

## Federal Agricultural Adjustment Act--Increasing Agricultural Purchasing Power

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FEDERAL AGRICULTURAL ADJUSTMENT ACT—INCREASING AGRICULTURAL PURCHASING POWER.—The course of congressional legislation bearing upon the relief of the farmer has led inevitably to the augmentation of his fixed charges.<sup>1</sup> To aggravate the already insurmountable dilemma of piling interest charges<sup>2</sup> the depression dealt the blows of falling land values<sup>3</sup> and declining produce prices.<sup>4</sup> The present administration addressed itself to the situation promptly and the present Act is the result of these efforts.<sup>5</sup> That the enormity of the consequences of such a comprehensive program as the Act contemplates did not escape its authors is revealed in the President's message which accompanied the bill. He declared that if it should prove unworkable he would be the first to announce it, and said, "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 a trial of new means to rescue agriculture."<sup>6</sup>

It is the avowed policy of the Act that it has as an object the restoring of the farmers' purchasing power to the level existing in the period from August, 1909 to July, 1914, and to insure that the same expenditures of the consumers' money goes for agricultural products now as then.<sup>7</sup> This period was chosen because, with the exception of the year 1920, it was the only time in a score of years that the prices farmers received for their products were at a parity with the prices they had to pay for all other commodities.<sup>8</sup> Criticism has been directed at this objective as giving the farmer an unjustifiable economic privilege in that it tends to deprive the consumers of the benefits of the increased efficiency and technological improvement in agriculture since 1914.<sup>9</sup> But it should fairly be noted that the administration's interest in consumers is adequately expressed in other measures of its comprehensive program.<sup>10</sup>

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<sup>1</sup> FARM LOAN ACT, 39 Stat. 360 12 U. S. C. A. §641 (1916); Agricultural Marketing Act, 46 Stat. —, 7 U. S. C. A. §521 (1929).

<sup>2</sup> YEARBOOK OF AGRICULTURE, U. S. Dep't of Agric. (1933) 735. The total farm mortgage indebtedness in 1910 was \$3,320,470,000; by 1930 the total had reached \$9,240,000,000. Interest charges on such mortgages rose from \$199,000,000 in 1909 to \$510,000,000 in 1932, although this latter figure represents a decline from the high of \$568,000,000 reached in 1927, *id.* at 703.

<sup>3</sup> *Id.* at 703. The value of all farm property in the United States was estimated to be \$78,000,000,000 in 1920 and \$44,000,000,000 in 1932.

<sup>4</sup> *Id.* at 729. Computing the index number for farm prices for the period from August, 1909 to July, 1914, at 100, the index number for the same commodities in 1932 was 57.

<sup>5</sup> PUBLIC ACT No. 10, 73rd Cong. 1st Sess., approved May 12, 1933. Title 1 only is here discussed.

<sup>6</sup> SEN. REP. No. 16, 73rd Cong. 1st Sess.

<sup>7</sup> *Supra* note 5, §2.

<sup>8</sup> *Infra* note 25.

<sup>9</sup> *Cf.* Kern, *Federal Farm Legislation* (1933) 33 COL. L. REV. 984.

<sup>10</sup> NAT'L INDUSTRIAL RECOVERY ACT, Public No. 67; NAT'L EMPLOYMENT SYSTEM ACT, Public No. 30; FEDERAL EMERGENCY RELIEF ACT, Public No. 5; all from 73rd Cong. 1st Sess. (1933).

With the purpose in view of reducing the present supply and the present rate of production of cotton, the Act authorizes the Secretary of Agriculture to buy, with money loaned by the Reconstruction Finance Corporation, all the cotton held by the Federal Farm Board and to sell it to farmers at present market prices in lieu of their producing a like amount in 1933. The sale to the farmer is to be in the form of an option contract in which he must agree to reduce his production in 1933 by not less than 30 per cent of the previous year, "without increase in commercial fertilization per acre."<sup>11</sup> By means of this arrangement the farmer acquires cotton at the current price of about eight cents a pound and, by performing his part of the contract in the matter of reducing acreage, he will assist the Agricultural Adjustment Administration in raising the price to the seventeen cents a pound level that obtained in the 1909-1914 period. Since the eight cent price is now below the cost of production of all but the most efficient producers, the farmer is thus induced to reduce his acreage and to buy, below the cost of production, the cotton now on the government's hands, with the prospect of selling both the cotton he grows and the cotton he thus buys at a profit. The success of the plan rests upon the assumption that a reduced growing crop will insure a rise in the price of cotton. It will be noticed, however, that the Secretary of Agriculture is directed to dispose of the government-owned cotton before March 1st, 1936.<sup>12</sup> If the price of cotton should be determined by the amount offered for sale<sup>13</sup> rather than the size of the growing crop, difficulties will at once be presented that must compel a declining price. The two-year limitation set upon the Secretary may, if he fails to dispose of all his cotton to farmers, force him to sell in the market upon every slight rise. In practice the administration has found that, in spite of the prohibition against increased commercial fertilization per acre, cotton yield per acre in 1933 rose to 197 pounds from the 1932 figure of 173 pounds per acre.<sup>14</sup> The American farmer has thus become, under the influence of a rising market and his acreage-reduction contract, a swift convert to the practice of intensive production.

