



FARM RELIEF IN GERMANY

Author(s): KARL BRANDT

Source: *Social Research*, MAY 1934, Vol. 1, No. 2 (MAY 1934), pp. 185-198

Published by: The Johns Hopkins University Press

Stable URL: <https://www.jstor.org/stable/40981363>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



The Johns Hopkins University Press is collaborating with JSTOR to digitize, preserve and extend access to *Social Research*

JSTOR

FARM RELIEF IN GERMANY

BY KARL BRANDT

THE collapse of agricultural prices throughout the world which attended, in some respects preceded, the general depression of 1929 to the present, has produced serious agrarian unrest in every western country and has evoked in most countries more or less serious attempts to restore through legislation the position of agriculture. In this movement for agricultural relief Germany has taken a leading part. As a nation dependent upon importation for an essential part of her food supplies, Germany was in a position to employ the time honored methods of tariff protection, with results that at the outset appeared entirely favorable. Within an astonishingly brief period of time, however, the readjustments of production in the field of agriculture forced the government to a recognition of the inadequacy of simple methods of economic policy in a highly dynamic society. With the administrative energy that has characterized the German state, one auxiliary device after another has been built up. The nature of this system, its capacity to stand up against the dynamic forces operating remorselessly in economic society, are problems worth the attention of the American student, who is witness to an analogous movement and to the application of means not altogether dissimilar to some of the devices worked out in Germany.

I

The Market for Carbohydrates

1. *Grain.* In 1925, after inflation had run its course and domestic prices had returned to a fairly stable level, the government introduced a tariff on grain with duties relatively the same as in the period 1906-1914. This meant a duty on bread grain ranging from 10 to 20 per cent on the value, and a low duty on feed grain, namely barley and maize. This traditional policy of fixed duties,

established by act of parliament, was abandoned when world grain prices declined sharply in 1929. The farmer party demanded a strict separation of the German grain price level from the world market and this demand was in the end realized.

The first important change in tariff methods was the introduction of flexible duties. The government was empowered to raise duties without delay and without discussion. Only the standard price which it was sought to realize was to be determined by agreement between the parliament and the government. This so-called "satisfactory" price was set at such a high mark that no changes needed later to be made.

There followed a rapid raising of the duties by four stages to a level which sometimes equalled the domestic price. The effect was to cut off the domestic markets for rye and wheat from the world market. This affected directly only consumption prices, but the same method applied to the feed grain market had far reaching repercussions. The importation of several million tons of cheap feed barley and corn had been a basic item of the structure of German animal production, especially hogs and eggs.

It was the chief aim of the government to fix the prices of rye and wheat. But on account of the intercommunication of all grain markets, there was no possibility of attaining this end without restricting feed grain imports. The final course in the protective wall around the grain market was the establishment of a state monopoly for the import of maize. It was now possible by administrative measures to fix prices at will and command scarcity or plenty by the manipulation of imports.

To control the distribution of imports of other grains over the whole season, and to prevent the accumulation of temporary surpluses by importation, a "milling quota" was introduced. This quota provided that for any specific amount of foreign grain milled, a specific amount of German grain also had to be milled.

The high tariff and the maize monopoly were not sufficient to prevent a collapse of the price of rye, because Germany normally has a rye surplus. The government therefore entered upon direct

market intervention and created the office of high grain commissioner. The old German instrument of import certificates, which allowed the exporter of rye to import the same amount of grain or perhaps of other commodities free of duty, was later abolished because it was too costly and seemed to foster imports of animal products from countries which imported the German rye surpluses dumped abroad. A tentative export pool with Poland proved a failure. Consequently the grain commissioner tried to create a vacuum in the market, in order to lift the price of rye. The method employed was open market buying and storing of rye on a large scale. This policy was pursued from 1929 to 1932, with the consequences that were to be expected, waste and exhaustion of funds, periodical collapses of price, manipulation by speculators, etc. Government purchases, as an unpredictable factor in the market, discouraged the independent grain merchants from accumulating stocks as they had formerly done. Thus the apparent relief to the grain market was counteracted at least in part by the reduction of stocks in private hands.

