand our economy. To expand, we must have new industries, and new industries require more raw materials.

Again, we must turn to the soil for the source of these materials to create both the material for jobs, and times price, the additional income, with which to consume. The reader naturally asks, how much

must we expand to keep up with our efficiency growth, and how can we maintain an ever-expanding or plus market for industry to fill?

Agriculture, being the governing factor of our economy and the source of increased raw material production and income, is the only segment of our economy which can create this "plus market," which will call upon capital for industrial expansion.

Again, the question is, how much? Again, the record of the nation supplies the answer, in the Statistical Abstract of the United States, published annually by the United States Department of Commerce.

During the period from 1899 to 1939, the increase in per man production or efficiency was 99 per cent, or an average increase of 2.5 per cent per year.

We can assume that this increase is quite constant, remaining unused in periods of depression, and, with an over-acceleration in periods of prosperity, changes to a plus market. It is of interest to note from the record that during the last war our efficiency decreased. That is explainable by the fact that our raw materials were shipped directly overseas, and we lost the trade turn, through our own processing industries. The return to our normal efficiency increase was quite rapid in the period following World War I.

In 1932, again, we had a falling off of efficiency because of the depression. Our economic machine was operating at about 80 per cent of its normal capacity, and, of course, we could not be efficient. After the depression, our efficiency rose again, recovering the loss and resuming the normal upward trend. During World War II, we processed all raw materials and the efficiency increased at a rapid rate. For example, using the 2.5 per cent increase in efficiency per year, over the period from 1929 to 1945—16 years—we should have a production of at least 140 per cent of the 1929 level in the post-war period to employ all our labor.

The matter of production, therefore, becomes very important. To employ, we must produce, starting with the raw materials as the beginning of our economic cycle in both production and income. To permit production or price of raw materials to decline in the post-war period will mean unemployment.

The effect of this drop can easily be determined. A drop of 15 per cent in farm production, in conjunction with a drop of 15 per cent

in farm prices, would mean a loss of approximately $5.5 billion of farm income and, roughly, $40 billion in national income. Newspaper columnists, economists and others talk rather glibly about lower farm prices, not realizing that a drop of 15 per cent in farm prices means a loss of approximately $20 billion to the citizens of the United States. When this fact becomes known and it is realized that all groups suffer a loss, the matter of properly stabilizing farm prices will be much easier.

What to do with surplus production is a question that can be answered quite simply by the statement, "Use it," and thereby increase our standard of living. The record proves that a 10 per cent increase in production at the parity price level creates 10 per cent more income, and, in turn, 10 per cent more consuming power. To permit the 10 per cent surplus to reduce prices will also reduce consumption, and we will have a surplus from under-consumption. Where can we use these surpluses? During the war, and preceding the war, we have found many new products which can be produced from farm products.

Many of the new plastic materials can be produced from farm products, as well as rubber and high octane motor fuel. All of these require alcohol, which can be made from any farm crops containing sugar or starch. A bushel of corn, for example, will produce approximately 2.5 gallons of alcohol, which in turn will produce enough butadiene for 6 pounds of synthetic rubber, which is enough for an ordinary automobile tire.

In the post-war period, we can use a million tons of rubber, and, if for no other reason than national defense, we ought to produce a large part of this rubber in the United States. Surpluses of wheat, corn, barley, potatoes and sorghum grains could be diverted to this new industry, rubber made from industrial alcohol.

Another interesting development during the war was a new high octane fuel which was successfully used by our military forces in the motors of large bombers. A mixture of alcohol and water was injected into the motor along with the gasoline with the result that the motor developed much greater power.

Translating this into the automobile motors would mean that by using a higher compression ratio, we could have a smaller motor, more power and more mileage per gallon. It has been estimated that the

power and mileage with a 100 octane fuel could be increased approximately 35 per cent.

The production of synthetic rubber would use approximately 400,000,000 bushels of grain, if that were the only source of alcohol used.

The market in our fuel industry, using high octane fuel for our automobiles, would require another 1 billion gallons of alcohol, using a 5 per cent blend of alcohol. With more power and mileage, the use of surplus grain at the parity price level would be quite feasible and would mean economy to the user.

Rubber can be produced from alcohol just as cheaply as the average price which we have paid for natural rubber over a period of years. In the production of alcohol, many new by-products could be produced, such as dry ice and a very high grade protein feed. These by-products would further reduce the cost of the alcohol.

The Farm Crops Processing Corporation, at Omaha, has produced alcohol during the war. Their plant was built with a potential capacity of 50,000 gallons a day, but new methods indicate that this could be increased to 100,000 gallons per day. Whether the alcohol industry will be permitted to survive will depend on the people of the middlewest. The large international cartels of finance do not wish to allow the domestic production of rubber or alcohol for motor fuel, but we should not let these cartels prevent progress or destroy the economy which has done so much for us.

These cartels are operating in the raw material field, and their manipulations affect the farmer, the miner, and our own independent petroleum producers. If we permit such a group to control the price and production of raw materials, neither we nor the rest of the world will have much prosperity.

We should regard surplus production as a source of more jobs and, in turn, more income with which to consume. Wealth is production and our future will be determined by production times price.

CHAPTER XIII

Domestic and Foreign Policies

In considering foreign and domestic programs we must first analyze the various factors such as political government, capital, and fiscal policies of other nations. The record of the United States bears out the words of Emerson: "America is another name for opportunity; our whole history appears like a last effort of divine Providence in behalf of the human race." The economy of the United States is an almost complete entity and can be used as a yardstick to reorganize the world on a sound economic basis of prosperity and peace.

In outlining a program for the United States we should have in mind the two fundamentals of income, units of production and price in terms of money. The income of nations determines their ability to prosper from peacetime production. World peace cannot be built on a foundation of exploitation and poverty among the masses.

A fact that has not been given the proper consideration in our foreign policy is that the world does not have the same kind of capital or monetary system in the different nations. The world has devised measures of time, length and weight which can be adjusted with accuracy from one nation to another. This is not true of the monetary measurement. In addition to the different kinds of money we also have fluctuations in their value when compared to one another. For example, the value of the English pound, the German mark, the French franc are much different today than they were in 1910-14. Without a stable monetary measurement, there is no foundation for an equal exchange of goods. Devaluation of the currency of one nation as to another can result in one nation demanding more real production at one time than another.

In addition we have different types of capital economy or control of national funds. The three major types of capital economy existing in the world of today can be set out as follows:

1. The British system which is an evolution of the old feudal system. In ancient times the wealth of the nation found its ownership in the hands of a few at the wishes of the king. Property was given by grant to nobility and passed on through the right of birth. The masses were the slaves, serfs or peasants working the land for a mere pittance to keep them alive.

From the British system and through a number of wars a world economy developed with foreign colonies in all parts of the globe. The economy of the colony was dependent on the mother country and too often we find the mother country and its financiers exploiting the resources and labor of the colonies.

This type of economy is in operation in many parts of the world and the extent of the exploitation can easily be ascertained by checking the low wages that exist in India, the East Indies, South America and Africa. In late years our own capitalists have engaged in similar exploitation by buying up the resources and control of foreign sources of production. Their purpose is purely selfish and is the reason for much of the economic confusion in our own nation. For exampie, American capital controls 56 per cent of the Cuban sugar industry. They want to sell their production in the United States, the best market in the world. The competitive price as the result of cheap labor forces the American sugar industry to operate at a loss if not properly protected by tariffs.

In reality we do not obtain any economic advantage by buying sugar from Cuba at a cheap price. We merely reduce the market for goods which might be exchanged for the sugar we use whether it be produced in the United States or Cuba.

In the words of Benjamin Franklin given in an earlier chapter, a nation to make money by trading must cheat another nation. The English have never learned this basic fundamental of economy, that they cannot buy cheap raw materials, produced with cheap labor, and have good markets. William McKinley, while president of the United States, said, "I do not prize the word cheap; it is not a word of comfort, it is not a word of inspiration; it is a badge of poverty, a sign of distress. Cheap merchandise means cheap men, and cheap men mean a cheap nation." The financial distress of much of the world today is the direct

result of cheap raw materials and labor which constitute both the income and the market for goods.

2. The next important type of capital economy is that of the United States. Our forefathers fought a Revolutionary War to throw off the system of capitalism as practiced in Europe. Under the Constitution they set up a new kind of capital economy based on the right of free enterprise or the right of the individual to own and to hold against seizure the productive resources of the nation. Realizing that this type of economy had to be protected against the exploitation of others, the first session of Congress passed a tariff act and the tariff has been the only protection other than force of arms against foreign exploitation.

In addition to providing for a new division of the capital resources of the nation, they also gave us a new monetary unit, the dollar, and placed the control of its value in the hands of Congress. Under this system we have had what might be called a "People's Capitalism." The widespread ownership of our productive resources gave us in turn a diffusion of income as a market for mass production.

3. At the end of World War I, the Russian revolution, against the same system of capital economy as practiced by European royalty, resulted in a third type of capitalism in which all of the resources of the nation become the property of the government. This type, known as Communism, varies in degree from other forms of state capitalism such as Nazism, Fascism, etc.

Many of its supporters have been led to believe that it does away with capital when in practical effect Communism does have capital controlled by those who are in control of the government. In fact, any nation which uses money in measuring the value of production has capital as a result of monetary accumulations.

In comparing the three types of capital economy, the "People's Capitalism" is the only one in accord with the natural laws of human progress and natural desires of people to own a home of their own free from molestation by others. In fact, it is the only capital economy which carries out the concepts of Christianity that "every laborer is worthy of his hire."

The three types of economy mentioned cannot be blended with each other and must be cushioned against one another by tariffs or some

other method to equalize their productive ability. For example, under a system of equal pricing of goods, the economy developed by the United States would outproduce all others. This in turn would force other types of capital economy to protect themselves against our competition as a means of survival.

Natural resources will force us to forget any theory we may have as to becoming the world's supplier of industrial goods. With an almost complete economy within the United States, our greed for world markets will result in domestic displacement of income far greater than any income we may develop through foreign trade. In earlier chapters we have pointed out that each dollar of raw material income (farm and mine) produced in the United States will result in approximately $5 of national income. Also that our raw material income is the profit we have each year in operating the United States as a business. In other words our annual profit is approximately 20 per cent of our national income. The average profit resulting from trade is approximately 5 per cent. For us to adopt a trading economy with a 5 per cent profit instead of our own productive economy with four times the amount of profit would indeed be foolish and would soon result in a depression which would again force us to go back to our own type of capital economy.

