Approach G

TRANSFER PAYMENTS, PRICE SUPPORTS, AND NON-MONEY SUPPLEMENTS TO INCOME

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TRANSFER PAYMENTS

Objective

The objective of transfer payments is to convey income from non-farmers to farmers by means outside the market. Transfer payment programs provide for direct payments to farmers either with or without a consideration to the government.[1]

Description of the Program

Proposals to use direct or compensatory payments in agricultural programs at present include wool and sugar producers receiving special compensatory payments.

Functionally, programs of this nature can be classed generally into two broad groups:

1. COMMODITY APPROACH. Under this method, farmers would be given payments computed on the difference between actual market prices and some support level.

2. INCOME APPROACH. When aggregate agricultural income is below some desired level, payments would be made to individual farmers to raise it to the desired level. For example, if total agricultural income were actually 12 billion dollars and desired income 15 billion dollars, 3 billion dollars would be distributed as direct payments. Distribution to individual farmers could be made in many ways. Administrative feasibility is the chief limiting factor.

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*The other members of the work group who reviewed the preliminary draft and assisted in the development of the final report were: D. Upton Livermore (Chairman), J. N. Busby, Glenn Fulcher, and V. M. Sheppard.

[1]In soil bank contracts, the major consideration given by the farmer is "rights"—the right to produce and sell. The Department of Commerce definition for transfer payments is as follows: "... consists of monetary income receipts of individuals from government and business (other than government interest) for which no services are rendered currently."

The Subcommittee on Agricultural Policy lists feasible applications of direct payments as follows:[2]

1. Temporary use at modest levels to alleviate short-term distress situations in markets, especially for perishables.
2. Income support for farmers during depression, when price support and production control might have particularly adverse effects on consumers.
3. More or less permanent use, but with restrictions added to avoid stimulation of output. These might involve limitation of payments (not production) to fixed allotments, a mild form of restriction; or they might involve administrative production control.

To safeguard the national economy in its agricultural sector in times of depression, supplementary income payments to farmers will be most effective and economical.

If deep depression develops, we should be prepared, if necessary, to provide income supports in substantial amounts for a short time in order to prevent demoralization of our 30 billion dollar agricultural industry.[3]

Advantages and Disadvantages of Direct Payments

Arthur Mauch sets out the advantages and disadvantages of direct payments, as follows:[4]

ADVANTAGES:

1. While the government supports income, prices seek the market level.
2. The quantity consumed both at home and abroad could be increased.
3. No burdensome surplus would accumulate.
4. Efficiency would be increased.
5. Direct payments could be a boost to a sagging economy in two ways: They would increase the total money supply in a depression; and as well, put purchasing power in the hands of farmers.
6. All farmers, large and small, would benefit in proportion to their volume and efficiency.
7. Cost could be determined for each item and compared with results to aid in planning future programs.

DISADVANTAGES:

1. The nature of the direct payments makes it too obviously a "subsidy," whereas the loan or purchase is indirect and partially obscured.

[2]See Committee Print, Report of the Subcommittee on Agricultural Policy to the Joint Economic Committee, Congress of the United States, with individual views of Senator Arthur V. Watkins, February 10, 1958, pp. 15-16.

[3]*Turning the Searchlight on Farm Policy*, Farm Foundation, 1952, pp. 69-73.

[4]"Open Meetings on Agricultural Policy," Michigan State College, Department of Agricultural Economics, No. 19, 1953, p. 6.

2. There would probably be no public program of stockpiling to be used in emergencies.
3. Administration would be difficult as every producer would be involved.
4. Controls might not be eliminated. Production might need to be controlled to keep the difference between the market price and the support level small.
5. Production still would be out of line with consumer demand.

Existing Direct Payment Programs[5]

THE SUGAR PROGRAM. The objectives are to protect the welfare of sugar consumers and of those engaged in the domestic sugar-producing industry and to promote the export trade of the United States. Attaining them involves: (1) determination of United States total sugar requirements, (2) establishment and pro-rationing of quotas to the various domestic and foreign sugar supplying areas in accordance with the act, and (3) payments to domestic producers of sugar beets and sugar cane grown for sugar.

The Secretary of Agriculture determines sugar requirements, taking into consideration consumption, inventory, population, and consumer purchasing power factors, and the relationship between prices at wholesale for refined sugar and the United States general cost of living.

The amount of sugar for payment for a farm includes: (1) the amount of sugar commercially recoverable from sugar beets or sugar cane marketed from the farm for the extraction of sugar not in excess of the proportionate share for the farm; and (2) the amount computed in accordance with the provisions of the act with respect to crop deficiencies of harvested acreage and bona fide abandonment of planted acreage, resulting directly from drought, flood, storm, freeze, disease, or insects.

