POPULISM – THE FARMERS' MOVEMENT OF THE 1890s

The rise of industrialization and Big Business affected the nation's farmers in many significant ways. They came to feel powerless in that despite producing as they always had, other forces – beyond their control – now seemed to determine whether they would be able to survive financially. Financiers and "middle men" now told them how much their crop is worth. The price they receive seems to have no relation to the amount of money and work they had put into raising the crop.

Their fate is out of their own hands, and, given that the whole point of being a farmer had been to achieve economic independence (to be "self-sufficient"), their "dependence" on the impersonal forces of the free market comes as an especially hard blow.

In fact, more than any other group, farmers suffer during the mid-1880s through the mid-1890s.

Unlike industrial workers, farmers lived in isolation. Lacking access to information, particularly economic knowledge, they did not understand how they could be working harder and yet making less profit.

Late 19th century farmers ask, Why am I still poor, even though I'm producing **more**?

To combat their feeling of isolation, farmers hope to establish connections with other farmers. In 1867 a group of farmers found the GRANGE – a social group that brings farmers together and alleviates their isolation.

Once they started talking, they found that they shared two problems:

1) debt
2) railroads and other "middle men" taking advantage of them

1) DEBT

Farmers starting out soon found themselves piling up debt. There were numerous start-up costs, beyond the cost of the land. Farmers generally spent their savings on a down-payment for their land. This emptied their cash reserves, and so to buy materials and equipment to plant their crops, they needed to borrow money.

Normally, one would borrow money from a bank. And, in the cities, one had the numerous local banks from which to choose. In isolated rural areas, however, there were few (if any) banks and so farmers had to look for other sources of credit. Often the local merchant doubled as a lender. Farmers borrowed money from the merchant to buy supplies at that same merchant's store. Since there was often no competing merchant in the area, the farmers were left with little choice but to pay the local merchant's prices and abide by his terms of credit (this usually meant high prices and high interest rates). Undoubtedly, some merchants, to exploit the farmer's lack of leverage, charged inflated prices and unfair terms for credit.

Occasionally, a cycle of debt developed. A farmer, already in debt, might produce a disappointing crop, or in some cases due to lack of rain or an infestation of insects, the entire crop might be destroyed. This meant the farmer reaped no profit from his labor and could not pay his debt to the merchant.

The farmer could, in theory, abandon his land and run from his debt. But this left him with nothing. Most farmers chose to stay on their land and once again borrowed from the merchant to finance the next year's crop. On the bright side, one didn't have as many expenses the second year – no need, for example, to buy a new tractor or thresher or draft animals.

BUT, since the farmer had proven a "bad risk" (by not being able to pay his debts) the merchants often charged a higher interest rate. The farmers believed this was unfair because their inability to pay their debts was due to forces beyond their control. Merchants replied, in essence, "take it or leave it." Most farmers took the merchants' terms, but they were not happy.

To insure they could pay off their mounting debts to the merchants, many farmers then planted <u>more</u> crops, believing this was the only way to generate more profit. If the weather was good and they produced a bumper crop, farmers hoped, they could pay off their entire debt and still turn a profit.

A bumper crop, however, could be just as disastrous as a failed crop.

Why? Because if all the farmers in the region produced a large crop of, say, wheat, the oversupply of wheat would drive down the price of wheat. Farmers, having produced more, would see less profit. To farmers who were wedded to the "producer ethic," (The folks who <u>produced</u> the product were entitled to the profit.) this made no sense and seemed fundamentally unfair.

They would not have enough profit to pay off their debt and would then go even further into debt the next season when they had to borrow money for seeds and other supplies.

Conceivably, farmers could have diversified their production (grown a variety of crops to hedge their bets), but most farmers grow only one crop (a "staple" crop). They choose to grow a staple crop because they can do so more efficiently. It's easier to focus on one crop than on a variety of crops. BUT if the price of that one crop drops, they go broke. Moreover, certain staple crops quickly deplete the minerals in the soil. A good crop depletes the soil more quickly, so farmers risk having a poor crop the following year if they plant on all of their land. Still, most do plant on all of their land, convinced they must do so in order to make enough to pay their debts.

