

[CONFIDENTIAL]

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# REVENUE ACT OF 1938

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## HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

SEVENTY-FIFTH CONGRESS

THIRD SESSION

ON

### H. R. 9682

AN ACT TO PROVIDE REVENUE, EQUALIZE TAXATION  
AND FOR OTHER PURPOSES

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PART 3

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MARCH 29, 1938

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## COMMITTEE ON FINANCE

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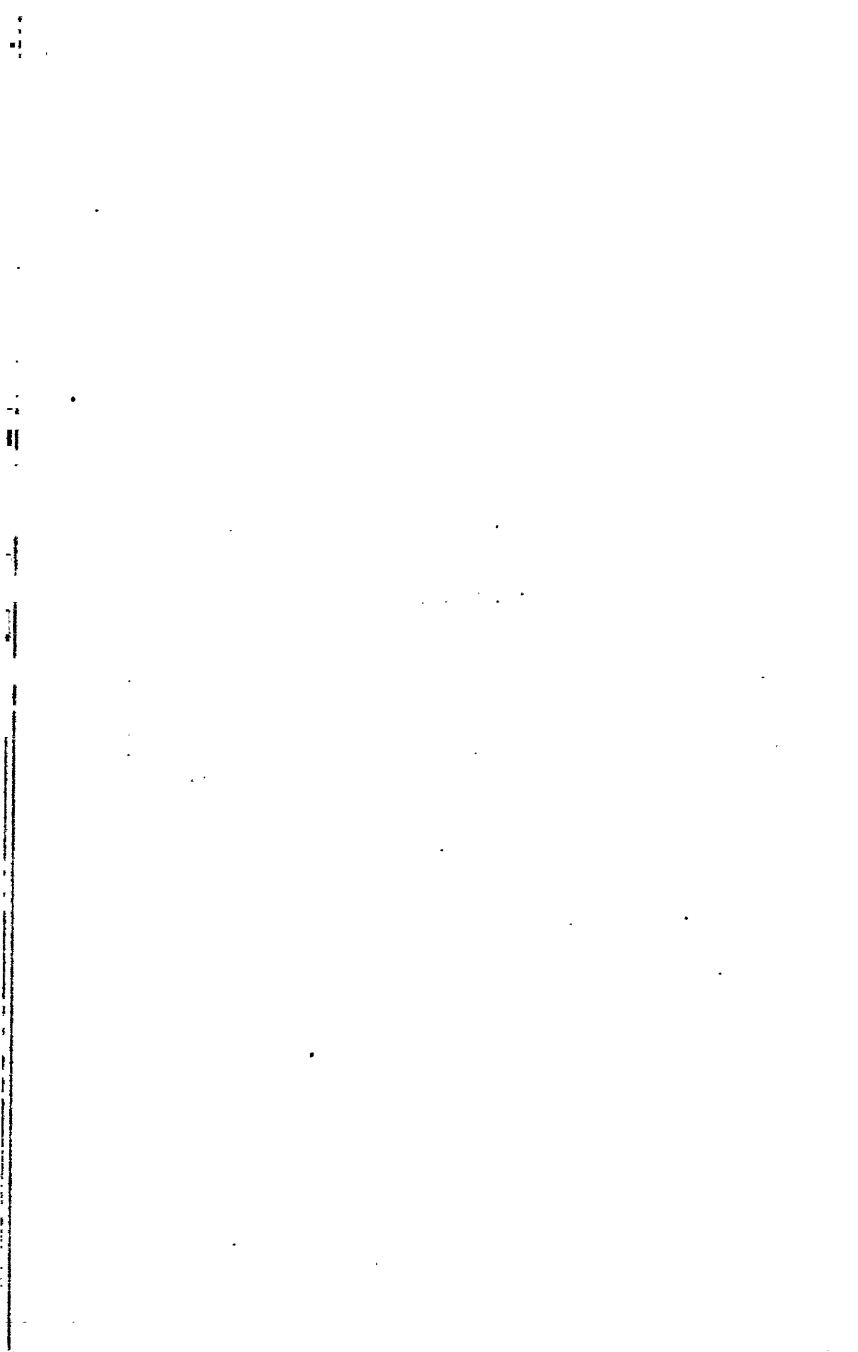
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## REVENUE ACT OF 1938

TUESDAY, MARCH 29, 1938

UNITED STATES SENATE,  
COMMITTEE ON FINANCE,  
Washington, D. C.

The committee met, pursuant to adjournment, at 9:30 a. m., in the Finance Committee room, Senate Office Building, Senator Pat Harrison (chairman) presiding.

The CHAIRMAN. All right, Mr. Secretary, if there are any parts of this bill that the Department of Agriculture wishes to express itself upon, this committee would like to have your testimony.

### STATEMENT OF HON. HENRY A. WALLACE, SECRETARY OF AGRICULTURE

Mr. WALLACE. Senator, at the request of the committee, I am glad to be here to answer any questions which the committee would care to ask of me.

The CHAIRMAN. Well, we would like to know what the views of your Department are with reference to this pork amendment, and also with reference particularly to the amendment offered by Senator O'Mahoney, thinking, perhaps, if the pork amendment is taken up that the cattle people ought to be taken care of also.

Senator O'MAHONEY. And two or three others.

Mr. WALLACE. So the jumping off place is pork?

The CHAIRMAN. Well, pork and cattle. If you want to discuss perilla seed, flaxseed, sesame and whale oil, you may do that also.

Senator BARKLEY. How about processing taxes?

The CHAIRMAN. I take it he does not want to discuss the processing tax with this committee.

Mr. WALLACE. I think the most expeditious way, perhaps, would be to read a rather brief statement here on the pork tax.

The CHAIRMAN. Very well.

Mr. WALLACE. In a letter to the chairman of the Senate Finance Committee, dated March 17, the Department of Agriculture expressed certain views in regard to the proposal to impose excise taxes, in addition to the regular duty, on imports of certain pork products. The following principal points were made:

First. That the proposed taxes would yield little, if any, additional revenue; and

Second. That the imposition of these taxes was against the interest of the American hog producer for the reason that our hog industry

is on a substantial export basis and is, therefore, not in a position to be "protected" against foreign competition through high import taxes. On the other hand, the imposition of such taxes would jeopardize the prospects of expanding foreign outlets for our surplus pork and lard production.

The purpose of this statement is to present in somewhat greater detail certain facts in regard to our pork export-import situation.

#### TREND OF PORK EXPORTS AND IMPORTS

In considering the trends in our foreign trade in pork it is essential to distinguish between the period prior to the 1934 drought and the period succeeding it. In the 10 years ending in 1934 the United States exports of pork and lard averaged 920,000,000 pounds annually. The drought of 1934 did not affect the trade in pork products until the following year. In 1934, for instance, our exports of pork and lard amounted to 585,000,000 pounds, while they dropped to 186,000,000 pounds in 1935 and averaged only 189,000,000 pounds during the 3 years 1935 to 1937.

On the other hand, pork imports averaged 8,306,000 pounds in the 10 years ending in 1934 but jumped to an average of 42,000,000 pounds in the 3 years 1935 to 1937. The largest imports, 75,000,000 pounds, were made in 1937.

The situation, then, was this: In the 10-year period preceding the drought-affected years, pork imports were less than 1 percent of pork and lard exports, while in the 3 drought-affected years pork imports amounted to 22.5 percent of pork and lard exports.

#### FUTURE PROSPECTS FOR PORK EXPORTS AND IMPORTS

The larger corn crop of 1937 is resulting in a considerable expansion in our hog production. Since this corn crop did not start to come on the market until October last year there has not as yet been time for any significant expansion in hog production. Nevertheless, the monthly trade figures through January of this year show a definite tendency toward a decline in imports and an expansion in exports. For instance, pork and lard exports in January 1938 amounted to 24,000,000 pounds or more than twice the exports in January 1937. On the other hand, imports of pork in January of this year amounted to 3,753,000 pounds, compared with 5,832,000 pounds in January 1937.

There is every reason to expect that this trend will continue during the current calendar year and, with normal production of corn in 1938, will continue into the next calendar year. In other words, without the imposition of any additional restrictions on imports at all we are almost bound to see a substantial reduction in imports. Exports also will increase although the extent of this expansion will depend in part on what foreign countries do in respect to trade barriers against pork and lard. Certainly, it would be extremely short-sighted to impose an import tax on pork products which would represent protection only on paper at a time when strong efforts are being made to enlarge our export outlets for the same products.

## A POSSIBLE ALTERNATIVE

It is not believed that any increase in import taxes on pork would be of real benefit to the American hog producer, but a plausible case could be made for one particular increase, namely, in respect to canned ham. This product is the principal item in our pork import trade and is more likely to continue to enter the United States in significant quantities than any other pork item which we have been importing during the drought years.

Canned ham did not enter into international trade at the time the Tariff Act of 1930 was passed. In that act provision is made for a duty of  $3\frac{1}{4}$  cents a pound on bacon and ham. It also provides for a duty of 6 cents a pound or not less than 20 percent ad valorem for preserved meats. This latter duty was aimed primarily at imports of canned beef.

When canned ham started to enter the United States the Treasury classified it under the paragraph relating to bacon and ham at  $3\frac{1}{4}$  cents a pound instead of under preserved meats at 6 cents a pound.

Now canned beef, which was assessed an import duty of 6 cents a pound, was valued at about 10 cents a pound during 1937. In other words, the duty on canned beef amounted to about 60 percent ad valorem. On the other hand, the import value of canned ham during 1937 was about 28 cents a pound so that the import duty of  $3\frac{1}{4}$  cents a pound amounted to less than 12 percent ad valorem. If canned ham were to have the same equivalent ad valorem protection as canned beef, the duty on the basis of 1937 values, would have to be about 17 cents a pound instead of  $3\frac{1}{4}$  cents a pound.

An import tax of 17 cents a pound, especially when it would not be of any value from the point of view of raising returns to our hog producers, is obviously ridiculous. But there is an argument, at least from the revenue point of view, in favor of increasing the duty on canned ham to the equivalent of the duty on canned beef. This could be accomplished by imposing a 23-cent excise tax on imports in addition to the present duty of  $3\frac{1}{4}$  cents a pound.

Senator WALSH. From what countries does canned ham come?

Mr. WALLACE. From Czechoslovakia and Poland.

Senator WALSH. Was that the subject of the recent trade treaty?

Mr. WALLACE. No, I think not, Senator, because I do not know of any action in the treaty with Czechoslovakia that would preclude this.

Senator WALSH. That treaty has just been signed?

Mr. WALLACE. Yes, sir. Now, I have some tables here giving the figures year by year, on imports and exports of the various pork products, and month by month during 1937.

(The tables referred to are as follows:)

*United States trade in pork and lard, 1925-37*

Year	Pork imports	Pork exports	Lard exports	Exports of pork and lard
	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>
1925.....	8,850	519,435	707,683	1,227,118
1926.....	12,272	402,665	717,077	1,119,742
1927.....	21,568	282,500	701,699	984,199
1928.....	12,830	301,217	783,472	1,084,719
1929.....	8,522	343,684	847,865	1,191,552
1930.....	4,656	277,352	656,017	933,869
1931.....	3,967	159,877	578,296	738,173
1932.....	5,766	116,280	552,154	668,434
1933.....	2,914	142,035	584,239	726,274
1934.....	1,646	150,342	434,891	585,433
Average 1925-34.....	8,305	299,562	656,339	925,901
1935.....	10,494	88,680	97,360	186,040
1936.....	41,843	87,929	112,168	180,977
1937 <sup>1</sup> .....	74,831	63,233	136,578	199,811
Average 1935-37 <sup>1</sup> .....	42,389	73,281	118,368	188,649

<sup>1</sup> Preliminary.*United States exports of pork and lard, 1937 and January 1938*

(All figures preliminary)

Month	Pork	Lard	Total
	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>
1937:			
January.....	3,821	8,556	12,377
February.....	4,642	4,818	9,460
March.....	5,111	7,376	12,487
April.....	5,447	8,290	13,737
May.....	6,453	13,003	19,456
June.....	5,068	9,847	14,915
July.....	5,369	7,823	13,222
August.....	4,631	7,200	11,831
September.....	3,209	9,808	13,017
October.....	4,702	18,495	23,197
November.....	7,793	18,467	26,260
December.....	7,267	22,295	29,562
Total.....	63,233	136,578	199,811
1938: January <sup>1</sup> .....	3,483	20,453	23,941

<sup>1</sup> Only hams, shoulders, bacon, and sides.*United States pork imports, by months, 1937 and 1938*

(All figures preliminary)

Year and month	Hams and shoulders	Fresh, chilled, or frozen	Pickled, etc.	Total
	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>
1937:				
January.....	3,828	1,796	208	5,832
February.....	4,133	1,627	369	6,129
March.....	5,095	2,122	355	7,572
April.....	3,231	1,378	427	5,036
May.....	3,453	1,660	846	5,959
June.....	5,147	1,837	618	7,599
July.....	3,839	3,116	690	7,645
August.....	3,745	2,356	672	6,774
September.....	4,093	1,402	329	5,824
October.....	4,278	1,344	567	6,189
November.....	3,277	981	602	4,861
December.....	3,282	1,108	851	5,242
Total.....	47,422	20,876	6,532	74,830
1938: January.....	2,523	793	437	3,753



*United States imports of Polish ham compared with United States exports of hams and shoulders to the United Kingdom*

Year ended Dec. 31	United States exports of hams and shoulders to the United Kingdom	United States imports of canned hams from Poland <sup>1</sup>
	1,000 pounds	1,000 pounds
1935.....	47,543	3,567
1936.....	36,827	18,673
1937 <sup>2</sup> .....	34,370	32,389
Average 1935-37.....	39,743	18,210

<sup>1</sup> Classified as "hams, shoulders, and bacon" but consists almost entirely of canned ham.

<sup>2</sup> Preliminary.

Senator WALSH. Mr. Secretary, if it was dealt with in that treaty that we just signed, then whatever increase we might impose in this law would have no effect, would it?

Mr. WALLACE. It would depend on what the nature of the wording was, of course.

Senator WALSH. That treaty was for 3 years or 5 years?

Mr. WALLACE. I suppose 3 years.

Senator WALSH. Is it not important to know that that was dealt with?

Mr. WALLACE. Undoubtedly, sir.

Senator KING. But whether it was specifically dealt with or not, undoubtedly they covered the field, and if they omitted to put any excise tax on that, obviously it was taken into account.

Mr. WALLACE. I am confident, Senator, there was nothing binding in the treaty on the tariff rate on ham.

The CHAIRMAN. Could not you get the same result by changing the classification of the canned ham, the classification that they put it in?

Mr. WALLACE. It would be necessary, Senator, to ask one of the Treasury officials with regard to that point.

I do not know what difficulty they might have in reclassification?

Senator KING. Why should we increase the tariff duty, or the excise, in view of the limited importations and the constant increase in our exports? If we are trying to get foreign markets for our surplus products, you cannot have a one-lane road.

Senator CONNALLY. Mr. Secretary, let me see if I understand you. I do not know whether I am correct or not, but this imported canned ham sells at a higher rate than our ham does?

Mr. WALLACE. Well, as the result of this competition from Poland and Czechoslovakia our packers became interested in bringing their packing methods up to date to meet this new kind of competition, and they also are putting out canned hams of a similar type. They imitate the package very closely, incidentally.

Senator CONNALLY. What is the differential in the price?

Mr. WALLACE. Theirs sells on about the same basis as the imported product.

Senator CONNALLY. I think the Senator from Michigan called to my attention the fact, especially in the case of the Polish ham, that the Polish population, the people of Polish extraction prefer it, but it ranges in a higher price range than the same kind of product produced in America.

Senator BROWN. I had the idea that, for instance, Hormel's ham is much less in price than Polish ham.

