Senate Report to Accompany Agricultural Adjustment Act of 1933

S. Rep. No. 73-16 (1933)

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73D CONGRESS, 1st Session — SENATE — REPORT No. 16

RELIEVE THE EXISTING NATIONAL ECONOMIC EMERGENCY BY INCREASING AGRICULTURAL PURCHASING POWER

MARCH 13 (calendar day, APRIL 5), 1933.—Ordered to be printed

Mr. SMITH, from the Committee on Agriculture and Foresty, submitted the following

REPORT

[To accompany H. R. 3835]

The bill as reported is practically the same as the bill that came from the House with, perhaps, the important amendment eliminating sheep and cattle from the enumerated farm commodities that are so enumerated in the House text.

This bill, with the exception of part 1, title 1, was drafted by the Department of Agriculture and is practically unchanged from the bill as presented to Congress. Considerable hearings were had by the Senate committee, but on account of the desire of the administration that no change be made the bill is presented to the Senate in practically an unchanged form except that there is added to it title 3 which gives an alternative to what is known as title 2. Both title 2 and title 3 attempt to lay down a principle by which the price of farm products may be raised.

Title 4 is the farm-mortgage plan which has been attached to this bill, as it pertains to farm relief. I think it well to set forth here the message of the President that accompanied the presentation of the bill to Congress:

> 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.
>
> 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.

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 6 weeks, the effect on the prices of this year's crops will be wholly lost.

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.

Part 1, title 1 of the bill is that which was passed at the last session of Congress and was not signed by President Hoover. This part provides that cotton financed wholly or in part by the Government and now under control of the Federal Government shall be sold to the Secretary of Agriculture who is directed to sell on time this cotton to cotton farmers at the present market price in lieu of their producing a like amount in 1933. This cotton thus sold to the farmers and held by the Secretary of Agriculture in trust for them is to be disposed of by March 1, 1935. After deducing costs to the Government, the profits, if any, are to be given to the farmer who has contracted to receive this cotton and reduce production. The purpose of the plan is to reduce the surplus and at the same time and under the same contract to reduce production, the inducement to the farmer being that he gets, below the cost of production, what cotton he takes from the Government, and by reducing his production to a like extent he stands a chance of getting an advanced price on what he does produce and what he takes from the Government.

Part 2 is complex. This title, as said before, was prepared by the Department of Agriculture and was introduced as prepared for consideration of the House of Representatives and the Senate. There are two principles involved in part 2, namely, the leasing of land by the Government to reduce production, and the other the so-called allotment plan to increase prices by taxing the processer of the raw material.

The first principle, the leasing of the lands, is a proposal that the Government is to pay the owner for the land thus leased. It is not clearly defined in the bill what shall be the character of the land thus leased but it is to be assumed that the Secretary of Agriculture in leasing these lands shall lease such land of such a productive nature as would by removal from production decrease properly the production of the commodities sought to be reduced. In order to obtain funds to pay the farmer for lands thus leased, it is proposed under the leasing provision of this part to levy and collect what is known as a processing tax from the processer of farm products which tax shall be regulated by the Secretary of Agriculture to such amounts as shall be necessary to pay for lands thus leased.

The owner of the land is to be allowed to plant on these leased lands such crops as do not enter into market competition with other staple agricultural crops. The owner, however, can plant such crops if they are for his individual or farm use. The amount of the land estimated to be under cultivation in America is 350,000,000 acres. It has been suggested that the amount necessary to be leased or taken out of cultivation in order to bring about the proper reduction in production would be 50 or 60 million acres. Therefore, the aggregate amount of taxes to be levied and collected from the processer would be an amount sufficient to pay rent on this amount of land. Just what amount would be the rental per acre is not specified in the bill.