Farmers are subject to numerous risks, while at the same time they have little control over how much their crops will yield or what prices they will bring.

2) RAILROADS AND OTHER MIDDLEMEN

GRAIN ELEVATOR OPERATORS…

…gouged the farmer when he goes to have his crops weighed. The farmer might know that the weight was being reported incorrectly, but he had little choice but to accept the "official" weight. Even worse, sometimes the elevator operator owner was the same merchant who was squeezing the farmer on prices and access to credit. Or, he might work for the railroad line so the farmer was cheated twice by the same company!

RAILROADS
Farmers often found that they had access to only one railroad line to ship their goods, and the railroad charged high prices for transport. When the farmers protested, the railroads, much like the

merchants, said “take it or leave it.” Once again, the farmers had to take it.

SPECULATORS AND TRADERS

Market forces beyond the farmer’s control – forces that he did not comprehend – also determined his fate. For example, the size of the cotton crop in Egypt could affect what cotton sells for in Georgia – regardless of how much or how little the Georgia farmer produced.

Also, financiers and speculators “bet” on the future price of commodities. They reap profits through speculation, rather than by producing anything themselves.

The people who set prices for the farmers’ crops but themselves PRODUCE nothing tell the farmers they are “overproducing.” The farmers are to blame for their own fate.

The farmers respond that the problem is NOT overproduction but under-consumption. The middle men who buy the farmers’ crops turn around and raise the price of the crop. The wholesaler who buys the crop then raises the price when he sells it to the food producer. The food producer then raises the price before he sells it to the retailer. By the time the farmers’ wheat makes it to the consumers’ tables as bread, the price is so high that the consumers cut back on how much they buy because they can’t afford the high price of bread. The consumer, in sum, is “under-consuming” because the price of food has been inflated so that middlemen can reap high profits. Most importantly, the farmer is not seeing any of this profit – instead, the middlemen are reaping all the profit and they have produced NOTHING.

In sum,

According to the “producer ethic,” those who produce tangible goods are the backbone of the country.

Financiers (bankers) and other “middlemen” are parasites – they shuffle paper, they don’t produce anything.

The western farmers feed the cow, the eastern middlemen, bankers, and financiers milk all the profits. [See powerpoint cartoon]

HOW TO GET AROUND THE MIDDLEMEN?

COOPERATIVE ACTION

Farmers pool their resources to buy supplies from local merchants. For example, if one farmer can afford 1/5 the price of a tractor, he finds four other farmers who can afford the same amount. Then all five pool their money to buy one tractor that they share.

Farmers also try to bargain directly with wholesale manufacturers to get cheaper prices on supplies. Reapers for $175 not $275; wagons for $90 not $150. The wholesalers don’t care who they take their profit from, so they’re happy to work with the farmer “co-ops.”

But, when local merchants complain, wholesalers (who don’t want to lose the merchants’ business) agree that if the merchants purchase more (in bulk) than the co-ops, the merchants will get a better price. Lacking access to cash and credit, the farmer co-ops often can't afford to buy as much as the merchants.

Also, the merchants squeeze the farmers who participate in the co-ops by raising their interest rates and the prices they charge these farmers for other supplies.

Still, some farmers then form larger co-ops and compete with the merchants on a whole line of products. They then pass on the cheaper prices to their fellow farmers. The co-op stores compete with the local merchants who must lower their prices to remain competitive. These merchants resent the farmers "going around" them.

Taking cooperation even further, Granges buy their own grain elevators, mills, and production plants and in doing so cut out the middlemen.

In Iowa, for example, local Grangers even begin to manufacture their own farm equipment.

Also, Granges sponsor education and public relations campaigns to bring the farmers' plight to the attention of more people and also to show farmers the benefit of cooperation. Local GRANGES become regional FARMERS ALLIANCES which then become national ALLIANCES.