We must remember that trade is based on need for things we don't produce or of which we don't produce enough. The only way for the United States to expand its foreign trade, other than through gifts, is to maintain the maximum need for goods from other nations by keeping our income at the highest possible level with proper prices for domestic production. With only 6 per cent of the world's population we have had consistently about 15 per cent of the export trade of the world.

In fact, we might ask ourselves, just how much trade is the United States entitled to have? Natural forces will determine the answer if we adopt the wrong economic policies. The course of human events has placed us in a position where we ought to act as a referee in this game of world economics rather than as a competitor. Our policy should be one of teaching the world the benefits of free enterprise and the individual ownership of productive resources. Our population and resources limit our foreign trade to a post-war percentage of approxi-

mately 5 per cent of our national income as determined by our general price and production level.

The next important factor which we must consider in formulating a domestic and world policy is that of income as determined by the raw material production of nations. I am listing the 40 basic world commodities which determine the income of the world and directly and indirectly the income of every nation.

Wheat Barley Corn Oats Rye Rice	Cattle Calves Sheep Hogs Lard Butter	Cottonseed oil Olive oil Coffee Cocoa Tea Sugar	Cotton Wool Silk Hemp Jute	Pig Iron Scrap steel Zinc Tin Lead Copper	Coal Coke Petroleum	Hides Newsprint Lumber Turpentine Linseed oil Nitrate of soda Rubber Linseed meal
20	19	9	12	11	11	18

The numbers under each column shows the weighting of each group according to total value in the annual production of the world.

A fair analysis of these basic commodities points out quite clearly that agriculture is the foundation of world income as well as our own. In fact, the income of the world is more dependent on agriculture than our own. With this basic fact before us it should be self-evident that there can be no prosperity in the world without a proper price for agricultural products. The present shortage of food throughout the world is due to the exploitation of agriculture since our modern type of economy with its money and trade was evolved by the human race. Nations have decayed and fallen from power because they exploited their agriculture or the source of their income. In the same way the world of the future will decay and end in chaos unless agriculture takes its place as the power which generates the economic forces for progress, prosperity and peace.

We could go into detail and analyze each commodity to prove that neither we as a nation nor the world as a whole is confronted with any surplus of these commodities if a proper price is maintained on the initial production of raw materials. I need but point to the fact that Australia, Canada, Argentina and New Zealand are the only nations with sufficient agricultural resources to afford the standard of living which we now have in the United States. All other nations have too little in the way of crop acres to produce a surplus in their own nation.

The United States with the largest acreage of good improved farm land has no potential surplus of farm products. We may have surpluses

if we permit our price level to drop so that our income is too low to consume our own production, but with a proper price for agricultural products any expansion we may have can easily be absorbed by a growing population and an even higher standard of living than we now have.

Finally in adopting a domestic and foreign policy we must view with realism the fact that the English people are heading for a social revolution against their type of economy. If England continues toward its present goal of socialism then the United States will be the only nation with a concept of government and economy based on human freedom and the individual ownership of the economic resources of a nation. Again, our policy must be one founded on our own type of capitalism and our first objective must be domestic prosperity. Without that our system may be swallowed up by the forces of world socialism and communism. The conflict of tomorrow will be between a "People's Capitalism," a "Dying International Capitalism," and "State Capitalism." The final conflict will be between a "People's Capitalism" and "State Capitalism."

We must develop the leadership to bring about a "People's Capitalism" throughout the world as a foundation for future peace.

MONETARY CHANGES

The first step in assuming the right to lead the world is to keep our own house in order. One of the curses of mankind is its failure to devise a measure of value with stability. Vincent Vickers, former Governor of the Bank of England, in his book, "Economic Tribulations," states that "the world has never had a sound monetary system."

Pages have been written about a stable dollar, but we have never had it and we can state as an axiom that we never will even approximate a stable dollar without stability of raw material prices. The closest approach to monetary stability has been the price of gold. England for many years maintained a stable price for gold by the simple process of selling when the gold price went up and buying gold when the price went down. Few people produce gold and it did not bring about any price stability for other commodities.

We have listed the 40 key commodities which govern the new annual income of the world. If gold and silver as monetary metals were stabilized at parity with these 40 commodities, the world would

have a stable monetary system. With the price level of the United States as a yardstick, the general commodity index using 1926 as a year of 100 could be a yardstick for any price adjustment from time to time.

Our research would indicate that it would not be necessary to stabilize the price of all 40 commodities, but it is certain that to stabilize them would give the world a positive foundation for the value of its production.

Funds for such a purpose would be extensions of credit which would be refunded as the commodities were used by society. If we were to use the funds voted for Bretton Woods, to our Export Import Bank, to build a stockpile of strategic minerals, and for the loans we are rather foolishly making to other nations, we would have ample funds to stabilize the two monetary metals and the 40 commodities mentioned. If we were to take this step, foreign loans would become unnecessary and nations would have income from production.

In our own credit system, for example, individuals and corporations borrow from their capital funds or obtain credit with their capital resources as security. As they produce goods in the factory or from our natural resources of raw materials, they in turn earn the funds for repayment.

If, during the cycle of production, a drop in our price level occurs, they find themselves unable to pay even though the commodities produced are the same quality, etc., as those which sold at a higher price level when the money was loaned for the purpose of production.

In our economic cycle the credit extended goes into the stream of buying power and should be ample to buy whatever is produced. With price stability, if the production is increased it will increase the income and in turn the buying power to consume the additional production. Price stability would give us a positive economy and continual surpluses would lead to a higher standard of living. On the other hand, a drop in prices when production is above normal will give us a negative economy and, as was the case in the thirties, materially reduce our standard of living. We cannot go bankrupt from a pure economic standpoint because we never lose our basic resources to produce wealth. Bankruptcy occurs merely in terms of money because we do not have a sound monetary system The United States should take the lead and with its large volume of the world's business can practically force the

rest of the world to adopt an equitable measure of value as the first step in reconversion to future peace.

In fact, as we have pointed out, our own financial situation of having $265 billion in national debt practically forces us to stabilize our own price level if we wish to head off a serious collapse of our financial structure.

A SIMPLE PROGRAM

A simple program to stabilize prices has been set forth by the Secretaries of Agriculture from the 48 states. At their convention in Omaha, Nebraska, several years ago, they adopted a definite program. This program was suggested before the Ways and Means Committee, House of Representatives, on May 1st, 1945.

The program consists of seven different steps listed as follows:

1. Commodity loans as a floor price on seven basic crops—cotton, corn, wheat, oats, barley, soybeans, and flax—as a foundation for our national economy. Such loans should be made at a minimum of 90 per cent of parity and made callable at not less than parity. They can be made through the Production Credit Associations or through the Commodity Credit Corporation. With permanent legislation of this kind, most of the loans would be carried by local banking institutions.

2. Provisions should be made to carry adequate reserves to take up seasonal surpluses and to level off our production cycle resulting from weather conditions. We should at all times carry a reserve of at least 35 per cent of 1 year's normal production of each basic crop. Loans on these reserves can be secured by the government and be carried as close to the source of supply as possible until demand or disposal decides their final sale. These reserves should be looked upon as national crop insurance.

3. Import duties geared to the same commodity index which is used in determining parity prices for farm products should be made a part of our national economic policy. The duties collected should protect manufactured products and raw materials at the same level and should fluctuate so as to reflect the difference in our parity level and the landed costs of imported products. This is for the purpose of protecting our American standard of living and

giving the greatest consuming power of foreign imports.

4. Provision should be made for surplus disposal in the following manner:

(a) By sale into the world market at the world price level with provisions for a draw-back from import duties to absorb the price differentials in the domestic and world levels. By proper licensing of importers and exporters, proper controls could be exercised without regimentation or excessive government control.

(b) By disposal of surplus for relief purposes.

(c) By providing for discounts on surplus products as an aid to new industries which may be developed to utilize them in the expansion of our domestic economy.

5. Provision should be made that any surplus funds accumulating from import duties shall revert to the treasury of the United States, and that any deficit be considered as the nation's cost of insurance for full employment and sustained national income.

6. A permanent parity formula should be provided, using preferably the most recent 1925-1929 period of price balance as the base period of price balance and using the General Commodity Index for the year 1926 as 100.

7. Provision should be made for handling perishable commodities and minor crops by marketing agreements with producers of such products.

Most of the legislation required for such a program has been passed by Congress but has not been administered to maintain 100% parity. We cannot have, for example, an American parity price or wage level without a tariff at the parity level. In case the rest of the world adopts higher price levels we can of course reduce our tariff in ratio.

The program outlined would prevent any serious depression and would restore much of the balance in prices which has existed between groups. For example, to give the reader an idea of the simplicity of a good parity formula and to show how things are out of balance we will use the railroad rates as an example.

In the 1925-29 period the rate per ton mile of freight was approximately $.011 per ton mile. In 1940 the rate had dropped to less than one cent per ton mile. The present rate is approximately the same as 1925-1929 in spite of the fact that wages, farm income, and national income have practically doubled. The railroads have asked for an increase in rates but, in our opinion, will not get it because of their failure to present their case to the public in a proper manner.

To determine their present rate structure would be quite simple if we had a parity law to gauge price balance. The rate they received in 1940 should be adjusted to the average rate in 1925-29 as 100 or in line with the General Commodity Index 1926 equals 100. This index at the present time (May 1st, 1947) is approximately 145, and it is rising as the economic forces try to restore price balance. Assuming just for example that it will rise to 150 per cent of the 1926 level, then freight rates should be 150 per cent of the 1925-29 level.

The railroads spend most of their gross operating income for labor, fuel, and materials. The cost of these factors are reflected accurately in the commodity index and to be in balance their rate structure must be at parity in the same way that the price of a bushel of corn must be at parity if the farmer is to receive an equal return with other groups.

The reader may question the completeness of the program outlined because of certain complexes, the principal ones being a fear of surplus, the fallacies in regard to foreign trade, and a fear of price fixing and production control. It might be well, therefore, to stress again the analysis of these points in question.

We have reached the end of any rapid development in farm production because all of our grade A land has been put into cultivation. In addition, surplus production at a stable price level automatically creates additional income for all groups. This in turn creates the added consumption and we are forced into a higher standard of living, a natural result from an increase of new wealth.

If the reader will remember the positive turn of the farm dollar, he can feel assured that parity prices for agriculture can have but one result and that is a national income which will more than make up for any risk as to monetary losses in handling the surplus production temporarily while our economic machine speeds up to utilize additional production.

As I have pointed out, our foreign trade, contrary to many of our economists, will be greatest at the parity level and tariffs are not a barrier to foreign trade. This can be illustrated by trade between states.

