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SUBSIDY AND SUBSIDY-EFFECT PROGRAMS OF THE U.S. GOVERNMENT

MATERIALS PREPARED
FOR THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

Printed for the use of the Joint Economic Committee

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JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

WRIGHT PATMAN, Texas, *Chairman*
PAUL H. DOUGLAS, Illinois, *Vice Chairman*

LETTERS OF TRANSMITTAL

MARCH 31, 1965.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the Joint Economic Committee, and other Members of Congress, are updated and revised materials prepared by the staff dealing with subsidy programs and programs with subsidylike effects of the U.S. Government.

An earlier 1960 edition of this study, out of print for some time, proved to be extremely useful in cataloging and understanding such programs which, of course, are a part of the "plans, functions, and resources" of the Federal Government which, under the Employment Act of 1946, are to be coordinated and utilized as aids in promoting maximum employment, production, and purchasing power.

Faithfully yours,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

MARCH 15, 1965.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: The attached materials on U.S. Government subsidy programs and programs having subsidylike effects are essentially an updating and revision of a similar staff study prepared in 1960 which, incidentally, has long been out of print. The earlier study and this revision were prompted by observations of our subcommittee in dealing with Federal expenditure policies in the 85th Congress, underscoring the need that "Federal programs aimed at supporting or improving the economic position of particular groups or industries should be constantly evaluated in the light of changing circumstances * * *. Failure to adapt the substance of subsidies to changing demands and opportunities may be expected to prevent most efficient use of resources in the subsidized activities as well as in other types of economic behavior."

These materials have been compiled with every effort made to avoid evaluation of the desirability or merits of the various programs, since this properly is the role of the people as a whole expressing themselves through democratic political processes. A listing and statement of the subsidy and subsidylike programs can, however, be useful in the continuous appraisal suggested by our subcommittee. This is especially true since the Federal subsidy pattern has grown piecemeal and gradually, and sometimes unrecognized under varied labels characterizing programs as aids, supports, or incentives. By undertaking to explain objectives and define what subsidies actually are, the report should serve also to put in proper perspective derogatory implications which are frequently associated with the word.

The study was prepared by Julius W. Allen, Chief of the Economics Division, Legislative Reference Service, Library of Congress.

The assistance of the several executive agencies consulted in preparing these materials is greatly appreciated, especially for the historical and current tabulations which they have submitted in response to our request.

Sincerely yours,

JAMES W. KNOWLES,
Executive Director, Joint Economic Committee.

CONTENTS

TABLES

SUBSIDY AND SUBSIDY-EFFECT PROGRAMS OF THE U.S. GOVERNMENT

INTRODUCTION

"*Federal programs aimed at supporting or improving the economic position of particular groups or industries should be constantly reevaluated in the light of changing circumstances.* Whatever their initial justification, subsidy programs should be so contrived as to eliminate the necessity for their continuation. The broad changes which must be expected in our economy require frequent revision in the scope and character of these programs if they are to achieve their purposes. Failure to adapt the substance of subsidies to changing demands and opportunities may be expected to prevent most efficient use of resources in the subsidized activities as well as in other types of economic endeavor. Where this is the case, the subsidy not only fails of its immediate objective but also imposes real costs on the entire economy over the long run."

"Evaluation of many Federal spending programs aimed at broadly expressed social and political objectives on the basis of their comparative benefits and costs is admittedly difficult. The distinguishing characteristics of these programs are that their benefits cannot be fully measured by objective standards such as those provided by the market mechanism. While the costs of these programs can be readily ascertained, their relative values must be determined through the political process by those invested with responsibility for formulatng and enacting Federal spending programs. These value judgments should be based on as full awareness as possible of the indirect as well as direct economic effects of the programs, whether or not these effects are immediately related to the program's objectives, and to the greatest extent possible should be arrived at in the light of the comparative costs of all expenditure programs. Broad social objectives frequently are referred to as 'needs,' but it should be clear that needs are relative rather than absolute. Determining the priority of programs to meet these objectives must give careful consideration to their relative costs."

These paragraphs from the January 23, 1958, "Report of the Subcommittee on Fiscal Policy on Federal Expenditure Policies for Economic Growth and Stability"[1] provide at once the reason and a justification for undertaking the present study.