In time, however, the merchants and creditors retaliate. They realize that the farmers lack cash, so even when they pool their resources, they may not have enough to buy equipment or to set up their own elevators and production facilities.

Merchants pressure banks not to lend money to the farmer co-ops to purchase supplies; merchants even risk short term losses to undercut the prices the co-ops are offering.

If access to cash or access to credit is the real problem for farmers, how do they solve it?

GOVERNMENT HELP

Initially, farmers, an especially independent lot, are very reluctant to turn to government officials for assistance. They fear that, already subject to the railroads and eastern financiers, they will then become beholden to government regulations – further limiting their economic independence.

But, as "self-help" schemes prove only temporarily effective (or completely ineffective), given the power of the merchants, middlemen, and railroad companies, farmers become more open to looking for government help.

During the 1870s and '80s the Grange members push state and local governments to pass laws to regulate prices and to keep farmers from being exploited.

Under the "Granger Laws," for example, standard grain prices are set in Chicago for different grades of grain. Buyers must buy at set prices.

This initial success shouldn't be too surprising to us. The local politicians were largely elected by constituents who were farmers, so it was in their interest to support pro-farmer legislation.

Once one went to the state and national level, however, farmers' interests competed against those of urban workers, consumers, and, of course, the powerful financiers, bankers, food producers, and railroad companies. To make any headway, the farmers (and the politicians who supported their interests) had to be ready to build coalitions which usually meant crafting compromises in which the farmers had to give up some of what they wanted in order to get at least something that would benefit them.

Even local and state "Granger laws" that protect farmers are often struck down by the courts who rule that such laws "restrain" trade. The government, they say, has no right to tell private industry what it can and cannot charge for goods and services. These rulings leave farmers right back where they started.

Moreover, farmers had moved to the western plains to escape the system of wage labor, debt, and credit that they had found in the east. They want to maintain their own ECONOMIC INDEPENDENCE and benefit from the capitalist system that had worked so well for the big businessmen like Rockefeller. They were not necessarily anti-capitalist. They were eager to reap the benefits of a capitalist economy. They just believed that the deck was stacked against them. For some, the solutions then became to…..

COMBINE GOVERNMENT AND SELF-HELP STRATEGIES

The center of the farmers' political agenda becomes the Subtreasury system. Its main advocate, Charles Macune, points out that his plan addresses two of the farmers' biggest problems – access to credit and their inability to have any leverage in determining the prices their crops will bring.

Under the plan, famers borrow money from state governments for up to 80% of the value of their crops. Government charges 1% interest. Farmers store their crops in government warehouses as collateral (free of charge). As a result, farmers could choose to withhold their crops so not everyone would bring the crop to market at once and therefore they could avoid driving down the prices.

This solution addresses BOTH the overproduction problem and the debt problem.

RESPONSE to their proposal:

Merchants cry "socialism!"

Nope. These farmers see themselves as the "true" capitalists – they want their piece of the pie. They're hustlers – they want profit for their goods. They don't want government control over their business, they want the government to mediate to insure fairness within the business system.

The farmers also support two other legislative goals:

1) Regulate the Railroads

The farmers' other major problem – the railroads – requires them to look beyond state and local governments.

Obviously, they can't build their own railroads, so they try to get the national government to regulate them. They meet with mixed success since other special interests – including the railroads themselves – also have influence over Congress. By the time regulatory legislation is passed, it is so watered down and compromised that the farmers see little significant, immediate relief.

They turn instead to a new plan, again aimed at reducing their debt and raising the prices for their crops:

2) Inflate the currency

Farmers came to support the idea of a bi-metallic currency in which BOTH silver and gold would "back" the dollar. An expanded currency would promote inflation, but would also mean the farmers' debt burden would be lessened. Bankers stood to lose if the currency was inflated and consumers would be faced with higher prices. As a result, industrial workers did not agree with the farmers on the issue of inflating the currency.