For example, the state of Iowa does not produce gasoline but imports it from other states, which in Europe would mean from other nations. Iowa has a 4-cent gasoline tax which in every sense of the word is a tariff on imported gasoline. The tariff on gasoline in the various states does not prevent the sale of gasoline, and Iowa will buy the greatest amount when farm products are selling at a high level.

The gas tax or tariff doesn't cost the state of Iowa or its people anything because it is merely shifting money from one pocket to another. The taxes collected go into the state treasury and if used for state purposes make unnecessary the payments of other taxes for similar purposes to defray state expenditures.

This factor enters into tariff collections in the United States. From 1787 to 1900 practically all costs of the Federal government were paid from tariff collections or excise taxes. The past record of the United States shows that when tariffs were too low, we had lower price levels and the government ran short of money because of the drop in tariffs collected. When tariffs were increased prices were higher and the government had more funds for its operation. The same thing will happen in the post-war period if we carry through with a free trade program now underway. We will reduce the national income and we will also reduce duties collected on imports with the end result that instead of increasing foreign trade we will curtail trade both domestically and in foreign markets.

To maintain farm prices at parity is not price fixing to any greater extent than to have the Interstate Commerce Commission establish equitable rates of transportation or to have Congress levy an income tax.

From a monetary standpoint it means to regulate the value of the dollar at 100 cents. To stabilize the price of the basic farm crops we have mentioned means merely to add a foundation of commodities to gold as a basis for dollar values. The effect is the same as to have Congress determine that it requires a certain amount of metal to make a pound, our measure of weight.

It will not require any production control to operate the program outlined because the control feature is indirectly a control of surplus after it has been produced. The program would then proceed to utilize the surplus for trade or in expanding our economy for the benefit of all groups.

With such a program in operation there need be no depression except in case of lack of production. The limit of our prosperity would depend on our ability to produce, and any increased production would result in a forced expansion of our economy and a higher standard of living.

To realize a goal of permanent prosperity will require a complete reversal of present economic theories. We must learn the basic fact that exports of surplus production are not a means of creating jobs or for the purpose of making a profit, but rather to increase our standard of living by exchanging surplus production for things we do not have.

Economic forces will not permit a so-called "free trade program." Because of the trade turn of raw material income which we have pointed out, every nation finds itself in the position where it makes the greatest profit from the domestic production of raw materials.

In making the British loan our State Department expects England to agree to a free trade policy. What about Russia, the leader in the third type of capitalism? The facts are that England cannot go on a free trade basis, and Russia won't, because all of Russia's exports and imports will be state controlled. To compete in Europe, England as well will be forced to and already is making long-time agreements with other nations for preferential treatment.

If we can but adopt a program of realism under which our efforts will be devoted in one direction, namely, to maintain full employment and prosperity in the United States, then we will have accomplished our maximum in helping the rest of the world to recover. Our tariffs in the 1925-29 period did not react adversely on the trade of the world, but our failure to maintain our price level in the thirties did. In like manner tariffs at the parity level will not prevent world trade, but a depression in the United States under a free trade program will force us and the world into a depression.

In this connection I would like to quote the answer of Sir Henry Bunbury of England to a query by Stewart Chase as to what we should do about our tariffs. His answer was—"Do anything you like about it. Have it high or medium or low. Have free trade or autarchy, it makes little difference—provided you prevent a depression."

We can prevent a depression but in one way only, and that is to maintain parity prices for our farm and mine raw materials and protect

this parity price level with a tariff at parity which is neither high nor low but just right.

With parity prices as a foundation, we can maintain a stable and prosperous economy which in turn can help the world in the reconversion to a stable monetary system governed by the American price level. Repeating the words of Emerson, "Our whole history appears to be a last effort of Divine Providence to help the human race." You as a citizen must help decide whether that last effort is to be in vain. You can help by bending every effort toward the goal of price parity between our raw material producers and manufactured products.

The record of the United States as outlined in the various chapters proves that there is no other way to prevent a depression in the United States and complete chaos in the rest of the world.

CHAPTER XIV

Importance of Trade Turns

The positive correlation of the various segments of our economy make it possible to use the trade turn of our almost complete economy to pre-estimate our national income. With gross farm income the governing factor and with agriculture always in full production, weather permitting, the national income is always a multiple of the gross farm income.

In the early years of our nation our economy was predominately agricultural and the turn of farm income was small because we had but little trade and service with ninety per cent of our labor force on the farm. Technological improvement in our farm and mine production released labor for manufacturing, trade and service. In 1850 we had developed so that it required only one out of two of the labor force to produce the raw materials. At the present time it takes approximately one man out of 5 to produce the raw materials, thus making available 4 men for other jobs, and the result has been a natural increase in the number of industries with their many products which we now utilize in our increased standard of living.

The tabulation of national income and the turn of both the gross farm income and the gross farm and mine income are given to show the progressive increase of the trade turn of the farm dollar.

It might be well to point out that with a large percentage of the population producing the farm products in the early days of our history the price factor was relatively unimportant. Wheat was still wheat and was used on the farm regardless of price, and most of the trade was in the form of barter. At the present time, however, with the turn of the farm dollar approximately 7 times, the matter of farm prices is the most important factor in our economy. With the increase to a minimum of a seven times turn of farm income our national income has been very unstable because of the wildly fluctuating price of farm products on a speculative market. For example, in the period 1921-1938 the

average yearly fluctuating price of corn was 45 cents per bushel between the low and high price each year. It ought to be self-evident that no business can function properly with such fluctuation in prices. Furthermore with agriculture representing two-thirds of the capital investment in productive enterprise our economy cannot have stability without stability in our farm price structure.

The accuracy of the formula has been carefully checked in practice by Charles B. Ray, in actual estimates, for Sears Roebuck & Company of Chicago. It can be carefully checked with two other ratios, one of which, the trade turn of the farm and mine income, is given in the tabulation of national income.

The trade turn of the farm and mine income can be checked with the physical turn of our labor force. The number of men engaged in raw material production divided into the total labor force gives the labor turn and this will check with the actual multiple of the turn of the full raw material income given as gross farm and mine income. The labor force can be accurately estimated by taking 40 per cent of the total population. For example, a population of 140,000,000 means a labor force of 56,000,000.

The reader should remember that our economy is in reality an exchange of goods and services with the dollar the measure of value. At the parity level of prices for raw materials the income from raw materials is the flow of money from our capital structure. This flow of money times the trade turn creates sufficient national income to fully exchange all our production or its equivalent. In direct ratio to parity our economic machine runs at full speed or with less than parity for raw materials is forced to slow down, and this will happen regardless of what political party we elect to power.

The depression that we had in 1930-41 was the result of the Republican party's failure to maintain farm prices at the 1925-29 level in 1930-32, and in the Democratic party's failure to restore farm prices to the parity level.

If the Republican party in 1930 had instituted a program such as we have outlined in the previous chapter, the depression would have been over in a few months. If the Democratic party had put such a program into operation when they were elected to office in 1932 they could have restored prosperity and balanced the budget in a few months

with full employment and without WPA and destruction of crops and other forms of new wealth.

Both parties in our estimation failed because they did not utilize our basic form of economy in protecting our domestic price level with a tariff at our parity level. The dislocation in world price levels and the devaluation of currency could have been off-set with a parity tariff. Both parties in reaching out for something to restore our price level failed to utilize the tariff properly. The propaganda in regard to high tariffs is a lot of "baloney." It is a matter of record that 65 per cent of our imports since 1925 have been duty-free.

The selfishness of our industrialists who wanted cheap raw materials and the teachings of our economists who have a fallacious belief in free trade were directly responsible for the depression. In addition the next depression will be due to the same causes if we do not take the steps to prevent it.

The absolute futility of trying to obtain cheap raw materials abroad and the fallacy of the free trade theory can be definitely proved by the turn of the raw material dollar in our own economy.

As we have pointed out, the trade turn of the raw material dollar (farm and mine) is approximately 5 times. In actual operation this means that we create approximately half the income from our raw material production to the factory and one half from factory to consumer. In the same way out of each 5 men employed, half are employed between raw material production and to the factory, while the other half are employed in the other half of the cycle. To be more exact, two men are employed on one side of the factory, one in the factory, and two in distribution and service.

Applying the trade turn of raw materials to imports, the end result is that on imports at the American price level we create only half the income that we will create if we produce them in the United States. If in addition we permit the competitive price to reduce our domestic price we lose 5 times the reduction in our total raw material income.

In the summer of 1945 economists predicted that our national income would drop to $140 billion and that we would have 8,000,000 unemployed. Mr. Ray pointed out that there would be no unemployment and that the national income for 1946 would be at least $160 billion.

STATISTICAL ABSTRACT OF ANNUAL NATIONAL INCOMES SHOWING DEVELOPMENT OF PERMANENT ANNUALLY INCREASING NATIONAL TECHNOLOGICAL TRADE TURN AND MULTIPLE OF ANNUAL RAW MATERIAL INCOMES AT ANY PRICE OR PRODUCTION LEVEL FOR YEARS 1910 TO 1947.

Years	Annual Gross Farm Income Billions		Annual National Farm Trade Multiple		Annual National Income Produced Billions	Annual Prices Farm Rec'd	Annual Farm Price Parity Indexes 25-29 = 100	Annual Physical Farm Marketings	Annual Gross Mine Income Billions	Annual Total Farm-Mine Income Billions		Annual Total Raw Farm-Mine Nat. Trade Multiple
	(1)	×	(2)	=	(3)					(8)	×	(9) = (3)
1910-14	$ 7.491		4.14		$ 31.010	68	105	80	$2.139	$ 9.630		3.21
1917-18	14.689		3.69		54.250	128	121	87	5.267	19.956		2.72
1920-24	12.623		5.29		65.580	103	98	89	5.412	17.784		3.68
NOTE REDUCTION BELOW NORMAL AND RECOVERY OF ANNUAL FARM TRADE TURN MULTIPLE POST-WAR I.												
1925-29	13.479		5.80		78.200	100	100	100	5.740	19.219		4.07
1929	13.824		6.03		83.300	99	99	104	5.888	19.712		4.23
AVG. 30-39	9.387		6.57		61.800	66	82	102	3.918	13.306		4.64
1930 TO 1939 SHOWS "NATIONAL INCOME PAYMENTS TO INDIVIDUALS" WHICH REPRESENTS ACTUAL VALUE OF GOODS AND SERVICES PRODUCED IN THIS PERIOD.												
AVG.29 & 41	13.810		6.53		89.930				6.352	20.164		4.46
1941	13.799		7.02		96.860	84	99	118	6.817	20.616		4.70
NOTE CONSTANCY OF FARM MULTIPLE IN TEN-YEAR DEPRESSION (6.57) 1929-41 MEAN AVERAGE 6.53												
	(1)	×	(2)	=	(3)					(8)	×	(9) = (3)
1942	18.399		6.65		122.200	108	110	132	7.570	25.969		4.70
1943	22.775		6.57		149.400	130	120	137	8.030	30.805		4.86
1944	23.446		6.85		160.700	133	117	144	8.543	31.989		5.03
1945 ACT.	24.370		6.63		161.000	138	118	145	8.070	32.440		4.96
NOTE REDUCTION AND PREDICTED RECOVERY OF ANNUAL FARM TRADE TURN MULTIPLE POST-WAR II.												

