Government Aid and Direction in Land Settlement

An Address by
DR. ELWOOD MEAD
of the University of California

Read at the 1916 Session of
The Colorado Farmers’ Congress
at Fort Collins, Colorado

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UNITED STATES NATIONAL BANK,
DENVER, COLORADO
Introductory

There has been considerable agitation in this country as to whether Government or State Aid would be justified in assisting land settlement and development. Much has been said and written for and against. The president of this bank was among the first to give serious consideration to the different phases of Rural Credit and is in close and intimate touch with all important movements and discussions that have for their object the betterment of rural conditions and making easier the financial and marketing problems of our live stock and agricultural interests.

Dr. Elwood Mead, of the University of California, who, while in the services of this Government, spent much time in Australia, recently addressed the Farmers’ Congress assembled at Fort Collins, upon the subject of Government Aid and Direction in Land Settlement.

In order that the views of Dr. Mead, who has had such wide and varied experience along these lines, might be available to those interested and in order to help bring before the public this subject, which is being so much discussed at this time, this bank has had Dr. Mead’s address printed and presents same herewith without comment or criticism. It should not be construed by this that we are either advocating or discouraging Dr. Mead’s idea, as there is much to be said for and against, and our own views properly presented would require another issue.

The Farmers’ Congress expressed the desire to have this address published, and not having funds available for the purpose, this bank has had it published and presents same to the farmers of the West with its compliments.

Respectfully,

THE UNITED STATES NATIONAL BANK OF DENVER

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Government Aid and Direction
In Land Settlement

One of the most important questions confronting this country is the creation of a land policy suited to conditions which have arisen in the last quarter of a century. Until recently it was our boast that any man who had industry and thrift could enjoy landed independence. That statement needs now to be qualified. The increase in the number of farm renters compared to the number of farm owners; the colonizing of rural communities with foreign born immigrants who can and do pay higher rents because they are content with a lower standard of living, and because they take no interest in matters that make men good citizens, are significant indications of the dangers to rural life which need to be removed.

Solutions Possible

Other countries are confronted with the same problem; many have gone far in its successful solution. In every case the basis is a system of rural credits designed to enable men of small capital to buy and improve farms and thus become owners instead of tenants.

The Western third of the United States presents the most inviting field in this country for the establishment of such a system and has greatest need for it. In this section millions of acres of irrigable land capable of supporting a dense population are either unpeopled and awaiting settlement or the settlers are having to undergo hardships and are menaced with failure from causes that are removable and should be removed. High interest rates, the inability to secure money to make necessary improvements of the land and the lack of direction and oversight of unskilled beginners, cause so many to fail before they get started that it is becoming an economic wrong and is not alone affecting the prosperity of Western agriculture, but of all related interests.

Causes of Failure

Irrigation works which have cost in the aggregate nearly $200,000,000 are financially unsuccessful because of delay in settling the land or because settlers are too poor to pay water charges. The nature of the obstacles that confront development, the hardships and losses of settlers in recent years are not understood by the country as a whole. The economic changes which have taken place in the last 15 or 20 years and the need of financial adjustments to conform to those changes are matters about which a wider knowledge is desirable.

Skill Unnecessary

Up to a quarter of a century ago there was little need of capital or skill in agriculture, to enable men to acquire homes in the arid West.
The settlers obtained the land as a gift from the government. The water to irrigate it was taken by means of cheap ditches out of the mountain streams. Usually these consisted of nothing but a simple furrow built with the settler's own labor. What is now the highest priced farming land in Colorado, and in practically every other Western state was obtained from the government for nothing or purchased from railroad land grants for from $2.00 to $5.00 an acre. To build ditches to water these lands cost only from $3.00 to $10.00 an acre; the man with $1,000 to $2,000 had ample capital to acquire and improve a 160-acre farm.

