

VETO MESSAGE RELATING TO THE AGRICULTURE  
SURPLUS CONTROL ACT

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M E S S A G E

FROM

THE PRESIDENT OF THE UNITED STATES

RETURNING

WITHOUT APPROVAL THE BILL (S. 3555) ENTITLED "AN ACT TO ESTABLISH A FEDERAL FARM BOARD TO AID IN THE ORDERLY MARKETING AND IN THE CONTROL AND DISPOSITION OF THE SURPLUS OF AGRICULTURAL COMMODITIES IN INTERSTATE AND FOREIGN COMMERCE"

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MAY 3 (calendar day, MAY 23), 1928.—Read; ordered to lie on the table and to be printed

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*To the Senate:*

Senate bill 3555, called the surplus control act, is in some respects an improvement over Senate bill 4808 of the last Congress. It includes several provisions, which, if unencumbered by objectionable features, would form a basis for a measure that should do much to develop stronger business organizations in agriculture. But the present bill contains not only the so-called equalization fee and other features of the old measure prejudicial, in my opinion, to sound public policy and to agriculture, but also new and highly objectionable provisions. In its entirety it is little less undesirable than the earlier measure. The bill still is unconstitutional. This position is supported by the opinion of the Attorney General, which is hereto attached.

In its essentials the objectionable plan proposed here is the stimulation of the price of agricultural commodities and products thereof by artificially controlling the surpluses so that there will be an apparent scarcity on the market. This is to be done by means of a board having supposedly adequate powers and adequate funds to accomplish such purpose through various agencies, governmental and private. The surpluses of the different selected commodities so accumulated by the board are then to be sold by export and otherwise

directly or through such agencies at whatever loss is necessary in making the disposition. The fund to pay the losses and other costs while at first furnished by the Government is ultimately to be replaced and thereafter replenished from time to time by means of a tax or fee charged against the product. The theory is that the enhanced price of the commodity would enable the producer to pay the equalization fee and still reap a profit.

The recurring problem of surpluses in farm products has long been a subject of deep concern to the entire Nation, and any economically sound, workable solution of it would command not only the approval but the profound gratitude of our people. The present measure, however, falls far short of that most desirable objective; indeed, although it purports to provide farm relief by lessening the cares of our greatest industry, it not only fails to accomplish that purpose but actually heaps even higher its burdens of political control, of distribution costs, and of foreign competition. It embodies a formidable array of perils for agriculture which are all the more menacing because of their being obscured in a maze of ponderously futile bureaucratic paraphernalia. In fact, in spite of the inclusion in this measure of some constructive steps proposed by the administration, it renews most of the more vicious devices which appeared in the bill that was vetoed last year. This document is much altered from its previous form but its substance, particularly as to its evident ultimate effect of tending to delude the farmer with a fantastic promise of unworkable governmental price regulation, is still as repugnant as ever to the spirit of our institutions, both political and commercial.

A detailed analysis of all of the objections to the measure would involve a document of truly formidable proportions. However, its major weaknesses and perils may be summarized under six headings:

- I. Its attempted price-fixing fallacy.
- II. The tax characteristics of the equalization fee.
- III. The widespread bureaucracy which it would set up.
- IV. Its encouragement to profiteering and wasteful distribution by middlemen.
- V. Its stimulation of overproduction.
- VI. Its aid to our foreign agricultural competitors.

These topics by no means exhaust the list of fallacious and indeed dangerous aspects of the bill, but they afford ample ground for its emphatic rejection.

I. *Price fixing.*—This measure is as cruelly deceptive in its disguise as governmental price-fixing legislation and involves quite as unmistakably the impossible scheme of attempted governmental control of buying and selling of agricultural products through political agencies as any of the other so-called surplus control bills. In fact, in certain respects it is much broader and more flagrant in its scope. The heights to which price lifting might be *promised* are freed from the limitations fixed in previous measures. The bill carefully avoids any direct allusion to such price-fixing functions, but there can be no doubt about its intentions and authorizations to the Federal farm board in this respect. There is apparently no change in the import of the bill in the resolution to impose upon the farmer and upon the consumers of farm produce a régime of futile, delusive experiments with price fixing, with indirect governmental buying

and selling, and with a nation-wide system of regulatory policing, intolerable espionage, and tax collection on a vast scale.

