2. Seek 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 succeed in pushing state and local governments to pass laws to regulate crop prices and railroad rates in order 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.

Moreover, in isolated rural communities, even the Granger Laws that were passed at the state level proved inadequate since local power brokers could get away with "bending" the rules, leaving the farmers once again on the losing end.

Also, more importantly, Granger laws only apply in the state in which they were passed. So the Grange may succeed in getting laws passed in Illinois that regulate railroad rates, but those laws would not apply in Iowa or Indiana. Usually, farmers' crops are traveling across state lines, so railroad companies simply raise their rates in other states to make up for the lost profit in states where rates are regulated. The Grange members do not have enough political clout to get such laws passed in all of the states, so the initial optimism that follows passage of Granger Laws in certain states soon fades.

Meanwhile, merchants and railroad companies ally to pressure state legislatures to repeal the Granger Laws. When the legislatures won't listen, they file law suits to have the Granger Laws overturned. At first, the Supreme Court upholds these laws, but only for a few years. As the Court became more conservative, it rules that such laws are a "restraint of trade" and declares them unconstitutional.

All the while, farmers realize they're vulnerable and become suspicious and resentful.

Some argue that even if they are paid the "standard" rate for transport or for their crops, this isn't really the issue.

They resent the whole system in which they are kept from controlling their own fortune.

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 anti-capitalist. They were eager to reap the benefits of a capitalist economy. They just believed that the deck was stacked against them and hoped that the government would provide them with a "fair deal." Without government help, they faced little chance against the formidable power of big interests like the railroads, banks, and speculating financiers.

If mounting debt combined with predatory middle men and lack of access to cash or credit is the real problem for farmers, how do they solve it?

Some of the most imaginative farmers then pursue a COMBINED STRATEGY OF SELF-HELP AND GOVERNMENT ASSISTANCE

The center of the farmers' political agenda becomes the **Subtreasury system**. Its main advocate, the Texan Charles Macune (whose great-grandson would later become Chair of the CSUN History department) 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.

In response to this proposal, merchants and financiers 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 ensure fairness and opportunity within the business system.

Other farmers look beyond the Granger Laws and lobbying at the state level. Instead...

LOBBY THE NATIONAL GOVERNMENT FOR ASSISTANCE

1) Regulate the Railroads

The farmers' 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. Senators and congressmen from farm states might be willing to support pro-farmer (or anti-railroad) laws, but there aren't enough farm states to secure consistent majorities. Farm state politicians struggle to explain to their constituents that they will have to form political alliances with other interests and this might entail compromising or agreeing to forego some of the things on the farmers' "wish list."

By the time regulatory legislation is passed, however, 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, since the value of each dollar they owed would be reduced. 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 U.S. Treasury announced it would soon run out of gold. As the price of gold increased (the shortage of gold drove up the price) private buyers competed with the government to buy it up, making it even more difficult for the government to maintain its gold reserves. (Also, in uncertain economic times, investors felt safe holding gold which, they reasoned, would always have an inherent value. When economic turmoil in Europe spurred a run on the gold market, the situation worsened in the U.S.) 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. And Morgan collected a considerable fortune in interest payments.

Morgan's ability to "rescue" the government at the stroke of a pen 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. In fact, it not only dominated over individual Americans, but over the national government itself. This was un-democratic. As a result, **<u>an economic crisis sparked a political debate.</u>**

The economic issues raised by the 1893 Depression would be at the center of the 1896 presidential election.

Specifically, 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.