When twenty years ago John Brown, a farmer from Nebraska, went to Wyoming and bargained with parties building a small ditch to pay $10 an acre for a water right to irrigate his 160-acre homestead, he was told by a neighbor that that price was prohibitive; he could never pay it, and the best thing he could do was to jump in the river and end his troubles. The neighbor's view was governed by the fact that his water right had only cost $3.00 an acre, and up to that time $5.00 an acre had been the maximum limit of cost.

John Brown, however, did not drown himself, nor did he fail. The whole debt for land and water was $1,600, and he had brought with him a thousand dollars cash. With that he bought a team, built a log house with timber cut from the public land, bought a few range cows and pastured them on the public domain without paying any rent. He helped build the ditch and so worked out part of the cost of his water right. In two years he was out of debt, making money on his range cattle. He, however, made little money from his farm for the first two or three years, and it was ten years before it was all leveled and prepared for irrigation.

Early Opportunities Have Gone

In the last fifteen years these natural opportunities have disappeared. The free land that was easily irrigated is gone. The streams that could be diverted by simple channels have been absorbed. To obtain water for irrigation, great rivers have to be controlled and flood waters conserved by the building of costly reservoirs. The railroad lands that could once be obtained for from $2.00 to $5.00 an acre have passed into private ownership. In one way and another great landed estates control some of the best undeveloped areas. The actual construction cost of irrigation works built in the last five years varies from $30 to $100 an acre. Unimproved privately owned land under those works sells from $15.00 to $100.00 an acre.

Greater Preliminary Outlay Required

The settler today must take land under costly irrigation works. Few have access to free range or free timber. Often they have to pay high prices for land, and always high prices for water as compared with fifteen years ago. They have therefore one burden which the pioneer settler did not have to carry: That is, interest charges on the greater expense of development. This makes it impossible to prolong the period in which the
land is being leveled and water provided, as was often done by the earlier settlers.

There are a few places in the West where improved irrigable land can either be purchased or raw public land improved for less than $100.00 an acre. To the cost of the land there has to be added the cost of a water right, the cost of preparing the land for irrigation, the cost of unprofitable cultivation for a year or two while the soil is being fertilized. The house, the fences, the implements and the livestock needed to make it a going concern, involve an expenditure greater than most settlers have capital to meet; yet the larger part of this expenditure must be made immediately, because it is the only way in which he can make a living and pay interest on the cost. If the settler can once get his farm improved and productive, and especially if he can have time enough in which to earn the money from the land, he nearly always succeeds. The profits of intense culture are great, and in some directions, like livestock, are continuous and reliable. What he needs and must have, is capital or credit to promptly improve, equip and stock his farm, so as to enable him to follow intensive scientific agriculture.

Investigates Costs

The department of rural institutions in the University of California and the Rural Credit Commission of California are making a first-hand investigation of the cost of preparing land for irrigation, the cost of equipping a farm, of the time which it requires the average settler to make needed improvements, and the plight in which he finds himself when he makes the attempt without adequate capital and has to depend on existing credit facilities. The results already obtained show that many settlers with from $1,000 to $3,000 find themselves in debt and without credit before they have their land prepared for irrigation and are unable to go on because the commercial banks cannot lend money except on revenue-producing property, and no reliable land mortgage company will loan except on first-mortgage security. Some settlers are able to obtain money on their personal credit, but in these cases the loans are usually for a short time, with commissions for obtaining the loan and for its renewal, and with interest rates varying from 8 to 12 per cent. The settler has, therefore, to pay interest rates above the profits of agriculture and has always before him the ever impending menace of a mortgage foreclosure.