After having bought the stocks of rye the grain commissioner had to get rid of them in such a way as not to hamper him in his primary task of price fixing. He had assumed that the record crop of 1929 would not be followed by another in 1930, but in this he miscalculated, the crop of 1930 being still larger. The accumulated stock of rye had to be sold at a low price to the western hog fattening farmer as a substitute for barley, formerly imported. To exclude its use for flour, the rye was denatured by dyeing it red with eosin. But only by mixing this eosin rye with barley imported at a lowered duty was it possible to create a demand for it. In one way or another the grain commissioner got rid of his stocks—at a tremendous loss.

As Germany had a deficit of 1.5 or 2 million tons of wheat, it was natural that the government should make wheat go as far as possible and to divert as much rye as possible to the feeding of hogs. Bran quotas were introduced, fixing the percentage of flour to be extracted from wheat and rye. For wheat the percentage was set at

a maximum; for rye at a minimum. Furthermore the varieties of flour to be used in the different kinds of bread were regulated by a law which introduced special standards of bread.

For political reasons the government wished to keep the price of bread as low as possible. An attempt was made to establish low prices for bread in spite of high grain prices by curtailing the bakers' profit margin. Every loaf had to show the guaranteed weight. A rigid investigation of retail prices did at least check any price raising by dishonest devices.

The combination of these measures ultimately had the desired effect, namely to separate domestic grain prices entirely from the world market and to maintain them between 100 and 200 per cent above world prices. The high grain prices added purchasing power to those farmers who sell grain. The big estates and the large sized family farms enjoyed most of the benefits from this policy. What they gained had to be paid by the consumer and by the mass of small farmers who normally buy grain for animal production.

As the author repeatedly predicted when the campaign for higher prices was inaugurated, the effect of price fixing was to stimulate production. After elimination of seasonal variations, the trend of production from 1926 to 1932 was notably upward—from 17.8 to 20.1 million tons.

At the same time consumption declined nearly 2 million tons. The reasons for this decline were the shrinkage in beer consumption and the substitution of oil cake, which was very cheap, for more than one million tons of feed grain.

For seventy years Germany had had a deficit in grain. Four years of price fixing resulted in creating a surplus. A net deficit of 7 million tons, covered by imports in 1926, was turned into a net surplus of about 2 million tons in 1933-34.¹ (See Table 1.)

¹ In the discussion of the rapid changes in German agriculture it is frequently said that the leading aim of the government was to establish autarchy or national self-sufficiency. This is not an adequate statement of the facts. The farmers demanded higher prices and rationalized their demand by a nationalistic appeal to the principle of self-sufficiency. Nobody believed that the grain deficit might within a few years disappear, and that the farmer might be confronted with a real problem of surplus.

TABLE I. NET GRAIN IMPORTS (-) AND EXPORTS (+)
IN THOUSAND METRIC TONS

Variety	1911-13	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33
Rye	+ 406	- 439	+ 150	- 452	- 321	+ 405	+ 434	+ 53	- 443	- 177
Wheat	-2054	-2234	-1575	-2503	-2414	-2117	-1296	- 849	- 632	- 131
Barley	-3278	- 655	-1240	-2103	-1896	-1615	-2208	- 849	- 724	- 171
Oats	- 152	- 283	- 304	- 164	0	+ 231	+ 663	- 36	- 10	9
Maize	- 934	- 584	- 552	-1597	-1685	- 790	- 839	- 423	- 771	- 378
Breadgrain										
Total	-1648	-2673	-1425	-2955	-2735	-1712	- 862	- 796	-1075	- 308
Feedgrain										
Total	-4364	-1522	-2096	-3864	-3581	-2174	-2384	-1308	-1505	- 558
Grain										
Total	-6012	-4195	-3521	-6819	-6316	-3886	-3246	-2104	-2580	- 866
Value of										
Net import										
Million Marks	1014	786	1457	1439	843	666	287	267	101	