The second principle is what is known as the allotment plan. This plan provides that there should be a tax levied and collected on the processor sufficient to bring the price of the farm products domestically consumed up to a parity that existed between farm prices and the price of the commodities that the farmer has to buy, between 1909 and 1914. This tax levied and collected from the processor shall be added to the price that the farmer is now receiving for his products, thus giving him for that part of his products domestically consumed a price representing the parity that existed between what he sold and what he bought between 1909 and 1914. To illustrate, if cotton during the period selected for parity would bring him 12½ cents per pound, a tax would be levied upon the processor which, when levied and collected and added to the present current price of cotton, would bring the price on cotton domestically consumed up to 12½ cents per pound, the exportable surplus, of course, to be disposed of at the world's price for cotton. The present price of cotton is around 6 cents per pound, therefore, the ultimate tax upon the processor would be around 6 cents per pound, or $30 per bale for cotton that is domestically consumed.

In the case of wheat the same principle is applied and also to all the commodities enumerated and contained in this bill. This is the purpose of this proposed legislation as it pertains to the allotment plan. This plan, however, provides that in levying and collecting this tax to attain the parity price, due regard shall be given to the effect that such a tax and such a rise in price will have upon the consumption of the product. The Secretary of Agriculture is given the power to alter such tax from time to time as he may deem proper to meet the effect that the tax may have upon the consumption of the commodity. He is to take into consideration the effect that such a tax upon the given commodity may have in increasing the consumption of competing commodities as well. To effectuate the principles of the allotment plan the Secretary of Agriculture is empowered to enter into market agreements with processers and associations of producers and other agencies engaged in the handling in the current of interstate and foreign commerce of any agricultural commodity or product thereof after due notice and opportunity for hearing to interested parties. He is also authorized at his discretion:

(3) To issue licenses permitting processors, associations of producers, and other agencies to engage in the handling, in the current of interstate or foreign commerce, of any basic agricultural commodity, or product thereof, or any competing agricultural commodity or product thereof. Such licenses shall be subject to such terms and conditions, not in conflict with existing acts of Congress or regulations pursuant thereto, as may be 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 of such commodities or products and the financing thereof. The Secretary of Agriculture may suspend or revoke any such license, after due notice and opportunity for hearing, for violations of the terms or conditions thereof. Any agency engaged in such handling without a license as required by the Secretary under this section shall be subject to a fine of not more than $1,000 for each day during which the violation continues.

(4) To require any licensee under this section to furnish such reports as to quantities of agricultural commodities or products thereof bought and sold and the prices thereof, and as to trade practices and charges, and to keep such systems of accounts, as may be necessary for the purpose of this act.

The Secretary of Agriculture is authorized, with the approval of the President, to make such regulations with the force and effect of law as may be necessary to carry out the powers vested in him by this act.

Still further quoting:

The Secretary of the Treasury is authorized to make such regulations as may be necessary to carry out the powers vested in him by this act, including regulations, with the force and effect of law establishing conversion, factors for any commodity and article processed therefrom to deremine the amount of tax imposed with respect thereto, and defining processing with respect to any commodity.

The action of any officer, employee, or agent in determining the amount of and in making any rental or benefit payment shall not be subject to review by an officer of the Government other than the Secretary of Agriculture and the Secretary of the Treasury.

The bill provides that the Secretary of Agriculture may appoint such officers and employees subject to the provisions of the Classification Act of 1923 and acts amendatory thereof and such experts as are necessary to execute the functions vested in him by this act, and that the Secretary may make such appointments without regard to the civil service law or regulations.

Thus will he seen the broad and drastic powers given to the Secretary of Agriculture and the Secretary of the Treasury to administer this act. The allotment plan also provides that in order to protect the farmer and the processor there shall be placed in addition to the tariffs then existing on that product an increase in such tariff equal to the tax imposed upon the processor. To illustrate, if the tariff on wheat is 42 cents per bushel and the tax imposed on the processor in order to raise the price of wheat to the parity is 48 cents per bushel, then the tariff on imported wheat becomes 90 cents per bushel. Where there is no tariff on an article the tariff shall be raised equal to such tax. To illustrate, there is no tariff on upland cotton, and if the tax should be 4 or 5 cents per pound, then the tariff on such cotton imported would be 4 or 5 cents per pound or $20 to $25 per bale.

In relation to the allotment provision as to cotton, it might be well to indicate what would be the result of the application of this principle at the present time on tbe average prices of cotton. About 50 percent of the cotton produced in America is consumed domestically and 50 percent exported. The price then for that domestically consumed would be about $60 per bale and $30 per bale for that exported, which would be an average of $45 per bale or 9 cents per pound to the farmer.

