House Report to Accompany Agricultural Adjustment Act of 1933

H.R. Rep. No. 73-6 (1933)

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73D CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
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RELIEVE THE EXISTING NATIONAL ECONOMIC EMERGENCY BY INCREASING AGRICULTURAL PURCHASING POWER

MARCH 20, 1933.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. JONES (by direction of the committee), from the Committee on Agriculture, submitted the following

REPORT

[To accompany H. R. 3835]

The Committee on Agriculture, to whom was referred the bill (H. R. 3835) to relieve the existing national economic emergency by increasing agricultural purchasing power, having considered the same, report thereon with the recommendation that it do pass.

The bill as reported by the committee, except for a few perfecting amendments, is the same as the proposed measure that accompanied the President's message to Congress on March 16. The message is brief, and is here set forth in full:

> At the same time that you and I are joining in emergency action to bring order to our banks, and to make our regular Federal expenditures balance our income, I deem it of equal importance to take other and simultaneous steps without waiting for a later meeting of the Congress.
>
> One of these is of definite, constructive importance to our economic recovery. It relates to agriculture and seeks to increase the purchasing power of our farmers and the consumption of articles manufactured in our industrial communities; and at the same time greatly to relieve the pressure of farm mortgages and to increase the asset value of farm loans made by our banking institutions.
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> Deep study and the joint counsel of many points of view have produced a measure which offers great promise of good results. I tell you frankly that it is a new and untrod path, but I tell you with equal frankness that an unprecedented condition calls for the trial of new means to rescue agriculture.
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> If a fair administrative trial of it is made and it does not produce the hoped-for results I shall be the first to acknowledge it and advise you.
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> The proposed legislation is necessary now for the simple reason that the spring crops will soon be planted and if we wait for another month or six weeks, the effect on the prices of this year's crops will be wholly lost.
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> Furthermore, by action at this time the United States will be in a better position to discuss problems affecting world crop surpluses at the proposed world economic conference.

The committee, during the last session, conducted extensive hearings on the agricultural situation and the necessity for farm legislation giving agricultural commodities greater purchasing power. These hearings were held from December 14 to 20 of last year and are entitled "Agricultural Adjustment Program." The committee has also availed itself of the published hearings held by the Committee on Agriculture of the Senate, January 25–February 6 of this year, entitled "Agricultural Adjustment Relief Plan" and the hearings of the Committee on Finance of the Senate which commenced February and are entitled "Investigation of Economic Problems." Much of the discussion in these latter hearings is devoted to the agricultural depression and legislative remedies therefor.

The principles of the pending bill were indorsed by a conference of 50 farm leaders, called by the Secretary of Agriculture on March 10, and including among others, representatives of the American Farm Bureau Federation, the National Grange, the Farmers' Union, the American Cotton Cooperative Association, the Mid-South Cotton Cooperative Association, the Texas Cooperative Council, the National Cooperative Milk Producers Federation, the National Livestock Marketing Association, the Committee of National Farm Organizations, and the Farmers' National Grain Corporation, together with several members of the farm press.

THE OBJECT OF THE BILL

The bill seeks to establish and maintain such a balance between production and consumption of agricultural commodities and such conditions in the marketing of agricultural commodities as will give to such commodities sold by farmers their pre-war purchasing power.

If the basic agricultural commodities were now at price levels which would give them at farm prices, a value equivalent to their pre-war purchasing power, the prices therefor would be approximately as set out in the following tables:

Average price of farm products received by producers

Commodity	Price Feb. 15, 1933	Parity price as of Feb. 15, 1933
Wheat	$0.323 per bushel	$0.919
Cotton	$0.055 per pound	.129
Hogs	$2.94 per 100 pounds	7.53
Butter	$0.184 per pound	.267
Milk	$1.16 per 100 pounds	1.90
Beef cattle	$3.31 per 100 pounds	5.41
Lambs	$4.19 per 100 pounds	6.14
Rice	$0.54 per pound (Jan. 15, 1933)	[1] .86
Tobacco:		
Burley	$0.127 per pound [1]	.10
Flue-cured	$0.116 per pound [1]	.141
Fire-cured	$0.062 per pound [1]	.081
Cigar-leaf	$0.105 per pound [1]	.12

[1] Tentative estimate.