These provisions would disappoint the farmer by naively implying that the law of supply and demand can thus be legislatively distorted in his favor. Economic history is filled with the evidences of the ghastly futility of such attempts. Fiat prices match the folly of fiat money.

The board would be compelled to arrive in some way at the premium on the domestic price which would be demanded from the consumer, and this figure would have to be fixed in the contracts which it would make with the millers, packers, canners, spinners, and other processors. Such prices and other terms fixed in the contracts would be used by the board to calculate the losses upon which it will base the size of the equalization fee. This procedure is the very essence of price fixing no matter how cumbersome and crudely camouflaged it may be. By throwing the very large resources of the Government into this operation the present bill gives the widest latitude for the most vicious temptations adherent in autocratic authority in complete command of vast industries and trades.

In previous bills definite yardsticks have been determined by which prices were to be established by the Government. They are omitted from this bill, which thereby leaves almost no restraint whatever upon the discretion of the board in this respect. The present measure, therefore, has even less merit than its predecessors in this regard since it carries no limitation as to the extent of price inflation which it can undertake.

II. *The equalization fee*, which is the kernel of this legislation, is a sales tax upon the entire community. It is in no sense a mere contribution to be made by the producers themselves, as has been represented by supporters of the measure. It can be assessed upon the commodities in transit to the consumer and its burdens can often unmistakably be passed on to him.

Furthermore, such a procedure would certainly involve an extraordinary relinquishment of the taxing power on the part of Congress, because the tax would not only be levied without recourse to legislative authority but its proceeds would be expended entirely without the usual safeguards of congressional control of appropriations. This would be a most dangerous nullification of one of the essential checks and balances which lie at the very foundation of our Government.

Incidentally, this taxation or fee would not be for purposes of revenue in the accepted sense but would simply yield a subsidy for the special benefit of particular groups of processors and exporters. It would be a consumption or sales tax on the vital necessities of life, regulated not by the ability of the people to pay but only by the requirements and export losses of various trading intermediaries. It would be difficult indeed to conceive of a more flagrant case of the employment of all of the coercive powers of the Government for the profit of a small number of specially privileged groups.

It has been alleged that these operations would be inaugurated only as a last resort, but this would be scanty assurance indeed, since no board would be able to resist the pressure of the political forces which could be mustered in behalf of every staple com-

sponsibility of attempting to legislate its prices above those fixed in the normal operations of the law of supply and demand.

III. *Widespread bureaucracy.*—A bureaucratic tyranny of unprecedented proportions would be let down upon the backs of the farm industry and its distributors throughout the Nation in connection with the enforcement of this measure. Thousands of contracts involving scores of different grades, quantities, and varieties of products would have to be signed by the board with the 4,400 millers, the 1,200 meat-packing plants, the 3,000 or more cotton and woolen mills, and the 2,700 canners. If this bill had been in operation in 1925 it would have involved collections upon an aggregate of over 16,000,000,000 units of wheat, corn, and cotton.

The bill undertakes to provide insurance against loss, but presumably only against reasonable and unavoidable loss. Just what this might be would involve judgment on the part of Government employees upon tens of thousands of transactions running into billions of dollars. This is bureaucracy gone mad. Cooperative associations, flour mills, packing plants, and grain elevators will cease to be private and become public agencies. If there is any conclusion that we can announce as final with regard to governmental business operations, particularly after the bitter and excessively costly war-time experiences with such enterprises, it is that we can not maintain a bureaucracy of such vast proportions engaged in buying and selling without constant danger of corruption, mismanagement, and prodigious tax burdens. No private agency of so gigantic and complex a character attempting to juggle with profound economic principles in such fashion could survive under such circumstances, and the chances for a governmental trading organization would be even less.