Every other "basic agricultural commodity"<sup>15</sup> comes within the scope of Part Two of the Act, which attempts to reduce their production by means of government leasing of land and to increase prices by taxing the processor of the raw agricultural product.<sup>16</sup>

To further the plan of aiding the increase of agricultural purchasing power the Secretary is empowered to lease land from the

<sup>11</sup> *Supra* note 5, §6.

<sup>12</sup> *Ibid.* §7.

<sup>13</sup> *Supra* note 2, at 477. A stock on hand of 9,678,000 bales was carried over into 1932.

<sup>14</sup> 10 CROPS AND MARKETS, U. S. DEP'T OF AGRIC. 330 (Sept. 1933).

<sup>15</sup> *Supra* note 5, §11, defines this phrase to include wheat, corn, hogs and tobacco.

<sup>16</sup> *Ibid.* §§8, 9.

farmers and remove it from production.<sup>17</sup> Although the land is to be used for no government purpose, unless the farmers' agreement not to use it for production can be viewed as consideration in so far as it may aid the government in finding a market for purchases of farm commodities contracted for by the Reconstruction Finance Corporation in its effort to peg prices in 1929, the leased land is to be paid for "in such amounts as the Secretary deems fair and reasonable."<sup>18</sup> The same section indicates that the fiction of "leasing" the land is in reality a pure gift to the farmer, who is to be compensated by either "rental or benefit payments."<sup>19</sup> Though the Act does not disclose the character of the land to be so leased, it is supposed that the Secretary will lease those which, by their removal from productivity, will restrain the production of commodities sought to be reduced.<sup>20</sup>

At the time of the passage of the Act it was suggested that it would be necessary to lease fifty or sixty million acres, the amount of land under production being estimated at approximately 350,000,000 acres.<sup>21</sup> It should be observed that this ambitious proposal is enacted at a time when the active development of new acreage has been accelerated by the pressure on urban populations of the economic débacle and when the process of reclaiming vast new areas for farming purposes has continued unabated. Indeed, this present Act<sup>22</sup> authorizes the expenditure of \$5,000,000 for the purpose of completing approved land-reclamation projects. It is questionable whether it will be possible to subsidize agriculture and at the same time make farm lands increasingly accessible without inviting the very over-production sought to be checked.

The payments incidental to the reduction of acreage is to be provided by a tax levied on the processing of the raw agricultural products.<sup>23</sup> This tax, to be assessed and levied by the Secretary of Agriculture, is to be "at such a rate as equals the difference between the current average farm prices for the commodity and the fair exchange value of the commodity,"<sup>24</sup> and, further, "the fair exchange value of a commodity shall be the price therefor that will give the commodity the same purchasing power, with respect to articles farmers buy, as such commodities had during the base period specified in section two,"<sup>25</sup> *i.e.*, from August, 1909 to July, 1914. The tax,

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<sup>17</sup> *Ibid.* §8, subd. 1.

<sup>18</sup> *Ibid.*

<sup>19</sup> *Ibid.*

<sup>20</sup> *Supra* note 6

<sup>21</sup> *Ibid.*

<sup>22</sup> *Supra* note 5, §37.

<sup>23</sup> *Ibid.* §9.

<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.* The relative value of these commodities may be seen from the Department of Agriculture tables which show that the farmer's advantage during the war years has been offset by the disproportionate decline of the prices he has obtained since 1921.