Mr. WALLACE. The comparable ham with which I am comparing it is Wilson's Tendermade ham, and I understand the Wilsons sell the Tendermade ham at about the same price as Polish ham. As a matter of fact, when I was in Chicago recently, Wilson spoke to me about this matter, and was very emphatic about the fact that his product was fully equal to and probably better than the Polish ham.

Senator BARKLEY. Did the packers tell you about this canned ham business?

Mr. WALLACE. Yes.

Senator BARKLEY. What proportion of hams that are imported in this country are canned hams?

Mr. WALLACE. I cannot answer your question.

Senator BROWN. Mr. Secretary, the balance of trade is very much in our favor in regard to Poland, is it not?

Mr. WALLACE. Oh, yes.

Senator KING. The same as Czechoslovakia?

Mr. WALLACE. I assume so.

Senator BROWN. I just want to say, of course, there is a very large number of Polish people, and Senator Connally intimates the southern part of Michigan, who want to have the tax left off.

Senator BULKLEY. Mr. Secretary, how much does this kind of importation amount to, that is, in regard to the Polish people who like Polish ham better? Is that a large item?

Mr. WALLACE. As an average, in the last 3 years we imported 18,000,000 pounds annually.

Senator BULKLEY. And that includes the importations due to the tastes of certain people?

Mr. WALLACE. Yes.

Senator BULKLEY. I mean the particular kinds of importations that Senator Connally refers to, because a lot of Polish people live in this country and they, for some reason or other, like their Polish ham.

Mr. WALLACE. I cannot say whether this particular canned ham is a product based on national taste. It is my understanding that that is a rather new product, both to Poles and to Americans, as far as that goes. It is not one of these delicatessen store products.

Senator BULKLEY. The delicatessen importation does not amount to a great deal, does it?

Mr. WALLACE. Not a great deal, no. The whole imports are normally less than 1 percent of our pork consumption.

Senator BULKLEY. That is what I want to make sure of.

Senator CONNALLY. Mr. Secretary, I thought you said awhile ago it was 1 percent of our export.

Mr. WALLACE. That is right.

Senator CONNALLY. And now you say "consumption," which is totally different.

Mr. WALLACE. I said less than 1 percent of our consumption. I said during the 10 years ending in 1934 that the imports were about 3 percent of our exports, and that is all-pork products, including lard, and during the last 3 years the imports amounted to 22 percent of our exports.

Senator JOHNSON. And during the last year, 1937, what were they?

Mr. WALLACE. During the last year, as I indicated, the imports were 75,000,000 pounds.

Senator BARKLEY. You mean all pork imports in 1937 amounted to 75,000,000 pounds?

Mr. WALLACE. Yes.

Senator BARKLEY. That is still less than 1 percent of our consumption?

Mr. WALLACE. I cannot answer with certainty on that, Senator. Here is a rather interesting consideration, however: This past year, 1937, which is the year of the largest imports, when the two droughts had the cumulative effect, that our imports of Polish ham were almost identical with our exports of ham and shoulders to Great Britain. The 1934 drought had its effect on ham marketings in 1935, and the 1936 drought had its effect in 1937. The 1934 drought still had a carry-over into 1936. In that 3-year drought-affected period we exported more than twice the quantity of shoulders and hams to Great Britain that we imported from Poland.

The CHAIRMAN. If you were going to make a suggestion to this committee with reference to this provision, what would be the amount that you would put on this canned ham? Would you restrict it to canned hams in this case?

Mr. WALLACE. I would restrict it to canned ham; yes, sir.

The CHAIRMAN. What rate would you fix?

Mr. WALLACE. I think I would make it about 6 cents a pound. That is on the theory that it would make it easy for the Treasury Department to do what they should have done in the first place.

Senator HERRING. You mean a total of 6 cents?

Mr. WALLACE. I mean a total of 6 cents. That would be 2¾ cents additional.

Senator CAPPER. Mr. Secretary, in the last 2 weeks we have had here before this committee the representatives of six of the National Producers organizations. They came here voluntarily, every one of them strongly protesting against the present situation and supported especially this 6-cent excise pork tax. Here I find, for instance, a statement last week of Mr. Stebbins, of the United States Livestock Association. He said to this committee:

The pork-producing industry of our country is faced with an extremely serious situation. Pork imports, particularly from Continental Europe, have increased by leaps and bounds during the past 4 years. The proposed tax will serve the double purpose of providing much-needed revenue to the Government and of equalizing in part, at least, the competitive situation with which our domestic hog producers are confronted.

Let me present a brief table of figures which covers total pork imports from all countries.

He gives figures which cover the total pork imports from all countries, starting with 1934, when we had only 1,647,000 pounds, and rapidly increasing until last year when it was 74,000,000 pounds. He says:

It can easily be seen that the proposed tax would yield considerable new revenue and yet it cannot be looked upon as otherwise than a compensatory measure to partially equalize the difference between domestic and foreign production costs.

Mr. WALLACE. Where is Mr. Stebbins from?

Senator CAPPER. How is that?

Mr. WALLACE. Where is he from?

Senator CAPPER. He is from Kansas City. That is the headquarters of the United States Livestock Association.

Mr. Hildebrand, of Nebraska, is president of it.

A similar statement is made by Mr. Mollin, of the American National Livestock Association.

Mr. WALLACE. I know as much about hogs as those gentlemen do.

Senator CAPPER. Then we have here a joint statement signed by a number of these organizations of farmers as well as livestock producers. The president of the National Farmers Union came all the way from Kansas to protest and to urge this pork tax, and here we have a statement from Mr. Fred Breckman, of the National Grange, in which he says official figures of the Department of Commerce show that our import of these products are going up rapidly, and he gives the quantity of live swine, fresh pork, hams, shoulders, and bacon, pickled, salted, and other, for 1935, 1936, and 1937, strongly urging this excise tax.

The CHAIRMAN. Senator, if this committee should decide to make this rate 6 cents on canned ham, would not that answer the purpose?

Senator CAPPER. I do not think anything but this amendment put in by the House would answer the purpose.

Mr. WALLACE. I disagree most sharply with you, Senator, and I am from a State that produces more hogs than any other two States. I think it is very definitely misleading the farmers of that area to think that this is going to help them, because it definitely will not help them. They are definitely on the export market with their hog product. These gentlemen that come from Kansas City certainly know that there was the most extraordinary drought in 1934 and 1936. How they can possibly do that kind of thinking and think they would help the farmer is beyond my comprehension.

Senator KING. The significant thing is they do not tell about the increased exports and a great demand for our own products in other countries.

Senator HERRING. Just whom do they represent?

Senator CAPPER. There is a statement here from every national organization of livestock producers and farmers that I know anything about, with one possible exception, there has been no statement at this hearing from the Farm Bureau, but the others have come in here and I think they cover every group of farm and livestock organizations in the country. They come in here and appeal to this committee to approve the House amendment.

Mr. WALLACE. Senator, here is the problem? You are on the export market, as far as hogs are concerned.

How are you going to hold that export market? How much good are you going to do the hog producer if you cause him to think that his salvation rests in raising the tariff when actually his salvation rests in discovering just what his markets really are? Raising the tariff on pork encourages him to think that he can increase his production behind the tariff wall, and when he climbs up there and looks on the outside what has he got? He has to come down with his prices. This thing was due to the drought. They are drawing their conclusions from figures due to the drought.

Senator CAPPER. The prices of these products have been going down in the last few months.

Mr. WALLACE. That is due, Senator, to the fact that we have had a large corn crop last year; it is not due to imports of these products

at all. The import of these products during that period was definitely a good thing for the American hog farmer, because it kept the taste of pork in the mouths of the consumers, and the American hog farmers ought to be grateful that there were some pork imports during that period.

Senator CAPPER. We cannot understand how opening the market to foreign competition is going to better the situation of the American producer.

Mr. WALLACE. It is not going to open the market to foreign competition. You will get very much more revenue for the Treasury if you have a 6-cent tariff on these hams than 9 cents. If you have 9 cents my estimate would be you would have less revenue.

The CHAIRMAN. What part of this increased importation of pork products does canned ham bear?

Mr. WALLACE. Canned ham represents, in this last year at least, one-half of the importations of all pork products. I do not know how much more, but about one-half, I would say.

Senator BARKLEY. Senator Capper, do those statements from which you read show the amount of domestic consumption of pork?

Senator CAPPER. I did not get that.

Senator BARKLEY. Do those statements from which you read a while ago show the amount of domestic production of these pork products?

Senator KING. And our domestic consumption?

Mr. WALLACE. He has got the total imports.

Senator BARKLEY. I know, but does he state what the total production is and the total exports?

Senator CAPPER. Here is the statement made the other day by Mr. Mollin, of the American National Livestock Association. He says:

I want to urge the retention of that excise tax on pork products and the adding to the bill of the excise tax of 3 cents on canned beef. Pork is the principal competitor of beef, and any other rate in the present tax structure is inadequate to give protection to the American industry.

Senator BARKLEY. That does not answer the question; that does not give the total production.

Senator GUFFEY. Mr. Secretary, has not the effect of the importation of foreign ham and canned ham upon our packers been to improve the quality of their products?

Mr. WALLACE. Definitely so. It has been a good thing for the packers. It woke them up.

Senator GUFFEY. I am glad the consumers are getting some better pork anyway.

Senator CLARK. As a matter of fact Polish ham sells higher on the market than American ham, is that not true?

Mr. WALLACE. If they are processed the same way the price is about the same, but there has not been much American ham processed in that way.

The CHAIRMAN. Mr. Secretary, if that is all you have to say with reference to this—

Senator CONNALLY. While he is on that, let us ask him about canned beef. Your idea is to raise the pork to the beef?

Senator KING. As I understand it, it is not the idea to raise it at all.

The CHAIRMAN. There is an amendment offered by Senator O'Mahoney with reference to canned beef. That is why I would like for him to discuss it, because Senator O'Mahoney wants to say something to the committee about it.

Mr. WALLACE. Well, there is a brief statement on the canned beef. A proposal has been made before the Senate Finance Committee that an excise tax of 3 cents a pound be levied on imported canned beef. The purpose of this statement is to examine the trends of imports of canned beef and their significance to the American cattle industry. Before doing this it may be noted that the present duty of 6 cents a pound on canned beef is equivalent to around 60 percent ad valorem. The imposition of an additional 3-cent excise tax on imports would make the total import charge equivalent to about 90 percent ad valorem.

#### THE IMPORT TREND

In 1937 the imports of canned beef totaled 88,000,000 pounds. When converted to a dressed weight basis these imports were equivalent to approximately 2.3 percent of our beef consumption and 1.2 percent of our total meat consumption in 1937.

Senator O'MAHONEY. These are the figures given to me by the Bureau of Agricultural Economics on canned beef. According to Dr. Black's tables, given to me, the import amounted to 4.4 percent.

Mr. WALLACE. These are figures given to me by the Bureau of Agricultural Economics, so apparently we consulted different members of the Bureau.

Senator O'MAHONEY. You have got them all together.

Mr. WALLACE. I said 1.2 percent of our total meat consumption; that includes pork, lamb, as well as beef.

Senator O'MAHONEY. For canned beef alone it is 4.4 percent, of the beef consumption.

Mr. WALLACE. The 4.4 percent to which you refer relates to the proportion of all beef imports, fresh and canned, as well as cattle converted to dressed weight basis, to our total consumption of beef. Canned-beef imports alone represented 2.3 percent of our total beef consumption and 1.2 percent of our total consumption of all meat.

While the imports in 1937 were the largest on record, due in a large measure to the relatively high prices that prevailed for meat in the United States during most of the year, they were only slightly larger than the imports of 80,000,000 pounds in 1929.

It seems probable that at the present rate of duty the United States will continue to import substantial quantities of canned beef from South American countries. But it also seems probable that imports will tend to be less on the average than the imports of 1937.

#### THE REASON CANNED BEEF IS IMPORTED

Before the World War a considerable amount of beef was canned in the United States from so-called canner cows and other low-grade beef. Since that time there has been very little canning of beef in this country, mainly for the reason that a more profitable outlet for low-grade beef has been found in sausage. At the present time the lower grades of beef can be sold for the manufacture of sausage for

almost twice as much as they will bring as beef for canning. Even if all canned-beef imports were excluded it seems probable that a considerable margin would remain in favor of the use of canner-grade beef as sausage.

It is not likely that the exclusion of the relatively small amount of imported canned beef would have any appreciable effect on the domestic price of sausage or of any other meat products. Consequently, if canned beef imports were excluded the result probably would be that there would be no canned beef consumed in the United States.

Senator CAPPER. Mr. Secretary, here is an important statement on that subject by Mr. Mollin, of the American National Livestock Association, when he says:

I think anything we do to help the pork industry is of interest to the beef producers because we cannot expect to prosper when they are in the dumps. . . . You can walk into any market in the United States and ask for American canned beef and you will fail to find it. There is only one little packer in the Northwest who cans some beef, and some large packers supplied some for the C. C. C. campaign.

Senator KING. They are using the beef for sausage.

Mr. WALLACE. You can get twice as much by putting it into sausage as by putting it in the can.

Senator CAPPER. Why should not the American producer supply the canned beef?

Mr. WALLACE. Because they can get more for it in sausage and in other ways. I am very much interested in the way in which Mr. Mollin's heart bleeds for the hog producer.

Senator CAPPER. They have a common interest in the hog producer and the beef producer.

Mr. WALLACE. Even if an attempt were made to can the lower grades of beef rather than to produce sausage from them it is probable that the quality would be such as to result in marked consumer resistance. Certainly, the American cattle producer would have to accept extremely low prices if the better grades of meat were sold for canning.

In the case of South American countries, and particularly Argentina, there is a large surplus of good grade beef. The outlet for beef in the fresh or chilled form, particularly in the United Kingdom, has been reduced. None of it can be sold in the United States in this form because of our sanitary embargo. There is, therefore, a great deal of good quality meat available for canning. This is the basic reason for the superior quality of South American canned beef.

Canned beef probably competes more with pork than it does with beef because it is a relatively cheap meat. In any case, as previously indicated, the imports of canned beef, even at the higher levels prevailing in the last 2 or 3 years, represent a very small part of our total meat consumption—only a little more than 1 percent.

If at any time our beef in this country gets as high relative to consumer income as it was in the first 6 months of 1937, I assume there would be the quantities of canned beef that we had in that period. I say it is well for the producer as well as the consumer.

Senator KING. Is it not a fact that in that period that you just referred to the price of pork products, particularly bacon, as well as

beef meat cuts was almost prohibitive to the workingman, the man of small salary?

Mr. WALLACE. Yes; and it brings about a resentment on the part of the working man towards the livestock producer. I think that is unfortunate because it gets him out of the habit of eating meat and into the habit of eating other products. I think this is a very unfortunate and short-sighted statesmanship, speaking from the standpoint of the livestock producers alone, when they are taking the attitude that they are taking in this case, and I do not think they are serving their own constituency well.

Senator KING. Is there anything else that you desire to speak on?

Senator VANDENBERG. I would like to ask a question on another matter. I would like to know the attitude of the Department on putting processing taxes in this revenue bill.

Mr. WALLACE. We have not been asked for our opinion yet, sir.

Senator VANDENBERG. You are now being asked for it.

Mr. WALLACE. I presume when we are asked for it we will send our opinion over to the Budget Bureau.

Senator VANDENBERG. Are you prohibited from answering my question?

Mr. WALLACE. I do not know the ethics of it. If I am not prohibited I am quite eager to answer the question, sir.

Senator VANDENBERG. Well, you stymie me.

Senator BARKLEY. Inasmuch as the the committee has decided not to put it in it is an academic question anyway.

Senator VANDENBERG. It will not be academic when the effort is renewed on the Senate floor. I would like to know the attitude of the Department regarding the addition of the processing taxes to this bill.

Mr. WALLACE. Certainly our attitude on tax matters is conditioned by the attitude of the Budget, as you know. I really do not know what the attitude of the Budget is going to be.

The CHAIRMAN. In other words, you have no report from the chairman of the Ways and Means Committee of the House to take up this processing tax, and you have no records from this committee.