In any case, the subject is closely related to the objectives of the Employment Act of 1946 and hence to the responsibilities of the Joint Economic Committee. Aids, grants, or subsidies, under whatever semantic label one may prefer, are clearly a part of the "plans, func-

[1] Joint committee print, 85th Cong., 2d sess. The quoted paragraphs are on pp. 7 and 6, respectively.

tions, and resources" of Government which can contribute to efforts to promote "maximum employment, production, and purchasing power." It is imperative that these normal and necessary instruments of government be constantly reviewed and coordinated lest through tradition or the passage of time they fail to contribute, or through perverse behavior negate, the policy objectives of the Employment Act. The report deals first with the problem of defining subsidies, and then with the scope and cost of Federal subsidies.

More explicitly, these materials are designed to bring together in compact form a checklist and, where possible, provide some measure of the magnitude of assistance by the Federal Government to enterprise deemed advantageous to the public good. Such a listing and partial "costing," although carefully avoiding any and all attempts at appraisal in this study, is warranted on three counts. First, the growth of our Federal subsidy pattern has been piecemeal and gradual almost since the beginning of the Nation. Second, subsidies are, in many ways, elusive because they are not always clearly so labeled or recognized. Finally the private and the diffused public benefits are often so intermingled as to challenge analysis and the type of constant scrutiny suggested above.

The inclusion of an item in such a listing for reexamination of magnitude and priorities should not be translated into a prejudgment of merits. Whether a given subsidy or subsidylike program is regarded as desirable or undesirable is for the people as a whole to determine through democratic political processes. Many, perhaps most, items will doubtless, upon examination, be found to have their sufficient justification for continuance as a matter of public policy.

The objectives and scope of this type of study will be more easily understood if it is recognized that the characterization herein (or, indeed, elsewhere) of any governmental assistance programs as a "subsidy" is not to stigmatize but to prepare the ground for examination of the antecedents and rationale and continuing justification. Opinions, of course, may differ in each case as to relative merits, order of priority, and the balance of the short-term self-interest of the recipients of the aid and the longrun public good envisioned by the Congress and the people in undertaking the grant.

By focusing attention upon the concept of subsidies and by listing precisely what kinds of subsidies are now being given, policymakers and the public will be better able to form enlightened opinions on these points. Agreement and compromise on which should be continued, and/or on what scale, should likewise be facilitated.

CHAPTER I

DEFINING A SUBSIDY

A formidable problem in any study of subsidies involves a frame of reference and a definition of the terms "subsidy" and "subsidize." Both of these, it seems, are words that are likely to invoke an emotional response. Proponents of a Government program designed to aid a particular industry, group, or type of enterprise avoid and indeed resent the term "subsidy" in describing their program, preferring to call it an aid or an expenditure necessary in the national interest or defense. For their part, opponents of the program, in their use of the label "subsidy," seek to stigmatize, or at least to suggest if not demonstrate, that the program somehow benefits certain individuals at a cost offset, if at all, by doubtful benefits to the American taxpayer in general.

It is interesting to note that the only Federal statutes using the word "subsidy" are those dealing with ship construction and ship operations. The term is also rarely used in Executive orders and regulations.

The popular attitudes toward subsidies are well reflected in the following statement by Prof. C. Lowell Harris, professor of economics at Columbia University:[1]

> In the United States, and doubtless in other countries, there is a distaste for receiving from Government what is labeled as subsidy. There is, I hasten to add, ample willingness to take benefits from Government. But there is strong preference for forms which help conceal the nature of the receipt.
>
> 1. Tax exemption, for example, seems far more attractive than a governmental payment yielding the same economic benefit. The modern search for benefit often takes this form.
>
> 2. Business as well as individuals are willing to accept commercial-type services from Government at less than cost.
>
> 3. A different type of example arises from the development of social insurance systems which replace programs resting on need. When benefits are set definitely by law, do we ever think of the person who gets more than he paid as receiving a subsidy? Not as a rule, I believe. As governmental expenditures have grown, they have included more of outlays which have a big element of individual benefit. General social welfare is no longer the overwhelming criterion of public spending. Is there, then, a subsidy element?
>
> 4. A fourth example arises from governmental assumption of some of the cost of borrowing money. The Treasury's aid is not always obvious. As a rule it is too complex to be measured. Rarely does the person who benefits sense that some of what he receives is at the expense of someone else. Yet the examples of such aid are numerous.