2. *Potatoes.* When the grain price stabilization system appeared to be operating successfully, the large estates of East Prussia, with their potato surpluses, demanded price fixing for their products as well.¹ Three relief measures were adopted. The administration of the state monopoly increased the quotas of spirits which the producers were licensed to distill from potatoes. To get rid of the excess production of alcohol the monopoly required the gasoline distributors to mix potato alcohol with the gasoline, up to 15 per cent of the volume. This uneconomic procedure taxed the automobile operators in favor of the distilling farmers and indirectly of all potato producers. This provision was strongly backed by the federal railroad administration, which was eager to curtail the serious competitive power of the motor truck.

The second relief measure was the artificial creation of an increased demand for potato starch. The government permitted the bakers to mix 10 per cent of potato starch with the flour for bread

¹ The German potato crop fluctuates between 35 and 48 million tons, or an equivalent of 8 to 14 million tons of grain.

making. This was expected also to cut down wheat importation. Later on this mixing became compulsory.

Thirdly, the government subsidized the production of potato flakes and supported the sale of the product by adding flakes to eosin rye and barley imported under reduced duty.

3. *Sugar.* When the world sugar price collapsed in consequence of the rapid expansion of cane sugar production, the German government undertook to control the domestic price by a flexible duty. In addition, all the sugar factories had to join in a compulsory syndicate and in an export debenture plan. The usual seasonal immigration of 400,000 Polish migratory laborers was cut off. But the losses involved in the dumping of surplus sugar abroad curtailed the returns from beet culture. A rigid restriction of the production of sugar for consumption became necessary. Under this restriction the German sugar beet acreage dropped to 50 per cent. The farmer had to find other crops for this most valuable and fertile land. He turned to wheat, alfalfa and vegetables, especially early potatoes and onions. The market for early potatoes collapsed immediately. Later, when the restrictions on production had made it possible to clear off the sugar carry-over, a certain increase in acreage was permitted.

As stated above the scheme of price fixing increased the purchasing power of some groups of German agriculturists. Where did this purchasing power come from and who bore the cost?

A major part of the costs were borne by the German consumer, who paid high prices for bread and sugar. Another part was borne by the export industries, which lost some part of their sales abroad. This injured the small farmer indirectly by increasing unemployment and by curtailing the purchasing power of the consumer of meat, butter, eggs and milk.

But a large part of the costs was shifted to the farmers of countries which formerly exported grain to Germany. In so far as the policy operated to restrict imports, it resulted in a transfer of the

agricultural depression to the exporting countries. This resulted at the same time in a further decline in world market prices. The total volume of the world trade in grain amounts to between 35 and 45 million tons. The former German importation of between 4 and 5 million tons was an important fraction of the world demand, and its disappearance was bound to affect world prices adversely.

One further point needs consideration here: the effect of grain price stabilization upon the agricultural groups not directly interested in grain production. Grain is a basic food with a rather inelastic demand,¹ a commodity with a price mainly determined from the supply side. This made it possible to force an artificial increase in price even at the moment when the depression began to restrict the purchasing power of the masses. While payrolls declined and the unemployed rose to six millions, grain prices were maintained or even raised. The natural outcome was that other farm products, such as milk, meat, eggs, vegetables, which are the cash products of the family farms of western Germany, had to carry the whole burden of the depression in so far as it affected agriculture. Whatever additional sums the consumer had to pay for bread grain out of his diminished income represented a reduction in the purchasing power that could be applied to these other farm products.

Another result was the change in the relative production of the several grains, with rye declining and wheat and barley increasing. At the same time the German farmer found that it paid to use oil cake as a substitute for feed grain, because it remained free of duty. Until the adoption of a prohibitive grain tariff oil cake was regarded merely as a protein concentrate. Within three years the consumption increased by 1.5 million tons.