It is not expected, however, under the operations of the bill, to achieve immediately the goal of obtaining for agricultural commodities a purchasing power with respect to industrial and other articles that farmers buy, equivalent to the purchasing power of such commodities in the pre-war period. The bill specifically provides that such equality of purchasing power shall be approached only at as rapid a rate as is deemed feasible in view of the current consumptive demand in domestic and foreign markets. This serves to restrict the increase in the price levels for farm commodities to the consumers' power to absorb the increased prices. Further, it is a part of the policy declared in the bill that the readjustment of production and consumption of agricultural commodities shall not result in an increase in the percentage of the consumers' dollar expended for such commodities and their products which is returned to the farmer, above the percentage of the consumers' dollar that was returned to the farmer in the pre-war period.

POWERS OF THE SECRETARY OF AGRICULTURE

In order to achieve the above policy of restoration of the purchasing power of farm commodities, the bill gives the Secretary of Agriculture broad powers. No one system of control is adaptable to the production and marketing of all agricultural commodities. No one system of control has in the past been found acceptable to all interests. It is therefore provided the powers granted the Secretary shall be sufficiently flexible to enable him to adapt administrative action both to the inherent differences governing production and marketing of various basic agricultural commodities and to changes in our economic situation at home and abroad. This same flexibility will permit the substitution of a different plan if the one first applied works out unsatisfactorily.

The powers granted are as follows:

First. The Secretary of Agriculture may provide for reduction in the acreage of the crop or for reduction in the production for market of the commodity. Such reductions in acreage or production may be arranged for through agreements with producers or through other voluntary methods. In order to induce producers to bring about such reductions, the Secretary is authorized to rent acreage taken out of production, or to pay benefits to the producer to compensate him for his decrease in production. Such rentals and benefit payments are to be fair and reasonable and to be made with due regard to effectuating the declared policy of giving to the producer gradually a return for those commodities covered by the bill equivalent to their pre-war purchasing power. The rental and benefit payments are to be paid from appropriations from the Treasury. The bill, however, makes provision for raising additional revenues for the Treasury that it is believed will more than equal any expenditures resulting from operation of the act. Such revenues will be obtained, in the main, from manufacturers' excise or processing taxes subsequently discussed.

Second. The Secretary of Agriculture is given power to enter into marketing agreement with processors, associations, producers, and other agencies engaged in the handling in interstate or foreign commerce of any agricultural commodity or its products. The Secretary of Agriculture is a party to such agreements, and no such agreement may be entered into without the Secretary participating in its formulation and approving the terms thereof. Additional safeguards are provided in that a proposed agreement can not be entered into until there has been due notice and opportunity for hearing thereon of interested parties. The agreements may relate to any agricultural commodity, whether or not one of the specified basic agricultural commodities.

Any such agreement to which the Secretary has become a party would be a valid agreement under law, and to the extent of the terms thereof exempt from the restrictions of the antitrust laws. The Secretary of Agriculture will, by being a party thereto, be in a position to protect the public interest and is further restrained by the requirement that such agreements may be entered into only for the purpose of effectuating the declared policy of gradually establishing and maintaining such balance between production and consumption as will reestablish for agricultural commodities their pre-war purchasing power.

Third. As a supplementary power to aid in effectuating the declared policy and in making effective the control measures taken under the bill, the Secretary of Agriculture is authorized to license processors, associations, producers, and other agencies engaged in the handling in interstate or foreign commerce of basic agricultural commodities or products thereof, or any agricultural commodity or product that is competitive therewith in domestic or foreign markets. The license provisions are a grant of authority and are not mandatory. No licenses are required unless the Secretary of Agriculture first determines that there exists necessity for the exercise of the licensing provisions with respect to the marketing agencies or any portion thereof engaged in handling a particular commodity and has pursuant thereto put the licensing provisions into effect. The licenses are conditioned upon the observations of such terms as the Secretary may incorporate in the licenses as being necessary to eliminate unfair practices or charges that prevent, or tend to prevent, the effectuation of the declared policy and the restoration of normal economic conditions in the marketing, or financing thereof, of the commodity or its products. The licensees may also be required to furnish reports as to quantities bought and sold, and the prices thereof, and as to their trade practices and charges, and may be required to keep described systems of accounts.

