

ANNUAL ADDRESS OF PRESIDENT

By RALPH B. WILLIAMSON

A year ago, after being elected President of this Institute, I was told by the Secretary that it was necessary to prepare a Foreword to accompany the printed proceedings of the Twelfth Annual Meeting, and pursuant to that request I outlined what appeared to me then to be the important matters before this Institute during the year.

The tenor of that Foreword, if you remember, was that during the year we should consider mainly the farmer upon the irrigated farm, and his interest upon the land, and his problems insofar as they came within the scope of this Institute and lend our efforts to furthering his success.

While I do not now recede from that position, and the program which has been prepared largely with that thought in mind, yet there have been developments during the past year in both state and federal policies which must receive careful thought and discussion of this body, and a definite advisory program recommended, if it can be agreed upon.

FEDERAL RECLAMATION

It is almost a quarter of a century now since governmental interest in reclamation took concrete form in the Act of June 17, 1902, known as the Reclamation Act. Working under this Act and minor amendments, the federal government, during twenty-four years, can count in monumental engineering achievements, the reclamation of more than two million acres of arid land and the furnishing of homes for something over 128,000 American settlers in 35,000 farm homes. The country at large and the Western states in particular have pointed to the reclamation projects of the West as an outstanding example of achievement under government enterprise.

Upon his appointment to the office of Secretary of the Interior by President Harding, Dr. Hubert Work of Denver, after a cursory survey was widely quoted as saying that the whole federal policy of reclamation of the arid west was a failure and the projects constructed were all or nearly all bankrupts.

Dr. Work was severely taken to task for this statement by the engineering societies and the Western organizations and representatives, and has attempted to support his position by facts and figures from time to time.

I do not mean to make in this paper a personal attack upon the Secretary of the Interior, but only to use this reference rather as a text for expressing a few ideas upon this subject which have become a conviction with me after twenty years of more or less familiar association with irrigation and its workings.

Let me say in passing that many of the stories of hardship that reached the Secretary at that time would convince men better versed in irrigation and its history than was Dr. Work that his conclusions were correct, but they were and are explainable on different grounds than that reclamation is a failure. I have heard some three or four statements in support of alleged breakdown of federal reclamation. One statement was published in the Congressional Record showing excess of actual construction over original estimates. This statement did not take into account changed conditions, or a steadily increasing market of both labor and materials. But even at that the projects were all or nearly all built within prices which today seem trivial compared with present estimates of admittedly feasible projects.

A first reason was the great list of delinquent water users. That over \$10,000,000 was due and unpaid into the Reclamation Fund. But this large sum dwindles a little in significance when it is disclosed that \$44,000,000 of this construction fund has been repaid. Only \$10,000,000 delinquent out of \$54,000,000 so far accrued.

Does delinquency without repudiation indicate that reclamation is a failure? It certainly does not. Delinquencies only reflect temporary depression

in the prices of agricultural products. One is staggered by the record of bank failures throughout the middle western states where such banks were financing agriculturists and depending upon agriculture for the payment of loans. All of these things have no bearing upon whether agriculture itself is a failure, but are the result merely of general depression following readjustment after the great world war.

No one, in this State at least, is advocating the repudiation of these payments, and upon consideration it must appear that a deficit of only \$10,000,000 out of \$54,000,000 accrued, and the circumstances of the past three years, is a remarkable record of honesty, perseverance and good faith on the part of the settler upon federal irrigation projects to meet his obligations.

It is pointed out that there are 6,000 abandoned farm units on our government projects. But let us look elsewhere. The number of vacant farms in New York increased from 1920 to 1924 by 4,433; by 11,988 in Ohio; by 11,536 in Illinois; by 12,115 in Kentucky. The report of the census bureau announced in October, 1925, shows 75,735 fewer farms in this country than in 1920. These statistics will prove that if reclamation is a failure for this reason, agriculture as a whole is a greater failure. The facts of the case are that it merely reflects a temporary condition of agricultural stagnation and depression due to no fault of the farm, nor the farmer.

Another big argument against federal irrigation and its farm policy is clinched with the alleged fact that \$28,000,000 already expended must be charged off. Out of \$184,000,000 expended \$28,000,000 is a total loss. Reclamation is a failure, which was to be demonstrated. Would such a charge-off in an ordinary line of business be considered definite evidence of the failure of the business? This could not be determined in any business upon the bare statement of the charge-off. It would have to be compared with the gross profits upon the entire undertaking. What are the profits upon the invested capital in federal reclamation?