Years	Annual Gross Farm Income Billions	Annual National Farm Trade Multiple	Annual National Income Produced Billions	Annual Prices Farm Rec'd	Annual Farm Price Parity Indexes 25-29 = 100	Annual Physical Farm Marketings	Annual Gross Mine Income Billions	Annual Total Farm-Mine Income Billions	Annual Total Raw Farm-Mine Nat. Trade Multiple
1945 EST.	24.400	6.70	163.500	138	119	145	8.100	32.500	5.03
1945 LAST HALF NATIONAL INCOME DEVELOPED 4 TO 6 BILLION BELOW EXPECTANCY a/c STRIKES.									
1946 EST.	24.000	6.75	162.000	140	110	143	8.300	32.300	5.01
1946 NATIONAL INCOME SHOWN STILL DEVELOPING AT RETARDED WAR TIME NATIONAL TRADE TURN MULTIPLES a/c RECONVERSION STRIKES AND GENERAL MANUFACTURING—PRICE RETARDATION.									
1947	22.400	7.60	170.200	125	100	140	9.000	31.400	5.42
1947 NATIONAL INCOME SHOWN AT NORMAL DEVELOPMENT OF PEACE-TIME NATIONAL TRADE TURN MULTIPLES OF ANNUAL NATIONAL RAW MATERIAL INCOMES.									

From 1910-14 to 1925-29, medial five-year base periods, with 100% Farm Price Parity, the Annual National Trade Multiple of Gross Farm Income increased from 4.14 to 5.80 or 166 points, averaging 11 points increase annually or 2.2%. Did not decline except in World War I years, a/c national war waste.

From 1925-29 to 1941 (last pre-war normal year with 99% Farm Price Parity) the Annual Trade Multiple of Gross Farm Income increased from 5.80 to 7.02 or 122 points, averaging 9.4 points increase annually or 1.5%. Did not decline except in World War II years, a/c national war waste.

From 1941 to 1947 is six years, multiplied by 9.4 points equals 56 points, which added to 7.02, the 1941 National Farm Trade Turn, results in a 7.58 projected minimum future Annual Farm Trade Turn or Multiple, normally operating in 1947.

Affiliated with
RAW MATERIALS NATIONAL COUNCIL, Sioux City, Ia.
Carl H. Wilken, Washington Representative
Annapolis Hotel

CHARLES B. RAY
Industrial and Trade Counsellor
Chicago

NOTE: Projection was made in June 1946. Price Levels in January 1947 indicated a Minimum of $180 Billion of National Income for 1947.

Our economists failed to recognize the trade turn. In the period of reconversion we picked up the increase in income and employment in the trade cycle between the factory and consumer that had been short-circuited by government buying from the factory.

As a result the added jobs took up the increase of men returning from military service and our retail sales started upward from $68 billion in 1945 to a level of 60 per cent of $160 billion or $96 billion for 1946.

The same trade turn in effect exists in other nations in ratio to their efficiency. If the figures on raw material production and imports for Great Britain were available, their trade turn could be determined. As a broad observation the result would show that the English economy is only half as profitable as ours because as an importing nation they can have only half the trade turn on most of their economic cycle. This conclusion is borne out by the fact that Great Britain after many years of operation can pay only one half the industrial wage that we pay in the United States. It is also the reason why Great Britain is practically bankrupt and for many years has had to depend on exploitation of her colonies for the profits to maintain her position as a world power.

We cannot afford to nor can the world prosper if we have to go back to their system of operation. The trade turn is also the reason why the United States with only 6 per cent of the world's population has nearly one half of the income of the world.

Without the efficiency which has resulted in the increase of the trade turn of raw material income, we would not have had the labor available to build automobiles, etc., nor would we have had the income to buy them. Other nations knew how to produce but had neither the available raw materials, the labor or the income to develop the many new industries which we have.

Therefore instead of trying to blend our economy with the rest of the world we are forced by the laws of exchange to maintain it at full speed while we reach out and do what we can to lift the rest of the world out of their poverty with higher raw material prices and more efficient tools of production, both of which will increase the trade turn in the economic cycle of other nations. To permit our economy to be slowed up by reducing our price level below parity or by importing raw materials which we can produce will merely bring about another

depression in the United States and force the rest of the world to continue its poverty and revolution against unsound economic practices. World peace requires a foundation of prosperity and that foundation can be built upon the United States if we will put into operation the program of parity prices which I have outlined. The science of mathematics dictates that two times two makes four, and to solve our economic riddle it leaves no other solution than price balance between raw materials and finished goods. The longer we delay putting such a program into operation, the more chaotic conditions will become and the greater will be our loss in money and goods.

WE FIND

The end result of the studies of our national economy outlined in this book can be of practical use to every segment of our economy and to Congress in providing legislation which will maintain our system of free enterprise. Each segment of our economy can set up a statistical record which will quite accurately pre-estimate their share of the nation's business.

For example, the retail trade can estimate its national volume by the simple process of multiplying farm production times farm price times 420 per cent. Stated another way, there will be $4.20 of retail trade volume for each dollar of farm income.

Of equal importance, however, are the facts which prove that our system of free enterprise is the most dynamic economy that the world has ever had; balancing prices for farm products, wages of labor and finished goods prices, we can use our productive resources to the fullest extent. Further, it is possible to have prosperity without fear of the future.

The greatest problem to overcome is the fear of loss in handling surplus production. Through educational processes the leaders in government and business must be made to realize that loss occurs primarily because *we fail to maintain the proper price level for production. Industry must be made to realize that the producer is also the consumer, and that any reduction in the income of the producer is also a similar reduction in the consumer's ability to buy.*

As a help to the reader, we set out here, in short paragraphs, a few simple basic factors which we must recognize if we are to operate our economy on a sound basis, one which will maintain continuous prosperity under a republican form of government. We have the republican form of government, we have the natural resources, the skilled labor, the industry, the transportation, and the finance to bring about a prosperity which will make that of the past seem like a shadow. The purpose of this book is to point out the one thing which we must do to bring all of the factors into operation; namely, that we must price our production of raw materials properly if we wish to distribute to the fullest extent.

Time will tell whether we have the constructive thinking to utilize our potential production and price it equitably. Failure to do so will mean national chaos. The answer to our economic problem is *parity prices for raw materials protected by parity tariffs and new industries to utilize the surplus production which we need for trade and expansion.*

PARITY PRICES NEEDED FOR ALL GROUPS

The Congress of the United States should establish permanent parity prices for agricultural and other raw materials.

* * *

Agriculture is the largest industry in the United States and is entitled to economic equality with other groups.

* * *

To provide for parity of price for agriculture means simply to provide a 100 cent dollar and regulate the value of it at 100 for all groups.

* * *

To force the farmer to live in an economy which pays him only 80 cents on the dollar will mean a bankrupt United States.

* * *

The farmer has had, theoretically, equality under the Constitution of the United States, but in reality he has been exploited by society and expected to accept less than parity for his production.

* * *

Seemingly, few of our economists and political leaders have ever recognized the importance of agriculture.

* * *

Society has always wanted cheap food, not realizing that cheap food means cheap wages and cheap markets.

* * *

PARITY PRICES AND NATIONAL INCOME

Agriculture is the governing factor in our economy.

* * *

The prices the farmer receives for his products determine whether the national income is high or low.

* * *

Agricultural raw materials and income determine the number of jobs and wages which can be paid.

* * *

We are a nation of small business institutions with a total of approximately 9,000,000, three million of which are non-agricultural and the other 6 million of which are the individually owned and operated farms.

* * *

Of the 3 million non-agricultural business units, 96 per cent employ 19 men or less.

* * *

In our capital economy our farms, or the *agricultural industry have two-thirds of the capital investment in productive enterprise.*

* * *

Agriculture in 1940 had ten times the capital investment of our steel and automobile industries combined and employed ten times as much labor.

* * *

Agriculture produces in value 65 per cent of all raw materials, and the processing of agricultural products makes up approximately two-thirds of our manufacturing industry.

* * *

The agricultural industry in its processing of agricultural raw materials through livestock has the greatest manufacturing plant in the nation.

* * *

This factor of processing farm raw materials on the farm results in agriculture being the governing factor in our economy with an average precedence of about six months.

* * *

Only through full farm production at a parity price level can we maintain full employment and national solvency.

* * *

PARITY PRICES AND EMPLOYMENT

In our economy each dollar of farm income creates a dollar of factory payrolls and $7 of national income, the 1-1-7 formula.

* * *

This 1-1-7 formula has never been refuted; it has held almost constant since 1921.

* * *

Our failure to recognize the formula and the importance of agriculture caused the nation to suffer a loss of $473 billion in the 12 years from 1930 to 1941, because of sub-parity farm prices.

* * *

In the post-war period, failure to give the farmer full parity can cause a loss of $75 billion per year in the operation of our national economy.

* * *

This analysis is the factual record of the nation and not theory. The Country Gentleman, after thoroughly checking the analysis, agreed with our conclusions in an article, "The Key to Prosperity," published in the December, 1944, issue.

* * *

Factory payrolls are tied to farm income and follow farm income up and down with constant regularity.

* * *

The only way in which Congress can permanently increase factory payrolls without a deficit by industry or the nation is through first increasing the farm income.

* * *

All correlations are based on *gross farm income.*

* * *

Production creates its own demand through the income from production, processing and distribution.

* * *

Production at a parity price level creates enough income to consume our production or the goods for which we may exchange our surplus.

* * *

PARITY PRICES AND PRODUCTION

The average annual value of our manufactured goods is approximately 80 per cent of the national income.

* * *

For each one per cent farm prices fall below parity, we will lose one per cent of our manufactures and one per cent employment.

* * *

Retail sales volume averages approximately 60 per cent of our national income.