Economic Wrong

The absence of adequate credit facilities, absence of organized oversight of settlement is an economic wrong to the settler in many ways. He needs livestock to consume his fodder crops, and if he could purchase these he could often make money where he is now losing it. Scores of settlers are attempting to cultivate crops for which the land and climate are not suited, and who lose (thru mistakes, that intelligent oversight would have averted) the money that would pull them thru the critical period.
Beginners Waste Money

No one can visit a developing irrigation district without realizing the waste involved in leaving each individual settler to carry out his improvements without organization or expert direction. No beginner can level land properly—no individual settler can afford to buy the proper implements, and as a result each one of them wastes time, labor and money. Leaving each individual settler to buy the material for his house and arrange for its construction causes him to lose time that ought to be spent on cultivation, makes the cost more, and the result far less satisfactory than if this was done under competent practical direction in accordance with a comprehensive plan.

This is being demonstrated in California, where Dr. Dwinnell is building houses, leveling land and planting alfalfa on a part of each farm before it is sold to settlers. Buying in large quantities at wholesale rates, employing carpenters on contracts which let them work on days when they have no regular employment elsewhere, he has actually furnished the material and built houses for less than the carpenters charge for their labor in dealing with the individual settler.

Need of Capital For Working Expenses

In one district visited recently the fields were dotted with alfalfa stacks. It was a picture of seeming agricultural prosperity; yet many settlers in the district were dead broke and in debt. They had spent all their money preparing to grow the alfalfa, and there was no market for hay. If they sold hay they had to sell at less than cost. Fat cattle and fat sheep brought high prices, and the obvious way of marketing their alfalfa was to feed it to cattle and sheep. But, as one settler expressed it, there was no use to talk to them about that, because they had no money and not credit enough to buy a suit of clothes. One settler was financed by a local banker in buying ten dairy cows. For the risk the banker charged him $10 a cow above the purchase price. He required the settler to give one-half of the return from each cow. The settler paid a lawyer $10 for preparing a chattel mortgage, $4 for recording it. Hence, to begin with, he was loaded with $11.50 a cow above the cost price. Every good dairyman has to cull his herd; some of these cows were unprofitable; he wanted to sell the poor ones and buy good ones, but the banker insisted on a new chattel mortgage every time this exchange was made. In six months time he paid out more in legal fees, lost time in consulting the banker, and recording new mortgages than his profits.

Paid Huge Commissions

One settler who had a title to 320 acres of government land borrowed $10,000 to be spent in leveling it for irrigation. To get that money he paid a commission to the loan agent of $500. He agreed to pay 10 per cent interest, with six months' interest in advance; that was another $500. He was required to insure his life for $10,000 (the policy being drawn in
favor of the lender; that cost $200. He actually received of his $10,000 loan, $8,800, and for that he had to pay each year $1,200. The agriculture of improved farms will not stand interest charges of that character, and yet these are not isolated instances. The investigation referred to has shown scores of the same character.

In one district the average farm mortgage indebtedness over the whole area of nearly 200,000 acres is $50 an acre, and the chattel mortgage indebtedness on the same area is about $15 an acre. The interest rate, with commissions, will average somewhere between 10 and 12 per cent, and to this has to be added heavy payments on the principal.

5 Per Cent Enough

If, instead of 10 per cent interest, these settlers could obtain money at 5 per cent it would mean an annual interest saving to the farmers of this district of over half a million dollars, and to some settlers this interest saving would mean over $5 an acre a year. Yet 5 per cent interest is about the highest rate of interest paid in any country having an effective rural credit system. If, instead of having to pay off the debt in five years, they could have amortized payments extending over thirty years, it would mean that the average payment on the principal in this district would drop from $10 an acre a year to 75 cents an acre a year. This change would mean a saving to the settlers of this district during the early trying years of over a million and a half dollars a year; it would mean the difference between success and failure, between confidence in the future and harrassing anxiety. It would mean good food, good clothing and comfortable living for hundreds of settlers and their families which are lacking today because we have a wholly unscientific credit system.