The base rate of payment is 80 cents per 100 pounds of sugar commercially recoverable, raw value. For production in excess of 7,000 hundredweight on a farm, the base rate is lowered gradually with the amount of sugar produced, 30 cents being the minimum rate.

The total outlay of the government through payments is more than offset by collections under a special tax of 50 cents per hundredweight of sugar, raw value, imposed on all sugar processed in the United States and all sugar imported for direct consumption.

[5]"Price Programs," Agr. Information Bul. 135, U. S. Department of Agriculture, pp. 10, 12, and 41-43.

The payment program is administered through agricultural stabilization and conservation committees.

THE WOOL PROGRAM. Under the National Wool Act, payment may be made only for shorn wool, pulled wool (the wool removed from the carcasses of slaughtered sheep and lambs), and mohair.

A grower sells his shorn wool in normal marketing channels, obtaining at the time he sells, a sales document describing the transaction. The sales document and an application for payment are filed with the grower's ASC county committee. Payments are made to producers by the county committees as rapidly as possible after the rate of payment is determined at the end of the marketing year.

The rate of payment is based on the difference between a previously announced incentive price and the United States average price received by producers for wool sold during the marketing year. For example, the announced incentive price for the 1955 marketing year was 62 cents a pound for shorn wool. Growers actually received an average price of 42.8 cents. To bring actual prices to the support level, each producer received a payment amounting to 44.9 percent of the amount he received for wool in the 1955 marketing year.

Support is required at the incentive level, not to exceed 110 percent of parity, which the Secretary determines is necessary to encourage an annual domestic production of approximately 300 million pounds of shorn wool.

If the support price so determined does not exceed 90 percent of parity, the support price shall be at the incentive level which the Secretary determines is necessary to encourage an annual domestic production of approximately 360 million pounds of shorn wool and must be between 60 and 90 percent of parity.

Soil Bank and Other Programs of Direct Payments for Not Producing Agricultural Commodities

Although farmers participating in the soil bank are required to render a service (by performing conservation practices, controlling weeds, etc.) on soil bank land, the consideration to the government from the farmer is so small, in relation to the payment received that the overwhelming economic effect might be considered a transfer of income.[6]

[6]Plow-up, slaughter, and other "destruction" programs might also be considered by some as transfer-of-income programs since these payments are direct and are made outside the market place. However, "destruction" programs involve substantial consideration to the government by the farmer because he gives up an established crop, live animal, or commodity which otherwise would have been marketed at some price level. "Destruction" programs, then, are considered here to be "supply" programs and not transfer-of-income programs.

Effects on Production

1. Insofar as transfer payments are related to production, they will tend to increase production.
2. The wool and sugar programs have increased production over what it otherwise would have been.
3. Direct payments for "not producing," such as the soil bank, tend to reduce production.

Effects on Demand

1. The over-all increase in demand will not be great because of the inelasticity of demand for farm products.
2. Commodities which have substitutes (such as wool) will experience a decrease in demand.
3. The potential for increasing demand for farm commodities which have industrial uses is greater than for food-clothing commodities.
4. Transfer-of-income programs tied to production restriction (soil bank) will tend to decrease demand.

Effects on Income

1. Farmers' incomes will be raised by transfer-of-income programs. Over the long run the income transfer program may result in an increase in agricultural resources, thereby increasing production and lowering prices.
2. The net effect of the soil bank program on the general public is a net transfer of income to farmers through both income payments and through higher prices to farmers who participate as well as those who do not participate in the program.

PRICE SUPPORTS

Price supports are not really an approach, program, or plan for solving the farm income problem. They are more in the nature of intermediate goals than of means to the end of permanently raising real farm income.

Methods of Price Support

Price support can be effected by various approaches, methods, or programs, or by combinations of methods. Some methods are much more direct than others.

Direct Methods

Usually price-support programs are thought of as those programs intended to influence market prices directly through some sort of market operations other than influencing supply or real demand. Four general types of direct price supports may be listed.

Reimbursement of Cooperatives. Beginning in 1929, cooperative associations purchased cotton and wheat to support market prices. Prices fell. The Federal Farm Board took the commodities and the loss.

Nonrecourse Loans. Farmers obtain loans from the government, pledging their crops as security at stated price-support levels. If the price rises above the support level the farmer can sell the crop, repay the loan, and realize a profit. Otherwise, he delivers the crop to the government CCC (Commodity Credit Corporation) and is relieved of further obligation.

Direct Purchases. The prices of some farm commodities, manufactured dairy products for example, are supported by direct market purchases by a government agency, such as the CCC.