Fourth: The Secretary of Agriculture is authorized to place in effect with respect to the 1933 cotton crop, the provisions of Title I, which correspond to the Smith cotton bill passed by Congress at its last session. This authority may be exercised either in substitution for or in addition to the control features embodied in the other powers of the Secretary. The provisions in question authorize the Secretary to purchase stocks of cotton now held by the Federal Farm Board and Department of Agriculture and other agencies, including cotton to which title will be obtained in connection with settlements of loans or advances heretofore made by the Government upon the security of such cotton. Such settlements may be made upon such terms as are deemed advisable in the judgment of the Secretary of Agriculture and the department or agency that made the loan or advance. Producers of cotton for 1933 are to be offered nontransferable option contracts to purchase cotton so acquired at the average price paid therefor by the Secretary of Agriculture. Such contracts are conditioned upon the producers' agreeing to reduce his production below that for the previous year by not less than 30 per cent. The producer may exercise his option any time prior to January 1, 1934, and may take the cotton at the option price plus all actual carrying charges incurred. In exercising his option, the producer may either take over the cotton and sell it or have it sold by the Secretary for the producer's account. The producer is entitled to cotton pursuant to the contract in an amount equal to his agreed reduction. Any cotton not needed for the option contracts is required to be sold by the Secretary prior to March 1, 1935.

PROCESSING TAXES

In order to provide additional revenues for the Government the bill requires that there shall be levied processing taxes upon any basic agricultural commodity during a marketing period therefor, if, under the bill, the Secretary of Agriculture has provided, either by way of acreage or production restrictions, for the control of the production of the commodity normally marketed during such period, and for rentals or benefit payments in connection therewith. The processing tax is to equal the difference between the current average farm price for the commodity and such value for the commodity as would give it its pre-war purchasing power, unless it is found, after investigation and due notice and opportunity for hearing to interested parties, that such rate has resulted or is likely to result in a substantial reduction in the domestic consumption of the commodity or its products.

In such event the Secretary is required to fix such lower rate of tax as will maintain or restore domestic consumption. In determining the effect of the tax upon consumption, the Secretary is required to give due consideration to certain factors, among which are wage scales and employment in urban regions, shifts in consumption, the effect of previous changes in prices for the commodity upon consumption, and all pertinent industrial conditions relating to the probable effective demand for the commodity. In their legal aspects these flexible tax provisions are similar to the provisions of the tariff act of 1930 providing for the flexible tariff.

SUPPLEMENTAL REVENUE PROVISIONS

In order to make effective the operation of the tax provisions and to prevent unfair discriminations resulting therefrom, certain supplemental revenue provisions are included in the bill. These are as follows:

(*a*) There is to be an exemption from the processing tax of any class of products of a commodity of such low value, compared with the quantity of the commodity used for their manufacture, that the imposition of the tax would prevent in whole or in large part the use of the commodity in the manufacture of such products.

(*b*) If the payment of the processing tax causes processors of any agricultural commodity to suffer from disadvantage in competition by reduction in the quantity consumed of the commodity or its products and shifting of such consumptive demand to other commodities and their products, then there is to be a compensating tax upon the competitive commodity sufficient to prevent such disadvantages in competition.

(*c*) There is levied upon floor stocks, when the processing tax first goes into effect with respect to any commodity, a tax equal to the processing tax which would have been payable with respect to the commodity from which the floor stocks are processed if their processing had occurred when the processing tax was in effect. A corresponding refund is provided on floor stocks when the processing tax finally terminates.

(*d*) In the case of imported articles processed or manufactured wholly or in chief value from a commodity which, if domestically processed, is subject to a processing tax, there is imposed a tax equal to the amount which would be payable if the article had been domestically processed at the time of importation.

The above supplemental revenue provisions serve to protect domestic processors from unfair foreign competition, to prevent loss of the domestic market in whole or in part through competition from production of commodities not subject to tax, and to prevent unfair competition within any industry. In addition, provision is made for refund of processing taxes with respect to exports, thereby continuing the present competitive situation of our products in foreign markets.