Rural Credit System in Australia

When I went to Australia, conditions there were almost a direct counterpart of those now confronting irrigated agriculture in this country. Costly irrigation works had been built but the water was not being used. The number of farmers on irrigated areas was decreasing. Men who were without capital could not buy that land, and those with capital did not care to. Irrigation works were unprofitable, because there were not enough people on the land to cultivate it as successful irrigation requires.

The government determined to change this, and it considered two plans. One was to further extend existing tenant farming which would not disturb the large estates. The other was to inaugurate thru government purchases and subdivision of large farms a rural life in which each man would own the house he lived in and the soil be tilled. The State began an investigation to find out how much land was needed to make a living farm area, and how much money would be required to improve and equip that farm for intense culture. It made a study on the ground of the State rural credit systems of New Zealand, Ireland, Denmark and Italy. In all this study of what the State could safely attempt, land set-
tlement was considered as a social and economic problem, rather than a means of making a profit out of land sales.

This preliminary study showed that the success of a settler largely depends on two things: First, obtaining a living income from his farm within a year; and, second, getting the whole of his land into cultivation and production inside of two years.

The State's plan provided for the purchase and subdivision of land into different-size areas, the smallest being two-acre blocks for the farm laborer. This gave such laborers a home for their families, enough land to keep a cow and some poultry and grow their fruits and vegetables. It tied them to the soil and has changed their nomadic character. No feature of this system has proved of greater economic or social value than the two-acre farm laborer's block. The number originally established in each district has subsequently been increased with the increased demand for labor as the land was brought under intense culture. The State provided for building houses, because it could, thru building a large number of them, give skilled oversight of contractors, and it protected the district from the unsightly makeshift the settler would perpetrate. A district with all the houses properly built, newly painted and provided with those things that go for decency and comfort, becomes a source of pride and a stimulus to effort of every man who finds a home there.

Settlers Are Protected By Government in Australia

The State at first undertook the leveling of 10 or 15 acres of land on each farm and the seeding of it to alfalfa so that each settler would be insured the feed for his work animals and his cow the first year. Later on this was changed to the seeding and leveling of about three-fourths of every farm if this was desired and doing a considerable portion of this work in advance of settlement. As a result, it frequently occurred that settlers who took up dairying were able to obtain a living income within thirty days of their arrival. At first the State left every settler to buy his own tools and buy his own livestock, but when a new settler from England paid $125 apiece for cows, which was the price in England, while the market price in Australia was $50, and when it was found that the new settlers were being victimized because of their inexperience, the State placed at their disposal an expert buyer of dairy cattle who, by getting in touch with the dairying districts of three states, buying the stock in these districts, especially buying young stock, saved the settler from the purchase of worthless animals and provided good ones at about one-half what they would have had to pay if they were left to do this without advice or aid.

Importance to Beginners of Practical Advice and Direction

The most important feature of the system was, however, the placing in each district of a farm instructor or adviser. He was there to be consulted by the settlers whenever they desired, but it was also his busi-
ness to drive continually thru the district, observing the habits and methods of the beginners, to correct their mistakes when seen, and where they refused to adopt proper methods or showed lack of industry and persistence it was his duty to notify the authorities in charge, and having this warning they were careful about making loans of money for improvements or extension of time on payments. The influence which this exerted on the methods of the farmer and on the agriculture of the district was immediate and important.

The features of this scheme which served to protect the taxpayer from loss were, first, that the board administering it was non-political. It was appointed for a long term and only removable for cause. The money was, of course, provided by parliament, but no political pressure or influence controlled its use. The land that was purchased was purchased at a price fixed by three impartial valuers, complete publicity being given to these valuations and to prices paid. The state in all cases owned the land. The money advanced was expended in the improvement of its own property. The settler was required to pay a preliminary deposit of three per cent on the land, and to pay, as a rule, about 40 per cent of the cost of the house or other buildings erected; and about 20 per cent of the cost of leveling the land. Where the settler made improvements, the state could lend him up to 60 per cent of the value, but this was optional with the authorities and such loans depended quite largely on the record made by the settler for industry and thrift.