The work done has created a new property of approximate value of \$600,000,000. It has produced crops upon land theretofore worthless, which in 1924, had reached the annual value of \$110,000,000. It had brought under water lands which when fully developed will have an annual production value of approximately \$500,000,000. It has created 35,000 farm homes in seventeen western states, and a farm population of 128,000 people with a town population of 338,000 people, or nearly 500,000 people upon or adjacent to these projects. It has made possible putting to work over 2,000,000 acres of productive fertile lands.

It was stated upon the floor of Congress within a month by a well-known statesman that if the entire amount expended for reclamation thus far be charged off, the nation would still be the gainer of incalculable benefits and the venture declared a success.

Congressman Cramton of Michigan, member of the House appropriation committee, who has visited the Yakima Valley many times, and who, upon his first visit, gave the impression, at least, of being rather skeptical toward the federal policy of reclamation, in a speech before Congress on January 5, 1926, said:

"I realize fully that reclamation is not fairly to be called as a national policy a failure. I believe it has proven it can succeed and I believe it is a desirable policy for the country to continue. ***** There were some lessons we ought to have learned from twenty years' experience. Necessarily, we would not do everything right the first time, and we ought now to take advantage of the lessons of twenty years and steer our course in the future to avoid those things that have threatened wreck heretofore. The first lesson to be drawn from the story of the past is that these projects ought to be selected and administered on a basis of merit rather than on the basis of politics."

I think Congressman Cramton has the all-wise view, and in nearly every

instance the failure in the Reclamation service can be directly attributable to projects being forced upon the engineers through political demands.

I, therefore, am not in sympathy and have never been with the policy of the present administration of the federal reclamation service so far as it has indicated to the world that federal reclamation is a failure or that the settlers on these projects were not honest in their demands for relief, but believe that it has been a tremendous success, and that the profits to the government have been greater than the most sanguine expectations of the drafters of the reclamation act, although I will admit that the repayments to the Reclamation Fund has not been and could not have been as rapid as those men anticipated, largely due to the tremendous expenditures necessary on the part of the settlers before they could subdue these wild arid lands, and establish for themselves and families a place to live with even the most modest standard of living to which the American family is entitled.

The Government must recognize that there is a difference between the subduing of western desert and the development of a homestead under the conditions that largely existed in the middle west. There is no profit the first year, or the second, or the third, or perhaps for many years, as every penny must go into the land for its improvement, its development, and the maintenance of the family during the pioneering period.

In view of all these elements entering into a federal reclamation I believe that the time within which the cost should be repaid is the least important, except that it should be repaid in such reasonable time as not to jeopardize the fund as a revolving fund.

Some projects will need forty or perhaps fifty years, and some can pay out in less. Any project which will require over fifty years should at least be postponed as not presently feasible. As soon as the Reclamation Fund ceases to revolve, federal reclamation will disappear, and any extension of payments beyond reasonable limits will sound the death knell of western development. In my opinion the five per cent on gross returns scheme is almost a perfect anesthetic. I trust the friends of reclamation will see this in time. But this subject will be dealt with by a paper on the regular program.

Before leaving this question of Federal policy, I would like to express my disagreement with the policy of the Bureau of Reclamation in the so-called granting of relief to settlers upon those projects.

Congress passed relief acts giving wide authority and discretion to the Secretary of the Interior. Basing my statement on personal observations upon the Washington projects, I will say that the Secretary in exercising that discretion approached each project in the attitude of fearing that something would be "put over" upon him by the settlers. As actually stated by the Secretary at a luncheon in Yakima, he thought the settlers should show a little "common honesty" at least in their demands for relief.

The difficulty was that the Secretary could not reconcile the figures of our gross production with our demands for relief, for the same reason that he could only see failure of the federal policy because we have to charge off considerable items of construction as a total loss. I feel that both sides of the ledger account were not taken into consideration. The figures of gross production mean nothing unless we also see the costs of that production, and when, as in 1922 and 1923, and in some crops in 1924, those costs exceeded returns, then there is no lack of common honesty in asking the benefit of a relief authorized by Congress.