* * *

Higher farm prices do not mean higher living costs when figured on the basis of higher per capita income created automatically by higher farm prices.

* * *

The simple facts are that the cost of food, beverages, and tobacco based on per capita income remains quite constant, averaging approximately 25 per cent of all consumer expenditures.

* * *

The percentage of farm parity determines the percentage of employment. For example, employment in 1932 and in 1940 is in ratio to the percentage of farm parity.

* * *

Labor should support 100% farm parity as a foundation for full employment at a good wage.

* * *

PARITY PRICES, TRADE AND COMMERCE

Our surplus was the result of underconsumption and imports which kept our price level below our American parity level.

* * *

Parity prices, parity tariffs and new industries are the answer to our economic problem.

* * *

Our farm production in 1930-39 did not equal our 1925-29 production.

* * *

In 1934-41, we imported produce equivalent to 50 million acres of farm products over and above our exports. During this period we paid our farmers not to produce with money which created a national deficit.

* * *

Other segments of our economy suffer a loss in income in ratio to the loss suffered by agriculture.

* * *

New construction averages about 12 per cent of national income, of which 40 per cent is for private homes.

* * *

Our parity level 1910 to 1914 and 1925 to 1929 were both at the world price level.

* * *

At the present time there is complete chaos in foreign exchange and markets. We must protect our economy until such time as the world price polices are stabilized.

* * *

By stabilizing the price level in the United States, Congress could automatically stabilize 40 per cent of the income of the world and, with full parity for farm products in the United States, we can lay the first foundation to bring about world prosperity and permanent peace.

* * *

Our tariff should be at the parity level, representing the difference between the American price level and the price of imported products at the point of entry.

* * *

When the world price reaches our level, all tariffs would then be at zero or on a free trade basis. Fluctuations in world prices or world fiscal policies would thus be prevented from bringing about a depression in the United States. The tariff intake could be used to adjust the differential between the American market and the world price level and would give the United States complete control over our own dollar values or price levels.

* * *

Even though we have only 6 per cent of the world's population, we can produce 98 per cent of everything we need in the United States from our own resources.

* * *

Our export trade will always be limited because of the limited amount of imports which we can take as payment for exports. We cannot afford to displace our own production and income with imports.

* * *

We should serve the world as a referee in helping to maintain a world price level which will permit prosperity. England has bankrupted itself with cheap raw materials from her colonies. Therefore our greatest aid to England can come from measures which will force her to give her colonies a living wage.

* * *

Cheap raw materials mean cheap wages and cheap markets. If we maintain our farm production at a parity price level we cannot have any serious depression or unemployment.

* * *

Permanent parity price legislation can end the confusion in both our domestic and foreign economic policies and make it possible for industry to carry on a sound program of reconversion. Parity prices are the protection we need to preserve our system of free enterprise with its dynamic production.

* * *

Knowledge is worthless without action. As a citizen of the United States it is up to you to help restore and maintain a proper price level for our production. You will gain or lose in ratio to farm income whether you are a Democrat, Republican or Socialist. Our economy will continue to operate according to arithmetic and our economic welfare will be determined by the price level we maintain.

Our annual production times price must create enough income for full employment and distribution if we are to remain a prosperous and solvent nation.

The simple facts are that if society wishes to maintain our present standard of living and the income for full employment, then society must pay the initial producer of raw materials a parity price for his production.

Basic world economy is based on the quotation from the Bible, "Every laborer is worthy of his hire." The record of our nation proves that we gain or lose as we recognize this through price balance between groups. Our future welfare will be determined by our ability to realize that the producer is also the consumer and that production creates its own demand. With 100 per cent parity of price we annually create the income for full consumption of our production or its equivalent. Such surpluses as we may have can be exchanged for things we do not have or do not produce enough of. With parity prices we will never have a repetition of past depressions and hunger can occur only as nature fails to give us production.

CHAPTER XV

Knowledge and Action

In the words of Huxley "Knowledge without action is worthless." In the past 10 years while carrying on the studies which led to the material set forth in the preceding chapters, I have from time to time appeared before Committees of Congress. I have set forth the relationships which exist between the different segments of our economy and have literally challenged the experts in all walks of life to refute them. There has been no successful refutation because it is hard to refute the record as it exists.

As a result of this work, I know that many of our present Members of Congress are quite convinced that our studies are important and accurate. In order to give the reader an idea of how the information set forth can be used in a practical analysis of our economic problems this chapter will be devoted to a statement given before the House Committee on Agriculture and potential legislation.

The bill H. R. 3489 was introduced by Congressman Charles Hoeven of the 8th Iowa District and supported by the entire Iowa delegation whose names are listed as follows—Hon. Thomas E. Martin, Hon. Henry O. Talle, Hon. John W. Gwynne, Hon. Karl M. LeCompte, Hon. Paul Cunningham, Hon. James L. Dolliver and Hon. Ben. F. Jensen.

Iowa is the leading farm state in the nation and the full support of its delegation in the House of Representatives is naturally an expression of faith in my research work that gives me a feeling of deep satisfaction.

Cong. Robertson of North Dakota has also introduced a similar bill in the house. In the Senate a similar bill was introduced by Sena. Harlan Bushfield of South Dakota (S. 1310). These bills implement our research into action and the bill is a suggestion as to the type of legislation which can be passed as a foundation for permanent prosperity.

A PERMANENT FARM PROGRAM

Statement by Carl H. Wilken, Economic Analyst
Raw Materials National Council

Sioux City, Iowa

Before

The House Committee on Agriculture, May 8th, 1947

Washington, D. C.

Mr. Chairman, Members of the Committee:

I am very happy to have this opportunity to outline for you a sound and permanent program for Agriculture. It happens that I have spent the last 10 years in an independent study of our national economy and I believe that we have carried on the most complete survey of any research organization. Our approach has been impartial and I am here to give you the facts as we find them. Therefore I hope that the Committee will realize that the facts will stand regardless of politics or the wishes of selfish groups who feel that they ought to have a preference in different types of legislation.

This matter of a sound farm program is tremendously important. Agriculture as an industry has approximately 25% of all the capital invested in farms, mines, factories, transportation, service industries, homes, etc. It has approximately 65% of the capital investment in productive enterprise. As a result our entire national economy revolves with an almost mathematical precision around the production and price of farm products which determine farm income. A sound farm program will almost automatically give us a sound national economy.

In addition the course of human events has made the United States the governing factor in World economy. Even though we have only 6% of the population of the world, we do approximately 47% of the World's dollar business and consume 25% of the total production of goods. In the light of these facts this Committee, in considering a sound and permanent farm program, is in reality considering the foundation of the economy of all the World.

Without a sound farm program all the dreams of future prosperity and world peace will end in chaos and confusion.

Many of the Members of this Committee have spent many hours attending hearings and discussing the so-called farm problem. As you all know many theories have been advanced as to this and that phase of our farm economy and yet we are here today because it is still an unsolved problem. I feel that some people have even reached the conclusion that there is no solution. I know that it can be solved and that *the record of our own national economy points the way if we will but use it.*

We have failed to solve the farm problem because we have not made a thorough analysis of the facts and the relationship that exists between agriculture and other segments of our economy. Our approach has been too general. We have spent too much time scratching the surface. We have been handicapped because so many theories were in reality untrue and not based on facts or simple common sense arithmetic.

The farm problem is ages old because a selfish public has always wanted cheap farm products, not realizing that they could not eat properly unless they paid their board bill. Low farm prices and the neglect of agriculture has destroyed nation after nation and the price of farm products will determine the future of our present civilization.

It happens that there is no reason for confusion. The record of the United States if properly analyzed gives us the answer. It is my purpose to analyze the record for you and in this connection I wish to say that the various graphs and conclusions have been checked by the Country Gentleman. In December, 1944, they carried an article entitled "The Key to Prosperity." In this article they called attention to our research work and pointed out that we had evidently found the answer by *uncovering certain laws of exchange between the different parts of our economy.*

In spite of all the legislation passed by Congress in regard to agriculture, labor, etc., these laws of exchange have permitted little change in the relative position of the different parts of the whole. For example *all the farm and labor legislation did not materially change the per cent of the national income going to each group.*

In my analysis I wish to point out first some of the fallacies that exist; second, to analyze our economy, and third, to outline a program which will end any depression in 6 to 12 months.

Our present farm program was the result of the severe depression which followed the break down of our national economy in the latter part of 1929. Since that time we have enacted a lot of legislation and amended this and that. *All told we have enough legislation now to solve the farm problem if it were efficiently correlated and administered.* But, again theories and some of the things we are doing are not based on fact. The result is confusion instead of a proper solution of our problems. In the words of a certain humorist, our troubles result not so much from what we know but because we know so much that isn't true.

For example on one hand we have legislation to maintain a floor under farm prices at 90% of parity and, on the other hand, we are putting through a program to reduce tariffs and in turn our own price level. Again, on one hand we think of curtailing production while on the other hand we ought to realize that the only way to create more income and a higher standard of living is through more production. *Curtailment of production to obtain price if it were a sound philosophy would mean that if none of us worked we could all become wealthy.*

In regard to our theories to become rich through the medium of foreign trade, we should remember the words of Benjamin Franklin. Mr. Franklin stated "that to become wealthy through trade we must exploit someone." This statement is essentially correct and we should, in this connection, remember the words of Lincoln who stated—"If we produce something ourselves we will have both the goods and the money." In other words, the source of wealth is production and trade is merely the result of production.

In the early thirties one of the first fallacies, the surplus complex, started us on the wrong road in arriving at a solution. We blamed the low farm prices on our surplus of production. The record proves however that we did not have a surplus. We merely had low prices and a shortage of income to consume what was in reality a normal supply.

In this connection a careful study of the record of our nation and that of the world will reveal that we have never had a severe depression without a drop in farm prices prior to the depression. The reason is quite simple. The income of the United States and that of the

world is determined by farm production and farm prices. Low farm income means a low national income and a high farm income means a high national income. National incomes follow farm incomes up and down at an interval of 6 to 12 months with almost mathematical precision.

THE RECORD

I would like to use the record of two years of the past to prove that we did not have a surplus except that resulting from low prices and underconsumption. I will use the two years 1928 and 1932.

Production of Corn, Oats, Wheat, Barley, Rye and Flax

1928	5,333,000,000 bushels
1932	5,253,000,000 bushels

Production of Beef, Pork, Mutton and Veal

1928	17,000,000,000 lbs.
1932	16,800,000,000 lbs.