	(a)*	(b)*
	INDEX NUMBER OF FARM PRICES, AUGUST, 1909 TO JULY, 1914 = 100	INDEX NUMBERS OF ALL COMMODITIES BOUGHT BY FARMERS FOR USE IN PRODUCTION AND FAMILY MAINTENANCE
1914.....	102	101
1919.....	209	205
1921.....	116	156
1929.....	138	155
1932.....	57	109

\* (a) *Supra* note 2, at 729.

\* (b) *Ibid.*

distributed to producers in the form of rentals as above described, when added to the price that the farmer receives for his products, is thus planned finally to give him a price representing the one that existed between what he sold and what he bought during the pre-war period. It can readily be seen that the entire cost of the program is shifted to the consumer who bears, no less than the farmer, the burden of a depression of urban land values and the ills attendant upon a sluggish industrial and banking system.

The five months that have elapsed since the promulgation of this enactment are of little encouragement to the farmer, the consumer or the national administration. Farm prices rose steadily from March of the current year until July, aided notably by hopes born of the administration's policy. Since July a slow decline, accompanied by not a little agrarian discontent, has developed. A contrary upward movement of all other prices, spurred by the National Industrial Recovery Act,<sup>26</sup> indicates that the farmer's problem is far from solution. The net result may be expressed in index numbers, using 1914 prices as 100, as follows:<sup>27</sup>

	PRICES RECEIVED BY FARMERS	PRICES PAID BY FARMERS
May.....	62	102
June.....	64	103
July.....	76	107
August.....	72	112
September.....	70	116

The consumer is faced with the unpleasant prospect of footing a bill of a billion dollars, the estimated cost to him of the acreage reduction and processing tax schemes.<sup>28</sup> The administration, in an effort to

<sup>26</sup> *Supra* note 10.

<sup>27</sup> 17 AGRICULTURAL SITUATION, U. S. DEP'T OF AGRIC. 20 (Oct. 1933).

<sup>28</sup> N. Y. Times, Oct. 21, 1933, p. 8:4. This report indicates that the processing tax on wheat of 30 cents a bushel, in effect since July 9, 1933, will yield \$136,000,000; the processing tax on cotton, in effect since August, 1933,

supplement the program to raise commodity prices, has launched a campaign to purchase newly mined gold at prices well above the customary one of \$20.67 an ounce,<sup>29</sup> but the effect of thus devaluating the dollar has had, at this writing, no marked effect upon farm prices. Disappointing as the early results may be, the determination and enterprise of the President and his cabinet continues to sustain the morale of the vast majority of the farmers. The Agricultural Adjustment Act, though originally a hasty improvisation for a desperate emergency, represents a wide departure from previous legislation enacted for farm "relief" both in theory and administration, and may well be considered an introduction to a new era in the history of American agriculture.

LEON BRAUN.

THE NATIONAL INDUSTRIAL RECOVERY ACT—ITS PERMANENT FEATURE.—Since the last issue of this periodical (May, 1933), the most outstanding piece of legislation has been the National Industrial Recovery Act.<sup>1</sup> Most of the provisions of this enactment will undoubtedly prove to be temporary, and with those we are not primarily concerned. We shall endeavor to indicate what permanent guidepost of new government policy this portentous title, symbolized by the familiar blue eagle, stands for in the effort of the present administration to find its way out of the "slough of despond."

The applicability of the National Recovery Act extends to persons, natural or artificial, whose business is in or affecting interstate or foreign commerce,<sup>2</sup> and the Recovery Act of the State of New York, in its provisions concerning intrastate commerce,<sup>3</sup> pledged its co-operation to the National Recovery Administration. The gravamen of this whole legislative structure orients itself from the system of codes, whether voluntary or involuntary, provided for therein, as will be shown hereinafter.

The operation of the National Act is excluded, legally, from dealing with industries purely in intrastate (and in no way in or

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will yield \$150,000,000; the tax now in effect on tobacco is scheduled to raise \$20,000,000; a similar tax on hogs will go into effect in November and is expected to produce \$348,000,000; a processing tax on corn of 30 cents a pound, soon to go into effect, will yield from \$60,000,000 to \$70,000,000. Part of the hog tax and an additional \$40,000,000 will be paid to corn farmers who reduce planting 20%, on the theory that hog prices will thus be improved, since 42% of the nation's corn crop is used as hog feed.

<sup>29</sup> Radio address by President Roosevelt, Oct. 22, 1933.

<sup>1</sup> 48 STAT. —, approved June 16, 1933.

<sup>2</sup> *Id.* tit. 1, §6 (d).

<sup>3</sup> UNCONSOLIDATED LAWS, 1933, c. 781.