Considerable acreages of pasture and tillage for fodder were converted to wheat and barley culture. Dairy production was thus checked in its development, and egg production was sacrificed, because eggs remained practically free of duty, while the raw ma-

¹ The decline of 2 million tons in the demand for grain was only to a small degree due to a shrinkage of the consumption of bread. It was mainly the effect of the substitution of oil cake for feed grain and the falling off in the consumption of beer.

terial of egg production, namely grain, was to be had in Holland, Belgium and Denmark at about one third of the German price. Private grain dealers were seriously affected and in some cases ruined by the unpredictable intervention of the government in the markets. Serious dislocations and capital losses were incurred by the milling industry as a whole.

In sum, the stabilization of the carbohydrates market had the effect of giving to one group of agricultural entrepreneurs additional purchasing power which came in part from the pockets of the consumers, who paid higher bread prices and subsidies financed by taxation.

The experience of Germany in the control of grain prices shows conclusively that there are no isolated commodity markets, that instead, all commodity markets intercommunicate. There is, however, a lag of between two and four years in the response of finished goods to price movements in the field of raw materials. If carbohydrate prices decline definitely meat and other animal products will necessarily follow, because the farmer tries to find a way of minimizing losses and converts carbohydrates into fats and protein so far as his financial liquidity permits. In the case of Germany the events occurring in the period of lag were of the greatest significance. The powerful stimulus given to grain production favored the large estates—without indeed saving the majority of estates from over-indebtedness—and depressed the majority of the five million family farms by increasing the cost and reducing the price of their main cash products.

II

The Oil and Fat Market

By 1932 the carbohydrate market had been brought under control. Thereupon the demands of the small farmers became more and more vigorous, because their key product, milk, showed obviously diminishing cash returns.¹ In January 1933, under Chancellor Hit-

¹ About 35 per cent of the total cash income of the family farms arose from milk production.

ler and Secretary of Agriculture Hugenberg, the government began a new campaign to separate the domestic oil and fats market from the world market and to establish effective price control. All the experience acquired in the carbohydrate stabilization was applied in the working out of a system of control proof against any conceivable evasion.

The consumption of fats and oils in Germany, 1930, was as follows:

<i>Product</i>	<i>Weight in tons</i>	<i>Percentage of:</i>	
		<i>Domestic</i>	<i>Imported</i>
Butter	480,000	79	21
Oleomargarine	480,000	2	98
Lard	210,000	60	40
Oil	100,000	4	96
Tallow	25,000	100	—

Milk is the basic commodity which decides more or less the economic destiny of five million farm families. About one half of the world's milk supply is used in butter production. Since Germany imported 21 per cent of the butter consumed, the price for all marketed milk followed the world's butter market, in practice the quotation at either Copenhagen or London. Butter imports might have been curtailed by drastic duties, but the flexibility of the demand and the competition of the cheap substitute for butter, oleomargarine, would merely have turned the consumer toward margarine. But margarine is an industrial product, based on cheap oils or fats. The new technique of oil and fat chemistry and physics makes it possible to convert any variety of oil into fats and the reverse.

The raw materials employed in the production of margarine changed rapidly after the war, with a remarkable increase in the use of whale oil. The uncertain and hazardous game of hunting in the Arctic and Antarctic Oceans thus competes with the milk production of the German peasant. There are good reasons why a country should prevent the destruction of the permanent economic interests by the sporadic and predatory ventures of a few foreign

capitalists, or at least why such ventures should not be permitted to jeopardize permanent interests without sufficient time to consider the long run effects.

All these developments increased the competitive power of some eighty margarine factories as against the milk producer. As a result the whole benefit of increased fat consumption fell to the butter substitutes industry. Table II shows exactly what happened.