Mr. WALLACE. From the standpoint of the broad, general agricultural picture, last fall I made some speeches with regard to wheat and cotton in which I indicated that in all probability this coming fall the income of the wheat and cotton producers would be such as to indicate they would have a very much lower share of the national income than the wheat and cotton producers had customarily been having, and that they were going to be in a very desperate plight, and in those speeches I indicated the desirability of considering a supplement to their income, in view of the fact that they could not be helped by loans effectively because they are of an export character to such a large extent, and I indicated the desirability of some method of obtaining adjustment payments. So my attitude in that respect is well known, but my official attitude cannot be known until there has been clearance with the Budget.

The CHAIRMAN. Well, the attitude of this committee was that they did not want to take up the processing tax in connection with this tax bill. It would delay it, and we felt that this was a matter that should be started by the House, because you can appreciate if



we put on the processing tax to this bill it goes to conference. The Ways and Means Committee, Agricultural Committee, has not given any consideration to it, only the conferees representing the House, and we do not believe that would be a fair way to go at it. So if you have got some official suggestions to make, I suggest you make them to the House.

Senator VANDENBERG. I still would like to know. Apparently I am not going to be allowed to know what the attitude of the Department is toward putting processing taxes in this bill. I think it is a pertinent question, in view of the fact that Senator Pope proposes to move on the floor to put them in.

Senator KING. Has not our action been adverse to it?

Senator VANDENBERG. It does not make any difference. Why cannot the Department of Agriculture say what their attitude is?

Senator KING. I can say what it should be.

Senator VANDENBERG. Would not they be able to say that instead of you?

Senator KING. They have not apparently considered that matter.

Senator VANDENBERG. The only answer is that they have some kind of regulation where you have to get permission of the Budget before you can express yourself.

Senator CONNALLY. Mr. Chairman, I do not see that the Secretary needs to be heckled about this thing. If he does not want to say, that is his business.

Senator VANDENBERG. That is what I am trying to find out, whether he does not want to say.

Senator KING. I sympathize with the Secretary's attitude. He is not the whole Department of Agriculture, he is not the whole administration.

Senator VANDENBERG. He is close to it, so far as agriculture is concerned.

Senator KING. I do not think we should pursue any star-chamber methods.

Senator VANDENBERG. This is not a star chamber. I merely want to know whether he believes the processing taxes should be put in this bill.

Senator KING. When the Secretary indicates he does not care to answer I do not think it is the duty of this committee to kick him around the ribs.

Senator VANDENBERG. If you consider this is kicking the Secretary around the ribs, I apologize.

The CHAIRMAN. If you desire to answer the question and give the committee the benefit of your views on this proposition, all right.

Mr. WALLACE. I think in a question of this sort it is necessary for me to have the benefit of the advice of the Treasury.

The CHAIRMAN. I think you are right.

Senator LA FOLLETTE. I think it would be a part of wisdom for this committee to request the Secretary to submit his opinion, so we may have it when we consider it on the floor, because every member of the committee knows we may have to decide the issue on the floor. The fact that this committee has not adopted it is not going to bind any Senator. Senator Pope announced he is going to offer it.

Mr. WALLACE. If you feel that you can differentiate between my personal opinion and my official opinion I am quite willing to express my personal opinion on this occasion.

Senator LA FOLLETTE. My suggestion, to relieve you of any embarrassment, would be to request you to submit to us, prior to the time this bill is disposed of on the floor, your official statement as to the attitude of the Department of Agriculture in relation to the processing tax amendment, which we all know is going to be offered by Senator Pope on the floor.

Mr. WALLACE. I am not sufficiently familiar, Senator, with committee procedure here to know whether I am now officially requested to submit it or not.

Senator LA FOLLETTE. I am going to suggest, or I am going to make a motion that this committee request the Secretary to furnish an official statement in regard to the policy of the Department concerning the attachment of the proposed Pope amendment to the pending tax bill.

The CHAIRMAN. We will take a vote on that amendment, but I desire to say this, that if there is going to be an official opinion rendered, it ought to come before this bill gets out of this committee, because if an official opinion is rendered in favor of the addition of the processing tax to this bill, some processing tax ought to be adopted that is fair to the people of this country. I want to help in every way I can to see that the farmers get the benefit of this legislation, and if a processing tax is necessary it is all right with me. If he is going to make his suggestion it ought to come early, so that the people who are opposed to it ought to be given an opportunity by the committee to present their side of the proposition, because it is an advantage to one who offers the amendment. I think, to say, "We have got the administration back of it," and so on, so that the administration knows whether or not they want this proposition. I think it ought to come pretty quickly. I hate to see it opened up again.

Senator KING. If they determine to have a processing tax we ought to give an opportunity to those opposed to it to be heard. I have had 50 letters in the last 30 days protesting against the processing tax, coming from rural communities, from packers, from businessmen, small grocery establishments, and so on.

The CHAIRMAN. Have you made a motion?

Senator LA FOLLETTE. Yes. May I explain, for the reason that the sponsors of this amendment are going to take the position on the floor that they have submitted it to this committee, the committee exercised discretion and decided not to hear them. It is not the fault of the sponsors of these amendments that they were not considered by the committee, and, therefore, it seems to me that since we are going to have to face the issue on the floor, it is the better part of prudence to have an official statement on the proposition, and in order to relieve the Secretary of any embarrassment, since he has had this matter presented to him officially, I offered this motion in order that he may have time to consult the Budget, or anyone else whom it is required to consult with under the law and regulations.

The CHAIRMAN. Call the roll.

Senator BARKLEY. Mr. Chairman, I just want to make this statement, and suggestion: I have never been convinced by anybody, regardless of the fact that important officials of the Department of

Agriculture take the other view, that until this farm act has been in operation during the year 1938 when we know to what extent crop curtailment is going to increase the prices up towards parity, that we can at this time prophesy what may be needed in the way of additional revenue, or whether any would be needed. It may be possible for the Secretary to do that, and I am sure he can come nearer than anybody else, but until we find out how this farm act is going to work and to what extent parity prices are going to be reached and thereby reduce the amount that is to be paid out of the Treasury, I do not see how we can more than guess as to whether we need the processing tax, and how much we need.

Mr. WALLACE. Speaking frankly and to the point that you raised, Senator, I think it is practically certain that the income of the southern cotton producer is going to be desperately low next fall, and I think it is certain, when the Congress meets next January, that the situation will be so desperate with respect to the southern cotton producer that the danger is that a very rapid and possibly not fully considered action may be taken on behalf of the producer at that time.

Senator BARKLEY. Well, do you think we ought to take it up now so as to forestall rapid action in January?

Mr. WALLACE. I think it might be advisable, at least to consider the matter sufficiently so your minds are aware of the problem, because in taking that course the action taken next January might be wiser than would otherwise be the case.

Senator KING. Your view is based on the presumption, I suppose, Mr. Secretary, that the export market for cotton will be diminished, not upon the ground that there will be a diminished domestic demand for cotton?

Mr. WALLACE. The consumption of cotton for the fiscal cotton year of 1938 is very much less than for the fiscal cotton year of 1937, very much less domestically, and while exports started out on a somewhat larger basis last August, the exports last month were materially less than they were for the same month a year ago.

Moreover, this is the all-important consideration: In order to get out from under this surplus supply of cotton, the acreage objectives are such that with ordinary yields per acre we would harvest in 1938 about 11,500,000 bales, which is about the quantity necessary to take care of exports and domestic demand, but that 11,500,000 at a price only slightly higher per pound than last year would give you much less income in terms of dollars than last year's crop of 18,500,000 bales.

Moreover, the income during this summer is going to be supplemented by the adjustment payment of \$130,000,000, and there is no provision, as you know, for anything corresponding to that, for the ensuing cotton crop, so you can see that it is almost a complete certainty that the income from cotton will be at least \$200,000,000 less for this next cotton crop than for this past one.

Senator KING. The price to the consumer, however—I am not saying that that is advantageously advisable—would be less?

Senator BROWN. Would be higher.

Senator KING. No. If there is a surplus of cotton I imagine it would be cheaper.

Mr. WALLACE. I was taking the 18,500,000 bale crop at an average of, say 8½ to 9 cents a pound. I say next year the crop, harvested

in 1938, suppose we have 11,500,000 bales at an average price of 11 cents a pound, while the price is up somewhat to the consumer, it is not up enough to offset the difference in production between 18,500,000 and 11,500,000.

Senator CLARK. In other words, so far as the gross income to the farmers is concerned, the slight increase per bale or per pound will not compensate for the loss in gross production.

Mr. WALLACE. That is right, sir.

The CHAIRMAN. Don't you think, Mr. Secretary, that this matter ought to originate in the House?

Mr. WALLACE. I am not expressing any opinion on those matters. Senator, at all.

Senator KING. I think it is an improper question.

Senator WALSH. Mr. Chairman, are you not in a position, in the event a processing tax amendment is offered on the floor, to state positively that no agency of the Government, either the Treasury or Agricultural Department, asked your committee, or the Ways and Means Committee to include such a tax?

The CHAIRMAN. I am in a position to say that.

Senator WALSH. Why does not that cover the situation?

The CHAIRMAN. I talked to Chairman Doughton and he said he has no communication with reference to that matter at all.

Senator CONNALLY. We do not have to wait until the Department tells us something. As far I am concerned, I am going to vote for the processing tax.

Senator LA FOLLETTE. I would like to say it is perfectly obvious that the farm income is going to be drastically reduced this coming year, and anybody that does not believe that, is going to get a tremendous shock. This amendment is going to be presented and, it seems to me, that this committee is in a perfectly sound position if it has asked for an official opinion on this amendment, and it was for that reason that I offered this motion. I do not think it would be any defense to vote it down, because you are going to have a real point made for this proposition when you get on the floor of the Senate.

Senator BARKLEY. Mr. Chairman, neither the Treasury nor the Agricultural Department have ever been timid in asking for appropriations that they need. They have not asked for this. Why should we force the Secretary of Agriculture to come in to do something that he has not seen fit to do up to date? If he thinks it ought to be adopted, it either ought to have been presented to the Ways and Means Committee of the House or this committee. It was not presented to either one, the Treasury did not present it. Now we are seeking here to manufacture evidence in behalf of a processing tax or against it, when neither the Department has come voluntarily nor made any suggestion or request about it.

Senator LA FOLLETTE. But this amendment has been presented by the Senator. The Agricultural Committee has unanimously requested this committee to consider it. As one Senator and a member of this committee, one who will be confronted by this amendment on the floor, I would like to know what the attitude of the Department is. It may not be controlling with me, but I would like to have it in coming to a consideration of what action should be taken upon these matters. It is a very important proposition and not one to be brushed aside like this.

Senator KING. Question on the motion.

The CHAIRMAN. May I ask you, Mr. Secretary, suppose that Congress adjourned and we met in January, we have no extra session, would the passage of a processing tax in January take care of the situation?

Mr. WALLACE. Yes.

The CHAIRMAN. It would take care of the situation?

Mr. WALLACE. Yes.

The CHAIRMAN. All right.

Senator CONNALLY. Mr. Secretary, that would have to be retroactive. We would have to apply it back to this year's production?

Mr. WALLACE. It would just be a question of delay, that is all. The thing I am afraid of is haste and ill-considered action. When there is a tremendous shortage of money in some regions of the country it is so easy to have hasty and ill-considered action, which causes trouble.

The CHAIRMAN. If you and your Department were asked to make an analysis of the situation could you advise us as to whether or not the Pope amendment, or any other amendment, is in proper form?

Mr. WALLACE. As far as I know we have not given any careful economic study to the Pope amendment.

The CHAIRMAN. All right, call the roll.

(The roll was called.)

The CHAIRMAN. On this vote the vote is 8 ayes and 13 nays, so the motion is defeated. Are there any other questions?

Senator BULKLEY. Does that dispose of the official attitude of the Department?

Senator CONNALLY. Not unless it wants to volunteer.

Senator BULKLEY. It disposes of our action on the official action of the Agricultural Department. Now, I would like to hear Secretary Wallace's personal views on it.

The CHAIRMAN. I might say, Senator Bulkley, as an explanation, that we would be glad to get their official opinion if they have got one to give. That is up to the Department.

Senator BULKLEY. I do not want to argue that any further. He said if we could differentiate between his personal opinion and official opinion he would be glad to give it. I would like to hear it.

The CHAIRMAN. All right.

Mr. WALLACE. Senator, I have already given it in a considerable measure with respect to cotton. I have not given it with respect to wheat. Both cotton and wheat are very similarly affected by the extraordinary change in world demand for the exportable surplus. Customarily, and previous to the depression, we exported about one-half of the cotton, a little more than one-half, and about one-fifth of our wheat. Beginning with the crop of 1933 we had four wheat crops which averaged 582,000,000 bushels, as contrasted with the normal of over 800,000,000 bushels. We customarily consume about 630,000,000 bushels. We started in 1933 with the carry-over of wheat which was three times the normal carry-over. The result of the combination of those extraordinary short wheat crop years with that unusual carry-over is that the short years about ate up the carry-over, and we entered into this year with about the normal carry-over in wheat. This past year we had a good wheat crop. The crop of 1938, while it looked like it was being damaged by drought, especially in Kansas, for a time, has, during the past 2 weeks, taken an extraordinary change for the better. I think you will agree

with me in that connection, Senator Capper, that a large part of your State has turned for the better.

Kansas might have a crop that will compare favorably with last year. Of course, we know nothing whatever about the crop in the spring wheat areas, but you can say that the present indications would be for a crop of at least 750,000,000 bushels, and that probably we would have 120,000,000 bushels on the export market, and there seems to be no likelihood of our being able, even with extraordinary and unusual price concessions, to put into the export market much more than 80,000,000 bushels.

The real truth about the wheat situation has been completely hidden from us because of the 4 short years, which are altogether outside of any probabilities that we had any knowledge of.

Now, if we go on with ordinary weather in wheat and have 4 or 5 years averaging 750,000,000 to 900,000,000 bushels you could easily have wheat prices plunging down to a very low level. The only thing that can stop that is that there is a proviso in the farm bill for loans that amount to 52 percent of parity, or roughly 60 cents. That is good, provided the wheat farmers vote for marketing quotas, otherwise, even the Government would not be able to hold the situation. What it gets around to fundamentally is this, that in the case of wheat and cotton, which are on the export market, there is no likelihood of the wheat and cotton farmers getting their customary share of the national income with the mechanisms in the farm bill as they now exist.

In the case of corn—which is usually on the export market, only indirectly by way of pork products—in the case of corn you can handle the situation in considerable measure by the loan. In the case of wheat and cotton all the loan will do is to put a bottom under the price, a bottom at a point which will give the wheat and cotton farmers an income which might be as much as 60 percent of parity income, but not real parity income.

The wheat and cotton farmers, if they are to get their fair share per capita of the national income obviously need some other help. I do not know of any other way of giving it to them except through some such tariff-equalizing device as this.

Senator BULKLEY. Some such device as the processing tax?

Mr. WALLACE. I do not know where the money would come from. It seems to me the more sensible way, with the Treasury situation the way it is, would be by a processing tax upon the product involved, because when they are selling at such low prices the processing tax added to the market price means obviously that in the price to the consumer it is taking a smaller share of the consumer's dollar than had been the case at any time previous to the depression. No injustice will be done to the consumer, and it is really the easiest way to raise the money and it seems to me that our attention will then be fixed more precisely on the problem.

Senator BULKLEY. That tax will be related to the price of the commodity, is that right?

Mr. WALLACE. That gets into constitutional questions. I would not care to express an opinion on that. It is obvious, with the general situation as it is, that the price of the commodity plus the processing tax will not total to an amount that will be unfair to the consumer.

Senator KING. As I understand your position, and I hope I am wrong, it is that the farm bill, of which so much is expected, is going to be a failure, that notwithstanding the \$500,000,000 that we are giving the farmer, that is through agriculture, direct appropriation, we have got to now give him more by imposing an additional tax upon the consumer, is not that your philosophy?