Let us take 1923. A committee of five well informed men, three farmers, one commission man and one banker, after careful study of Yakima Valley products gave the following estimates on loss or gain on average market prices for that year: Alfalfa, a net loss of \$4.00 per ton; apples, a net loss of 17c per box; wheat, a net loss of 60c per bushel; potatoes, a net gain of \$2.00 per ton.

There was no failure in production. There was no accusation that these settlers were loafing on the job or that the land was neglected. Simply that the

market price on a vast tonnage that year and again in 1924 did not produce the equivalent in money of its cost of production.

Of course, with agriculture emerging from its depression these remarks have more or less of an academic nature, but, nevertheless, there are today many who require extensions of payments on our Federal projects if they are to succeed.

There has been much said upon the desirability of conducting Federal Reclamation upon the basis of private business. The expression is catchy but is meaningless when applied to public business, because private business is based upon money profit, and public business has no such reason for its existence.

There is only one analogy in business, and that is the banking business. Not the instalment financing development, but the principles of legitimate banking. Extensions of time are common in legitimate banking, and forfeiture for failure to pay are incident to the other kind referred to.

My idea is that the men upon these reclamation projects have been entitled, if ever any men in business were entitled, to an extension of their loan for one or two or three years, and that they have been entitled to that extension since 1922 or 1923. A moratorium of federal reclamation charges created in 1922 for a two or three year period would have placed practically every reclamation project that is worth anything upon its feet, and is the method which is ordinarily used by legitimate bankers and business men everywhere when their debtors get in the position without fault on their part. That is where the American farmer and particularly the farmer upon a federal reclamation project found himself two years ago.

It is no excuse that mortgage companies and other creditors would not grant such moratorium because only the Government incurred this indebtedness with somewhat of a philanthropic motive, and only the Government holds the ultimate security.

The original purpose of the reclamation act was to build homes. That is not the slogan of the mortgage company, the bank or the merchant. And while both are benefitted by the upbuilding of the community, the benefit to the Government is vastly greater, and vastly more enduring than it is to the individual loaning his own personal money with the expectation of interest or immediate return.

So long as there are men like Congressman Cramton in the House to assist our Western representatives, I believe federal reclamation will go ahead, but the West should demand that the Secretary of the Interior, the man who is at the immediate head of this great fund, should be selected from those who have the development of the arid West at heart, and who are informed sufficiently upon the subject to have a broad general vision upon this national policy.

Let us quote further from Congressman Cramton's speech:

"Some have said to me, 'You are from Michigan. What business is this of yours? There is not any need for your stressing economy in these appropriations, because they come from the reclamation fund, and the State of Michigan does not care about that. It does not affect your taxes.' I am interested for two reasons, and every Member here is interested for two reasons. First, I have seen on most of these projects, they wisely do not use anything but Michigan automobiles, and I have seen numbers of them out there, and I realize that Michigan is interested in whatever helps to build up other sections of the country. Second, the reclamation fund is a trust fund, set aside for a specific purpose, and any man ought to administer a trust fund more carefully than he would administer his own money. We have no right to take action that will permit the dissipation and destruction of the reclamation fund."

Let me add that immediate beneficiary of this trust fund is the new home upon the arid desert and any policy which jeopardizes that home is a breach of that trust. The people of the East now realize this, and reasonable recognition of the necessities of these western projects by granting relief in those periods of

agricultural depression will not injure the Federal policy as much as unwarrantable statements that the whole policy is a failure, and in support of the statement the East is coming to view the West and the irrigation in the West in this way, here is an editorial written by Arthur Brisbane and published in the Seattle P.-I. within the week:

"Certain interests connected with power companies that want to control water power, carry on systematic misrepresentation as regards the value of irrigation. Demand for irrigation influences votes for government control. Hence the attack on irrigation, destined to redeem millions of acres, the most fertile in the world, and add tens of billions to the wealth of the nation."

I think that indicates that when one of the leading editors writing editorials read by more individuals than any other one man, comes out definitely for Federal Reclamation, in view of all the facts that Federal Reclamation is destined to go ahead and is not going to receive any setback.

