



TELEPHONE DEARBORN 1633

CHICAGO, ILL.

November 25, 1942

Hon. James F. Byrnes,
Director,
Office of Economic Stabilization,
Washington, D. C.

Dear Mr. Byrnes:

I regret, due to illness, that I won't be able to attend the meeting of the Board, Friday, November 27, at which time I note you will discuss the government policy with respect to use of subsidies in holding down the cost of living.

This is a question that has been fully discussed by the leaders of farm organizations during the past year. In fact, at the request of leaders in Congress we have, on several occasions, presented our position strongly opposing subsidies in carrying out the Price Control Act. The Grange and Cooperative Council also appeared in strong opposition to subsidies.

On June 19, in appearing before the House Appropriations Subcommittee on Appropriations for price control, I said:

"That the apparent objective of the OPA is to maintain the over-all price ceiling and subsidize producers, processors, and distributors of both agricultural and industrial commodities, is evident from the recent proposal which was submitted to the House and Senate Banking and Currency Committees in connection with H. R. 7008, in which it was proposed to authorize the RFC and the CCC to buy and sell industrial and agricultural commodities and to make subsidy payments to producers, processors, and distributors in connection with the administration of the Price Control Act. The lending power of the RFC was to be expanded by 5 billion dollars, of which an undesignated amount was to be used for this purpose, and the funds of the Commodity Credit Corporation were to be expanded one billion dollars for similar purposes respecting agricultural commodities.

"The refusal of the House Banking and Currency Committee and the refusal of the Senate to include this proposal in this legislation is significant. It indicates that the elected representatives of the people do not want to embark upon any such colossal subsidy scheme in connection with the administration of the Price Control Act.

"We strongly oppose this provision and we heartily commend the action of Congress in rejecting it. This matter was given thorough consideration at the last meeting of our Board of Directors on June 1, 2 and 3, at which time the following resolution was adopted:

"We oppose appropriations for the purpose of maintaining rigid price ceilings by the Price Administrator through the adoption of a subsidy policy and the development of large administrative machinery, but instead, we favor an adjustment of price ceilings to meet inequalities or abnormal conditions that may arise from time to time in the field of production or distribution. We believe such adjustments can be held to a minimum if wage controls are provided comparable to the control of industrial and farm prices.'

"Farmers would much prefer to get a fair market price than to be forced to depend upon subsidies out of the Treasury to supplement market prices when this is unnecessary. Consumer buying power is now at the highest level in the history of the Nation. City workers are getting the highest wages they have ever received. In many instances industrial workers are receiving twice as high wages as they received during the first World War. If there ever was a time when consumers could pay farmers fair prices for their products, it is now.

"We are told that consumers may have 15 to 20 billion dollars of excess income which they cannot expend for civilian goods, the supplies of which are greatly reduced on account of the war program. Why, then, under such conditions, should it be necessary to hold down prices to consumers at such low levels as to require billions of dollars of subsidies out of the public treasury to keep farmers and small businesses producing when consumers have so much excess buying power and therefore can well afford to pay fair prices for commodities? Would it not be much better to adjust the price ceilings whenever necessary to iron out inequities and maladjustments and avoid the necessity of subsidies, which would have to be collected out of the consuming public in the form of taxation sooner or later?

"Unfortunately, there are many people who seem to regard farm prices as the principal cause of inflation. The facts are that while many farm prices have increased considerably in recent years, they were below parity levels with industrial prices and wages, and even now are still below parity in many instances."

This statement clearly sets forth our position on this important issue. The National Grange and the National Council of Farmer Cooperatives also testified against the use of subsidies.

In considering the bill for supplemental appropriations for national defense, both the House and Senate Appropriations Committees refused to approve the appropriation of funds to be used for subsidy payments, and the bill as finally enacted contained provision against subsidy payments: (Public Law 678, p.10) "Provided further, that no part of this appropriation shall be available for making any subsidy payments. . . ."

It is perfectly clear that it was the intent of Congress to specifically prohibit the use of subsidy payments as a means of maintaining price ceilings.

On September 3, when the President was considering further price control legislation, he called a conference with Secretary Wickard and the presidents of the four national farm organizations to discuss the Administration's policy on price control. At that time, I presented to the President in behalf of our organization, the following recommendations:

"The position of the American Farm Bureau Federation on economic policies affecting agriculture and as they are related to the general welfare, are well-known to the public and defined before Committees of Congress on many occasions throughout the past decade. The goal of the organization in its efforts to represent the rightful interests of farmers has been to secure for the producer of all farm commodities a parity price in the market places of the country.

"Parity as defined by the Congress is a price necessary to give to farm commodities the same exchange value with the products of industry as existed in the average of the years 1909-14. It is definitely established that the prices of industrial commodities are very largely influenced by the wages within the various industries, therefore wages play an important part in the determination of parity prices for farm commodities. To achieve the goal of parity, it has been necessary to secure from the Congress large appropriations during past years because of the already existing large and uncontrolled surplus of farm products before the present Administration came into power. It has always been the position of the organization that as price levels rose in the market place to reduce correspondingly the requests of the organization for appropriations.