Mr. WALLACE. Senator, you have not stated it in the words I would use. As the result of the situation growing out of the World War and our inability to face that situation courageously with respect to our changed position in the world, the changed market for our products because we have not been willing to do some things beginning way back in the twenties, because we have not been willing to do that, it is essential, if you are going to avoid the most disastrous consequences to those farmers on the export market, to supplement their income or to prepare to support those people in town. Now what is the cheapest way of doing it? We want the cheapest way of doing it and we want to keep the people where they will lead the most constructive lives. I think your statement of the proposition was somewhat cynical, somewhat superficial, and you will pardon me for saying it—well, I will not say it.

Senator KING. I think it is just as sound logically as the explanation which you just made. May I say, as I understand, you are condemning our policy in failing to extend our foreign trade by imposing tariff barriers, or otherwise, so that we have lost much of our foreign market.

Mr. WALLACE. We have lost our foreign market due to conditions originating in the World War.

Senator KING. And the unfortunate repercussions to agriculture.

Mr. WALLACE. Very unfortunate.

The CHAIRMAN. Is there anything else?

Mr. WALLACE. I will submit this table on the import of canned beef.

(The table referred to is as follows:)

*United States: Imports (for consumption) of canned beef, by months, 1935-37<sup>1</sup>*  
*United States imports of perilla oil, 1923-37*

Month	Year ended Dec. 31—			
	1935	1936	1937 preliminary	1938 preliminary
	1,000 lbs.	1,000 lbs.	1,000 lbs.	1,000 lbs.
January.....	4,009	7,642	1,174	3,075
February.....	4,222	7,218	3,511	3,450
March.....	7,680	7,978	7,123	.....
April.....	9,496	11,897	10,446	.....
May.....	7,076	8,654	8,028	.....
June.....	5,911	7,034	12,461	.....
July.....	5,220	7,504	10,823	.....
August.....	5,740	8,938	6,842	.....
September.....	7,752	6,439	10,421	.....
October.....	5,379	8,994	7,435	.....
November.....	6,811	3,703	6,968	.....
December.....	6,867	1,803	3,355	.....
Total.....	76,263	87,804	88,087	.....

<sup>1</sup> Includes corned beef.

NOTE.—Bureau of Agricultural Economics. Compiled from official records of the Bureau of Foreign and Domestic Commerce.

The CHAIRMAN. Is there anything in addition, Mr. Secretary, to the letter you have written to this committee that you desire to discuss with reference to the perilla oil, the sesame oil, and so forth?

Mr. WALLACE. I just learned of your interest in perilla oil late last night. I did not know whether this situation would be of any interest to you or not. I do not know whether it covers the point you have in mind.

The CHAIRMAN. Yes, there have been several witnesses here speaking with reference to perilla oil and some of the other oils, that the provisions that we put into the bill have caused the crushing plants in this country to absolutely close down, and of course unemployment ensues from that.

Senator CLARK. The argument is that the oil content of the seed is not constant.

The CHAIRMAN. That is the question too, that the oil content of the seed is not appreciable and does not affect the domestic supply as to prices.

Senator GEORGE. Mr. Secretary, before you go on with that, may I not ask you if there was much the same situation that has obtained in Bright flue-cured tobacco as it does in cotton and wheat?

Mr. WALLACE. Senator George, the situation in tobacco has not during the past 3 years resembled in any respect the situation in cotton and wheat. There is a possibility that it may during the next year or two. The income of the tobacco producers has most nearly approximated parity income, I think, than the income of any producers, except possibly the sugar producers. The price, in some cases, has been above parity.

Senator GEORGE. That is true, Mr. Secretary. What I meant was, there is a drastic reduction in that particular type of tobacco, and that reduction is taking place in the cotton area, and when you combine the two you have got a still larger group of farmers who are going to need some additional help. Undoubtedly so, because the volume of production there must be to the tobacco farmer in the Bright flue-cured area is not big enough even at the high prices, even at something like parity, it is not great enough to give him a gross turnover to really equalize him as compared with his former returns.

I think it is a very acute problem, I am frank to say, particularly when you combine the cotton people with the tobacco people in the Bright flue-cured tobacco belt. For instance, in my State the possible production, even conceding good prices, will fall far short of a total return to the individual farmer in the Georgia area, far shorter than last year's return, because he had no large production in tobacco but he did have a considerable increase over his present indicated return for this year, that is, considered on an acreage basis, possibly a poundage limitation on tobacco, and then considering the allocation of acreage limits to cotton. So, generally speaking, the tobacco farmer and cotton farmer are identical, that is, they raise both. So that the problem is doubly acute with us.

I may tell you, Mr. Secretary—I doubt if you knew it unless somebody just told you the fact about it—in certain Georgia counties many tenant farmers who were ready to plant tobacco, who had a seed bed and who had prepared the lands had, during the last 7 or 8 days, been turned away from their homes because the land owners simply said, "My allotment does not justify me in keeping



more than one-half of the families on this farm that I expected to keep, and consequently I cannot give you work." It is a story that I hate to tell you.

Mr. WALLACE. Senator, this situation is especially true in Georgia and Florida where they have been attracted by the very good prices of tobacco during the recent years and have wanted to expand, and, as a matter of fact, in some counties in Georgia and Florida they voted against the marketing quotas because they felt, having been recent newcomers to the game, that the prices would continue to be as they had been. The high prices had apparently sucked them in. Now, of course, when the marketing quotas carried in the bright flue-cured tobacco belt to the extent of 80 percent those men on the edge of the belt were disappointed. It is quite understandable.

Senator GEORGE. I understand that, but nevertheless it is a deplorable fact, because those people have got to go somewhere for relief.

Mr. WALLACE. It is a question whether those people should have relief or whether all of the people in the tobacco belt should have relief in a year or two. That is the situation.

Senator GEORGE. That may be true, Mr. Secretary, but here is another situation: There is no overproduction so far as the market is concerned, unless the Georgia type of flue-cured tobacco is not sold, and there is not any in the market now that is not sold.

Mr. WALLACE. Don't you think, Senator, that that was due perhaps to the fact that the Georgia-Florida market opened earlier last fall and that the softening came later on as the market moved north and that the people farther north were unable to dispose of their tobacco fully?

Senator GEORGE. It is due to that, and it is also due to the fact that the Georgia-Florida tobacco has about 20 percent more sugar in it, and it is a more salable tobacco than anything north of the southern belt of Georgia. That is particularly true in the foreign market. Now, Georgia could easily expand its production of tobacco from 150,000,000 pounds to 200,000,000 pounds. It is virgin territory, as far as tobacco is concerned, and yet, under the farm bill, I regret to say to you, it has come to 71,000 acres, or about 70,000,000 pounds. Now, even last year the intention of the tobacco growers in Georgia was to plant approximately 100,000 acres, or 98,000 acres, but because of the destruction of the plant by plant diseases, why, it is not able to plant it. However, now we face the fact that the farmers have been cultivating tobacco for a number of years, they have their tenants, they are providing them work, and now they are obliged to say to the tenant, "We cannot use you any more," and so everyone must get out and find something else. In one of the counties last week there were a number of livestock sold by the tenants at public auction. It was one of the most pitiable spectacles I have ever seen or witnessed that has occurred to the southern people of Georgia last week. I do not know how we are going to help them. I know they are simply going back to relief, or going to relief in one form or another, unless there is something done about it, and what I wanted to say to you now is that here, in the event anything is done for the cotton farmer—and I am fully aware of his condition, and I am right on the edge of the tobacco belt—if there is anything done with the condition of the wheat farmer,

there is a portion of the tobacco growers, a certain percentage of them that are in a much more deplorable condition than either the cotton or wheat farmer.

Mr. WALLACE. I think the figures as to total income to various tobacco producers is such that it really does not approach the deplorable state in which the cotton and wheat people will find themselves.

Senator GEORGE. Not as a whole, I agree with you about that, but as far as certain types of tobacco are concerned in certain areas it seems pitiable to me.

Senator BARKLEY. That same thing prevails on the border line in cotton.

Mr. WALLACE. Yes.

Senator BARKLEY. In my State, where we have about eight counties all producing cotton, recently there has been a cut in the quota which is much larger than it is in the whole cotton area, and some of the cotton producers in my State are going to have to reduce their acreage by more than 50 percent. It works a greater hardship on them than it does on the people that have been producing it all their lives, but it does present to the individual farmer who gets caught in that situation a hard-luck story. You have got to avoid, on these borders where they are just getting into the field, some injustice to them.

The CHAIRMAN. Mr. Secretary, do you have anything further on this oil business?

Mr. WALLACE. Perilla oil is imported into the United States chiefly from Japan where it is crushed from perilla seed imported from Manchuria. Perilla oil is used chiefly for mixing with soybean oil for the production of a drying oil which can be substituted for linseed oil.

#### IMPORT-DUTY SITUATION

Perilla oil was on the free lists of the Tariff Acts of 1913, 1922, and 1930. Under the Revenue Act of August 21, 1936, however, an import excise tax of 4½ cents a pound was placed on perilla oil.

#### TREND OF IMPORTS

The United States imports of perilla oil prior to 1930 averaged about 6,000,000 pounds annually. After 1930 they rose rapidly.

This change was due principally to three factors: First, increased import charges were placed on certain competitive oils, such as linseed and soybean, in the 1930 tariff act, and, by the Revenue Act of 1934, on certain others; second, oil consumption increased in the United States after 1933 as a result of industrial recovery; and, third, imports have been stimulated since 1934 by general shortages of domestic fats and oils.

Of specific interest was the complete cessation of imports of perilla oil after August 1936 when an excise tax of 4½ cents a pound went into effect. There were virtually no imports of this oil from September 1936 through January 1937. Subsequently, imports increased in 1937 but they did not reach the level of 1936. In addition to the imposition of the excise tax, the cessation of imports in 1936 was also due to heavy overstocking of this oil in anticipation of the tax.

## United States imports of perilla oil, 1923-37

Year ended Dec. 31—	Imports for consumption (1,000 pounds)
1923.....	6, 441
1924.....	3, 016
1925.....	6, 017
1926.....	7, 401
1927.....	5, 358
1928.....	2, 011
1929.....	5, 574
1930.....	8, 838
1931.....	13, 285
1932.....	16, 525
1933.....	22, 776
1934.....	25, 164
1935.....	72, 328
1936.....	117, 903
1937 (preliminary).....	43, 591

NOTE.—Compiled from Foreign Commerce and Navigation of the United States and official records of the Bureau of Foreign and Domestic Commerce, Bureau of Agricultural Economics.

## United States imports of perilla oil, by months, 1935-37

Month	1935	1936 <sup>1</sup>	1937 <sup>1</sup>
	<i>Pounds</i>	<i>Pounds</i>	<i>Pounds</i>
January.....	1, 078, 120	7, 937, 472	.....
February.....	5, 281, 860	9, 661, 615	340, 900
March.....	4, 320, 977	13, 076, 576	1, 870, 120
April.....	9, 039, 534	15, 393, 996	3, 393, 297
May.....	14, 145, 746	21, 311, 225	3, 540, 541
June.....	5, 665, 815	13, 769, 658	5, 993, 172
July.....	9, 081, 954	18, 005, 541	5, 643, 312
August.....	5, 828, 119	18, 727, 121	4, 734, 353
September.....	6, 781, 635	70	7, 746, 945
October.....	4, 650, 870	.....	3, 031, 798
November.....	2, 503, 223	.....	2, 792, 479
December.....	2, 750, 311	.....	1, 504, 100
Year.....	72, 327, 864	117, 903, 274	43, 590, 607

<sup>1</sup> Preliminary.

Compiled from official records of the Bureau of Foreign and Domestic Commerce and Bureau of Agricultural Economics.

Senator LA FOLLETTE. Mr. Secretary, this morning I received a letter from you with regard to this filled cheese amendment, an amendment to the Filled Cheese Act contained in the revenue bill. I will read a portion of it and ask that the whole letter may be inserted in the record.

(The letter referred to is as follows:)

MARCH 28, 1938.

HON. ROBERT M. LA FOLLETTE, JR.,  
United States Senate.

DEAR SENATOR LA FOLLETTE: I am acknowledging your letter of March 17 with reference to the proposed amendment to the Filled Cheese Act. Your reference to the letter I recently sent Mr. Bolleau indicates that it has come to your attention. There is a little additional comment which we can add to that already expressed insofar as departmental experience in the enforcement of the Food and Drugs Act is concerned.

It would seem that the present attempt to amend the original Filled Cheese Act is just a step that will open up the whole problem of substitutes, and that may lead to considerable damage to markets for dairy products. While the amendment refers to "substances and compounds, consisting principally of cheese with added edible oils, which are not sold as cheese or as substitutes for cheese but are primarily useful for imparting a natural cheese flavor to other foods," I fail to see the administrative possibility of enforcing such a differentiation. For example, if such a product as is referred to were sold for

coating other food products, such as popcorn, it might also be used as a spread for bread, and thus become a substitute for cheese.

The filled cheese law is, of course, a tax measure which is administered by the Bureau of Internal Revenue of the Treasury Department, and thus that phase will not affect this Department.

Sincerely,

(Signed) H. A. WALLACE,  
Secretary.

Mr. Secretary, in part was your suggestion about the difficulty of administering and enforcing such an amendment based upon the difficulty of the Food and Drugs Division in enforcing that act?

Mr. WALLACE, I merely accepted their judgment on it. I did not know the details of it, Senator.

Senator LA FOLLETTE. May I say also that since the last hearing I have received a copy of the patent, and I have here a photostat or a copy of the patent which seems to indicate that this product, according to the inventor, in his application, or according to the patent application, indicates that this material could also be put up in jars and used as a spread. Now, naturally the cheese producers, the dairy interests are not at all anxious to curtail any new outlets for their products, but the apprehension they have is in making this amendment meet this particular thing, they have an apprehension that a hole will be picked in the Filled Cheese Act which may let in a lot of substitutes and thus seriously damage the protection which the industry receives from the Filled Cheese Act.

I would also at this time like to insert this letter from Mr. Kane, of the National Cooperative Milk Producers' Federation, and the patent which I referred to.

(The letter and patent referred to are as follows:)

THE NATIONAL COOPERATIVE  
MILK PRODUCERS' FEDERATION,  
Washington, D. C., March 25, 1938.

Hon. ROBERT M. LA FOLLETTE, JR.,  
Senate Office Building, Washington, D. C.

DEAR SENATOR LA FOLLETTE: With further reference to the filled cheese matter, I am enclosing copy of Patent No. 2,015,256 issued on May 12, 1934, to Forest H. Clickner, Chicago, Ill., and assigned to the Kraft-Phenix Cheese Corporation.

You will note that the inventor suggests the use of this product in connection with bakery goods as well as for a coating or filler for crackers, popcorn, etc. His process consists, as you will note, of drying the cheese and extracting as much of the moisture as possible.

I call your attention specifically to the following quotation:

"Although the dried cheese or cheese powder produced as described above may be used independently of any added fatty ingredient, such as on crackers, etc."

It is obvious, therefore, that manufacturers could, if they so desired, use pure cheese for the purpose for which they contend they must use a mixture of cheese and vegetable oil.

I also call your attention to the following quotation as to the relative contents of the mixtures:

"I may use 35 percent of substantially dry powdered cheese and about 65 percent of fat. However, these proportions may vary within wide limits and I may use as low as 15 percent of such cheese or as much as 50 percent."

It is obvious, therefore, that the product can be made of 85 percent coconut oil and only 15 percent dried cheese. In fact, at the hearing Mr. Fagerburg, of the Kraft Co., stated that their product was only 45 percent cheese and 55 percent coconut oil. This statement shows that the product they are now using would not ever meet the exemption granted by section 708. This is true because the language of section 708 provides that the substance or the compound must consist principally of cheese. Since the Kraft lawyer himself admitted that their product was not made principally of cheese and since it

would require a chemical analysis of this material to determine whether or not it was principally cheese or principally coconut oil, the difficulty of enforcing this provision would appear clear.