**How the Money Is Obtained**

In New Zealand the state obtains the money for these loans to settlers by the sale of bonds in London. In the Australian states they borrow it, as a rule, from the State Savings bank. In two states they obtain it quite largely from the Commonwealth Postal Savings bank. In either case they pay 4 per cent interest, and where they lend it at 4 1/2 to 5 per cent there is 1/2 to 1 per cent margin and this margin is intended to meet expenses of management and losses where settlers fail to meet their obligations. A full report of the financial operations of the different state systems is given in a recent report of the commission of British Columbia, but in Victoria the accumulated surplus out of the difference between the interest paid by the state and the interest paid by the settler amounted in the last annual report of the premier to something over $500,000. The great social and economic benefit that comes from this aid to settlers has not heretofore cost the taxpayer anything. On the contrary, there is a credit balance to his account.

**Capital Required**

There was much difference of opinion at the outset regarding the capital which a settler should have. This was at first fixed at $1,000. Since then it has been made more flexible. The capital required depends on the size of the farm the settler purchases, and something on his own personal qualifications. No one is allowed to buy land under these con-
ditions who is already a land owner, and actual settlement is insisted upon. Title to the land does not pass for twelve years, but the settler can sell his interest at any time before that provided the buyer conforms to the restrictions governing the original settlement. The maximum value of land purchased by one settler is $12,500, and the maximum amount which the state can expend in the improvement of his farm is $2,500. On the two-acre blocks or in blocks for farm laborers, or on areas of ten acres or less the capital of the applicant is not considered. He is only required to make the payments on the land and the part payment on the house and other improvements.

On these small blocks the settler can meet the payments from wages, but when the holdings come above twenty acres then the income must be far more than the settler can earn by wages if he is to succeed, and the rule is now to require men desiring farms of twenty to fifty acres to have a capital of $1,000, and above that to have a capital of at least $2,000, but in practically all such cases where the settler has less than $5,000 capital the state expects to furnish two dollars for each one put in by the settler in the improvement and equipment of the farm. There have been instances of settlers who borrowed the money to make the original payment and yet have met promptly each payment to the state. In every case where the settler was industrious and efficient this aid enabled him to succeed, but it was perfectly apparent to all those who observed this development that if these settlers had been compelled to meet all these payments unaided, two-thirds of them would have failed. It is equally clear to all who have made a first-hand study of conditions in developing areas in this country that unless some such system is introduced here future settlement should be restricted to men of considerable capital, say $3,000 each, on public land and $5,000 each on privately owned land.

**Drift to City Ceases**

The adoption of this system by this Australian state has stopped the drift of the young men from the country and attracted to the land scores of young men from the cities. It has created opportunities for hundreds of poor men who, without it, would have never been land owners. Under its operations more than 4,000 farmers, all starting with limited capital, now live in their own houses and are landed proprietors. It has given the people better houses at less cost, better livestock, better tools than they could have obtained without financial aid and the expert knowledge and advice that went with the system. How it is regarded where it is in operation is set forth in the last budget speech of the premier of Victoria:

"The final success of this investment depends upon the returns which can be obtained, and in this respect the state stands in an entirely different position from that occupied five years ago when it made intense culture combined with closer settlement the basis of future development. This was an experiment, the success of which was doubted by many; now it is a demonstrated success. Over large areas in widely separated districts more than ten times as many families are settled in comfortable
homes, under attractive social conditions as were there five years ago, and they are obtaining returns from their holdings that even less than five years ago were regarded as impossible. The demonstration that families can be fully employed and obtain a comfortable living on from 20 to 40 acres of irrigable land not only insures the financial success of our investment in irrigation works, but gives a new conception of the ultimate population which this state will support and the agricultural wealth it will produce.

"Notwithstanding the fact that many of the settlers were inexperienced and lacked capital, the small irrigated farm is paying well and doing this in districts having relatively high water charges."