Part 3 is a proposition to obtain the cost of production and has no reference to any parity, but empowers the Secretary of Agriculture at his discretion to estimate as nearly as practicable the cost of production and to fix this price on the commodities herein enumerated for the percentage of that commodity which is used in domestic consumption and also to protect this price, thus fixed on the part of the commodity domestically consumed as against competing articles as is provided for under the provisions of part 2.

Title 2, part 1, is known as Agricultural Credits, and is an amendment to the Farm Loan Act. An analysis is hereto attached explanatory of this, which analysis was prepared and given to the committee by the department that drafted this provision.

(The analysis referred to is as follows:)

Title II, Part I

1. For 2 years authorize Federal land banks to issue bonds at interest rate not to exceed 4 percent, the interest of which is guaranteed by the United States. Maximum amount to be $2,000,000,000. Proceeds to be used to make new mortgages or refinance existing mortgages (sec. 21).
2. In order to reduce and refinance existing farm mortgages, Federal land banks are authorized to exchange bonds for or to buy outstanding farm mortgages on best terms possible, passing savings in principal and interest on to farm borrowers (sec. 22).
3. Maximum interest rate to borrowers on old and new Federal land-bank mortgages not to exceed 4½ percent for 5-year period. Appropriation of $15,000,000 to be used to compensate the Federal land banks for loss in interest during first year (sec. 24).
4. Neither old nor new borrowers from Federal land banks required to pay installments on principal of mortgages for 5-year period (sec. 24).
5. For 5 years authorize Federal land banks to grant necessary extensions of payments to deserving old and new borrowers. Such extensions to be financed by loans from the United States. An appropriation of $50,000,000 authorized for this purpose for ensuing fiscal year (sec. 23).
6. Authorize Federal land banks to make direct loans to farmer-borrowers where no local farm-loan associations are available on conditions that farmer agrees to join such association when there are enough borrowers in the community to establish one. Interest rate on direct loans to be one half percent higher than on loans through local associations but rate to be reduced when borrower joins local (sec. 25).
7. Authorizes receivers for joint-stock land banks to borrow from Reconstruction Finance Corporation on security of receivers' certificates in order to pay taxes on real estate (sec. 26).

Part 2

1. Prohibits joint-stock land banks from issuing tax-exempt bonds or making new farm loans except in connection with refinancing of existing loans (sec. 27).
2. Authorizes Reconstruction Finance Corporation to loan up to $100,000,000 to joint-stock land banks at 4 percent on security of first mortgages, provided

(*a*) Joint-stock land bank reduces interest rate on mortgages to 5 percent per annum.

(*b*) Agrees not to foreclose on mortgage for 2-year period except in unavoidable circumstances.

These provisions will make it possible for joint-stock land banks to liquidate their affairs in an orderly manner giving consideration to farmer-borrowers and to security holders (sec. 28).

Part 3

Allocates $200,000,000 of Reconstruction Finance Corporation funds for loans through the Farm Loan Commissioner for the following purposes:

1. To enable farmer to redeem and/or repurchase farm property lost through foreclosures.
2. To reduce and refinance junior obligations.
3. To provide working capital.

These loans to be under supervision of Farm Loan Commissioner using machinery of the Federal land banks. Loans to be made direct to farmers. No loan in excess of $5,000. Total of first and second mortgage, if any, not to exceed 75 percent of normal value of farm and farm property. Repayment in 10 equal annual installments plus interest at 5 percent, but no payment on principal required for first 3 years.

Principal purpose of these loans to enable farmers to buy back foreclosed farms and to make small, reasonably safe, second mortgages to refinance junior liens and unsecured debts on a scale-down sufficiently drastic to permit good farmers to pay out (sec. 29).