Swarms of inspectors, auditors, disbursers, accountants, and regulatory officers would be let loose throughout the land to enforce the terms of these contracts and to curb the inevitable attempts at evasion of the equalization fee. This plague of petty officialdom would set up an intolerable tyranny over the daily lives and operations of farmers and of every individual and firm engaged in the distribution of farm products, intruding into every detail of their affairs, setting up thousands of prohibitory restrictions and obnoxious inspections.

Such autocratic domination over our major industry, its dependent trades, and the every-day activities of hundreds of thousands of our citizens would indeed be profoundly repugnant to every instinct of our institutions. It would undermine individual initiative, place a premium upon evasion and dishonesty, and poison the very well-springs of our national spirit of providing abundant rewards for thrift and for open competitive effort.

The arbitrary powers in the hands of the 12 members of the board are almost incredible. But even more extraordinary would be the veto power over the board which this measure places in the hands of the commodity advisory councils.

Acting with the board, these men could throw the entire machinery of the Government into an attempt to raise or lower domestic prices at will. Even though such efforts would ultimately be doomed to certain failure, these men would meanwhile, during the course of costly experiment, hold in their hands the fate of vast industries using farm products employing millions of persons and of great coop-

eratives with thousands of farmer members. They could disrupt the settled channels of trade and commerce; they could alter at will the cost of living, influence wage levels in all lines of industry, and affect conditions of business in every part of the country. The mere enumeration of such powers is the complete answer to the proposal that they be granted.

IV. *Encouragement to profiteering and wasteful distribution by middlemen.*—As was pointed out in the veto last year, it seems almost incredible that the farmers of this country are being offered this scheme of legislative relief in which the only persons who are guaranteed to benefit are the exporters, packers, millers, canners, spinners, and other processors. Their profits are definitely assured. They have, in other words, no particular incentive toward careful operation, since each of them holding a contract, no matter how unscrupulous, wasteful, or inefficient his operations may have been, would be fully reimbursed for all of his losses.

This would be bound to encourage wholesale profiteering at the expense of the farmer and of the consumer. Every one of these processors could charge what he chose to his domestic trade and recoup the loss incurred on any one of his products thus made unsalable at home through excessive prices by dumping it at reduced rates in foreign markets. With such a complete guaranty of profit these concerns would be entirely without restraint or limitation as to profiteering and as to slovenly and wasteful processing and selling operations.

Surely there could be no more direct means of destroying the very germ of American commercial genius which is so frankly envied by our foreign rivals—the tireless search for better and more efficient business methods, the competitive zeal for superior service and for adequate returns through large sales of better merchandise at lower prices.

The packers could be commanded by the board to buy hogs enough to create a near shortage at home and then raise the prices to a fixed level. The unsalable surplus would then be dumped abroad at a loss, which would thereupon be made good out of the pockets of all taxpayers, including the farmers. The operations would involve an impenetrable maze of contracts between the board and hundreds of packers and provisioners. The result would be a bewildering snarl of entangled accounting problems because packing houses buy one kind of product and sell a wide range of highly differentiated specialties. To “equalize” the losses on these would indeed be a task of overwhelming difficulty.

These objections were raised against the previous measure and apparently an attempt has been made to meet them by broadening the discretionary powers of the board so as to escape the necessity of describing its functions and limiting its authority. The result, however, has been entirely the reverse from that which was intended. The board is endowed with vast powers over our basic industry, but unlike every other agency in the Government it would not be limited by congressional control over its appropriations since it would have within itself the power to raise funds without limit by means of the compulsory equalization fee.