Farmers did find an ally in silver mine owners and silver miners. The introduction of a bi-metallic currency would mean the government would start buying more silver. This would guarantee the silver mine companies a market for their product and help protect the miners' jobs.

[For a full explanation of the Gold Standard and the issue of deflation vs inflation, see the "Economic Relations to Keep in Mind" link.]

DEPRESSION OF 1893

As the supply of gold in the US treasury decreased, deflation worsened. The amount of dollars in circulation <u>had</u> to decrease (since dollars were tied to the amount of gold in the treasury) Farmers saw their debt problem become still worse.

By 1893, a crisis loomed in which the treasury announced it would soon run out of gold. As the price of gold increased, private buyers competed with the government to buy it up, making it even more difficult for the government to maintain its gold reserves. (In uncertain economic times, investors felt safe holding gold which, they reasoned, would always have an inherent value.) If the Treasury was to run out of gold, the country would face an economic meltdown.

Banker JP Morgan "rescued" the government by providing financing that enabled the government to "cover" the currency and disaster was averted.

But it raised the question as to why an individual financier was in essence more powerful than the national government. Something seemed out of balance. Many – and not just farmers – came to believe that the new capitalist economy had gotten out of control and was operating to the detriment of the people. This was un-democratic. As a result, an economic crisis sparked a political debate.

The presidential election of 1896 comes down to the issue of the currency.

The Democrat, William Jennings Bryan, believed in the "free coinage of silver." Though he did not entirely understand the economic arguments for this political position, Bryan realized that if his voters wanted "free silver" then he wanted "free silver." He cast himself as the defender of the common man against the wealthy interests (as have many "Populist" politicians ever since).

The Republican, William McKinley, supported retaining the Gold Standard. He warned that allowing silver to back the currency would result in higher prices for consumers. He also admitted that while the bankers opposed the coining of silver, so should the small businessmen who relied on the bankers to extend them credit. If bankers lost money on loans they had made before the currency was inflated, they would in turn charge small businesses higher interest rates to borrow money so as to cover their losses. Making it harder for businesses to borrow money would keep them from expanding. If businesses didn't expand, they would hire fewer workers and the economy would continue to suffer. Workers paid attention when they heard that coining silver could threaten their jobs AND raise prices for goods they needed to buy.

In the end, voters found McKinley's arguments more persuasive. In some cases, though, business owners threatened their workers with loss of their jobs if they voted for Bryan. That said, many workers came to agree with McKinley absent the intimidation of their employers. They feared higher prices and a business slow down.

Soon, however, the point is moot since discoveries of huge amounts of gold in the West and in South Africa make more gold available for the government to buy (by issuing bonds) and, with more gold in reserve, the government can issue more dollars and thereby solve the deflation problem and stabilize the economy.

By placing such emphasis on the "gold standard," the farmers (and their political representatives, the Populists) end up losing focus on the larger and more fundamental argument – How will the wealth and resources produced by the new economy be distributed and how, within a democratic system, will the rights of the powerless be defended from the greed of the powerful?

KEY TAKEAWAYS

Farmers must adjust to the new industrial economy just like businessmen (including Rockefeller) did. They, too, are now "Businessmen" (and not just isolated, independent farmers). And, much like other businesses, the small players are squeezed out and large farm conglomerates (corporate farms) become more prevalent as the twentieth century unfolds.

Farmers try to band together (self-help) but soon realize they must rely on the government for help. They become more politically active to make sure their voice is heard in Washington. This enhances "democracy" (and gives a louder voice to those who had been powerless in this new industrial system) But it also concentrates more power in Washington.

The currency issue becomes a main focus, but the election of 1896 really shows the nation is sharply divided: Urban, wage laborers vs Rural farmers; Producers (farmers) vs Consumers (people who buy food).

It also shows that while the "haves" (powerful interests like bankers and railroad companies) are united, the "have nots" (farmers and wage laborers) are not.

How the nation will respond to the circumstances created by the emergence of the new industrial economy is still unclear.