Part 4

Authorizes Reconstruction Finance Corporation to make loans not to exceed $50,000,000 to drainage, levee, irrigation, and similar districts to reduce and refinance indebtedness. Loans for period not to exceed 40 years to be secured by bonds issued by borrower which are lien on real property or on the assessment of benefits. Such loans to be made only on condition that the borrower shall reduce the indebtedness of the users of such project in amounts corresponding to reduction of its debt. No loan to be made until after appraisal has been made of the property, taking into consideration average market price of bonds over 6-month period ending March 1, 1933, and the economic soundness of the project (sec. 32).

The committee also directed that there be placed in this report a statement as to the necesstiy of an expansion of the currency and the absolute necessity for an increase in commodity prices. The statement as prepared and adopted by the committee is attached hereto, as follows:

DEFLATION MUST BE CHECKED

The policy of deflation of commodity prices and farm values inaugurated in 1920 still persists. The first groups to feel the effects of this policy were farmers and stockmen. Thereafter in turn merchants, factories, wage earners, and now railroads; life insurance companies and banks are tottering, and unless the foundation of prosperity—agriculture—is repaired all must fall.

In reporting this bill favorably we feel that we should advise the Senate that, in our opinion, the bill will not alone afford the relief which the farmer must have to enable him to survive economically.

If we concede that the bill reported will bring about all the benefits claimed—agricultural price parity with other commodities—yet we are forced to the conclusion that such limited relief will not enable the farmers to meet their fixed charges such as taxes, interest, debts, and necessary expenses.

Experts, students of the trend of developments and influences, are practically agreed that the deflation process is resumed after the recent bank holiday.

Prior to the bank holiday some 12,000 banks failed, resulting in the destruction of some 20 billions of bank credit or deposit money. With the ending of the holiday, additional thousands of banks failed to open, resulting in the temporary if not permanent destruction of additional billions of what we call and use for money.

Such holiday resulted in the further withdrawal from circulation of all gold and gold certificates.

During the past three weeks, the Federal Reserve System has disposed of bills and United States Government securities in the total sum of over $1,000,000,000; reserve bank credit has been contracted in a sum of $956,000,000 and the money in circulation has been deflated in the total sum of $1,185,000,000.

We report these facts and state that no substantial relief is possible for agriculture until the policy of deflation is not only checked but reversed and a substantial sum of actual money is admitted and, if need be, forced into circulation.

We report that it is not sufficient to have an ample supply of currency in the vaults of the Federal reserve banks, and that it is not even sufficient to have an ample supply of currency in the vaults of the national, State, and private banks of the country.

With some 25 billions of bank credit—deposit money—canceled and destroyed, and with the remainder frozen and unobtainable; with much of the actual currency outside the Treasury hoarded and inactive, with over 40 nations of the world enjoying a lower production cost than the United States by reason of their depreciated currencies, the people, without either money or credit, are stopped, business is at a standstill, and deflation not only continues but is accentuated.

ONE HUNDRED CENT DOLLAR DEMAND

The Federal Reserve System, created to serve and promote the best interests of the people, commerce and industry, while pretending to be trying to keep sufficient money and credit available, has failed. Some 10 other Federal agencies have been created to assist in making Federal credit available to those needing and demanding assistance.

We report that with our present restricted volume of bank credit and with a like restriction of actual money in practical circulation—owing to hoarding—we recommend that existing policies of selling bills, United States securities and deflating the currency and credit be reversed and that a sufficient volume of money be placed in circulation to replace the currency hoarded and to supplement the bank credit or deposit money now frozen in the banks of the country.

DOLLAR MUST BE STABILIZED

Agriculture demands an adequate supply of honest and sound money and reports that at this time we have neither.

Agriculture does not demand a 50-cent dollar or an unsound dollar, but does protest the retention of a 200-cent dollar. A dollar which fluctuates in purchasing power from 50 cents in 1920 to 200 cents in 1933 is neither a sound nor an honest dollar. Dollars so scarce as to be obscure, thereby forcing into existence systems of barter, trade, and scrip, are not adequate.

Agriculture demands that the farmer should have a 100-cent dollar; that the purchasing power of the dollar should be fixed and established at that point to serve the best interests of the people, trade, commerce, and industry, and that when such value is once fixed it should be stabilized at such value.

We report further that no just, substantial, reliable, or permanent relief can be provided agriculture or any other industry until the money question is considered and adjusted.