Minimum Price Regulations. Just as maximum prices (ceilings) are established to limit prices during war, so minimum prices (floors) could be established to maintain prices at or above specified levels. Ceilings must be accompanied by rationing the privilege of using products, and price floors would have to be accompanied by rationing the privilege of producing them, as in acreage allotment programs and some marketing agreements or orders.

Indirect Methods

The more important indirect methods of supporting prices of farm products are discussed elsewhere in these proceedings, and may be outlined as follows:

1. Increase demand
   a. Subsidize consumption
   b. Develop new uses or markets
   c. Change consumer preferences
   d. Reduce marketing costs
   e. Practice multiple pricing to consumers
2. Reduce supply
   a. Restrict domestic production
      (1) Limit inputs
      (2) Reduce efficiency of input use

b. Restrict marketings
   (1) Restrict imports
   (2) Restrain marketings of domestic production
c. Practice multiple pricing to producers

Consequences of Price Supports

It is difficult to conceive of a pure price-support program standing alone. However, the general consequences of raising the price of any commodity have long been recognized by economists.

1. Raising or supporting the price of any commodity soon reduces the quantity demanded or taken.
2. The demand for all substitute products is increased, and their price is raised. Their production then is increased, and their prices lowered, causing further shifting of sales from the price-supported product to substitutes. (If the substitute is inferior, sales will shift less.)
3. As consumers become more accustomed to the substitute products, their demand for them increases further, and their demand for the price-supported product diminishes still more.
4. Price support, or merely reducing price uncertainty, causes producers to increase output, or at least to make strong efforts to do so.
5. Reduced sales and increased production both lead to the accumulation of abnormal stocks of storable commodities, and to wasting of perishables or diversion of them to less economic uses.
   a. The accumulation of stocks of storables may be desirable, but if so, such accumulation should be deliberate and controlled, not the accidental by-product of a price-support program.
   b. Accumulation of excessive stocks involves considerable expense, both for acquisition and for storage. Farmers receive most of the benefit from acquisition costs, but very little from storage.
6. Price supports are industry programs and thus are not suitable for problems that are not general through the industry. Farm people have many different kinds of income situations and problems. Most of these problems cannot be solved by price supports or any other general industry approach. Undesirable effects of price supports and similar industry approaches include the following:
   a. Dollar differences in the incomes of farmers are increased. The wealthy, prosperous farmers benefit more than the lower income farmers. This is vitally important because the range in incomes of commercial farmers is far greater than of any other major occupational group.

b. Price support and other industry-wide approaches are inflationary. They require large amounts of federal funds, and tend to stimulate demands by labor for excessive wage increases and by businessmen for special privileges that are often inflationary.

c. Much of the benefit of industry approaches goes to nonfarm people, especially non-operating landowners.

d. General industry approaches to the income problem of farm people delay needed adjustments by these people. Such programs increase the rate of capital investment in the industry and the rate of increase in production. They also tend to restrain the decrease in the underemployed labor force in agriculture.

NON-MONETARY SUPPLEMENTS TO INCOME

The specific objective of non-monetary programs is to provide servor services received from government by an individual which tend to enhance his economic welfare and for which no comparable consideration (taxes or other) was given in return.

Specific Objective

The specific objective of non-monetary programs is to provide services or goods which have the effect of raising the standard of living of the commercial farmer by making goods or services available to him at a cost (tax or other) lower than it would otherwise be.

Description of These Programs

Examples of programs under which farmers have received benefits as non-monetary supplements to income are:

1. Rural free delivery of mail.

2. Rural electric service.

3. Underwriting farm credit.

4. Agricultural research and education. Such research may benefit nonfarmers as much or more as farmers in the long run.

5. Taxation. Homestead exemption for property tax levies has benefited farmers in most states.

Some special income tax provisions affecting farmers which may be worthy of recognition are:

1. Capital expenditures connected with conservation of soil or water may be deducted as an operating expense (with certain limitations).
2. The sale of livestock held for draft, breeding, or dairying purposes for 12 months or longer may be reported as sale of a capital asset.
3. The sale of timber held for six months or longer (with certain limitations) may be reported as sale of a capital asset.

Self-employment taxes and the old age and survivors insurance program offer a transfer payment to low-income farmers.

Effects of Program

Following are general guides to the possible results of these programs.

1. Non-money supplements in the form of services make rural life more desirable. They may have no appreciable effect on production for the short term, but for the long term they will tend to increase the resources in agriculture.
2. Favorable income tax treatment will tend to increase resources in agriculture and, hence, increase production over the long term.
3. Homestead property tax exemptions tend to increase resources in agriculture and, hence, production over the long term.

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