I am now going to refer to State reclamation, and I do so in all candor, and in the hopes that we can perhaps suggest something—not that I can suggest here exactly what—but really to bring before you a few facts, so that perhaps we can suggest something that will help those in power in the establishing of our policy.

STATE RECLAMATION

At the time of the establishment of the State reclamation service I, for one, while not opposed, was not an enthusiastic supporter of such policy. The idea which I held, but it was not necessarily a conviction, was that the remaining projects of this State were entirely too large for state enterprise. State taxation was already high and of the projects in this state ready for construction any one would take more money than could be raised by taxation in many years. I feared that the state embarking upon a policy of reclamation might to a certain extent discourage additional federal reclamation, and it seemed to me then, and it seems to me now that the reclamation fund is the only reasonable source from which to expect financial assistance in the construction of these projects.

In the first place, the development, the construction and the settlement of these large projects necessarily covers a period of years when they are unproductive, and an interest charge alone spells failure in almost every instance, even though the state was strong enough financially to carry the burden.

I have not changed my mind particularly as to the State's policy of constructing these irrigation projects. I do believe, however, in the maintenance of the State's reclamation department, and of the building up of a state reclamation fund by a continuation of the one-half mill levy to be used as it can be used from time to time to assist projects already constructed in financing their legitimate purposes.

You will probably hear from the Department of Conservation and Development an authentic statement as to the losses incurred to the Reclamation Fund in this State. These losses are unfortunate. They are particularly the result partly of misplaced judgment, partly of unforeseen agricultural depression, and in all probability will not be a total loss ultimately.

But here again, the people of the State must have it called to their attention, and must recognize that agriculture is the only enduring basic industry that this State has. We might class our basic industries as four: Fisheries, timber, mining and agriculture. The first three are exhaustible by nature. By reforestation we may preserve our timbered districts within limits. With conservation we may preserve our fishing industry within limits. Whatever you take from the ground in the way of ore does no longer there exist. The only industry which has the chance of substantial and enduring expansion is agriculture and upon agriculture the future of the State must depend. If we foster it we will become one of the great commonwealths of the United States. Therefore, a few hundred thousand, or a few million dollars expended upon this great State resource, this greatest of the State's basic industries, if it has given to

the people of the State an insight into the workings of this industry, and an insight into the necessity of building up the industry, is worth the cost.

As I have said before, there is too much tendency upon the part of the governmental officers to try to place governmental affairs upon the same basis as private business. It cannot be done and should not be done. The Government and the State are looking to something more than money profits in the expenditure of its money. I believe with Governor Hartley, we should have a dollar's worth of return for every dollar spent. But I count some things of value which we receive from the dollar spent in irrigation which cannot be expressed in those terms. We originally demanded of the Government protection only. Now we demand of the Government a great variety of activities, and the more complex society becomes, the more active its individuals become in their specialized occupations the greater demands upon Government for the protection of property, life and pursuit of happiness of its citizens.

Nevertheless, with all of these ramifications of the Government, and these additional costs of Government, we should always remember that the first and fundamental purpose of a Government is to protect its agriculture. The first government ever organized was an organization for that purpose, to protect the tiller of the fields in the old days of the pastoral age, because out of the soil comes that which must sustain life. You can lop off activity after activity of the government and when you have lopped them all off, you will still have the duty of the State and the Government to protect its agriculture. When you lop off that no longer will Government exist, because it won't be needed.

Therefore, I say that it behooves the people of this State to learn something of the importance of irrigation, because agriculture in this State must be built upon irrigation. It is unfortunate that we have lost money in our attempts thus far to build up this resource, but it should not be fatal, and those who know the importance of agriculture to the future of the State should not permit this loss to determine our future policy. Let us show the people of the State both sides of the ledger.

I am in favor of the State continuing in the reclamation business, and adopting a definite State policy.

I am not in favor of the State entering into the construction of new projects now. My principal reason for this is that the State can not, with the amount of money available for such work, successfully undertake the construction of any substantial number of projects within this State. The State can, however, maintain a sufficient force of able engineers to guard against the construction of spurious projects, and to assist already going concerns in their engineering and financial problems. An irrigation system needs reconstruction every given number of years, needs betterments every few years, needs financial assistance from time to time in a comparatively small way. For instance, a project which might cost in the original instance four or five million dollars will desire to float a bond issue of two hundred and fifty or three hundred thousand dollars for betterments over ten, fifteen or twenty years period.