In addition, may I call your attention to the statement in the patent in which it is declared that the product would be "a soft, smooth product having a texture and density somewhat similar to a thick mayonnaise or a soft butter."

Under this description, it is obvious that the material could be packed in jars similar to genuine cheese spreads now on the market. It is likewise obvious that if used in toasted cheese sandwiches, Welsh rarebit and cheese preparations of a similar nature, it would be impossible for the consumer to know that the product he was eating was not genuine cheese but a mixture of cheese and coconut oil.

If possible, I would appreciate your bringing this further information to the attention of the committee and may I again earnestly request that you do whatever is in your power to have the Finance Committee reject the proposal and delete section 708 from the bill.

Sincerely yours,

DONALD KANE, *Attorney.*

Patented September 24, 1935

2,015,250.

UNITED STATES PATENT OFFICE

2,015,250

FOOD PRODUCT

Forest H. Clekner, Chicago, Ill., assignor to Kraft-Phenix Cheese Corporation, Chicago, Ill., a corporation of Delaware. No Drawing, application May 12, 1934. Serial No. 725,348. 3 Claims. (Cl. 99-11.)

My invention relates to a food product and has to do more particularly with a cheese which is especially adaptable for use in connection with bakery goods, and a shortening material containing such cheese. More specifically, my improved products may be used as a coating or filler for crackers, popcorn, etc.

While cheese has been used for a long time in connection with pauffed products, it has never been completely satisfactory for the reason that the usual cheeses and cheese fillings as previously used contain substantial amounts of water which induces saponification of the fats of the cheese with the alkalies of the pauffed goods, or with alkalies occurring in the cheese itself, resulting in an unpleasant soapy flavor. Grated cheeses have been on the market for some time, but apparently no one has been able to produce a grated or comminuted cheese containing less than 8 to 10 percent of moisture, while the ordinary grated cheese usually has a water content of approximately 15 percent.

I have succeeded in producing a comminuted cheese which contains not more than 3 per cent of moisture and preferably less than one per cent.

Another feature of my invention is that I have produced a comminuted, substantially anhydrous cheese of such an acidity that it tends to neutralize the free alkali of bakery goods with which it may be used, thus further reducing any tendency toward saponification.

Still another feature of my invention is that I have produced a cheese-fat combination containing a very low percentage of moisture and may be substantially anhydrous, which may be used as a filling in bakery goods or may be used as a coating therefor, as above described.

The type of cheese which I prefer to use is an aged "American."

While various methods may be used for drying cheese to be used in connection with my invention, such as dividing the cheese into small pieces and placing it in a drying oven or tunnel at a moderate temperature, the following method of drying and at the same time adjusting the acidity of the cheese has been found especially efficient.

METHOD OF DRYING CHEESE

Make up a blend of good aged American cheese, preferably low in moisture. Comminute the mix and heat to a temperature of 165° F., preferably with direct saturated steam. Sufficient water should be added to bring the moisture content up to about 70 per cent, together with sufficient citric or other acid so that the end product has a pH value of about 5.0.

Instead of using water and citric acid or other acid, as described, there is a material advantage in employing an acid whey solution, or an acid milk (whole or skim) may be employed. Also, in place of using citric acid, other acids such as malic acid may be used. However, I prefer to use as the acid source whey which has been permitted to develop its acid naturally.

During and subsequent to the heating, and after the addition of the acid solution, the mixture is vigorously agitated so as to obtain as uniform a mixture as possible. It is then preferably homogenized and, before cooling, conducted by some suitable form of forced feed apparatus directly to the spray heads of a spray drying equipment such as is used for the desiccation of milk. The end product will be a powder containing about 0.8 per cent of moisture and the acidity should be about pH 5.0, sufficient acid or acid whey having been added, if necessary, to produce this acidity in the end product.

#### CHEESE-FAT COMPOSITION

Although the dried cheese or cheese powder produced as described above may be used independently of any added fatty ingredient, such as on crackers, etc., in my preferred embodiment the dried cheese is combined with a fat, preferably a fat which is solid at room temperatures.

The fats which I have found especially suitable in connection with my invention are anhydrous ones, such as coconut or sesame oil, palm oil, and hydrogenated cottonseed or corn oil. Numerous other edible fats which are solid at room temperature will suggest themselves, although, of course, market conditions will be an important factor in determining the choice of fats. In any case, however, it is desirable that the fat chosen is one in which the fat globules are uniformly small in size. This characteristic is true of the fats mentioned above. For the cheese ingredient I prefer to use a dried, snappy, aged American cheese of good quality.

As to proportions, in a preferred embodiment I may use 35 percent of substantially dry powdered cheese and about 65 percent of fat. However, these proportions may vary within wide limits, and I may use as low as 15 per cent of such cheese or as much as 50 per cent.

My preferred method of combining the cheese and fat is as follows:

#### PREPARATION OF CHEESE SHORTENING

The fat is heated to approximately 180 to 100° F., or higher if desired, in a suitable container such as a cheese kettle equipped with agitators. The dried cheese described above, containing from 3 per cent down to less than one per cent of moisture, and which may be either in powdered form or in the form of relatively small lumps or aggregates, is mixed into the fat and the mixture stirred for approximately one-half hour in order to obtain a thorough intermingling of the cheese and fat and to produce a smooth texture in the final product.

As a result of this operation, the dry cheese, if not originally in the form of a finely-divided powder, disintegrates into such a form, and each particle becomes thoroughly coated with a fat film. This is of great importance in the production of a smooth product.

The material thus prepared is packed, as by pouring through a nozzle or the like, into jars or other suitable containers and solidifies upon cooling to form a soft, smooth product having a texture and density somewhat similar to a thick mayonnaise or soft butter.

The fat-cheese product described above may be conveniently applied to popcorn, crackers, or the like by melting in a suitable container and then either pouring or spraying it upon the material to be coated, or it may be spread by means of a knife. It may also be used as a shortener in the usual way, thus imparting a cheese flavor to the baked goods while functioning to shorten the same.

Baked products embodying my invention have a delightful cheese flavor unmasked by the soapy taste common with such goods which have been made prior to my invention.

Many variations and modifications coming within the spirit of my invention will doubtless suggest themselves to those skilled in the art. Hence, I do not wish to be limited to the specific embodiments herein described except to the extent indicated by the appended claims, which are to be interpreted as broadly as the state of the art will permit.

I claim as my invention:

1. The improvement in the art of drying a normally solid cheese which consists in comminuting the cheese, heating and agitating the same in the presence of added water, sufficient heat, agitation, and water being employed to produce a smooth emulsion capable, while still heated, of being forced through the nozzles of the spray-drying equipment, and then spray-drying the mixture to convert the same into a dry powder containing not more than about 3 per cent moisture.

2. The improvement in the art of drying a normally solid cheese which consists in comminuting the cheese, heating and agitating the same in the presence of added water, sufficient heat, agitation, and water being employed to produce a smooth emulsion containing about 70 per cent of moisture, and capable, while still heated, of being forced through the nozzles of the spray-drying equipment, and then spray-drying the mixture to convert the same into a dry powder containing not more than about 3 per cent moisture.

3. The improvement in the art of making acid powder cheese which consists in comminuting cheese of a normally acid variety, heating and agitating the same in the presence of added water and acid, sufficient heat, agitation, water, and acid being employed to produce a smooth emulsion containing about 70 per cent moisture and of materially greater acidity than would be possessed by the cheese under normal conditions, and then spray-drying the material to convert the same into a dry powder containing not more than about 3 per cent of moisture and having a pH value of not more than approximately pH 5.0.

FOREST H. CLICKNER.

The CHAIRMAN. Are there any other questions? Thank you very much, Mr. Secretary.

Secretary Hull.

#### STATEMENT OF HON. CORDELL HULL, SECRETARY OF STATE

The CHAIRMAN. Mr. Secretary, are there any matters in this tax bill that you would like to bring to the attention of the committee, more than you have already done in the letter that you have written to the committee and which the committee has?

Mr. HULL. Mr. Chairman, I am glad to have an invitation to come over to pay my respects to you gentlemen, in any event. I still feel at home here.

You may remember that it was some 4 years ago that Congress enacted the Reciprocal Trade Agreements Act. If I may add just a few words on that subject, leading up to this item, this pork item, the conditions then were not only of an emergency nature, but they were considered desperate by almost every industry in the country. The general economic situation everywhere was very much of a like nature. The entire commercial, financial, and general economic trade structure of the world was flat on its back and in the same connection the economic structures of every nation, the domestic structures, were flat on their back. People were in a hopeless situation.

It was then that we sought the only possible way to attack this completely prostrate situation and to encourage nations everywhere to relax somewhat the extreme phases of their restrictions, restraints, and obstructions that they had been putting upon almost every phase of international finance and commerce. We said, "Here is an emergency situation," and we proposed a temporary emergency method of attacking one phase of it. So that act was made temporary in its nature, and its renewal was likewise made temporary in its nature. There is yet a substantial amount of work to be done before the emergency conditions disappear and before the emergency remedies have been sufficiently applied. We who are administering the Trade Agreements Act come before you, therefore, just as a member of

the Interstate Commerce Commission, or some other establishment which Congress has created with specific instructions and authority to perform certain responsibilities.

The question, I think, is broader than taking up each item where there is a varying amount of imports, or a stable amount, or a very small volume. The question really I think we need to consider is whether it is a wise and sound policy on the part of this Nation to undertake to furnish leadership with a program that is generally considered now as practicable, sound, and timely.

For the purpose of making a contribution toward the restoration of some, at least, of the normal processes of international finance and commerce, which have been wrecked by unsound policies and the backwash of the war, we cannot stand for embargoes on the one hand as a policy. Nor does that mean, on the other hand, that we should favor such reductions of tariff rates as would constitute unreasonable or excessive or materially hurtful imports against the competitive domestic industry in this country. The problem, we think, is whether in the present very complicated conditions everywhere, and the abnormal economic conditions especially we will take note of every fluctuation in an import of a given commodity and rush to the enactment of an embargo or its equivalent in order to keep it out. That is largely the question that is presented by these different proposals that are made.

If I may illustrate, for example, last summer the House, I think it was, received an amendment placing a virtual embargo on imports of anthracite coal, and the plea was very earnestly and plausibly offered that here was more than \$3,000,000 worth of coal coming in here, displacing that amount of wages and capital in this country, and they had a lively discussion, and there was a vote taken, and it stood 151 to 156 on the amendment. The amendment was lost by five votes. Well, during that discussion—and this is no criticism; everybody is so engrossed these days with so many things—the other side of the picture was completely overlooked. While \$3,000,000 were coming in, more than \$13,000,000 of exports were going out as the product of American labor and American capital. Now, it is easy to stop that \$3,000,000 from coming in; it is not a destructive import, it does not materially affect domestic prices, but we must make up our minds to the fact that in that and all similar cases the \$13,000,000 will not go out. That is the problem that we have presented to us. It is easy to put an embargo or a very little increase on every commodity upon the theory that it will become serious and materially hurtful.

That is what we undertook to do in 1930, as you remember. Everybody was authorized to come in here and write any kind of rates virtually that they cared to write, and we all know that there was no bigger single factor in the general increase of every kind of retaliation and hostile feeling among the nations that subsequently took place. They had been told that if you could keep out every vestige of an import, why, your domestic situation would be fine, but, in fact, everybody went over the falls together, with drastically reduced imports coming in during the depression following 1929, and with the prices of farm products down to practically nothing. They all went into bankruptcy. Prices of everything went down, values went down. Fourteen million or more wage earners were out of employment when there were no imports practically, certainly of a com-



petitive nature. So, as we say, if adjusting prices, wages, and employment was a mere matter of legislative enactment, everybody could have it in every country. There would not be any question about that.

So we have here a question of whether we are going to apply an embargo, or virtually so, whenever there is some increase, without looking back to see the cause, or without looking ahead to see the prospect, without any hearings of any kind, without even the Tariff Commission being called on for facts, as far as I know.

On the question of so-called excise taxes, especially in cases like this pork proposition, I can say that in making 17 trade agreements we have secured pork concessions in 15 of them. Some people, who are unconsciously critical, make no real effort to understand the methods that we employ. Some people express disappointment because overnight there are not immediate reflections of increases of exports where we secure concessions.

We must realize that other nations are involved in a network of restrictions and complications with still other countries with which they also trade, and as many of them still have disordered currencies and taxes that are almost beyond imagination, they are not in a position to develop fully and adequately the necessary purchasing power overnight. So we have an immense number of concessions the results of which will be revealed in increased trade in due course, if not immediately.

Many countries are gradually relaxing some of their restrictions in order to get in this program. The country does not hear of them, but this program undertakes to attack this vast network of restrictions which have choked down the whole international economic situation.

As Secretary Wallace said, the reactions back on our surplus-producing industries are terrific if they are allowed to go neglected long enough. I remember that the State of Texas alone suffered a decline in its cotton exports of over \$200,000,000 between 1929 and 1932. That was that amount of purchasing power taken out of our country here for all other purposes. The same thing was true in numerous similar instances.

Secretary Wallace has pointed out that under a nationalistic policy we must be prepared to retire 40 to 100 million acres of cropland. If we restrict production to our domestic consumption there will be a most serious problem and a really disastrous situation resulting in the future. Europe before the war, as you know, with nearly 500,000,000 people, was producing a vast amount of industrial products, and exchanging them with this country and South America and other raw material and food-producing countries on a surplus basis. Well, what has been happening during recent years is that each nation, in its effort to live behind its own economic fortification, so to speak, has not only encouraged, but is forcing other countries, industrial countries, to pursue every possible method to secure raw materials and foodstuffs from other sources. They cannot trade with a country unless they can sell to some part of the world as well as buy, and as long as there is this hopeless network of restrictions we are not going to see any extensive improvement and expansion in the volume of international commerce, notwithstanding the fact that 85 percent of the population of the world is living down below or around the

poverty level, and a vast portion of it only needs an opportunity to work and to secure purchasing power in order to start the wheels of trade moving here and yonder, and gradually everywhere. We can very soon compel each country to find its own raw materials, or to make them synthetically.

You are aware of the desperate economic situation in certain foreign countries.

For example, they produce synthetic gasoline at about 50 cents a gallon. We can buy ours at retail at about 20 cents a gallon. They ration everybody and they ration them in almost every way. They desperately turn out many kinds of synthetic raw materials and cloth and other commodities at almost regardless of cost, and that is the way they are undertaking to skimp along. There are some very serious possibilities ahead, and it stems back on the question of inadequate foodstuffs and raw materials and opportunities for people to work and be as comfortable as they were in former periods.

We were all sure, as you remember, when the first trouble broke out in Europe in 1914 that we were safe; we were all sure when a terrific depression rumors broke out in 1929 that we could get by it, but the depression came.

So here we come now, after this little general statement, we come now to the question of whether we propose, by so-called excise taxes—without hearings, without consideration—whether we propose to establish that policy. Now, if you gentlemen think that you should repeal a temporary emergency agency that we are undertaking to operate with every possible care and consideration for everybody affected, if you think it should be repealed before we finish this work, why, that is one question, but to inaugurate a policy of import taxes as a substitute method of tariff-making, that is another proposition. I submit it to you, gentlemen, whether you want to enter upon that sort of a policy while this temporary agency is struggling desperately with a most desperate economic situation. I would like to impress that question upon you first, because, in my judgment, you will enter upon a very confused and what will prove to be a most undesirable situation from the standpoint of the beneficiaries of these enactments, and naturally it will handicap the consummation of this emergency undertaking.

