January 13, 1940

The President,
The White House,
Washington, D. C.

Dear Mr. President:

After considerable study of the Farmers' Income Certificate Plan on the part of the members of the Board's staff and after several conferences with the other members of the Fiscal and Monetary Committee and the officials of the Department of Agriculture, the attached memorandum is an expression of my views with reference to this matter. Mr. Chester Davis has kindly advised with me in reference to this matter and he is in full agreement with the memorandum.

Respectfully,

Marriner S. Eccles,
Chairman.

Attachment.
FRG:rj

FILE COPY

MEMORANDUM:

TO - The President
FROM - Chairman Eccles

January 12, 1940

The problem

Elimination of $225,000,000 of parity payments in 1941 comes at a time when there is strong demand for the certificate plan to provide increased payments on a permanent basis as a part of the agricultural program. Farmers, it is noted, still get only 11 per cent of the national income although they are 25 per cent of the population; clearly their incomes are much below average even allowing for the lower cost of living on farms.

Recommendations

In our judgment payments to farmers, and particularly to those receiving the lowest incomes, should be maintained or increased.

Our first preference is for appropriations financed by taxes derived in accordance with ability to pay.

Our next choice would be a combination of appropriations and a modified certificate plan, with appropriations sufficient to reduce materially the certificate taxes on cotton, wheat, and rice and to provide some payments on other commodities.

If, however, the choice is between discontinuance of parity payments and possible dislocation of the farm program on the one hand, and the certificate plan on the other, or between a system of fixed prices and the certificate plan, then the certificate plan, with certain revisions, would be favored.

Certificate plan

The principal argument for the certificate plan is that it would provide larger payments than could be obtained any other way and make possible the continuation of effective measures to control production and supplies in the interest of consumers as well as of producers. Payments would be sufficient to give cotton, wheat, and rice growers parity prices and would amount to $400,000,000 or $500,000,000, to which might be added appropriations for other commodities, notably corn, on which parity payments of $50,000,000 are now made. Consumers, it is urged, would probably not begrudge the producer his parity price. Also, once the certificate plan was adopted, funds would be made available automatically each year. Payments would not appear in the budget and whereas processing taxes have been invalidated the certificate plan might be found constitutional.

The plan, however, has many important limitations. The taxes proposed are even more regressive than a general sales tax, as they apply only to cotton, wheat, and rice products, which are consumed largely by low-income groups; the plan would not put idle funds to work, merely transferring funds from one group of consumers to another; and the appropriations, in effect, would be made without the annual review given appropriations for other purposes. In the case of cotton, a high tax would reduce consumption, damaging the important cotton textile industry and reducing output of cotton.

It is argued that the taxes, particularly for cotton, are not regressive because the funds go to people less well off than those that pay the taxes, but it is by no means clear that this is the fact. In the case of rice, the "growers" are mainly corporations and there appears to be little justification for taxing Porte Ricans and other low-income consumer groups for the benefit of these corporations. In any event the low-income groups would unquestionably pay a larger proportion of these taxes than they would of a general sales tax, which everybody agrees is highly regressive. And the list of consumer taxes is already far too long with nearly two-thirds of all the revenues of government agencies, (Federal, State, and local) coming from such taxes. Additional taxes should be based on ability to pay.

Payments to producers are mainly on the basis of volume of output and consequently the largest payments go to those already receiving the largest incomes from a given crop. The payments would be in relatively large amounts to 3 million farm families while collections would be spread over the whole population, averaging between $10 and $20 per family per year.

Cotton consumption might be curtailed as much as half a million bales annually as a result of a 6 cent tax, it appears from a study of the effects of the processing tax by the Bureau of Agricultural Economics. This might be reduced by distribution of cotton goods through extension of the Food Stamp Plan but in many cases competitive materials would be given a great advantage by an increase of one-third in the cost of the highest grades of cotton and two-thirds for the lowest grades. The effect on consumption might be lessened if the plan were revised to bear less heavily on the low-value uses of cotton (mattresses and overalls) and more heavily on high-value products (lawns and broadcloth).

Demand for protection from competing materials would probably take form similiar to the compensating taxes under the A.A.A. Cotton manufacturers and growers asked for compensatory taxes on silk, rayon, and paper; wheat millers and growers for taxes on corn, rye, and the imported starches. Troublesome devices of this sort would run counter to efforts to eliminate restraints on domestic trade and avoid price increases.

Fixed price plans

The certificate plan has been proposed partly to meet a demand for fixed prices on the domestically-consumed portion of staple crops based on cost of production. The certificate plan would be preferable to a fixed price plan without production control since it would channel the benefit to cooperating producers, thus supporting the broad adjustment and ever-normal granary program.

Appropriations

If payments were provided by appropriations derived from taxes based on ability to pay, funds would be transferred from people well off to farmers, idle funds would be put to work, the appropriation would be subject to annual review in accordance with usual budget procedure, and there would be no such adverse effects on consumption of cotton as under the certificate or fixed price plans. The distribution of the funds for a given crop among farmers of different incomes would presumably be the same proportionately as under the certificate plan and the tie-up with the adjustment program would also be similar.

The amount of funds to be appropriated should be determined after due consideration of many factors, including all types of governmental effort to improve agricultural conditions and the basic policy declaration in the Agricultural Adjustment Act of 1938.

> "... assisting farmers to obtain, insofar as practicable, parity prices for such commodities and parity of income, and assisting consumers to obtain an adequate and steady supply of such commodities at fair prices."

Appropriations and certificate plan

As indicated above, second choice would be a combination of appropriations and the certificate plan, with some revisions. This would reduce the amount of the certificate taxes and the effects on consumption and assure annual consideration of part of the problem but would still, in our opinion, be less satisfactory than outright appropriation of funds derived from taxes based on ability to pay.

If the certificate plan were to be adopted consideration should be given to revisions to avoid as far as possible the difficulties outlined above.