At the present time, owing to the unsavory reputation irrigation securities have gained almost wholly through the failure of new construction, the farmers upon legitimate projects are forced to go without such improvements, or pay for them out of assessments in one year with heavy drain upon their resources, or to finance them at heavy discounts locally.

The State maintains a fund called the school fund. Any city, town or municipality in reasonably good standing can float its bonds at four and four and half, or four and three-quarters per cent, the reason being that the State is an investor in that class of securities. But the State, influenced by the public view of irrigation securities rather than by any particular examination of the issue in question, will not or can not invest such funds in irrigation securities. In fact, we have recently seen a statement issued by the State Treasurer and Bank Examiner that irrigation bonds as a whole will not be accepted by them as collateral for public deposits.

Just why should the city man be preferred over the farmer? Just what value is there in the City of Yakima as security for public loans that does not grow out of the Tieton, Sunnyside, Reservation, Selah-Moxee and Naches-Selah Districts? Wipe out those districts, make it impossible for them to continue, and what value pray, has the State's Yakima bonds which it recently purchased at an exceedingly low rate of interest? Why should the State say, "We will take the City of Yakima's bonds at four and a half per cent, but the Selah-Moxee and Naches-Selah bonds will not be accepted at our offices as security for public funds," when the real value upon which the City bond issues are based is wholly behind the Selah-Moxee, and Naches-Selah and other irrigation districts.

The farmers are not asking any State gratuities, but they are entitled to the same consideration as shown the municipalities. There are today in this State several irrigation districts which face failure due to the public viewpoint as to the value of their securities.

Instead of spending ten million dollars in the construction of one local project, let us use that ten million dollars in establishing a rate of interest on the securities of the Okanogan projects, of the Yakima projects, and of the projects elsewhere in this State upon which the whole prosperity of this State will some day depend.

A recommendation has been made that the one-half mill levy be repealed in the interest of lower taxes. We want lower taxes provided that lower taxes will relieve the burden upon particularly our farmer class.

The total assessed valuation of property for purposes of taxation in this State is \$1,158,026,678. The total assessed valuation of improved agricultural lands is \$176,657,472, about one-fifth. The total assessed valuation of city lots is \$231,393,648, of farm improvements \$45,894,183, as to \$198,194,301 for city lot improvements. Public service and timber amount to \$227,953,101.

It, therefore, appears from these figures that a repeal of this levy which should be used exclusively for the benefit of agriculture will relieve other property in the State of five dollars, when it relieves agriculture of only one dollar.

The farms of this State stand the expense of upkeep of the irrigation works and the drainage construction. For the most part this is done through the municipal organization of irrigation and drainage districts. Renewals, betterments, and reconstruction or enlargements are necessary from time to time.

There is outstanding today bonds issued by irrigation districts practically contiguous to the City of Yakima amounting to \$1,000,000. The Tieton project adjoining the City of Yakima requires \$1,000,000 more. The farmers on these projects are paying six per cent on bonds for the most part sold at less than par, if they can sell them at all.

But Yakima can issue its bonds and, as I pointed out, due to State competition, obtain interest rates even below four and a half per cent.

To say that these irrigation projects upon the success of which the City of Yakima bases its existence, and its prosperity, should be unable to borrow money on its valid bonds bearing six per cent and sold as low as ninety per cent making a net yield of something over eight per cent, whereas the City of Yakima can sell its general obligation bonds for one-half of such interest rate, and sell them at par is putting the cart before the horse.

Under such circumstances the City is indirectly borrowing upon the security of the farms, whereas, the farm itself is not accepted as security. The banking department okehs loans to farmers as it should do, but denies to the bank the use of the security which is first against those farms, excepting only general taxes. Somebody needs a liberal education in fundamentals.

I am not objecting to our cities getting money at low rates of interest. They are entitled to it. But these irrigation projects which are the foundation upon which city values must be and are built, are entitled to consideration. The City of Yakima is entitled to its four and a half per cent and so is the Tieton project, the Sunnyside project, the Selah-Moxee, and the rest of the successful irrigation districts within this locality.