In other words, even though our population from 1928 to 1932 increased about 4,000,000, we actually had about 1% less production for them to consume. On the same per capita basis there just wasn't any surplus in 1932. Yet in 1928 we had prosperity and in 1932 we had a depression with 10 to 15 million unemployed.

Others say the tariff destroyed our export market. The record proves that this is also a fallacy. For example, in 1932 we exported 8,418,000 bales of cotton, our principal exportable surplus, out of a total crop of 13,000,000 bales, while in 1928 we exported 8,038,000 bales out of a crop totalling 14,447,000 bales. The world price however in 1932 was so low that our exports did not create much income.

The real reason for the depression was a drop in the price of all raw materials starting in 1925 and culminating with the rapid drop after 1929. In the period 1925-1929, because of a fixed tariff which prevented adjustment to keep pace with this drop in world prices, we had a *net import of farm products totalling $1.75 billion.* This con-

tinuous net import finally broke down our own price structure, sending our entire economy into a tailspin.

Many of our economists are continually expressing the theory that as we have a surplus, prices must come down so that the people can buy. They forget that lower price levels mean lower incomes and it is just another one of the things which we know that isn't true. As farm prices drop the percentage of national income spent for food goes up and in terms of per capita income food costs rise. For example, in 1932 we spent 30.3% of the national income for food and in 1945, the last year for which the Department of Commerce had figures available, a few days ago, we spent 18.8%. *It is a matter of record that during 1942, 1943, 1944, 1945 and 1946, the nation had a lower living cost on the basis of per capita income than in the depression years.*

This factor is very important because it proves the necessity of maintaining proper farm prices if we wish to consume our production. By permitting farm prices to drop we add the surplus of underconsumption to the seasonal surplus that weather conditions sometimes give us.

A careful study of the record indicates very clearly that the reason for the depression was nothing more than too low a price for farm products. The cause of the low price in my opinion is expressed quite clearly by Christopher Hollis, an English Economist, in his book "The Breakdown of Money." Mr. Hollis was an exchange professor in economics at our own University of Notre Dame in the twenties. He sets forth the reason for the depression as follows—

> "A money-lending country must be a 'Free Trade' country, and the purpose of the money-lending power has been to impose Free Trade upon the United States. It has not been a purpose easy of achievement. For in the days when labor in the United States was scanty and valuable the American workingman succeeded in obtaining for himself a very much higher wage than the workingman of Europe. It has been generally, and rightly, recognized in the United States, that under conditions of Free Trade, American manufacturers would only be able to compete against European manufacturers if the American wages was reduced to something like the European level—to say nothing of the menace of the still cheaper labor of Japan. Though American Free Trade is just as necessary to the money-lender today as was English Free Trade to the money-lender of the last century, yet the problem is a very different one, and to solve the different problem merely academic discourses upon the beauties of low tariffs were of little effect.
>
> "In opposition to the sermonizings of the old fashioned Democrats had been the financiers policy. Their belief is that the only chance of getting the tariff down has been so to reduce the purchasing power of the American people that they can no longer even approximately consume their own products. As long as that purchasing power was adequate, the American manufacturer was indifferent to foreign markets. But with domestic purchasing power reduced, foreign markets become essential to him. And, the more that he can be persuaded to look abroad for his markets, the easier it will be to change his whole attitude toward wages. At present he is in favor of high tariffs and high wages, for he looks upon the workingman as his customer. But, if he can be induced to look abroad for his markets, then wages become merely an item of costs and it is to the manufacturers interest to reduce them as low as possible. If they are reduced—and the odium for reducing them, of course, allowed to fall on the manufacturer—then American industry becomes at once a much more profitable investment for the financier, while the foreign goods can flow into Free Trade America to pay the interest on foreign loans."

Mr. Hollis' book was published in the United States in 1935. It is not available at book stores but there are copies in the University Library at Notre Dame. In the light of our inability to consume our normal production in 1932, the propaganda for Free Trade, etc., it might be well that we stop, look and listen.

The fact that we did lose our income and purchasing power is clearly revealed in a comparison of the incomes for agriculture, factory workers and the nation as a whole in 1928 and 1932.

INCOME

	Gross Farm	Factory Payrolls	National Income
1928	$11,700,000,000	$11,400,000,000	$82,000,000,000
1932	$ 5,300,000,000	$ 5,200,000,000	$39,900,000,000
Loss	$ 6,400,000,000	$ 6,200,000,000	$42,100,000,000

You will notice that our farm income in 1932 had fallen off $6,400,000,000. Everyone felt sorry for the farmers and our business economists didn't realize what had happened all through our economy. You will notice that factory payrolls also dropped in proportion to the farm income and that the national income, instead of being $6.4 billion less than in 1928—the amount of loss in farm income—had dropped $42.1 billion.

Even today our economists are preaching lower farm prices, not realizing that lower farm prices will shut off a similar percentage in income for all the major segments of our economy. It is interesting to note the hue and cry at the present time for lower prices. It is a rather dangerous pastime and we can talk ourselves into having a depression. In fact it would be very easy for us to lose $35 billion of national income if the present psychology for lower prices continues.

It is rather an indictment of our economic leadership to have such a hue and cry for lower prices when at the present time, we are in a position for the first time since 1930 to have full employment, a balanced budget and on the per capita basis the greatest consumption of food and other goods in our history. Why, for example, should we wish to have lower prices, a lower national income, unemployment and bankruptcy by returning to 1940 price levels. Especially so, when the records reveal that we are consuming 23 billion lbs. of meat instead of the average of 17 billion lbs. from 1934-1941, and using 10 to 11 million bales of cotton instead of 7 million bales. It seems as if we are afraid of prices which will give us prosperity.

Coming back now to the tabulation of income, you will note that *gross farm income,* factory payrolls and national income were approximately in a ratio of 1-1-7 or seven dollars of national income and a dollar of factory payrolls for each dollar of farm income. If the Committee will check the record for the years 1921-1945, you will find that ratio on the average was approximately constant in the proportion of 1-1-7 during the past 25 years. It is very easy therefore to create a depression by lower farm prices and the pyramiding of the loss in farm income by 7 times.

I have tabulated the comparison of gross farm income and national income for the period 1929-1942.

	Gross Farm	National
1929	$ 11.9 billion	$ 83.3 billion
1930	$ 9.5 billion	$ 68.8 billion
1931	$ 7.0 billion	$ 54.4 billion
1932	$ 5.3 billion	$ 39.9 billion
1933	$ 6.4 billion	$ 42.3 billion
1934	$ 7.3 billion	$ 49.4 billion
1935	$ 8.5 billion	$ 55.7 billion
1936	$ 9.5 billion	$ 64.9 billion
1937	$ 10.6 billion	$ 71.5 billion
1938	$ 9.4 billion	$ 64.2 billion
1939	$ 9.9 billion	$ 70.8 billion
1940	$ 10.4 billion	$ 77.8 billion
1941	$ 13.8 billion	$ 95.6 billion
1942	$ 16.2 billion	$121.5 billion
Total	$135.7 billion	$956.1 billion

I have used this period because both 1929 and 1942 were the end years from full employment through the depression and back to full employment. The price level in both 1929 and 1942 for all practical purposes were at parity with the five year period 1925-1929 of farm prices and the price of finished goods. For all practical purposes the price levels in the two years were the same.

Many of our economists, Brookings Institute included, will argue that this ratio does not exist and that it hardly ever is exactly a seven times turn. I feel that they are evading the real question. If they really understood our economy they would realize that our gross farm income precedes our national income going up and down by approximately 6 months, therefore it is impossible for the ratio to be exactly 7 times on an annual basis. Yet the average since 1921 has been approximately a seven times turn of gross farm income into national income. A careful check of the tabulation will reveal that in 1929 we had an actual seven times turn. From 1930 to 1933 farm income dropped faster than the national income and the turn was a little less,

while in the recovery period it was a little over a 7 times turn as farm income led the way back. The dislocation in 1942 was the result of our entry into war and the spending of national deficits for war materials.

A few days ago Brookings Institute tabulated national income and farm income for Congressman Knutson, Chairman of the Ways and Means Committee. They tried to point out that the seven times turn did not exist.

But, they used net farm income and of course had no relationship. We have continually stated that the gross farm income establishes the relationship.

Brookings Institute ought to know better.

The overall average for the 14 years is 7.04. The gross farm income for 1929-1932 may be different than you will find it in the present figures put out by the Department of Agriculture. They were taken out of the Agricultural Yearbook 1935. For some reason or other the Department saw fit to go back into the records and change the figures. Maybe they were using this method to try to disprove the quite positive ratio which the record reveals.

I would like to say further that the seven times turn of the farm income is an efficiency ratio which increased gradually from a turn of a little over 1 in 1775 up to approximately 7 times turn in 1921. Under full operation of our economy in the next few years it may advance to a 7.5 times turn. It is in reality a reflection of the fairly efficient farm workers to our total labor force.

The 7 times turn of gross farm income could be of very practical use to the Members of Congress. Mr. Charles B. Ray, an employee of Sears Roebuck & Co. has worked out the progressive ratio and in the last 8 years has predicted the national income for his company 6 months in advance of the U. S. Department of Commerce with an accuracy of over 98%. In the process he finds it unnecessary to total up the record of any corporation. It is valuable to his Company because their sales volume in turn will run approximately 1% of the National income, whatever it may be.

As an example of accuracy in 1945 the Departments of Government and many private economists were predicting 140 billion of income for 1946 and 8,000,000 unemployed. Mr. Ray, using the formula,

projected a national income of $163 billion and no unemployment. The actual result was approximately $166 billion and no unemployment. Instead of the economists trying to point out the inaccuracy of the ratio, I think they ought to use it so that Congress can have an accurate picture of what may happen. There is no excuse for an under-estimation of our National income in the amount of $25 billion per year.

Going back to the tabulation, if you will take the trouble to use 1929 and 1942 as the end years of the period and take the mean of the two, you will find the average annual national income we should and could have had from 1930-1941 if we had maintained farm prices at parity. *Our failure to do so caused our farmers to suffer a loss of approximately $68 billion and the nation to suffer a loss of $475 billion.* From 1929-1946 our National income has fluctuated from a low of $40 billion in 1932 to $166 billion in 1946. Such an operation is cockeyed and if permitted to continue we must admit that we have had malpractice of economics.

The Members of Congress and the economists who are worrying about the cost of maintaining proper farm prices had better start wondering about the loss we will take if we don't. For example, if we permit farm prices to drop back to 1940 levels we would lose approximately $13 billion of gross farm income and $90 billion of National income and as surely as two times two makes four. With $260 billion of National debt we can't afford to lose it.