I cannot offer a better illustration than this pork and hog situation. Pork is normally on a heavy export basis and there is real reason to believe that a very substantial portion of the lost markets can be restored. So just as we are approaching a country that buys \$2 from us to our \$1 from it, and which has brought enormous quantities of hog products from us in the past, just as we are approaching it in an effort to secure real concessions on hog products, to say nothing of a great many other important agricultural products, here is a proposal to announce that we stand for embargoes against any little sporadic or temporary item that comes in, even though it may be entirely due to a drought that will not come back again in 10 years or 20 years.

I submit that that policy is not sound. It does the hog grower far more injury than it does aid. I have said to a gentleman who came in to see me about an embargo some months ago, a gentleman from Iowa, that during the 5 years prior to 1929 when the depression came we imported a total of 9,000,000 bushels of corn, shelled corn, and some little scattering amount in the form of hog products. I

said just as you see that corn was brought from way down yonder in the Argentine, foreign corn raised by foreign labor and brought right up the Mississippi and in the sight of the Chicago market, it was spread out to the people, and I said it may, to a minor extent, to an unappreciable extent, have affected the price of corn in the Chicago market; that is true, but, I said, on the other hand, during that same 5 years we exported over 109,000,000 bushels of corn in the shell and 690,000,000 bushels of corn in the form of hog products. Now, I said, you can take your choice. We cannot eat our cake and have it too, as the saying is.

It is easy to shut out these little items that come in here temporarily and sporadically as a rule. If they come in on a steadily increasing scale, to an extent materially injurious, then we are all concerned, but it is this other case that I am talking about. Now, I said, "You can take your choice. That is what has happened to you already. You can shut off these 800,000,000 bushels in order to shut out a few million bushels."

We got up against these conditions and so here we come to you gentlemen to call attention to them. You are just as much interested as we are. We are just as interested as you are in this present disturbed outlook that confronts us domestically and internationally.

Now, a drought occurred in 1934 and 1936 and that was chiefly responsible for this hog situation. Somebody said there were less hogs on hand last summer than there had been in 40 years. Now, if we are to cut off our nose to spite our face, so to speak, by raising an embargo in face of this request that we have now pending to restore vast markets for our surplus corn and hog products, why, there need be no misunderstanding about it.

So that is all, Mr. Chairman. I just wanted to enter into those general phases, knowing that you gentleman have, from me and others, all we know, and maybe more besides.

SENATOR BARKLEY. I am sorry to leave, Mr. Secretary. I have got to go to the floor. We will probably take up the naval appropriation bill.

THE CHAIRMAN. We are going to work here as long as we can. Now, are there any questions to be asked?

SENATOR CAPPER. May I say, Mr. Secretary, that I come from a great hog-producing State, and it means a lot to the small farmers, more than any other phase of the livestock industry. In the last 4 years they have seen the importation of pork products, especially hams from Poland, coming in here steadily, rapidly increasing, and they are alarmed about it. They are very much interested in this amendment, this excise tax, and the feeling of that whole country out there is reflected in the fact that there have been six national livestock and farm organizations who appeared here in the last 2 weeks before this committee urging that excise tax. One of them—the National Farmers Union—was represented by John Vesecky, from my own State, a man who has been the leader of the farm folks there for years, who came before this committee of his own accord, and every one of these national organizations have come here voluntarily seeking this little protection.

Now, the hog industry is undoubtedly threatened by this greatly increasing importation of pork products from these foreign countries. There never was a time, in my opinion, when the farmer out there was as much in need of the favorable consideration of this Congress as

right now. Now, why should we deny him this little protection that he seeks against the competition of foreign products?

The livestock people out there think that this canned beef should be shut off, the beef that is canned in foreign countries and being sold in every market in this country today. That is another thing that disturbs them very much out there. So we cannot see why we should not have all the assistance that we are asking in this pork tax.

Mr. HULL. There is no trouble about it, Senator. You can put this embargo on, as I said, but you must be prepared, when you shut out one ham from Poland that has been coming in purely temporarily on account of the scarcity here, and also because it is more or less of a luxury, selling at a high price, compared with American ham, you can shut that temporary item out, but you must be prepared to keep here three or four hams that we sell to Great Britain and other countries for every ham that we shut out. That is the point I make.

Senator WALSH. Mr. Secretary.

Mr. HULL. Yes.

Senator WALSH. There are some excise taxes in this House bill that have been repealed. Can I assume from your statement that you are in general sympathy with this committee favoring the repeal of the existing excise taxes?

Mr. HULL. As I say, Senator, sometimes in talking here I forget that I am not a member, and I know you will excuse my presumption, but I think the committee will find it much more desirable, even from the standpoint of these beneficiaries who seek an increase of excise tariffs, it would be better for everybody to proceed on a more systematic basis with tariff making than that. In my judgment that would prove better for everybody.

Senator WALSH. I assume you feel that the committee ought to look with great caution and hesitancy upon imposing new excise taxes in this bill.

Mr. HULL. I think if I were the committee, as I said, if that is now to be a general policy, then I would repeal this temporary emergency agency that we are undertaking to operate and go back to the old order that we used to participate in here of everybody writing anything they want.

Senator WALSH. I think I understand it. Then you think the position of the committee would be somewhat in conflict with the purposes of your objectives?

Mr. HULL. Exactly.

Senator WALSH. If we continue to impose excise taxes?

Mr. HULL. Yes.

Senator WALSH. And removing them would have the tendency of giving you a free hand?

Mr. HULL. That is true, and, besides, virtually every one of these excise proposals is based upon some temporary and abnormal condition and not based upon a real claim for relief against some increasingly hurtful permanent condition.

Senator BAILEY. Mr. Secretary, most of the excise taxes, as I recall, were compensatory taxes, as compensating the consequences of processing taxes. Would you advise generally against those taxes?

Mr. HULL. Frankly, I do not know as much about your domestic problems as I should, because I have been so completely engrossed with the international phases. I would not undertake to go into de-

tails there, except if you are going to have an embargo policy, then there need be no misunderstanding about its effects; and if you do that, then you will come nearest getting to it by putting on these excise taxes without any hearings, without any investigation, and the like.

Senator BAILEY. But most of our excise taxes were put on because we had put a processing tax on these things, and if you did not put excise taxes on the imports we would give them a great advantage.

Mr. HULL. As I say, Senator, I am not attempting to discuss that phase of it.

Senator BAILEY. Let me put before you a practical matter which has given me some trouble. Just a few weeks ago the miners in western North Carolina mined mica and feldspar. That is about all they do mine; 8,000 people live by mining feldspar and mica and byproducts. Now, Canada has lately learned to produce methylenecyanate, which is a better article. All of those miners are going out of business, their occupation is gone, because methylenecyanate undersells them. Both articles are used in crockery and glassware.

Here is what I am confronted with: I know the general policy and I do not like to go against it. I know if you start to write the tariffs here by way of excise taxes we would just open all the doors, and we do not like to do that; but those 8,000 people are prostrated, they are destroyed, the whole industry is gone.

Now, we have an agricultural act which forbids them to produce tobacco and cotton. They have nowhere to go. They are penned up. The Canadians take their mining market while the Government, on the other hand, ties their hands. They cannot go into agriculture, and, of course, we know there is no taking them into industry. So I am confronted with the fact that 8,000 people in five North Carolina counties are being driven out of any way on earth to make a living. What would you do with a problem of that sort?

Mr. HULL. What is the difference in the tariff?

Senator BAILEY. I think \$5 or \$6 is the difference. I will agree that \$6 a ton amounts to an embargo.

Mr. HULL. As I said, the question of policy, as to how far we will go in safeguarding business or an industry, and where we will stop, the economic policy is one that requires very careful investigation in each instance. Of course, in your case a mere increase of 50 percent under section 336 would not mean anything in the way of relief.

Senator BAILEY. As it happens, there is no tariff on this methylenecyanate at all, we cannot get any relief, and the thing that I am up against here I do not like. I want to put the problem to you. Suppose you are a member of Congress, what would you do?

Mr. HULL. Well, I represented some industrial constituents for a time when I was in Congress. As I say, I would take each case that had any reasonable claims for Government help, and I would have all of the economic facts pertaining to the situation developed, preferably by the Tariff Commission, as well as others.

Senator BAILEY. If it really did appear that it would drive 8,000 people out of a means of livelihood under a public policy in which we had excluded them from any other opportunity, we would be willing to do something to keep them going.

Mr. HULL. As I say, sometimes they decide that they have no recourse except to come here, when I often find, on going back on the

ground and thoroughly investigating it, that there were other ways that they could pursue that would be helpful as well as relying on Government help.

Senator BAILEY. All of the reports here from your Department and also from the Tariff Commission are that this methylene-cyanate will undersell the feldspar by 20 or 30 percent. Now, I am dealing with the fact that we have 8,000 people who are just driven out; they haven't anywhere to go, and if we did not have an agricultural bill which forbids them to produce tobacco we could produce tobacco, but Kentucky and Tennessee have the monopoly of tobacco under this act, and we would have to pay a penalty if we produce it.

Mr. HULL. I may say that in the State of Texas our cotton people were exporting \$600,000,000 of their products, and on account of Brazil, China, and India, and other countries that are being rapidly developed in the production of cotton, that whole group in Texas—as well as the cotton growers in other States—are threatened with a complete loss of any occupation. That is the point I raised. We have got a tremendous situation on our hands. Some of these days I think we will all realize it more keenly than we do now. That is why we are struggling here as we are to furnish a program to support a movement that will greatly contribute toward improving our domestic economy and expanding it, and give people everywhere more opportunity. Now, we can abandon all that in order to deal with individual cases, whereas I think we should study the whole problem.

Senator BAILEY. I am willing to do that, but at the same time, when I see 8,000 people thrown out of anywhere on earth to make a living, and I know that the Canadians are making the living that they would have made, and they are not American taxpayers—I do not represent them at any rate—I have a temptation to do something about it.

Now, let us move from that into our oils. I introduced an amendment 2 years ago, an excise tax—

Senator CONNALLY. That is not effective.

Senator BAILEY. It is working all right. That is just my point. This oil business all the way from Maine to Florida on the Atlantic Coast became very prosperous, the American market was preserved for American oils. I do not know what the people in Japan or the Scandinavian countries lost by way of shipments, but I do know what North Carolina gained. I know that none of those people are on relief now. Was not that a good thing to do?

Mr. HULL. You can select instances here and there, Senator. For instance, in 1929, we were all arranging for an improved condition of every industry, everywhere, simply by increasing tariffs, but the thing was overdone, from my point of view, so everybody went bankrupt practically. Now we are trying to pursue a course of moderation and not overlook any reasonable case that calls for special treatment or special consideration, but it is easy to pick out one instance and generalize from that, just like our people did with Canada in 1920. They said, "Now here are \$500,000,000 of imports coming in. Why should they be coming in? Let us get rid of them." Well, they undertook to do it, but in getting rid of the \$300,000,000 of these imports they lost \$700,000,000 of exports to Canada.

Senator KING. We had as high as \$800,000,000 at one time.

Mr. HULL. That is right.

Senator BAILEY. I sympathize with them.

Mr. HULL. And I sympathize with your special condition. There will be one here and there naturally, otherwise there would not be any real task for an important statesman here in Washington.

Senator BAILEY. Then your view is while we should pursue the general policy that you suggest, that in special cases if we should find an excise tax would be in order we might proceed with that.

Mr. HULL. As I say, I would not proceed to the point of destroying this whole movement and destroying the whole policy of tariff-making along more practical and far-sighted lines. I do think that I would first have a survey made by the Tariff Commission in particular cases and then deal in a broad way with each case in the light of the general economy instead of dealing here with isolated cases without reference to the repercussions on the general economy of the country. I just feel very deeply that we are making some progress with this program of trade restoration, and my judgment is that a successful trade agreement with the United Kingdom will not only be of great economic advantage to both countries, but will be a great constructive step toward the creation of a solid foundation for peace.

Senator BAILEY. I sympathize with you in the efforts of peace, but I am not optimistic enough to think that we can do anything to make those men that run the road to go the by way of peace.

Mr. HULL. We are trying to encourage them to get down to producing something besides war materials, and if they do, they will move more and more away from war.

Senator WALSH. Mr. Secretary, I would like to ask you a brief question. Don't you think that it is the economic conditions that have taken place throughout the world during this depression that are more responsible for our decline in exports than our tariff policy?

Mr. HULL. Senator, of course, while I watched it, as you may remember, you and I used to talk about these things from week to week, and I bored you a great deal, I know, but apparently the major factor was the backwash of the war and the confusion and demoralization.

Senator WALSH. And even more the recent depression that came in 1931.

Mr. HULL. The biggest single factor that brought on the depression in 1929 was a wild runaway race in the setting up of every conceivable kind of an obstruction to finance and commerce, coupled with the condition that we were making large loans with which to pay for our exports, but just as soon as these restrictions became so severe that it became impossible to make the processes of finance and commerce function we quit loaning. Nations could not pay, they could not get money or goods across boundaries to pay for raw materials or foodstuffs, and the price of raw materials and foodstuffs was the first to slump, and then came industrial protection.

Late in 1928 we announced that we were going to enact an important increase in tariffs. We proceeded with hearings in December 1928. We were advertising to the world that that was our purpose, and that is what we were doing. Whereupon, in retaliation, thirty-odd nations proceeded to run up every conceivable trade barrier. Tariffs were the least part of it. Quotas, exchange restrictions, import licenses, compensation agreements, and every other kind of arrangement soon had trade drawn into a hard knot. Surplus-producing

nations, whether agricultural, mining, or industrial, found themselves with great surpluses on hand and nowhere to sell them, and then the bottom began to drop out of prices. You can call it what you want, but it was a combination of restrictions on every phase of international business and commerce, based on the theory that each nation could go on by itself, or practically so. There was no bigger single factor than that.

Senator WALSH. Many people are of the opinion that the real loss of purchasing power all over the world is the major cause of our exports declining, and that we have accentuated and put too much stress upon the fact that it was the high-tariff policy. That is the point I wanted to make to you.

Mr. HULL. I am very glad you brought that out. I do wish everybody could find time to go into every detail of that question, because I am convinced that there was no bigger single factor than the one idea that each nation could adopt embargoes against anything that was even remotely competitive.

Senator WALSH. Do you think that had anything to do with the collapse in September of 1929 in this country?

Mr. HULL. Naturally I do. Any impression that may be given of a major change has an immediate effect in all those fields. For example sometime ago a mere rumor came out that we were going to change the price of gold. That spread as fast as electricity could carry it. There were the most violent fluctuations in values, in prices, in trade transactions, in every important business center in the world.

Senator TOWNSEND. When was that, Mr. Secretary?

Mr. HULL. That was about a year ago. That is an illustration of the delicate nature of international economic and financial relationships.

Senator WALSH. I do not want to take up your time and the time of the committee because this is only indirectly germane to our proposition here, but I just want to ask you one more question. Are you experiencing the trouble that we individually experience when people come to us and say that though the imports are trifling, small and insignificant, they have an effect upon prices that makes production unprofitable in our own country? Is not that a very serious problem that you have to deal with?

Mr. HULL. Yes; we encounter some of those things.

The CHAIRMAN. We thank you very much, Mr. Secretary.

Mr. HULL. I must ask your pardon for talking in this scattering way.

The CHAIRMAN. That is the best way for you to talk.

Senator CONNALLY. Do you think we ought to knock out this hog tariff?

Mr. HULL. Unless you want to shut off our hog exports, and we are normally on a heavy export basis.

Senator HERRING. I listened to the Secretary of Agriculture say that Iowa raised twice as many hogs as any other State. I have not had a single request from anybody representing the hog growers in Iowa for this, nor have I heard anyone appearing before the committee urging it.

Senator KING. Is it not a fact that we are exporting several hundred million dollars in hog products, and those hog products con-



sume corn, and therefore the farmers producing corn in Iowa and Kansas are the beneficiaries of the hog exports.

Mr. HULL. That is why we hope to get concessions.

The CHAIRMAN. We will hear from Senator O'Mahoney, unless you want to ask him some questions.