Additional exemptions from processing tax are afforded in case of a commodity processed by the producer on his own premises for consumption by his own family, employees, or household, and of commodities processed and delivered to unemployment relief organizations for charitable distribution or use. The Secretary of Agriculture is further authorized by regulation to exempt producers from the payment of the processing tax with respect to hogs, cattle, sheep, or milk and its products in cases where the producer is also a processor of the commodity for market but his sales do not exceed $100 per annum.

The collection of the taxes is under the direction of the Secretary of the Treasury and the Bureau of Internal Revenue and subject to the usual provisions of law governing the collection of manufacturers' excise taxes. In order to prevent undue hardship upon processors, the Secretary of the Treasury is authorized to permit postponement for a period not exceeding 60 days of the payment of taxes. Further, the processor, in those exceptional cases where a longer period is required before his products are sold and paid for following processing, is made eligible for loans from the Reconstruction Finance Corporation in order to finance the payment of the taxes pending receipts from his sales. These provisions will tend to enable processors to build up stocks and to make more liquid the flow of commodities in the usual marketing channels.

PROTECTION OF CONSUMERS

As has been previously set forth, the bill embodies numerous provisions for the protection of consumers. To summarize these—the prices to consumers would, in no event, exceed prices which will give the commodities the same purchasing power as the prices at which consumers took the commodity in the pre-war period. Again, it is part of the policy of the act that no greater percentage of the consumer's dollar shall be returned to the farmer than in such period.

Further, the processing tax is required to be adjusted so that it will not result in a reduction of consumption of the commodity by reason of the consumer's inability to take the commodity during present conditions of emergency at prices which would give the commodity its pre-war purchasing value.

In practically all cases, the percentage of the retail price which now goes to the farmer is so small that the addition of the tax would have only a slight effect on the retail price. The additional amount, it is anticipated, will not be burdensome to consumers. With wheat prices as they are at present, there is only about one-half cent's worth of wheat in a 16-ounce loaf, and the imposition of the maximum tax on wheat should, at most, increase the price of such a loaf less than 1 cent. Since 1929 the price of bread in the United States has declined by only 25 per cent, whereas the price of wheat has declined by 68 per cent. It is not generally understood how much the price of wheat could advance without greatly increasing the cost of bread to the consumer. In 1913 bread prices were about the same as now but wheat was more than twice as high. In like manner, in case of hog products, it will interest the consumer to note that the price of live hogs to-day is 4 cents a pound lower than in 1913, but the price of ham is actually higher by 7 cents a pound. Pork chops are also slightly higher. Lard and sliced bacon are lower, but the percentage of decline is not nearly as great in the case of live hogs. In the case of cotton and cotton goods, only a small percentage of the retail price is represented by what the farmer gets. For example, doubling the present price of cotton would increase the price of voile, which now sells for 7 cents a yard, by half a cent, and the price of a cotton shirt, which now sells for a dollar, by 2 cents.

The additional return received by farmers by reason of the operation of the bill will be money promptly spent by the farmer in ways that will decrease unemployment and add to the profits of business. At the same time the increased return will make available in rural communities additional funds, will increase the assets behind our rural banking structure, and it is believed, will do more to relieve the banking situation in rural communities than any other type of legislation. The increased return will aid farmers to meet their payments of principal and interest upon their indebtedness and will make liquid a large part of the assets of our credit structure that are now frozen.

In the long run, consumers can not expect to buy any product at a price which represents less than a fair return to the labor and capital involved in producing the commodity. The ultimate danger to the consumer in the present extremely low prices for agricultural products is that, if continued, they will shortly result in the ruin of our agriculture and it will eventually be necessary to pay unduly higher prices before it can be restored. The consumer as well as the farmer and the business man has everything to gain from a fair and balanced relationship between production and consumption that will restore to agricultural commodities their pre-war purchasing power. The present economic emergency is in large part the result of the impoverished condition of agriculture and the lack of ability of farmers to purchase industrial commodities. The present measure is essential to the relief of the national emergency and its enactment without delay is imperative.

BILL AN EMERGENCY MEASURE

It is provided that the bill shall cease to be in effect whenever the President finds and proclaims that the national economic emergency in relation to agriculture has been ended. It is also provided that any of the powers of the Secretary or other provisions of the bill shall, pending such time, be terminated by the President if he finds that they are not requisite to carrying out the declared policy.

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