TABLE II. FAT CONSUMPTION PER CAPITA, IN KILOGRAMS

<i>Date</i>	<i>All Fats</i>	<i>Butter</i>	<i>Margarine</i>	<i>Lard</i>	<i>Edible Oil</i>	<i>Tallow</i>
1913	15.02	6.80	2.99	3.43	1.40	0.40
1925	17.01	5.66	6.49	3.06	1.40	0.40
1929	20.14	7.21	7.85	3.28	1.40	0.40
1930	20.41	7.60	7.93	3.08	1.40	0.40
1931	19.70	7.36	7.32	3.22	1.40	0.40
1932	20.35	7.09	8.00	3.46	1.40	0.40

Before the war the price of one pound of butter was equal to that of two pounds of margarine. In 1931 one pound of butter was worth nearly five pounds of the lower grade of margarine, which was, however, better in quality than that of prewar times. Margarine prices declined so rapidly with the world crisis for oilseeds and whale oil that even under the severest depression the German population was able to maintain the high consumption of fats which was reached at the peak of the cycle.

The government wished to reestablish the net profit of family farms and to force the consumers to abandon some of their recently acquired privileges in the way of cheap fats. In the spring of 1933 dairy products, oils and fats, including all imports of oils and fats and all manufacturing and processing of oils, butter, lard, bacon and fats, were placed under the control of a state monopoly. The duties on lard and bacon were raised, and a tariff on margarine set up. Imports of butter were restricted by monthly quotas, as well as by differential tariff rates. Later the importation of lard was subjected to similar control. Margarine production was cut down to 50 per cent of that of the preceding year. In addition, the price for margarine was controlled by a processing tax and a maximum price

for retail. The fund raised by the processing tax was spent for open market purchases of butter and its distribution to the neediest in small quantities at a price lower than that of margarine. This stiffens the butter price, because the gifts of butter go to people who do not otherwise represent an effective demand for butter. On the other hand the margarine industry is required to use a fixed percentage of German raw material. This provision improves the demand for German lard.

As a consequence of these measures the price of butter rose immediately. The tariff was sufficiently effective to establish the price independently of the world market. Margarine consumption diminished by about 50 per cent. The consumer tried to make up for the loss of cheap margarine by buying more fat meat. The effect of the whole policy was to stimulate the production of butter and fat hogs.

But the administration of the oil and fat monopoly had foreseen the increase of milk production and had curtailed the supply of the cheapest raw material, namely, oil cake. This hampers the farmer and forces him to produce his own protein concentrate feeds, thus limiting the area devoted to grain. Thus careful provisions have been devised to maintain the desired scarcity for several years. It is possible, however, that the shifts in consumption under the pressure of high prices and a rapid increase of hog production may interfere with the government's plans.

The price of milk to the farmer has been improved, but to maintain the price for fluid milk it has been found necessary to restrict sales rigorously. In nearly all the larger cities of Germany we find a quota system controlling the shipment of milk for direct consumption.

III

Conclusions

The markets for carbohydrates, oils and fats are now under direct state control. The protein market is indirectly stabilized by prohibitive tariffs, shortage of oil cake and high prices for feed grains.

The domestic prices of farm products have been separated from the world market and raised considerably. This was possible because the German supply was inadequate to meet the demand. Improved prices have stimulated production. In the carbohydrate market the large deficit disappeared within three years. In the market for fats it will take three or four years to change the deficit in production into a surplus. The drastic reduction in import quotas on lard seems to indicate that domestic production may soon begin to fill the market and complicate the problem of price control. Real difficulties will emerge with the appearance of a surplus, with a consequent tendency to decline in prices, irrespective of the world market.

For the moment the purchasing power of the farmer has been restored in some measure at the cost of the consumer. In the long run, however, other forces play a predominant role in fixing the income of the farmer. Most important would appear to be the development of the purchasing power of the industrial population. During the cycle closing with 1932 the cash income of the German farmers exhibited a remarkably close correlation with the payrolls of industry.