V. *Stimulation of overproduction.*—The bill runs counter to an economic law as well settled as the law of gravitation. Increased

prices decrease consumption; they also increase production. These two conditions are the very ones that spell disaster to the whole program. The vaguely drawn clause in the measure to meet this obvious danger merely amounts to moral suasion and as a last resort the withdrawal of the equalization fee. Thus if 90 per cent of the growers of a given commodity heed the admonitions of the board and refrain from production, they will, nevertheless, be punished because of the evasions of the remaining 10 per cent who have ignored the board's requests. In other words, no farmer will be safe in directing his planning upon his individual judgment, for should the result be a stimulation of an increased yield the board will be likely to withdraw the support which encouraged the surpluses and allow the prices to collapse under the weight of that artificially created excess. The annals of the industrial and agricultural world are replete with the catastrophes that have come in the wake of such attempted distortions of one of the most fundamental principles of commercial relations.

VI. *Aid to our foreign agricultural competitors.*—This measure continues, as did its predecessor, to give substantial aid to the foreign competitors of American agriculture and industry. It continues the amazing proposal to supply foreign workers with cheaper food than those of the United States, and this at the expense of the American farm industry, thereby encouraging both the foreign peasant, whose produce is not burdened with the costs of any equalization fees, and also affording through reduced food prices the means of cutting the wage rates paid by foreign manufacturers. The latter step would promptly impair the prosperity of our manufacturing population, which is by far the leading and most profitable market for our farm produce. It is nonsense to say that our farmers are not interested in such a development, which can only result in unemployment and in consequent decreases in food consumption in the great industrial districts. It is surely poor business to transfer the farmer's market from an employed American workman to the latter's competitor in the low wage scale countries across the seas, whose potential buying power and standards of living even at best are far below those of this country.

This is indeed an extraordinary process of economic reasoning, if such it could be called. Certainly it is a flagrant case of direct, insidious attack upon our whole agricultural and industrial strength.

By the inevitable stimulation of production the bill can only mean an increase of exportable surplus to be dumped in the world market. This in turn will bring about a constantly decreasing world price, which will soon reach so low a figure that a wholesale curtailment of production in this country with its attendant demoralization and heavy losses would be certain. Where is the advantage of dragging our farmers into such folly?

Furthermore, as the board undertakes to dump the steadily mounting surplus into foreign countries at the low-cost figures, it will come into direct conflict with the dumping and similar trade laws of many foreign lands which are interested in the maintenance of their own agricultural industries. We might, therefore, expect immediately a series of drastic, retaliatory discriminations on the part of these consumer countries. This will drive our surplus into

narrower market channels and force even further price reductions with consequent increases in the burdens of the equalization tax.

Lastly, and most important, in connection with this aspect of the bill as an aid to our foreign competitors, the measure will inevitably devastate many of our important farm areas. For instance, the board is expected to obtain higher prices for the American farmer for corn by removing the surplus from the home market and dumping it over our borders at a lower level of prices. In other words, the hog grower in Ontario, Canada, may buy American corn at a very much lower level than the hog grower in the State of Ohio. Both being situated equally as to the European market for their pork products, we shall see immediately the migration of the Ohio hog industries across the border into Canada with consequent losses to our pork industry by this Canadian competition.

Likewise the dumping of cheaper American feeds for Dutch and Scandinavian producers of dairy products further subsidizes them in direct competition with the American industry. In other words, the framers of this measure naively submit a proposal to save the American livestock grower and dairyman by supplying his overseas rival with abundant feedstuffs at reduced rates. It would be difficult indeed to conceive of a more preposterous economic and commercial fallacy.

To take another illustration, our cotton-manufacturing industry, which now has some 18,400,000 spindles in the cotton-growing States and 16,400,000 in the New England States, has been in a precarious condition for several years. Further handicaps imposed upon it by this bill might spell its ruin and the consequent serious crippling of our entire cotton-growing belt. Under this bill it would be quite conceivable that foreign mills could obtain American cotton for prices substantially less than those paid by domestic mills. Foreign mills could ship cotton goods to this country in spite of the tariff since the equalization fee in this measure is not applied to cotton fabrics. Furthermore, foreign mills would undoubtedly capture our existing export markets for the 600,000,000 square yards which we ship abroad annually, valued at over \$75,000,000. The very serious hardships thus inflicted upon the nearly 500,000 wage earners in the cotton-manufacturing industries and the consequent impairment of their consumption of farm produce, as well as of the raw cotton in the mills, would be indeed a tragic, if not disastrous, episode.