The farmers adjoining Wenatchee and the Upper Columbia Valley are entitled to the same rate of interest upon their securities that the City of Wenatchee is entitled to, etc., and the State, instead of attempting to educate the public to the contrary should be maintaining a fund to establish this principle definitely in the minds of the public. It should maintain a fund for investing in approved irrigation securities at rates of interest approaching those of general municipalities, and having now started such a fund those interested should demand that it be continued and used.

I believe this Institute can do a good work in fostering that line of irrigation, and as a starter I have asked Mr. Richard Ross, President of the Washington Bond & Finance Company, to present to you a paper today on irrigation and drainage district financing. I trust that this will receive your consideration, and that something may be done along these lines.

So far as new construction within the State is concerned, we have innumerable proposed projects and water to irrigate those projects. We are, I believe, one of the most favored of all Western States with regard to our possible irrigation development and coincident with that is possible hydro-electric development.

I wish the people of this State would inform themselves, especially the officials in charge of our public affairs, as to the importance of this branch of our State's resources, and carefully adopt a proper policy whereby its development may be restored.

Beginning by training conservative, I am opposed to those schemes which look to paternalism. I have never personally looked with much favor upon the various schemes of land settlement, and of direct aid to the settler in the way of loans to individuals. I doubt if these things are necessary, and while theoretically there is much to commend it, the application in practice of such a scheme seems generally a failure. Our State has been settled by those who are willing to stake their chances of future health and happiness against our land, and they have almost invariably won. If we see to it that poor land is eliminated from our projects, that only good land is offered for sale to the public, if speculation in public lands be limited to reasonable profits; if the whole land value can be placed back of the project and its increase in value made to help pay the cost of construction, I believe there is not an acre of good land in the Yakima Valley but that would justify any man with an agricultural bent in undertaking its development, and that he would succeed without State aid or Federal supervision. If you can save for him a portion of the so-called unearned increment in the land value you have done for him all, in my opinion, that is necessary to do for his success.

If we are to permit the owners of land raising their prices from \$2.50 to \$250.00 per acre when the only element of added value is the prospect of water, we handicap the settler by taking from him all of the value which his labor will give to the land. He should be assured a reasonable part of that increased value, and such incentive is enough to induce competent men to locate upon these projects.

I doubt if land settlement is a problem in the State of Washington on any reasonably sized project where the soil is good, the water supply sufficient and the terms of payment of the construction cost adapted to the probable development of the community. If these elements are not present I do not believe such project will be made successful by building houses and fences and selling them to the settler and charging him interest rates upon it.

However, better minds than mine have approved the land settlement schemes and my statement may be based upon prejudice and ignorance. I am willing to give the advocates of land settlement the benefit of a doubt, and not lay anything in the way of them working out their experiment. In such an experiment I am an interested onlooker with serious doubts, but open to conviction.

I want personally to commend the Department of Conservation and Development of the State for the work which it has done in furthering the irrigation interests of this State. The Department is young, and it started in this

State with little or no precedent to guide it. The fact that certain mistakes have been made has nothing whatever to do in any way, in my opinion, with the judging of the success of this Department in the future. Dan Scott, the former director, appeared many times before this Institute and he was always the most interested listener present, seeking information as to how he might best serve the irrigation interests, and if then were failures in his Department under his administration, I venture to say that they will be just as valuable to the State in future years as were the successes under his administration, and if his successors in office are wise they will be even more valuable, because we learn more from our mistakes than from our successes.

I have also had personal opportunity to observe the interest with which Mr. Erle J. Barnes, our townsman, has given to these problems. I believe under his supervision, and with the able assistance of R. K. Tiffany, this Department is serving and will serve the irrigation interests in this State satisfactorily.

The influence and backing of this Institute is necessary and to assist those gentlemen and to assist the State Legislature, and the Governor of this State in working out its policies.

I trust that the resolution which this Session will adopt will give to that department a clear and concise view of the consensus of opinion of the irrigators in this State as to the State's attitude toward irrigation, and what we have a right to expect from our reclamation department.

I am not going to detain you longer. I have purposely avoided a detailed discussion of many things which are vital in irrigation today, but they will be covered more in detail than I could possibly have covered them here, and I trust that a full discussion of all these matters may be had at this session of the Institute to the end that irrigation as a state institution will be better understood, and its support and advancement receive a new impetus. Thank you. (Applause.)