General agreement on a definition may well, under the circumstances, be unattainable. Perhaps the best that can be done is to examine some of the numerous definitions that have been attempted.

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[1] Harris, C. Lowell. Subsidies in the United States. Public Finance, vol. 16, 1961 : 271.

DICTIONARY DEFINITIONS

Webster's "New International Dictionary of the English Language" (2d ed.) defines subsidy as follows:

A grant of funds or property from a government as of the State or a municipal corporation, to a private person or company to assist in the establishment or support of an enterprise deemed advantageous to the public; a subvention. In practice subsidies are chiefly granted in aid of transportation enterprises, as to ship, canal, air-transport, or railroad companies, bounties on sugar being next in importance. A subsidy may be a simple gift or may consist in the payment of an amount in excess of the usual charges for any service, as in carrying the mails, or of funds to aid in establishing or maintaining a service or equipment larger or more powerful than the state of trade would warrant, as the building and keeping in service of vessels designed for use as cruisers and auxiliaries in war. Subsidy is often inexactly used to designate an entire payment for services, as for carrying mail, which, properly speaking, includes compensation for actual services and a subsidy proper, consisting in the sum paid in excess of the compensation. In ordinary usage subsidy * * * often carries a derogatory implication.

To subsidize is defined by the same dictionary as "to aid or promote, as a private enterprise, with public money; as, to subsidize a steamship line." Funk & Wagnalls "New Standard Dictionary of the English Language," has a briefer definition of subsidy: "Pecuniary aid directly granted by government to an individual or commercial enterprise deemed productive of public benefit."

The "McGraw-Hill Dictionary of Modern Economics," published in 1965, defines subsidy as—

a payment to individuals or businesses by a government for which it receives no products or services in return. The purpose of such payments is to maintain a particular service at a price that the public can readily afford but that cannot be profitably supplied at this price. The particular service or product is considered essential to the public welfare, and the government therefore finds it necessary to subsidize the enterprise in order to keep it operating and producing the service or product. In the U.S., Federal subsidies are given to airlines to carry mail, to railroads and other means of public transportation for the transportation of commuters, to farmers under the current agricultural program, and to the shipbuilding industry to build ships. The term subsidy has also been used to include governmental payments to other governments, now referred to as grants-in-aid.

OTHER DEFINITIONS IN STUDIES OF SUBSIDIES

Some students of subsidies consider these dictionary definitions as somewhat too restrictive. Robert L. Hubbell, a fiscal economist with the U.S. Bureau of the Budget, in an article, "Concealed Subsidies in the Federal Budget," published in the September 1957 issue of the National Tax Journal, points out that the Webster definition excludes benefits to individuals, as distinguished from enterprises, and thus would not include benefits to veterans, or to consumers. Further, it does not consider the subsidies involved in providing services at less than cost, or in tax concessions. Hubbell defines a subsidy as—

a government financial device which enables sellers to get more money or buyers to get more goods and services than would be the case if the affected commercial transactions had occurred without government intervention. The financial device may involve (1) direct or indirect payments in cash or kind, (2) provision of goods or services for prices or fees which do not reflect full competitive market value, or (3) lower taxes which are exceptions to general tax rates.

Carl Kaysen, economist at Harvard University, in a brief essay devoted entirely to defining subsidies, makes two definitions of subsidies, one analytical and the other a broader, essentially political, definition.