All of this assumes that the foreign countries will permit the carrying out of the plan, but many of those countries are interested in the production of their own agricultural industries and will not hesitate to impose higher tariff duties or antidumping laws to prevent such undue depression of their own markets. Furthermore, they would be inclined to institute discriminatory measures in favor of our competitors by way of retaliation. The markets for our surpluses would thus be limited if not fatally obstructed. To stake the future prosperity of American agriculture upon the course of action to be taken by foreign governments acting under such hostile impulses is altogether too hazardous.

Many of the objections urged in my former veto message apply with equal force to the present bill. No good purpose would be served, however, by repeating them in detail.

The bill now under consideration also includes objectionable features not found in the one of the last session.

The present measure would authorize the board to insure cooperative associations against price decline and require the nonmembers as well as the members to bear the cost under the so-called "non-premium insurance." All producers would be compelled not only to bear the risk of the few, but also to insure them against the consequences of bad management.

We all believe in sound cooperation; the Government has gone far in recent years to aid it, and I have recommended additional steps for its encouragement; but no system of cooperation founded on the favoritism contemplated under the name of "nonpremium insurance" could be of lasting benefit to agricultural cooperation.

This bill also provides that the equalization fee, collected on any agricultural commodity produced in the United States, shall in addition be collected on importations of that commodity. This provision would empower the board to do the following:

1. Regulate foreign commerce, for the equalization fee on imports would be in fact a tariff. This surely would be a delegation of legislative power, since no logical rule is prescribed to govern the board's actions in making this addition to import duties.

2. Raise the domestic price to the consumer, not only to the full amount permitted by the tariff but as far above that amount as the board might deem proper and expedient. This effect on domestic prices was clearly contemplated by the Committee on Agriculture of the House. Speaking of the effect of this provision on wheat, the committee said:

Therefore, the maximum price for all wheat, whether of domestic or foreign origin, would approximate a level that included both the tariff and the equalization fee.

3. Nullify the provision of the tariff act that tariff rates shall be based on differences in cost of production here and abroad, so far as that provision relates to agricultural products.

An effort has been made to create the impression that the present bill is an important concession to my recommendations for the control of agricultural surplus. It has been emphasized that the loan provision is what this administration has recommended and that loans to cooperative associations for the control of crop surplus constitute one of two alternatives, with the equalization fee the other alternative. It is said that the first alternative will be tried first and that the equalization fee will be resorted to only if the loan provision should prove inadequate. It becomes apparent, however, upon careful study of the present bill and of the supporting committee reports that these alleged alternatives can afford no real test of any plan of the kind I have recommended.

The board is authorized to invoke the trade agreement and the equalization fee only upon finding three facts: (1) "That there is or may be during the ensuing year a seasonal or year's total surplus \* \* \* in excess of the requirements for orderly marketing or in excess of the domestic requirements for the commodity"; (2) "That the nature of the commodity—its durability, preservability, methods of marketing, etc.—adapts it to the operations contemplated"; and (3) that the cooperative associations are unable or



unwilling to handle the surplus under the loan provision—i. e., that the "first alternative" is inadequate.

These conditions are always present. It is provided (sec. 8) that the board shall inquire into these facts upon request of the advisory councils, or organization of producers, or upon its own motion. The board could not escape making the three "findings" and would therefore be obliged to enter into trade agreements and to use the equalization fee from the beginning.

A surplus in excess of orderly marketing *or* (the word "and" is not used) in excess of domestic requirements is always present in many agricultural commodities. The exportation of any part of the domestic output proves the existence of such a surplus.

The second "finding" is equally inescapable because it is based on ever-present and obvious facts. Numerous commodities—cotton, wheat, corn, rice, tobacco, processed meats, and other products—always have the durability, preservability, etc., that render them adaptable to the operations contemplated in this bill.