In this connection I might point out that no matter how much you have been misled by the surplus fallacy we must forget it and maintain farm prices as the first step in solving our economic problems and, if we do, most of the surplus will vanish into the stomachs of the American people.

DEFICIENT PRODUCTION

There is more danger that we will not have enough production than having too much. In January this year I prepared a survey for the Bureau of Reclamation in which I outlined the facts as they exist. They paid me for it but, as far as I know, it hasn't been made available to Members of Congress. I would suggest, Mr. Chairman, that it be made a part of my testimony. It would be helpful to the Committee.

In this report I analyzed the growth of the United States, pointing out that from 1850-1920 we brought in 5,000,000 acres of improved farm land per year to develop our economy. Further, that by 1920 we had reached the end of our natural development and that at the present time we do not have any more harvested crop acres than we had in 1920 or 1929. Also that we do not have any more beef cattle than in 1918 and that our hog numbers were approximately the same as in 1918. (Approximately 40,000,000 beef cattle and 62,000,000 hogs in 1918 and January 1st, 1947.)

Of course the human race is rather egotistical and many of us get the idea that we govern things and forget about old man weather. With the same number of harvested acres we can very easily fall back to the crop production of 1925-1929 and 1930-1939. The 75 year average for corn per acre, for example, is approximately 26 bushels per acre. The average in the last 25 years is approximately the same as the average for the past 75 years.

I am merely giving you this for something to think about when you get swept away by the surplus propaganda, most of which, in my opinion, is being advanced by those who wish to import farm products to pay for manufactured goods which are to be exported. In this connection, and I want to throw politics aside, I want to point out that the South and Middlewest, through the Trade Agreements, were taken for a real buggy ride. And, you are still riding.

The agricultural areas were told that the Trade Agreements were to promote exports of farm products. This propaganda was in reality an insult to the intelligence of our farm leadership, if they had stopped to analyze the facts. But, they didn't and we had the program.

In our own economy 65% of our raw materials come from the farms and it is safe to assume that 85% of the economy of the rest of the World is agricultural. Therefore, any expansion of foreign trade above basic needs must be obtained by giving goods away or bringing in farm products and other raw materials to pay for them. It ought to be self-evident that if they are to pay for exports they must do so with farm products and raw materials.

During the period 1934-1939 we exported $6 billion of farm products and imported $10 billion. At the same time we exported $10

billion of manufactured goods and imported approximately $3 billion. The displacement in terms of acreage from 1934-1941 was a net import of approximately 50,000,000 acres annually. Instead of helping to export farm products the Trade Agreements increased the imports.

Some of the experts in the Department of Agriculture and State Department may deny this, so let us use a little arithmetic. We have 1,060,000,000 acres of improved and unimproved farm land in the United States. In 1941 we had a gross farm income of $13,600,000,000 or approximately $13 per acre. We had net imports of approximately $1,200,000,000 of farm products. Dividing by $13 we had a net displacement of approximately 90,000,000 acres on an overall basis.

Taking specific items, 2,000,000,000 lbs. of fats and oils displaced approximately 12,000,000 acres. A billion pounds of jute displaced 5,000,000 acres of cotton, etc.

The increase in our national debt during the thirties and the curtailment of our farm production, by paying the farmer not to produce, merely created a market for foreign producers of farm products. The rest of the world has been short of food for many years. Our policy of curtailing our own production and buying farm products from the rest of the World helped create and foster hunger and starvation, a fertile field for Communism, which we are now trying to head off with loans to nations in need.

The best move which we can make to head off Communism is to maintain our farm price levels and then help the rest of the world in using our price level as a yardstick. Then other nations can earn their income from production and natural prosperity will break up the Communistic ideology. If we persist in permitting our own farm price levels to be reduced to the level at which the rest of the world can buy, we will lead the world into eventual chaos and economic confusion.

THE RELATIONSHIP OF FARM INCOME TO OTHER GROUPS

As I have pointed out, our economy operates on a basic ratio of approximately $1 of gross farm income—$1 of factory payrolls and $7 of National income. Other segments have the same rather constant relationship. Our mineral production and transportation incomes will each ratio approximately 50% of the gross farm income. Retail sales will run approximately $4.20 for each dollar of farm income and 60% of the National income in volume. As an example, in 1929 retail sales were approximately 60% of $83.3 billion; in 1932 they were 60% of $40 billion, and at the present time approximately 60% of $175 billion. The 60% is total volume of sales and should not be confused with income from retail trade. In like manner, the income of our service industries, manufacturing, construction, etc., are in direct ratio to gross agricultural income.

One of the reasons for our failure to arrive at the answer to our economic problems is that most economists think of agriculture as just a way of life rather than the generating force in our entire economy. Therefore, they are dealing with the result rather than the cause. If they will realize that agriculture, as a direct industry, has 10 times the capital investment and employs 10 times as many men as the steel and automobile industries combined, they will have a foundation for getting at the real facts. If, in addition, they will realize that our livestock industry, just a part of agriculture, is a factory that *processes more tonnage of raw materials than all of American industry added together,* then they will stop trying to wiggle the tail of our economic dog. *Until our economists recognize that the agricultural production and income determine the number of jobs and wages in all segments of our economy, and also that of the World, they will continue in their guessing contest and economic confusion.*

PERMANENT FARM PROGRAM

As a result of our research work by the Raw Materials National Council and that of Mr. Charles B. Ray and Dr. John Lee Coulter, the National Association of Commissioners, Secretaries and Directors of Agriculture have for the past three years advocated a seven point program.

"1. Commodity loans as a floor price on seven basic crops—cotton, corn, wheat, oats, barley, soybeans, and flax—as a foundation for our national economy. Such loans should be at a minimum of 90% of parity and made callable at not less than parity. They can be made through the Production Credit Associations or the Commodity Credit Corporation. With permanent legislation of this kind most of the loans would be made by the local banks.

"2. Provisions should be made to carry adequate reserves to take up seasonal surpluses and to level off our production cycle resulting from weather conditions. We should at all times carry a reserve of at least 35% of 1 year's normal production of each basic crop. Loans on these reserves can be secured by the government and carried as close to the source of supply as possible until demand or disposal decides their final sale.

"3. Import duties geared to the same commodity index which is used in determining parity prices for farm products should be made a part of our national economic policy. The duties collected should protect manufactured goods and raw materials at the same level and should be flexible so as to reflect the difference in our parity level and the landed costs of imported products. This is for the purpose of protecting our American standard of living and giving us the greatest normal income and purchasing power for needed imports.

"4. Provision should be made for surplus disposal in the following manner:

(a) By sale into the world market at the world price level with a provision for a draw-back from import duties to absorb the price differentials in the domestic and world levels. By proper licensing of importers, proper

controls could be exercised without regimentation or excessive government control.

(b) By disposal of surpluses for relief purposes.

(c) By providing for discounts on surplus products as an aid to new industries which may be developed to utilize them in the expansion of our domestic economy.

"5. Provisions should be made that any surplus funds accumulating from import duties shall revert to the Treasury of the United States, and that any deficit be considered as the nation's cost of insurance for full employment and sustained national income.

"6. A permanent parity formula should be provided, using preferably the most recent 1925-1929 period of price balance as a base, and using the General Commodity Index of the Department of Labor for the year 1926 as 100 in adjusting farm parity.

"7. Provision should be made for the handling of perishable commodities and minor crops by marketing agreements with producers of such products."

In summarizing the seven points we now have provisions for commodity loans at 90% of parity through the Commodity Credit Corporation. We can easily set aside reserves of 35% if and when they again are available. We have under the Tariff Act of 1930 a provision to adjust tariffs on the basis of differences of cost at home and abroad. Under the Trade Agreements the tariffs can be increased 50% under the administration of the Act. We have provisions to use some of the import duties for surplus disposal in the world market in present farm legislation.

A permanent parity formula can be established in the bill for permanent farm legislation. I would suggest that a simple formula of prices paid by the farmer as compared to prices received in the base period be used. It will reflect many of the various cost factors, such as interest, taxes, labor, etc., automatically through the price of finished goods. The use of this formula would give the farmer approximately 7% more than the present formula.

I would like to point out that there may be some dislocation of the price of a commodity even in a five year period. But, the overall parity equation is quite accurate. For example, *the percentage of parity for farm products determines the employment in the factory.* During the ten year period 1930-1939, with farm prices at 82% of parity, factory

employment was 81% (1929—as 100). If our social reformers really want full employment, then all they need to do is have farm prices at parity. Full employment is the automatic result. In this connection, I might point out that no matter what legislation Congress may pass, farm production and the percentage of farm parity will determine the employment in the United States.

The cost of such a program to the Treasury would be nothing. A study of the record from 1922 up to the present time indicates that a tariff at the parity level would have collected enough in import duties to liquidate all our surpluses at the world price level.

The sale of American farm products at the world price level should not be considered as a subsidy to the farmer but as a price correction. The amount of exchange created by the sale at the world price level will be sufficient to buy an equal amount of goods at world price levels as the exchange at the American level. For example, to trade in the United States on the basis of a lb. of cotton for a lb. of fats and oils and then to go out in the world and expect two or three lbs. of fats for a lb. of cotton would mean that we were exploiting the world by underpayment for their products. The different nations all have a different parity level created by their own particular economy and each nation will, from economic necessity, protect its own level. This differential must be adjusted if we are to have real reciprocity.

We must maintain parity for agriculture if we wish to remain a solvent nation. We cannot maintain an American parity without a tariff at that level. Our tariff should be flexible so that if and when world prices are at our parity level, then we can be on a free trade basis. Even then, we must realize that because of our efficiency other nations will still have to have tariffs to protect their own producer. And, in spite of theory, they are going to do so. The Geneva Conference is nothing more than a horse trade in which the American farmer is being traded off so that International Capital can market its product, produced with exploited labor, in the United States.

Of the seven points set out in a permanent farm program, the tariff is the most important. With a tariff at the parity level and our present income level, there would be little need for price support. The price support would merely establish the value of the dollar in terms of our basic production as intended by the Constitution which gives

Congress the right to regulate the value of the dollar.

In closing, I wish to make this simple statement. Our farm problem and depressions are almost entirely monetary or a matter of price for farm products. Our failure to solve the farm problem was due to our failure to restore full parity for agriculture. If in 1933 we had added a parity tariff to our other attempts we would have ended the depression in less than 12 months.

In regard to the potential surplus there is no danger if we maintain parity. An increase in our production will result in increased income and increased consumption and a higher standard of living.