Senator CAPPER. I just want to say to Senator Herring that I received a letter from the Iowa Swine Producers Association, which is one of the oldest and most representative swine growers organizations in the country.

Senator HERRING. Who is the head of that?

Senator CAPPER. Ed J. Morrissey is the president. There is a long list of men.

Senator HERRING. Is that in the manufacturing end?

Senator CAPPER. They have been in the business of producing hogs for years and they have appealed to me to do what I can to get the pork tax retained. I know a good many of them. They are very representative people.

The CHAIRMAN. All right, Senator O'Mahoney.

#### STATEMENT OF HON. JOSEPH C. O'MAHONEY, UNITED STATES SENATOR FROM THE STATE OF WYOMING

Senator O'MAHONEY. Mr. Chairman, I am sensible of the fact that I am undertaking a heavy burden in appearing before this committee immediately after Secretary Hull. It was quite apparent that his mere presence in this pit here induced an atmosphere of calm in the committee that was in rather strong contrast to that which existed before he appeared.

I might say, with respect to both Secretary Hull and Secretary Wallace, I feel that no administration has ever been fortunate in having more able and frank men in charge of any department than these two men.

I came here this morning, however, direct from the office of the Farm Credit Administration, where, with several other Senators representing the West, we were conferring with Governor Myers, and the entire staff of the Farm Credit Administration, with respect to the livestock loan problem. I came immediately into this room and listened to the arguments of the two very able secretaries, one of them indicating, perhaps a little haltingly, but nevertheless indicating, his belief that we shall probably have to come to processing taxes in January, and the other indicating his belief that we should proceed with this far-flung policy of reciprocal trade agreements.

Now the two policies, to my mind, do not seem to be in harmony. Not only is that true, but in the Farm Credit Administration I found that we have, as a Government, outstanding loans to producers of livestock amounting, on the 31st of December last, to in excess of \$163,000,000, and that private loans to livestock producers on the same date are estimated at about \$93,000,000.

Senator KING. Principally cattle and sheep?

Senator O'MAHONEY. Yes; livestock, cattle, and sheep. In other words, under our present economy the Federal Government is the holder of two-thirds of all the loans upon livestock.

If I were to call your attention to all loans for agricultural commodities it would be found to be about \$850,000,000. In other words,

Mr. Chairman and gentlemen of this committee, we have a condition in this country now in which the Government of the United States is the primary factors in financing agriculture, and particularly in financing livestock.

Now while the Government is loaning money on livestock and the Secretary of State is negotiating reciprocal trade agreements for the admission of increased imports of livestock and livestock products, we find the President at Gainesville, Ga., talking to the Nation about improving the standards of wages and hours, an objective with which I thoroughly sympathize.

Senator BAILEY. Getting rid of feudalism, you sympathize with that?

Senator O'MAHONEY. I shall not go into any such characterizations. I am taking about objectives here.

I am calling attention to the fact that while the President is urging a very proper policy of raising the standards of labor for industrial workers, the State Department is considering the restriction of tariffs on livestock and livestock products, including the duties on British woolen manufacturers, and at the same time opposed to any reduction of importations of canned meats.

Is it not proper to inquire whether we may expect to accomplish the present problem with respect to wages and hours if we pursue the program of inviting an increased importation of products in competition with those produced in the United States?

Simultaneously, with this apparent conflict of policy, we are in one breath proclaiming the problem of maintaining the prices for certain agricultural crops and at the same time insisting upon another policy, the probable effect of which will be to depress the prices of another agricultural commodity.

We passed a farm bill, the asserted purpose of which is to maintain the prices of wheat, corn, cotton, tobacco, and rice by restricting their production. This is a bill by which we make it impossible for citizens like the constituents of whom Senator Bailey spoke a few moments ago, though driven out of the mine industry, to go into agriculture for the production of any of these five crops. They could, however, go into the production of livestock, for in passing this bill we refused to accept the amendment asked by the livestock industry to protect it from the creation of new surpluses. It is in this situation that the Secretary opposes efforts to restrict foreign competition with the livestock industry.

We passed that farm bill in the middle of this session, and on Friday last we passed an 11-page bill amending it, amending a bill which has hardly gotten into operation, indicating again a confusion of purpose, a confusion of minds, and an inability to assess the problem that confronts us.

Secretary Hull says that we must not be concerned with imports when they are small as compared to domestic consumption, particularly if we are having at the same time the benefits of large exports. Argument is made with respect to pork, that the United States is upon an export basis. I do not propose to testify with respect to pork because I have not studied that problem, but I can say to this committee that the Secretary's comment does not hold true with respect to livestock. The authority for my statement in this regard is the Bureau of Agricultural Economics under Secretary Wallace.

## IMPORTS OF CANNED BEEF

On March 15 I wrote to Dr. Black, the head of that Bureau, for information with respect to this subject and I received his response, which tells this very interesting story:

In 1930 the exports of American beef to foreign countries amounted to 16,380,000 pounds. In 1937 they had fallen to 8,172,000 pounds. In other words, during this 7-year period the exports of American beef were almost exactly cut in half.

Now, while that reduction of American exports was going on there was an increase of imported canned beef. In 1930 the imports amounted to 58,000,000 pounds. In 1937 they were estimated to amount to 89,839,000 pounds. So you have this contrasting situation. Our export market is disappearing and the American market for imports of beef is being increased. But they tell us this increased importation is the result of the drought. The facts do not substantiate that contention at all.

Here I have a table furnished me by the Tariff Commission. In 1920 when canned meat was on the free list importations into the United States amounted to 3,979,000 pounds. They began to increase steadily, became much larger in 1923, 4,496,000, and jumping in 1924 to 7,026,000 pounds. And so it went until in 1929 the imports amounted to 79,897,000 pounds of canned beef.

Now then, Congress feeling that this condition justified some remedial action adopted in the Smoot-Hawley tariff bill a tariff upon canned meat amounting to 6 cents a pound. Well, the expected result took place almost immediately. In 1931 the imports were cut from 79,000,000 pounds to 19,530,000 pounds, but immediately conditions began to adjust themselves to the increased tariff, and once more imports began to pile up year after year. In 1932, the receipts jumped to 24,638,000 pounds and in 1933 to 41,343,000 pounds. All before the drought. Increased imports of canned meat!

In 1934,—now, we come into the drought period,—imports jumped to 46,672,000 pounds; in 1935 to 76,258,000 pounds; in 1936 to 87,802,000 pounds, and in 1937 the estimated importation is 88,091,000 pounds. I submit the record shows that this is not the result of any condition of drought in this country, but solely to the fact that we are not preserving the domestic market for the domestic producers.

There is a factor in this situation which everybody apparently is utterly and completely overlooking. Let us not deceive ourselves in the thought that we are doing any good to South America by inviting this importation of canned beef. The beneficiaries of this importation are the packers in Chicago. Four large packers control the canneries in Argentina and Uruguay, and I am told that now, because they can find a cheaper source of supply of beef and a cheaper labor market in Madagascar than they have in Uruguay and Argentina, they are switching to Madagascar. What we are doing, gentlemen of the committee, is to permit American capital and American machinery to go into other countries where there is cheaper labor and cheaper raw material to produce industrialized commodities to compete with our own citizens, and we are doing this at a time when there are between 11 and 13 million unemployed people in the United States. Between 11 and 13 million people in this country without work and we talk about processing taxes to be paid by our consumers!

Are we going to dive into a downward spiral? We cannot deal with present conditions in terms of the old international psychology, because the fact of the matter is this condition which I pointed out to you with respect to the exportation of American capital, illustrated by the activity of the 4 big packers, is a condition that exists all over the world. If you seek to find the cause of Hitlerism and of the policy of Mussolini; if you seek to find the cause of the strange manifestations throughout the world you will find it in the fact that the European cartel has seized control of the economic machinery of Europe. Beware of the fact that combinations are seizing control of the economic machinery in the United States.

Senator BROWN. Senator O'Mahoney, what do you say to Secretary Wallace's argument that the producers can get twice as much for their beef in the form of sausage as they can when it is canned? Is that an answer?

#### LITTLE CANNING IN UNITED STATES

Senator O'MAHONEY. That is no answer at all, because the fact is that we have no canning in the United States. The packers prefer to take the cheap meat that they can get in Uruguay and Argentina and they will not build canneries here, but when the United States Department of Agriculture and the relief agencies were driven to the policy of purchasing cattle in the drought then we set up our canners, we set them up through the Government, through the W. P. A. and we canned this meat which was bought on the drought-stricken ranges in the West, and we used it all.

Senator JOHNSON. Is it also true, Senator, that the cattle that go into the sausage trade in this country are the very poorest beef, and the cattle that go into the cans in South America are the very finest type of beef animals?

Senator O'MAHONEY. That is right. May I say when I am talking about the importation of 89,000,000 pounds of canned beef I want the members of this committee to know that that standard of measure is not at all comparable with the measure of cattle upon the market. Eighty-nine thousand pounds, or 88,000,000 pounds of canned meat, according to the conversion factor used by the Department of Agriculture, amounts to 176,000,000 pounds of fresh beef, and according to the conversion factor which is urged by others it ought to be about 206,000,000 to 210,000,000 pounds.

Senator WALSH. Mr. O'Mahoney, you pointed out the gradual decline in the exports of beef between 1930 and 1937.

Senator O'MAHONEY. Yes.

Senator WALSH. Was that decline steady and gradual?

Senator O'MAHONEY. The figures were as follows: 1930, 16,380,000; 1931, 14,500,000; 1932, 10,872,000; 1933, 13,935,000; 1934, 16,424,000; 1935, 7,771,000; 1936, 10,248,000; and in 1937, 8,172,000.

Senator WALSH. So that while there was a steady increase in imports the reverse was taking place with exports?

Senator O'MAHONEY. Except for the period of the drought year, except in this period of 1933, there was an increase, and again in 1934. Now, to what that was attributed I cannot say, but it was not at all as great as it was in the year 1930.

Senator WALSH. The exports are about seven times or eight times as great as the imports?

Senator O'MAHONEY. That is right.

Senator CAPPER. Senator, you made a very convincing argument as to beef and the importation of beef products. Does not your argument apply equally to pork products, the importation of pork products?

Senator O'MAHONEY. I must be frank with the committee. I do not know. I have not studied that problem. I do understand, from what attention I have given to it, that pork is much more largely upon an export basis than beef.

Senator CAPPER. But the importation of pork products has been steadily increasing, rapidly increasing, for the last 5 years.

Senator KING. I will make the statement that the export of corn products, of hog products, lard, and oil has been 4 or 5 hundred million dollars' worth, and you people who raise corn are the beneficiaries of it, because you feed the corn to the pork which we export.

Senator CAPPER. We haven't had any corn to feed in the last 2 or 3 years.

The CHAIRMAN. I want to ask you, Senator O'Mahoney, have the cattle people applied to the Tariff Commission under the law for any increase?

Senator O'MAHONEY. No, I think not; not as far as I know. I certainly did not.

The CHAIRMAN. I was just wondering, because under the law they would be entitled to 50-percent increase if they could make the proper showing.

Senator O'MAHONEY. Of course, Mr. Chairman, it must be perfectly obvious to all of us that with the Secretary of State dominating the international situation as he does, with the reciprocal trade agreement program, there is no possibility of securing administrative action with respect to increases upon the excise taxes or the tariffs, and it would be a sort of a useless procedure to go through. The Secretary sits here and asks you to pay no attention to these various suggestions with respect to excise taxes, because they would interfere with the broader program which he has in mind. Now, though I am in full sympathy with his purposes—

Senator BAILEY. And he does not know what your program is.

Senator O'MAHONEY. I say this with the utmost respect and indeed affection for the Secretary, but I could not avoid an inference from the statement which he made here in response to Senator Bailey when he said he did not know much about the domestic situation because he was devoting his time to the international situation. It is our duty as Members of Congress to pay a little attention to the domestic situation.

Senator KING. Senator, may I interrupt you there?

Senator O'MAHONEY. Certainly.

Senator KING. I do not think, in the discharge of his duties, or in the execution of the reciprocity treaties, once a treaty is entered into that would supersede the tariff duties, that the power of the Tariff Commission to make investigations and to make declarations pursuant to their findings has been abolished or superseded.

Senator O'MAHONEY. As I understand it, action must be taken by the President. The Tariff Commission may only make recommendations.

Senator KING. I understand.

Senator O'MAHONEY. It would seem to me to be a useless gesture.

Senator KING. The activities of the State Department, the activities of the reciprocity organization would not supersede any recommendation of the Tariff Commission unless that agreement had been ratified.

Senator CAPPER. Certainly the Congress has a right to step in and say a situation exists which demands some protection, and that is what the House of Representatives, by an overwhelming majority, has done, they put in this bill a tax to protect the pork.

Senator KING. I do not deny the authority of Congress. In the Smoot-Hawley Tariff Act, and in the McCumber Act the Congress asserted its right, and they did a darned fool thing in many ways.

The CHAIRMAN. Of course, the argument would be strengthened if application would be made to the Tariff Commission, which is supposed to be an independent body, and if they had recommended, even though the President did not approve the findings, if they had recommended an increase there would be a stronger case presented than where there has been no such application made and where the Tariff Commission did not act.

Senator O'MAHONEY. Of course, there can be no question of that, and I know the committee has been very kind to listen to this presentation of the facts which would be presented to the Tariff Commission. Of course, both the Tariff Commission and the Secretary of State, under the Reciprocal Trade Agreement Act, are merely exercising the delegated powers of Congress, so I feel when I come to this committee that I am coming to the head and source of their authority.

The CHAIRMAN. We find no fault with you in presenting this amendment.

Senator BAILEY. I agree with Senator O'Mahoney. If the Tariff Commission should make any recommendation to increase any tariff now it would probably be met with the formal statement from the Secretary of State that any change in the tariff would interfere with his negotiations. I think we have got to deal with it if it has got to be dealt with at all.

Senator CONNALLY. What rate do you propose?

Senator O'MAHONEY. Three cents.

Senator CONNALLY. Three cents additional, or 9 cents.

Senator O'MAHONEY. May I point out, if I understand Secretary Wallace correctly, he was not objecting to an excise tax upon canned ham, and, of course, all we are asking for in this amendment, which is presented by Senator Johnson and Senator Adams of Colorado and Senator Schwartz and myself of Wyoming, it provides for an excise tax upon canned beef only.

The CHAIRMAN. I did not understand him to advocate a tax upon canned ham. He said that they could make an argument for canned ham.

Senator GEORGE. That they could make a plausible case.

Senator JOHNSON. Make it less objectionable.

Senator O'MAHONEY. Yes; make it less objectionable.

The CHAIRMAN. You have made a very plausible and very persuasive case, but not convincing.

Senator O'MAHONEY. The Senator amazes me. May I add just this: The total number of cattle in the United States in 1932 was

65,770,000. Next year they increased to 70,204,000; next year, 74,262,000, and that increase in the cattle population was accompanied by a tremendous fall in the price of cattle. Then the drought came along. The drought operated naturally as a curtailment program for getting rid of a surplus of cattle. We did not have the A. A. A. to cut down the surplus of cattle, we did have the drought.

Senator CONNALLY. That is 1934 you are talking about?

Senator O'MAHONEY. That was the high point, 74,262,000.

Senator CONNALLY. We killed 8,000,000.

Senator O'MAHONEY. Yes. In 1935 the number had been reduced to 68,529,000; in 1936 to 67,960,000; in 1937 to 66,676,000; and it is estimated for 1938 the cattle population will be 65,930,000.

Now, the point I want to make is that in 1934, at the very high point of our cattle population, the number of beef cattle per capita of population in the United States was 0.287. In 1938, if this estimate is correct, the reduction will be only 0.05 of one or 0.237.

So that it is quite obvious we have not yet come out of the surplus state of cattle, and we are bringing in from South America, from Uruguay and Argentina, the equivalent of almost 200,000,000 pounds a year.

In these circumstances, Mr. Chairman, I feel that we are entitled to ask the consideration of the committee upon this amendment.