TABLE III. COMPARISON OF CASH INCOME OF FARMERS WITH INDUSTRIAL PAYROLLS

CASH INCOME OF FARMERS ^a			INDUSTRIAL PAYROLLS ^a		
	<i>Billion</i>	<i>Index</i>		<i>Billion</i>	<i>Index</i>
<i>Year</i>	<i>Marks. (1924-25 = 100)</i>		<i>Year</i>	<i>Marks (1925 = 100)</i>	
1924-25	7.5	100.0	1925	34.0	100.0
1925-26	8.0	106.6	1926	33.0	97.0
1926-27	8.4	112.0	1927	37.8	111.1
1927-28	9.3	124.0	1928	42.9	126.1
1928-29	10.2	136.0	1929	44.5	130.8
1929-30	9.8	131.3	1930	40.9	120.2
1930-31	8.7	116.0	1931	33.5	98.5
1931-32	7.4	98.6	1932	25.7	75.5
1932-33	6.5	86.6			
1933-34	7.2-7.3	96.6			

^a Estimates by Institut für Konjunkturforschung.

The Statistische Reichsamt price index for agricultural products reached its lowest point in the first quarter of 1933, with 87.9.¹ There has since been a steady rise to December 1933, with the index at 93.7. The Institut für Konjunkturforschung forecasts the probable gross income from farm production for 1933-34 at around 7.2 billion marks, which would be an increase of about 10 per cent over the level of the preceding year.

It may be assumed that the recovery plan of the government, with a radical curtailment of taxes, with public works and other measures for stimulating production, must have played a part in bringing about the 12 per cent increase in industrial production estimated by the Institut. The question then arises whether, without this artificial stimulus to payrolls and purchasing power the estimated increase in agricultural income would have been possible, even granted all the direct measures applied to farm relief.

What is the price the government has had to pay for its successful fixing of agricultural prices? First, its resources for price fixing are a wasting asset. They will prove ineffective as fast as deficits give way to surpluses. Second, the government has unconsciously assumed responsibility for the financial results of the farming operations. Since the state assumes the control of production and prices, the farmer naturally looks to the state to place him in a position to pay taxes, interest and the principal of his debt. Logically the next step can be nothing else but the revision of farmers' indebtedness by the state, which is obviously preparing now under the form of a general farm moratorium. Third, agricultural production has been extended into submarginal land, and has thereby raised the average cost of food production. Fourth, agricultural autarchy or national self-sufficiency, which is nearly complete if we disregard the rapidly decreasing fat deficit, is a most serious handicap for industrial export. Germany had in 1929 food imports amounting to about four billion marks, which made possible an export of much larger volume. Now being nearly self-sufficing agriculturally, Germany can only exchange finished products for indus-

¹ 1913 = 100.

trial raw materials. It is not possible to reemploy the six million unemployed¹ without a large industrial export if the standard of living of the nation is not to be depressed to a level that is politically impossible. The increased agricultural production requires almost no additional labor, while the slightly improved purchasing power of farmers is not sufficient to stimulate perceptibly the internal market for industrial goods.

Last but not least, the German experiment in price fixing, which in its complexity and up to date technique is accepted as the model for similar plans in England as well as in many other countries, has demonstrated the striking rapidity of radical readjustments. This flexibility and rapid expansion of production is one of the new features in world agriculture.

In his pamphlet, "America Must Choose,"² Secretary Wallace points out that a creditor nation must set up the most intricate machinery of a planned economy to control the production and distribution of all agricultural commodities, or it must reduce tariffs and open up opportunities to exchange farm products against industrial goods, or it must follow a third and middle course.

Germany, a debtor nation, with the most urgent need to employ to the full her highly developed export industry, has chosen the first way and has blocked exports by producing at home the four billion marks (nearly one billion dollars) worth of food which she imported prior to 1929.

¹ The "visible" unemployment is reported at only three and a half million for the winter of 1934.

² Wallace, Henry A., "America Must Choose" in the Foreign Policy Association *World Affairs Pamphlets*, no. 3 (New York 1934).