Parity prices for agriculture will mean a progressive economy and less than parity will mean a decadent economy and eventual bankruptcy.

We should welcome surpluses for the following reasons:

1. We need surpluses if we are to have world trade.
2. We need surpluses for the expansion of our economy. In the case of agriculture we need the equivalent of 4,000,000 acres of improved farm land annually.
3. We need surplus production to increase our annual income and to employ the labor which has been displaced by efficiency.
4. We need surplus production so that our economic cycle can operate to the fullest extent and continually add to our standard of living.
5. Each $1 of surplus production will mean an increase of $7 of national income.
6. Surplus farm products are the best form of national defense.
7. We need our present farm production of approximately 40% above 1930-1939 production to employ our labor.

The growth of our efficiency and population requires our present farm production to fully employ our labor force. The rate of this growth is far greater than most people realize. For example, the increase in population since 1932, at present per capita levels, is a dollar market three times as great as our total export market in 1940.

Our farm surplus has dwindled down to several hundred million dollars worth of wheat and cotton. With a sustained buying power in the United States we can easily trade these surpluses for such farm products as we need and don't produce enough of.

The tariff duties collected from these imports would pay the cost

of price adjustment to foreign levels on exports of surplus products.

Finally, the end result of our economy is that farm products and other raw materials are the annual profit of our economic cycle. *The capital worth of the United States will ratio to the raw material income and a depression is nothing more than a capital adjustment to the annual profit, the income from new wealth production from the soil.*

Parity prices for farm products assure enough annual national income to consume our annual production or its equivalent.

For society to pay less than parity for farm products means to reduce the profit of our national economy.

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80th Congress
1st Session

H. R. 3489
IN THE HOUSE OF REPRESENTATIVES
A BILL

To amend and supplement various federal statutes, as amended, having for their purpose to provide a permanent formula for arriving at parity prices for farm commodities, to provide administrative agencies to be responsible for the carrying out of this Act and existing laws pertinent thereto; to promote the greatest normal economic exchange of goods and services among the people of the United States and with the people of other nations; to protect the people of this country and their property from the recurring evils of world-wide inflation and deflation; to stabilize the purchasing power of money; and for other purposes,

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act shall be known as the "Permanent Farm Parity Act of 1947."

Sec. 2 (a) This Act shall apply to the following seven staple farm products: cotton, flaxseed, wheat, rye, corn, oats, and barley.

(b) Prices received by farmers for the seven staple farm products shall be reduced to the form of index numbers, weighted on the basis of total market value of each of the said seven crops produced equal to a total of 100.

(c) In order to establish a base for purposes of price relationship, prices shall likewise be compiled for all commodities ordinarily

purchased by farmers in all parts of the United States, weighted on the basis of relative expenditures for the several commodities so purchased following methods now in use.

(d) The base period for purposes of contrasting prices for farm commodities produced for the market and prices of commodities purchased by the farmers shall be the five years beginning July 1, 1924, and ending June 30, 1929.

(e) Parity prices shall continue to be computed by the same method of procedure as that now prescribed by law, using the base period above indicated, the seven staple farm products listed above, and the commodities purchased by farmers as the guiding elements.

Sec. 3 (a) The Commodity Credit Corporation shall serve as the exclusive agency of the United States responsible for all financing and marketing operations participated in by the United States in connection with policies set forth in this Act having for their purpose the establishment and perpetuation of a program of parity prices for the seven staple farm crops already enumerated.

(b) The Commodity Credit Corporation is authorized and directed to make loans to farm operators, producers, processors and other owners of the seven basic farm products and products derived primarily therefrom wherever these may be located within the United States.

(c) No loans shall be made in the case of any commodity when the market price exceeds 90 per centum of the parity level. The limit of loans for purposes of this Act shall be not to exceed 90 per centum of the calculated price parity in the case of each commodity and loans to processors or other owners of products derived from the basic products shall be whatever amount is necessary in order that the original producers may receive not less than 90 per centum of price parity.

(d) Commodities which come into the possession of the Commodity Credit Corporation may be sold in the open market only when price parity levels have been reached except that products may be sold at any time in order to avoid spoilage, deterioration or loss from any natural cause, but in that event an equal quantity of the same commodity shall be purchased in the open market to replace commodities sold to avoid loss.

(e) Commodities which come into the possession of the Commodity Credit Corporation or which otherwise accumulate as inventories in the hands of private owners shall be permitted to accumulate until they reach 35 per centum of the normal average requirements for consumption or use within the United States during any calendar, crop, or fiscal year. This 35 per centum shall be deemed a working stock or reserve which should be available at the beginning of each new year in order to assure the nation of an adequate supply of all of these basic commodities and shall be sold in the open market only to prevent prices from advancing to levels beyond price parity and to make up deficits resulting from unfavorable climatic factors or other causes.

Sec. 4 (a) There shall be regularly collected by the Customs Bureau and the Bureau of Internal Revenue a tariff or excise tax or processing tax, on the imported staple products listed in section 2 and commodities derived therefrom, such rates of duty or tax as are now or may hereafter be prescribed by Congress subject to the following adjustments:

(1) The Secretary of the United States Department of Agriculture shall regularly (monthly) file with the Secretary of the Treasury the current parity price of each of the several products or commodities contemplated in this Act when delivered at the regular ports of entry of the United States.

(2) In turn, the Director of the Customs Bureau and the Director of the Bureau of Internal Revenue are hereby authorized and directed to ascertain the landed cost of any product or commodity covered by this Act. They shall then calculate the cost of any product or commodity covered by this Act. They shall then calculate the difference between the landed cost of imported commodities and price parity and are authorized and directed to assess a tariff or tax higher or lower than the amounts prescribed in the regular schedule in whatever amount is necessary to bring the cost of the imported commodity to the parity level.

(b) All receipts from tariffs, excises taxes and processing taxes levied and collected on imported farm products, including the products or commodities subject to special treatment in this Act, shall be paid into the general fund of the United States Treasury where a

separate account or record shall be kept so that monthly balances may be shown of receipts and expenditures incident to the importation of agricultural products from foreign areas and likewise incident to the expenditures in connection with the exports of agricultural products to foreign areas.

Sec. 5 (a) When it appears from statistics, which shall be compiled by the United States Department of Agriculture, that the surplus of any staple product, or commodities derived therefrom, will exceed the 35 per centum reserve indicated in section 3, either the Commodity Credit Corporation or other owners may offer any such surplus for sale and export to foreign markets at world or foreign market prices. If the net prices of export products or commodities f.o.b. shipping facilities at American export points are less than 90 per centum of parity prices as calculated by the Secretary of the Department of Agriculture, then the Commodity Credit Corporation or other exporters may apply to the Secretary of the Treasury for a draw-back in amount equal to the difference between the said 90 per centum of parity price and the said net price of the commodity to be exported at the point and time of departure or sale.

(b) Within 30 days from the filing of such complete evidence as may be required by the Secretary of the Treasury, indicating the completion of any export transaction, the said Secretary is hereby authorized and directed to pay the said draw-back in the amount indicated to the said exporter.

(c) No payments of draw-backs authorized under this Act during any fiscal year shall exceed revenue collected from tariffs, excise taxes, or processing taxes imposed on imports of agricultural products.

(d) The Secretary of the Treasury is hereby authorized and directed to set up a draw-back account to cover all products and commodities contemplated by this Act and shall make payments from revenues received from import tariffs, excise or processing taxes described in section 4 of this Act. The said Secretary shall make regular monthly, quarterly, and annual reports to the President and to the Congress of collections made and deposited in the parity revolving fund as well as expenditures or draw-backs paid to exporters of surplus American products provided for in this Act.

Sec. 6 (a) There is hereby created a national government price parity control commission of which the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Secretary of the Treasury, and the Secretary of State shall be the official members who shall designate employees of their several departments as the active members; each of said official members and active members to serve without other compensation than that regularly paid in their official capacities. An estimate shall be made by the Director of the Budget to provide for a necessary staff of experts and clerks to carry on the routine work of the said commission, and this shall be submitted through the President to the Congress as a basis for authorization for their employment and necessary appropriations.

(b) The principal duty of the commission herein created shall be to keep a current record of the character and volume of domestic production, imports and exports of the products and commodities covered by this Act so as to make sure that there is a current market for all domestic products, an adequate supply for the domestic market and a balance maintained in the volume of imports and exports, having for its purpose the preservation of the principle of price parity for these staple products of agriculture, including the maintenance of a reserve of 35 per centum of each of the staple products in question or its equivalent in commodities resulting from processing or manufacturing operations.

(c) When the indicated reserve of any basic products enumerated in section 2 reaches a point substantially in excess of 35 per centum of annual domestic requirements, plans shall be developed to stimulate an increase in the export market and the reverse plans shall be formulated to secure additional imports when, as, or if the reserve shall fall substantially below the 35 per centum level. Plans formulated may include diversion of surplus products to such special uses as relief, either at home or in foreign areas, or the utilization of varying quantities of different grades or qualities of any of the enumerated products into special experimental industrial channels, both as an aid in disposing or burdensome surpluses and part of a program to develop new uses, without resorting to programs of crop curtailment.

(d) The said commission is hereby authorized and directed to approve, as a temporary measure, the complete elimination of any

tariff, excise tax or processing tax when the landed cost of a foreign product reaches the same level as United States price parity.

(e) In any case of great emergency, due to extraordinary crop deficiency, resulting from unfavorable climatic conditions, insect pests, plant diseases or other factors such as war, the said commission is hereby authorized and directed to sanction the importation by the Commodity Credit Corporation of any amount of like or similar material for use in the domestic market at prices not to exceed 110 per centum of parity.

Sec. 7. In addition to basic farm products specified in section 2 (a), all provisions of sections 1, 2, 3, 4, 5 and 6 of this Act shall apply to all other agricultural products or commodities derived therefrom, or which are in direct competition therewith, as substitutes, except sections which provide for the operation of the Commodity Credit Corporation and provisions which call for the maintenance of a 35 per centum annual reserve of said farm products and commodities.

Sec. 8. All Acts or parts of Acts in conflict with this Act or any part of this Act are hereby repealed. If any provisions of this Act or the application thereof to any person, circumstance, or commodity shall be held invalid, the validity of the remainder of this Act and applicability of this Act to other persons, circumstances or commodities shall not be affected thereby.

(Author's Note.) This type of legislation will cure any depression in 6 to 12 months and will prevent depressions in the future.

As a citizen it is your duty to act in a program of education which will make a science out of economics instead of a tool for exploiters. If two times two makes four, an increase in our production of new wealth must be translated into a higher standard of living.