The third "finding" is also assured in advance because it is certain that the cooperative associations would be both unwilling and unable to handle the surplus under the terms of this bill. Under the first alternative (the loan provision) the cooperative associations would be obliged to repay their loans with 4 per cent interest and pay their losses, if any, in the normal course of trade. Under the second alternative (the equalization fee plan) not only would the board make advances to the associations without interest but would also guarantee to pay their "losses, costs, and charges." Moreover, the equalization fee and the nonpremium insurance would enable the board to insure them against decline in the market price and against the consequences of bad management in merchandising their products, and to compel all producers of the commodity—member and nonmembers—to pay for the insurance. These inducements are surely sufficient to insure unwillingness of the cooperative associations to accept the first alternative.

Both unwillingness and inability of the cooperative associations to handle the surplus under the loan provision are made doubly certain by the central objective of the bill, which is to inflate domestic prices and to dump the surplus abroad at a loss. These associations, and everyone else who has given thought to the matter, know that this can not be done by loans and that it never was contemplated under the plan I have proposed.

The objectives of the type of legislation I have suggested and of this bill are radically different. The two proposals are therefore incompatible as practical alternatives. The object of my proposal is to aid in adjusting production to demand, to afford farmers a greater bargaining power, to handle surplus due to seasonal and other causes beyond the control of producers when unaided by strong business organizations, to minimize price fluctuations, and to reduce the margin between the price paid by the consumer and the price received by the producer.

The real objective of the plan in this bill is to raise domestic prices to artificially high levels by governmental price fixing and to dump the surplus abroad.

While agriculture has been distressed in many countries since the World War, the severity of the agricultural depression in the United

States must not be underestimated. It is true there has been an increase in prices and purchasing power of agricultural products. Many important farm products have increased rapidly in price in recent months. Nor should we overlook the fact that our farmers have made noteworthy progress since 1921 both in the purchasing power of their products and in the output per worker in agriculture. The latter is the result of improved methods and equipment, and is in keeping with the fundamental cause of American prosperity—high productivity per worker. Moreover, we should avoid the error of seeking in laws the cause of the ills of agriculture. This mistake leads away from a permanent solution, and serves only to make political issues out of fundamental economic problems that can not be solved by political action.

In conclusion, if the measure is enacted one would be led to wonder how long it would be before producers in other lines would clamor for similar "equalizing" subsidies from the public coffers. The lobbies of Congress would be filled with emissaries from every momentarily distressed industry demanding similar relief of a burdensome surplus at the expense of the Treasury. Once we plunged into the futile sophistries of such a system of wholesale commercial doles for special groups of middlemen and distributors at the expense of farmers and other producers, it is difficult to see what the end might be.

I have believed at all times that the only sound basis for further Federal Government action in behalf of agriculture would be to encourage its adequate organization to assist in building up marketing agencies and facilities in the control of the farmers themselves. I want to see them undertake, under their own management, the marketing of their products under such conditions as will enable them to bring about greater stability in prices and less waste in marketing, but entirely within unalterable economic laws. Such a program, supported by a strong protective tariff on farm products, is the best method of effecting a permanent cure of existing agricultural ills. Such a program is in accordance with the American tradition and the American ideal of reliance on and maintenance of private initiative and individual responsibility, and the duty of the Government is discharged when it has provided conditions under which the individual can achieve success.

I am still hopeful that legislation along the lines suggested in my last annual message, with which many of the provisions of this bill are in harmony, may be enacted, but this bill embodies substantially all of the objectionable features which I said, in that message to the Congress, I could not indorse. I am therefore obliged to return Senate bill 3555, entitled "An act to establish a Federal farm board to aid in the orderly marketing and in the control and disposition of the surplus of agricultural commodities in interstate and foreign commerce" without my approval.

CALVIN COOLIDGE.

THE WHITE HOUSE,  
May 23, 1928.