"In the inauguration of these broad agricultural policies and their later application, the cooperating farmers have had the sympathetic support and cooperation of the government. Also, as a result of these orderly programs, the industry of agriculture was much better prepared than any group to meet the present emergency. The

Federation recognized more than a year ago the dangers confronting the nation from inflationary spirals of wages, industrial prices and farm commodity prices that would result from abnormal demands created by war-time conditions. It then recommended legislation to extend definite authority for price ceilings upon wages, industrial prices and farm commodity prices and a tax policy that would limit profits and incomes to a normal basis.

"Such inflationary trends as have thus far been experienced are largely due to steady rise in wages and their affect upon industrial prices and their influence in the determination of parity for farm prices. Certainly this inflationary trend is not due to a rise in farm prices as even now, with limited exception, farm prices are only around parity. The Federation has urged an economic policy affecting agriculture that called for government support of farm prices to only 85% of parity, ceilings upon farm prices not below 110% of parity and this for the purpose of assuring farmers reasonable opportunity of securing on an average, approximately a parity price in the open markets of the country and with the least possible support, material or otherwise, from the government.

"It is also urged that the government not release commodities coming into its control as a result of government support of prices below a parity price in the market places of the country.

"This whole program has been directed toward stabilizing the industry of agriculture on a basis of parity, with labor and industry. Such a policy is necessary to insure the maximum production that is so seriously needed at the present time. It should be recognized that even with the attainment of parity, farmers are placed at some disadvantage, particularly with present requirements for maximum production because of the competitive situation for labor and the fact that farm labor costs do not enter into the computation determining parity.

"While parity is defined only for basic crops, the Federation has always supported and full authority is now vested in the Secretary of Agriculture for the determination of comparable prices on all non-basic crops to the parity price of basic crops. We believe any substantial revision of this over-all policy affecting agriculture would be disastrous particularly at this time and we respectfully request and urge a reaffirmation of the government's policy in support of such acts of Congress as the best remedy of removing confusion so widely spread among farmers and to best assure the extreme maximum production on the farms of the country.

"For the removal of inflationary dangers from further rise in price levels, we recommend and we urge immediate action by the Congress which extends full authority for the immediate application of ceilings on wages, industrial prices and farm commodity prices at comparable levels and as a further safeguard the enactment of tax policies that would confine profits and incomes to a normal basis.

"Adequate production, both in industry and agriculture, is the paramount need in this great emergency and an equitable balance between prices and wages is essential to the attainment of this objective.

"If these policies are put into effect, it is our belief that it will not be necessary to resort to further extreme government controls and government subsidies, either of which it is feared would result in the socialization of industry, labor and agriculture and destroy our competitive system of free enterprise. Certainly such a democratic system must be protected at home while we are fighting to preserve the principles of democracy on the battlefronts of the world.

"To the adoption and effective administration of the policies set forth, we pledge the whole-hearted and unqualified support of the American Farm Bureau Federation."

On September 16, I appeared before the Senate Banking and Currency Committee outlining the position of my organization on the Price Control Bill then under consideration. At that time I again repeated our opposition to subsidies in carrying out the price control program. The record shows also that the National Grange strongly opposed subsidies in their appearance before this Committee.

More recently, on November 4, the Farm Bureau, the Grange and the National Council of Farmer Cooperatives issued a statement in which we said:

"We do not believe that the use of subsidies is a sound approach to the solution of the farm labor problem. Subsidies lead inevitably to inflation, political manipulation, regimentation and an intolerably expanded bureaucracy. The extensive use of subsidies in lieu of a sound price structure will bring the economic, social and political bankruptcy of our country."

I am sure the Board will be interested in the comments of Mr. W. E. Haskins, Secretary of the Canadian Federation of Agriculture, on what Canadian farmer thinks of the use of subsidies in carrying out the price control program in Canada, where the subsidy method is now being used:

"There are two chief objections to the subsidy method. The first is that city people always regard the subsidy as a 'gift' from themselves to the farmers. They forget that it comes out of general revenue and that farmers pay taxes too. We contend that the shoe is on the other foot, and that the purpose of the subsidy is to enable the consumer to secure food at less than its fair price. It is the consumer who is being subsidized, not the farmers.

"The second objection is simply another way of stating the same idea. If, during the War, we maintain prices at a level below their proper value, then when the deflation comes . . . we start at the wrong point, and this is against our interest whether prices go up

or down. The consumer ought to learn the true value of the food we provide and expect to pay that value."

In conclusion, I wish to protest vigorously against the use of subsidies in holding down the cost of living and I am sure the vast majority of the American farmers agree with me.

Sincerely yours,



Edward A. O'Neal - President