Meddling Works

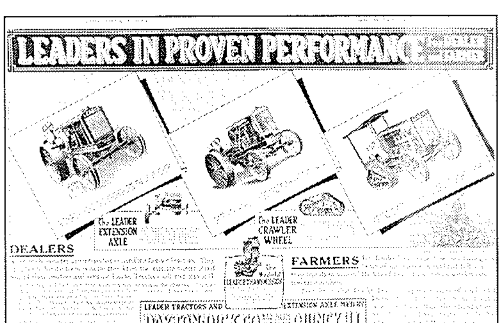
"New Deal Regulation and the Revolution in American Farm Productivity: A Case Study of the Diffusion of the Tractor in the Corn Belt, 1920–1940" by Sally Clarke, in *The Journal of Economic History* (Mar. 1991), 211 Watkins Home, Hall Ctr. for the Humanities, Univ. of Kansas, Lawrence, Kansas 66045.

Many Americans have come to believe that government interference with market forces always hinders economic growth. Clarke, a historian at the University of Texas, has come up with a case to the contrary: New Deal intervention in the agricultural economy.

To be sure, by setting prices and restricting farm production Washington "distorted commodity markets and saddled taxpayers with the large cost of annual subsidies," she notes. But it also reduced the financial barriers that had been preventing many farmers from buying tractors and other costly labor-saving inventions. After having grown by only 0.5 percent annually in the three decades before 1930, farm productivity increased by three percent a year from 1935 to 1975.

Large numbers of farmers began buying tractors during World War I, and by 1929, nearly a quarter of all the farmers in the Corn Belt possessed them. But for every farmer who had a tractor then, Clarke calculates, there was another for whom it would have made economic sense to own one but who nevertheless did not. This gap was not closed until 1939.

The tractor, which retailed for about $1,000, was an expensive machine to the Midwestern farmers. Many hesitated during the 1920s to invest in one—and thus passed up potential gains in productivity—because they wanted to save their cash to protect themselves against the sudden price drops then common in the unstable commodity markets. Farmers could borrow the money for a tractor, of course, but, even before the Depression, many younger farmers were indebted—and some faced a terrible cash-flow bind.



Although not all they might have been, tractor sales still flourished in the 1920s, as farmers discovered the machine's advantages.

President Franklin Delano Roosevelt and Congress, responding to the great crisis of the Depression, established the Agricultural Adjustment Administration (AAA) and other regulatory agencies in 1933 to restore farm prosperity. Changing the investment situation for farmers was not the programs' intent, but it was a consequence, nevertheless. While the AAA paid farmers to restrict production, the Commodity Credit Corporation set minimum prices for corn and wheat, and by so doing freed farmers from having to worry so much about a collapse in prices. "Instead, they were free to invest in the tractor based on its efficiency," Clarke says. And the Farm Credit Administration lessened the burden of farmers' existing debts and offered low interest rates for new loans. Whereas interest payments had consumed as much as 11 percent of farmers' income earlier in the decade, they dropped to less than five percent of income by 1935.

Farmers took advantage of the changed investment climate to buy new equipment. Sales of tractors, which had plummeted from 137,000 in 1929 to 25,000 in 1932, swelled to 174,000 annually in 1936–39. Thanks to New Deal intervention, farmers bought more readily during the Great Depression the expensive invention they had delayed buying in the 1920s, thereby giving farm productivity a lift with historic consequences.