

June 19, 1939.

Chairman Eccles

Statement on agricultural
appropriations.

Lauchlin Currie

I think you will be interested in the attached summary statement on agricultural appropriations which I asked Ezekiel to prepare for me, and also the letter from the Director of the Budget, which presents clearly the relevant comparisons between the fiscal year appropriations and the budget estimates for next year.

LBC:em

June 17, 1939.

The Department of Agriculture appropriation bill, as passed by the Senate, provides total appropriations 22 million dollars larger than the appropriation for the same purposes this year. (See copy of letter from the Director of the Budget to Senator Russell, attached).

It has been proposed that the appropriations for parity payments, and perhaps for disposals of surpluses, be greatly reduced below those passed by the Senate, and that portions of this reduction be made up by increased expenditures under the stamp plan, for self-help cooperatives and in other ways.

Any material reduction in the Senate appropriation for parity payments would have very serious repercussions, for the following reasons:

1. It would reduce net government expenditures during the 1939-40 fiscal year in an area where they go 100% into consumption, and would reduce to that extent the business recovery during that crucial period.
2. It would cut the net incomes of producers of surplus crops sharply below those of the past crop year. There would be grave danger, in consequence, of alienating farm support for the New Deal in the election ahead.
3. It would revive the anti-administration economy coalition of Republicans and reactionary democrats in the Congress. This coalition collapsed when the agricultural appropriations passed the Senate. If they are vetoed or substantially reduced, the coalition would be encouraged to reform and to attack W.P.A. and other pending appropriations. The result might be to reduce the entire program of government expenditure for 1939-40 materially below present expected levels, with resultant disaster both economically and politically.

Farm situation. The 1940 budget cut the farm appropriations sharply below present levels. The situation which lay back of the restoration of these cuts in the Senate is as follows:

- (a) Farm prices are low. With the unsatisfactory levels of business, the high unemployment, and the declining relief expenditures, farm prices for the major export crops are not only below the favorable prices of the 1926-37 recovery, but are sharply below those of a year ago, when industrial conditions were at their low. For the major products, the comparisons are as follows:

Farm Prices, May 15.

	<u>1937</u>	<u>1938</u>	<u>1939</u>
Wheat, bu.	118.3¢	71.4¢	63.0¢
Corn, bu.	121.2¢	52.7¢	48.3¢
Hogs, cwt.	\$9.39	\$7.35	\$6.39
Cotton, lb.	12.9¢	8.48¢	8.41¢
Butterfat, lb.	31.6¢	25.1¢	21.5¢

	<u>1937</u>	<u>1938</u>	<u>1939</u>
Index of prices received by farmers (Aug. 1909-July, 1914 = 100)	128	92	90

(b) The lower prices are in part the result of better weather and larger yields, but the increase in output has not fully offset the reduction in price. Politically, price level has more importance than income.

(c) The increased appropriations for the 1939 fiscal year, over those for 1938, made it possible to offset, to some extent, the sharp drop in farm prices from the 1937 crop year to 1938. Prices are still lower now, and seem likely to remain low through the 1939 crop year. If parity payments are greatly reduced, as has been proposed, that will mean that farmers will face a sharp reduction in parity payments along with a further reduction in sales prices. The effect, both on participation in the soil conservation and crop adjustment programs next year, and on farmers' friendliness to the New Deal in 1940, may be quite disastrous.

The alternatives which have been discussed, of increased stamp plan expenditures, of loans to self-help cooperatives, etc., would be helpful in themselves. Each dollar spent that way, however, would do much less to increase farm income than would money paid directly as parity payments. In addition, indirect programs are never so appreciated as are programs whose effects are felt directly. Unless funds spent in these alternative ways were several times larger than the funds withdrawn from present parity payments, they could not offset the reductions in farmers' minds.

Dated approx. 5-26-39.

My dear Senator Russell:

There has been a great deal of discussion recently as to the amounts provided for the Department of Agriculture for the fiscal year 1939 as compared with the amounts included in the pending Agriculture Appropriation Bill and the President's Relief Message. Some conflicting statements have been made as to the difference between the Budget estimates for the fiscal year 1940 and the amounts included in the pending bill.

For purposes of clarification, I should like to present some comparative tables which I believe present the whole story.