**Objections to State Action Not Well Founded**

Many in this country are opposed to state action, on the ground that the state is incompetent, and that all this should be left to private enterprise. There is much meaningless talk about what can be done thru cooperation. A conclusive answer to this is the success of those rural credit systems operated with funds provided by the state in countries with conditions and needs like ours, and the absence of a single successful system of land settlement, thru either private or co-operative rural credit, where the conditions are like ours. Germany, with that thoroseness and business sagacity so characteristic of the nation, did not attempt to employ the Landschaft or any other co-operative system in aiding German farmers to become landowners in Poland or Southwest Africa. Instead, it adopted direct state action, identical in its working features with the system of New Zealand and the Australian states.

**State to Provide**

The state is the proper authority to provide the money. It is the only authority in a developing district where all men are borrowers, where values are being created, where the people are new to each other, and where they are strongly inclined to be individualistic, that can provide cheap money. And the state has reasons for doing this that do not prevail with either private or corporate enterprises. The basis of state action is the general welfare, the creation of better conditions in rural life, the bringing into cultivation of unoccupied land, increase in taxable wealth and trade and commerce. All these things are gains for the public, of which the state is the representative. The federal government has about $100,000,000 invested in irrigation works. The financial return from these works and the welfare of the settlers living under them can in no way be so effectively helped as thru the establishment of a state or government rural credit system like that of Australia. The money for these loans in Australia comes almost entirely from postal savings banks. If the Federal Postal Savings bank system in this country was changed so as to make the interest rate 3 1/2 per cent and the limit of deposits $2,000 there would be an ample fund in this country with which to carry out this work.
Expert Advisers

In addition, the state has already in its experiment stations and the officers appointed under the Smith-Lever bill a body of expert advisers familiar with local conditions. It would only need an increase in their number to do all that is being done by the advisers of the rural credit system of Australia, and with the power that this system would give them, their influence would be far more potent than it now is, and the progress of agriculture correspondingly accelerated.

Not An Experiment

If we adopt this system we will have the experience of a number of countries to guide us. We do not have to break any new trails. It will be in no sense an experiment. It will be entrusting the creation of new communities and the shaping of their social and industrial life by the only authority which should exercise that power, and the only one that has the resources, the continuity of existence, the disinterestedness needed to insure the results desired. There need be no fear of the ability of a state to render a direct service to the people and to do this with economy and efficiency, if the management is made non-political and placed in the hands of competent men, who have a long tenure of office. During the last 30 years I have worked for private enterprise and for the state, and it is my conviction that men will work harder for the state and in the interests of public welfare, than they will for a corporation, whose motive is profit. I am quite sure that there is no corporation in this country whose employees worked harder for longer hours or took keener interest in their work than did the officers of Victoria connected with the management of its rural credit system. If this system is made non-political, and if in its working methods there is incorporated the safeguards that have made the Australian system so continuous and so conspicuous a success, or those incorporated in the British Columbia law, or outlined in the report of the Wisconsin state board of public affairs, there need be no misgivings as to the results.
CONDENSED REPORT OF THE CONDITION OF

The United States National Bank
DENVER, COLORADO

At the Close of Business

December 31st, 1915

RESOURCES

Loans and Discounts.................................................. $4,730,321.40
United States Bonds (par)........................................... 435,000.00
Other Bonds and Securities........................................ 630,690.39
Federal Reserve Bank Stock....................................... 23,250.00
Furniture and Fixtures............................................... 4,000.00
Cash in Vault, due from United States Treasurer,
Federal Reserve Bank and other Banks...................... 3,020,629.33

$8,843,891.12

LIABILITIES

Capital Stock ............................................................ $ 400,000.00
Surplus and Undivided Profits................................... 445,527.74
Circulation ................................................................ 399,995.00
Deposits .................................................................. 7,598,368.38

$8,843,891.12

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