Now, may I say just an additional word? The total duty collected for 1937, at 6 cents a pound, is estimated \$5,285,490; for 1936, the revenue amounted to \$5,268,179. So that if you should estimate that this excise tax would reduce the importations by one-third you would still be producing an increased revenue of more than \$3,000,000.

The CHAIRMAN. So you are asking for this on the revenue ground?

#### FAIRNESS TOWARD LIVESTOCK INDUSTRY

Senator O'MAHONEY. Oh, Mr. Chairman, I would not deceive myself, or attempt to deceive you on that, not at all. I am asking it because, Mr. Chairman, we passed a farm bill from which there was excluded, by the conference committee, after both Houses of Congress had adopted it, an amendment which was designed to prevent the use of diverted acreage for the production of additional cattle. Both Houses of Congress had adopted that amendment and it was stricken out by the conference committee; so that the livestock industry is now to all intents and purposes almost an orphan child. We refuse to protect it from the claim of new domestic surpluses by the terms of the farm bill and at the same time we invite the creation of a foreign surplus by the increased importations of foreign livestock and livestock products.

Senator KING. I would like to ask a question. Why, in view of this surplus of production of cattle and this importation of beef is so high, I have had hundreds of communications from housewives and others, and letters protesting against the high price of beef?

Senator O'MAHONEY. The Senator from Utah could cooperate with me very effectively in changing that situation. The reason for the high cost of meat is very simple. Your livestock producer, the producer of sheep and the producer of cattle, deals with four big corporate packers and he takes what is given to him. These same packers who buy the product of the farm and the range are the ones

who make the price to the consumer in the cities. The producer does not receive anything like the price which is paid by the consumer.

Now, may I just put one or two figures in on that point? It will just complete the record. Again I received these from the Bureau of Agricultural Economics.

In 1928 the average per pound farm price of beef cattle was 9.12 cents. In 1929 it was 9.15 cents. In 1930 it was 7.46 cents; in 1931 it was 5.31 cents; in 1932 it was 4.07 cents; in 1933 it was 3.63 cents; in 1934 it was 3.88 cents, and in 1935, largely as the result of the drought purchasing program, 6.40 cents; in 1936, 6 cents; and estimated for 1937, 6.95 cents. That is the farm price, and, of course, obviously it is not at all comparable with the price which the housewife pays for the steaks, the pork chops, and the lamb chops she serves on the table.

The CHAIRMAN. Senator, thank you very much.

Senator O'MAHONEY. Thank you.

The CHAIRMAN. I desire to place in the record a letter from the Secretary of State and a memorandum from the Tariff Commission, both of which relate to Senator O'Mahoney's amendment.

(Matter referred to follows:)

MARCH 24, 1938.

The Honorable PAT HARRISON,  
*Chairman, Committee on Finance, United States Senate.*

MY DEAR SENATOR HARRISON: I refer to the request, transmitted by the clerk of the Committee on Finance, for a report and comment on an amendment intended to be proposed by Senators O'Mahoney, Schwartz, Adams, and Johnson of Colorado to H. R. 9682. This amendment would levy an import tax of 3 cents per pound on cured or cooked, steamed, prepared, or preserved beef. The principal product affected by the proposed tax would be canned corned beef, which is imported chiefly from South America.

It is my opinion that the proposed tax should not be approved. I am convinced that adoption of the amendment would not be beneficial, but, on the contrary, would be injurious to the cattle industry. This conclusion rests upon two main grounds: first, that even the complete exclusion of canned corned-beef imports would not have any appreciable effect upon cattle prices in the United States; and second, that the proposed action would have adverse effects upon the domestic market for beef.

As regards the effect of imports of canned corned beef upon cattle prices, there are two main points to be kept in mind. The first is that the amount of canned beef imported in recent years, while considerably greater than the normal amounts owing to the effects of drought upon domestic supplies, has nevertheless not been large enough to have material effect upon domestic cattle prices, and would not have had material effect even if it had been directly competitive with domestic beef. The second is that these imports of canned beef are, as a matter of fact, not directly competitive with domestic beef, for the reason that there is practically no domestic production of canned corned beef.

With regard to the first point, attention is called to the relation of canned corned beef imports to our total production of dressed beef, on the assumption that such imports are, to some extent, indirectly competitive with dressed beef. Last year, when domestic supplies were extremely small, the dressed weight equivalent of imports of canned beef was between 2 and 3 percent of United States production of dressed beef. In years of more normal supplies and lower prices of domestic beef, imports of canned beef are equivalent to an even smaller proportion of domestic supplies.

Imports of canned beef have not been unduly large in view of the situation created by the droughts of 1934 and 1936. Imports amounted to 80,000,000 pounds in 1929 and reached a low of 20,000,000 pounds in 1931. As purchasing power in the United States increased, imports in the following 3 years increased to 47,000,000 pounds in 1934. Largely as a result of the shortage in meat supplies caused by the drought of 1934, and the resulting higher meat prices, imports of canned beef arose to 76,000,000 pounds in 1935 and to 88,000,000



pounds in 1936. In 1937, despite the acute shortage and unusually high price of meats during a considerable part of the year, imports were approximately the same as in 1936. In the past 2 years, therefore, imports have been only about 10 percent greater than in 1929. Furthermore, the downward trend of fresh meat prices which has occurred recently has lessened the demand for canned beef and imports have declined considerably in the past several months.

As already indicated, however, there is practically no domestic production of canned corned beef. In contrast to the practice in Argentina and Uruguay, where a good grade of cattle is used for canning purposes, "canner" cattle in the United States consist mainly of old cows which are no longer useful for milk production. They are the "end-product" of the dairy industry. The demand for fresh beef in the United States is so strong that it does not pay to convert ordinary beef cattle, of a quality comparable to those used for canning in South America, into canned or otherwise preserved meats on any appreciable scale. The supply of "canner" cattle is relatively small and, since about 1927, substantially the entire quantity has been used for other purposes. Most of the low grade cattle and cows slaughtered in this country are used in the making of sausage.

Elimination of imports of canned beef would not result in an equivalent increase in domestic production of canned beef and in the demand for American cattle. Domestically produced beef of the canner grade can be sold as sausage for almost twice as much as it will bring as canned beef. American packers could not afford to put the better grades of beef, such as are used in South America, into cans, since they can get much more for such beef by selling it as fresh meat. It would be highly disadvantageous to the American cattle producer if he had to sell his cattle on the basis of a price that would permit the beef to be canned and sold in the domestic market.

So much as regards the immediate relation of imports of canned corned beef to domestic cattle prices. It is obvious from these facts that the proposed tax would not materially affect domestic prices even though it totally excluded such imports in the future. Meanwhile, however, its adoption would have other effects which would be distinctly unfavorable from the standpoint both of the cattle producers and of the country as a whole, the second main proposition which I mentioned at the beginning of this letter.

Sound economic recovery in this country is dependent in large measure upon a healthy revival of foreign trade. Unreasonable curtailment of imports is a step in precisely the opposite direction. Employment would be reduced and, with it, consumer purchasing power. Beef is highly responsive to upswings and downswings in purchasing power. A strong domestic demand for beef is of immeasurably greater importance to the cattle industry than is the fact that a small part of that demand is met by imported canned beef.

The proposed tax would almost certainly interfere seriously with our mutually profitable trade with Argentina and Uruguay. Argentina is (based on 1936 figures) the twelfth most important market for United States exports. In 1936 United States exports to Argentina were valued at \$37,000,000 and a preliminary report indicates that our exports increased 65 percent in 1937 to a total of \$91,000,000. Our exports to Uruguay in 1936 amounted to 8½ million dollars and in 1937 to more than \$13,000,000.

Our exports to Argentina and Uruguay normally exceed our imports from these countries. In the past 3 years the balance has been the other way, largely as a result of increased imports of commodities affected by the droughts of 1934 and 1936 in the United States. With the return of more normal crops in this country, imports of drought-affected commodities have already begun to decline. A further artificial restriction of our imports of canned beef from these countries, by means of greatly increased import duties, doubtless would soon result in reduced exports of American products.

As I pointed out in my recent letter to you concerning the proposed imposition of additional import taxes on pork, the placing of unreasonable burdens on our foreign commerce is inconsistent with our present commercial policy and contrary to the best interests of the country. An embargo policy is a dangerous game that can be played by all with disastrous results for all. Once you embark upon an embargo policy, you must be prepared to see its boomerang effects spread far and wide.

Because of the urgency of the matter this report has not been submitted to the Acting Director of the Bureau of the Budget.

Sincerely yours,

(Signed) CORDELL HULL.

UNITED STATES TARIFF COMMISSION,  
 Washington, March 26, 1938.

Memorandum on canned beef for the Finance Committee of the United States Senate.

The amendment proposed by Senators O'Mahoney, Schwartz, Adams, and Johnson of Colorado to H. R. 9682 would place a tax of 3 cents per pound on imports of beef, cured or cooked, steamed, prepared or preserved. The principal product affected by this tax would be canned beef. The tax would be in addition to the present import duty of 6 cents per pound, but not less than 20 percent.

Owing to a shortage of raw materials resulting from a decline in numbers of slaughter cattle, the domestic production of canned corned and canned roast beef almost ceased early in 1927. Since then nearly all the raw material available (low-grade boned beef) has been used in sausage, the demand for which has been growing steadily since the war. Domestic consumption of canned beef has been supplied almost entirely by imports, predominantly of canned corned beef, entering principally from Uruguay and Argentina. There was no change in this situation after the domestic beef shortage disappeared in 1930, in spite of (1) very low prices of inferior domestic cattle in 1931-34, and (2) and increase in the duty of from 20 percent (equivalent to about 2.5 cents per pound) under the act of 1922 to 6 cents per pound (but not less than 20 percent) under the act of 1930. The 6-cent rate has applied to practically 100 percent of total entries of canned beef since 1930, and in 1937 had an ad valorem equivalent of about 68 percent.

In October 1933 a Presidential order directed that the Army, Navy, and Civilian Conservation Corps camps be supplied with domestic products. In 1934 and early in 1935 there was a heavy production on Government account for "relief" uses. Aside from this noncommercial production, predominantly of canned roast beef, the domestic output of canned beef since early in 1927 has consisted almost entirely of comparatively high-priced specialties.

The following tabulation shows domestic exports and imports (for consumption) of canned beef, together with unit values, for 1926 to 1937, inclusive. Statistics of imports after the middle of 1930 are for those dutiable at 6 cents per pound, i. e., valued at not more than 80 cents per pound, and predominantly canned corned beef. Entries dutiable at the ad valorem rate have always been relatively unimportant. In recent years Uruguay has been the largest supplier of canned beef, closely followed by Argentina. Paraguay, and more recently Brazil, also export this product to the United States. Entries from other countries are relatively small. United States exports are relatively high-priced specialties not comparable with the imports.

*Imports and exports of canned beef, 1926-37*

Year	Quantity		Unit value in cents per pound	
	Exports	Imports <sup>1</sup>	Exports	Imports
	<i>1,000 pounds</i>	<i>1,000 pounds</i>		
1926.....	2,645	21,945	37.3	11.9
1927.....	2,783	25,999	33.1	12.1
1928.....	1,900	62,736	26.2	12.3
1929.....	2,608	79,896	26.3	12.7
1930.....	1,719	56,008	29.1	13.5
1931.....	1,478	19,631	32.5	11.8
1932.....	1,003	24,838	24.3	9.6
1933.....	1,202	41,343	24.1	6.5
1934.....	2,484	46,672	32.6	6.5
1935.....	2,119	76,256	33.7	7.3
1936.....	1,773	87,303	30.2	9.6
1937.....	722	88,091	29.6	10.4

<sup>1</sup> Imports dutiable at the ad valorem rate, and not included herein, have averaged less than 0.02 percent of total imports of canned beef since 1930.

Domestic canner cattle, which supply the bulk of the raw material for sausage and/or canned beef, are principally discarded dairy cows. South American canner cattle are principally discarded beef cows, hence are much better fleshed than domestic canners. A domestic canner cow yields about 19 pounds of cooked beef, ready for canning, per 100 pounds live weight, as compared with 22.2 pounds from a South American canner animal.

In 1936 imported canned beef was landed in New York, ex-duty, at an average cost of approximately 10.1 cents per pound, as compared with 10.0 cents in 1937.<sup>1</sup> On the basis of Chicago prices of canner cows' similar domestic canned beef would have cost about 26.2 cents and 28.5 cents in these respective years. Differences amounting to 15 to 18 cents per pound are likely to continue for the following reasons. In the United States the demand for fresh beef results in relatively high prices for carcass beef, and the lower grades of beef have a more profitable outlet in sausage than in canned beef. In recent years the domestic output of sausage, about 50 percent of which is made of beef, has averaged nearly 1,300,000,000 pounds per annum. All of the beef from canner cattle<sup>2</sup> has been used to supply the demand for sausage material; in addition, the production of sausage has taken trimmings and parts of higher grade carcasses in about twice the amount of the beef available from canner cattle. In South America the outlet for fresh beef has declined in recent years and the demand for beef for sausage making is comparatively small, with the result that much larger quantities of beef have been canned.

Argentina and Uruguay dominate the world export trade in dressed beef. However, because of our sanitary embargo, such beef cannot enter this country. Only South American cooked or cured beef, which has entered almost entirely in the form of canned beef,<sup>3</sup> can be imported as long as the embargo is in effect.

In this country consumers buy canned beef for reasons of economy, convenience, or for a "change." The direct competition is principally with sausage and canned or other domestic prepared meats and fish products. The following tabulation shows prices in Washington chain stores (March 25, 1938), of imported canned corned beef and some of the domestic meat and fish products with which it principally competes.

	Price per pound (cents)
Imported canned corned beef (12-ounce cans)-----	24-25
Canned salmon (Argo-pink, 16-ounce cans)-----	27
Canned fish roe (8-ounce cans)-----	20-28
Sardines, ordinary (3¾-ounce cans)-----	38
Luncheon meats, etc.-----	30-45
Bologna-----	25
Frankfurters (Briggs)-----	25

It is unlikely that there would be a substantial domestic production of canned beef (comparable with the imported product) even if the duty were doubled. Such a duty, however, would result in higher prices to consumers, and probably in a considerably smaller consumption of canned beef. If the duty were raised sufficiently to make United States production profitable, prices to consumers would be still higher and consumption less.

The Tariff Commission some months ago made a comparison of the imports of canned beef in 1936 with the production in that year of the cheaper grades of beef, veal, pork, and mutton. These figures indicated that production in that year of the grades of meat that might be considered competitive with imports of canned beef amounted to 6,444,000,000 pounds, while the imports of canned beef were equivalent to 176,000,000 pounds of dressed beef, or equal to 2.7 percent of the production. The comparison would not be materially different for 1937. The imports in 1935 to 1937, however, were much larger than before, chiefly by reason of drought conditions in this country and consequent high prices of meats.

<sup>1</sup> Foreign value plus one-half-cent transportation and other charges.

<sup>2</sup> About \$3.25 per 100 pounds in 1936 and \$3.75 in 1937, less net credits of about 25 cents per 100 pounds for byproducts of cattle slaughter, and boning operations. Processing costs average about 10.5 cents per pound after the beef is boned out.

<sup>3</sup> Production of carcass beef averaged 8,328,000,000 pounds per year in the period of 1927-33. Of this, about 3 percent was of "low cutter" or "canner" grades; the other grades and proportions of the total are "choice and prime," 5 percent; "good," 22 percent; "medium," 48 percent; "common," 17 percent; and "cutter," 5 percent.

<sup>4</sup> The canned beef imported into the United States in 1936 and 1937 was equivalent to the carcass beef of about 620,000 head of 750-pound domestic canner cattle, or approximately 630,000 head of South American stock of similar weight. The carcass equivalent of this imported canned beef amounts to about 3 percent of the total United States production of carcass beef, and slightly exceeded the estimated domestic production of canner beef.