There is set forth below a comparison of appropriations for the fiscal years 1938, 1939 and 1940 segregated according to the major items. In this table appropriations of prior year balances are charged to the year for which they have now been made available and the assumption has been made that the amounts requested for the Farm Security Administration in the President's Relief Message, will be appropriated. Trust funds and contributed funds are not included in this statement since they do not affect the budget picture.

Appropriations under Department of Agriculture, General and Special Accounts
(In Millions of Dollars)

	<u>1938</u>	<u>1939</u>	<u>Agriculture bill for 1940 as passed by Senate</u>
<u>Appropriations:</u>			
Agricultural Adjustment Program:			
Parity payments	-	312.0	225.0
Disposal of surplus commodities	-	144.6	113.0
Act of Aug. 24, 1935 (30% of Customs) ¹ / ₁	125.1	144.0	90.0
Conservation and use of agricultural land resources	404.5	500.0	499.6
Federal Crop Insurance Act.	-	25.0	5.9
Administration of Sugar Act of 1937.	22.5	54.5	48.0
Retirement of cotton pool participation trust certificates	-	1.8	-
Total, Agricultural Adjustment Program	552.1	937.3	981.5

1 Permanent appropriation. Included to complete total.

Appropriations: (continued)

	<u>1938</u>	<u>1939</u>	
Farm Tenant Act.	11.3	40.7	57.0
Farm Security Administration	180.1	182.3	<u>2/</u> 138.5
Roads.	180.0	201.5	205.0
Other.	118.5	139.5	141.7
Total	1,042.0	1,501.3	1,523.7

2/ Not in Agriculture bill but to be provided in the Relief Bill.

In order to compare the President's estimates, including those presented in the Budget and those subsequently submitted to the Congress, with amounts provided in the present bill and to be included in the Relief bill, I am submitting the following table, again assuming that the requested amount for the Farm Security Administration will be provided.

Appropriations under Department of Agriculture, General and Special Accounts
(In Millions of Dollars)

	<u>Budget Estimates 1940</u>	<u>Agriculture Bill for 1940 as passed by Senate</u>
<u>Appropriations:</u>		
Agricultural Adjustment Program:		
Parity payments.	-	225.0
Disposal of surplus commodities	-	113.0
Act of Aug. 24, 1935 (30% of Customs) <u>1/</u>	90.0	90.0
Conservation and use of agricul- tural land resources.	485.0	499.6
Federal Crop Insurance Act	6.0	5.9
Administration of Sugar Act of 1937	<u>48.0</u>	<u>48.0</u>
Total, Agricultural Adjustment Program.	629.0	981.5
Farm Tenant Act	32.0	57.0
Farm Security Administration.	138.5	<u>2/</u> 138.5
Roads.	213.0	205.0
Other	<u>133.4</u>	<u>141.7</u>
Total	<u>1,145.9</u>	<u>1,523.7</u>

1/ Permanent appropriation. Included to complete total.

2/ Not in Agriculture bill but to be provided in the Relief Bill.

From the foregoing tables it will appear that the increase in appropriations for the Department of Agriculture between 1939 and 1940 is \$22,000,000, and the appropriations provided for 1940 exceed the Budget estimates by \$378,000,000.

I might point out in connection with the permanent appropriation under the Act of August 24, 1935, that the Budget submission necessarily is based on the requirement of law that an amount equivalent to 30 percent of the customs revenues shall be appropriated annually. Since there was a material decline in customs receipts in the calendar year 1938 as compared to 1937, the Budget estimate for 1940 and the amount included in the bill for that year is \$54,000,000 below the 1939 amount. In respect to this appropriation there is no discretion involved as to the amount to be submitted or to be appropriated. It is simply a mathematical determination fixed by permanent legislation.

There was some discussion on the Senate floor with reference to the failure to submit an estimate to provide for the parity payments. I am sure you will recall that when the original provision was included in the law to provide for parity payments, there was a general understanding that new taxes would be levied to provide the funds for these parity payments and that in the last session when the appropriation was included in the Relief Bill this understanding was referred to a number of times in the debate but no action was taken with respect to providing taxes. An estimate for parity payments was not, therefore, included in the Budget but was deferred until such time as tax legislation was enacted to provide funds for these payments.

Very truly yours,

Director.

Hon. Richard B. Russell, Jr.,
United States Senate,
Washington, D. C.