In general analytical terms a subsidy to an enterprise can be defined as an increase in the demand for its output, or a decrease in the costs which it must bear to produce its output, which are not the result of market forces or "natural" changes in consumer tastes, techniques of production, or availabilities of natural resources; but rather result from the deliberate action of the subsidy giver (government). The reader can easily supply the appropriate changes which would be needed to make the definition applicable to a subsidy to a household, either as consumer or as supplier of factors. The application of this definition in practice raises two important problems: what is the treatment of taxes and changes in taxes, and what are the boundaries which mark off "natural" from "artificial" changes in tastes, techniques, and raw material supplies. Both of these problems are essentially problems of the impact of government activities of various sorts on market and market forces. * * *

Nearly every government action which impinges on the private economy (and nearly every one does) is likely to have what have been termed subsidy effects. The distinction between a "subsidy" simpliciter, and a "subsidy effect" is essentially political and not economic—it is one of purposes. A subsidy can conveniently be defined in this terminology as an intended subsidy effect, which the legislature (or other policy promulgating authority) foresaw and desired when it authorized the particular government activity giving rise to the subsidy effect in question.[2]

Clair Wilcox, professor of political economy at Swarthmore College, in his widely used text, "Public Policies Toward Business" does not offer a precise definition of subsidies but does indicate the broad scope of subsidies in the opening paragraph of his chapter on "promotion and subsidization" as follows:

Government has subsidized private enterprise, both in industry and in agriculture, throughout the Nation's history. It has done so directly and indirectly. In some cases, acting directly, it has made outright gifts: grants of public lands or payments from the Treasury. More often, it has given aid in less open ways: by rendering services for which it makes no charge, by selling goods and services for less than they are worth, by buying goods and services for more than they are worth, and by exempting some enterprises from taxes that others must pay. In all of these cases, the cost of the subsidy has been borne, in the end, by the taxpayer. Acting indirectly, Government has subsidized enterprise by sheltering it from the full force of competition and by granting it the privilege of uncontrolled monopoly. And here, the cost of the subsidy has been borne by the consumer in a higher price.[3]

DEFINITIONS BY FEDERAL AGENCIES

Government agencies themselves have defined subsidies in a number of different ways.

The Department of Commerce, in the National Income Supplement to the Survey of Current Business, 1954 edition, defined subsidies simply as "the monetary grants provided by Government to private business."[4]

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[2] Kaysen, Carl. On defining a subsidy. Public Policy, a Yearbook of the Graduate School of Public Administration, Harvard University, vol. 4, 1953, pp. 5, 9.
[3] Wilcox, Clair. "Public Policies Toward Business" (revised edition). Homewood, Ill., Irwin, 1960, p. 429.
[4] Survey of Current Business. National Income Supplement, 1954 edition, p. 60.

The term "subsidies" also occurs in the national income accounts under the category, "subsidies less current surplus of Government enterprises." For this purpose, a subsidy is defined as follows:

> In principle a Government expenditure becomes a subsidy when it enables a producer to sell goods and services below the cost-price relationship determined by market forces or when it is a payment made to curtail production. By definition, therefore, subsidies are made only to businesses organized for profit-making purposes (including farms). Examples of subsidies are Government payments to farmers for land retirement, certain outlays for the export of surplus agricultural commodities by business, payments to air carriers, and the operating differential subsidy of the Maritime Administration.[5]

However, since the subsidy data in the national income accounts are "consolidated for analytical and statistical reasons" with the current surplus of Government enterprises, they are not used in this publication. They may be found in the national income (July) issue of the Survey of Current Business each year.

The Committee on Agriculture of the U.S. House of Representatives suggests a more sweeping definition of subsidies, beginning its summary of Government subsidies, issued on June 3, 1954, with this sentence:

> The subsidy is the oldest economic principle written into the laws of the United States—

and stating at the close of the same report:

> There is no officially recognized definition of a subsidy as such, and no unchallengeable compilation can be made of the costs of subsidies down through the year.[6]

In a revised edition of the same publication, issued in 1960, the definition of a subsidy is considered more extensively as follows:

> Some contend the tariff system is a subsidy structure, since it involves Government action that enables protected industries to charge more for their goods in the American markets. Moreover, some consider that accelerated tax amortization for defense plants subsidizes the owners of these plants, that "depletion allowances" provide subsidy-like benefits to the petroleum and some other industries, that Federal non-interest-bearing deposits of billions of dollars in private banks and certain services of the Federal Reserve System amount to subsidies for large private bankers, that sale of Federal surplus property at a loss is a subsidy to the purchasers, and that the postal deficit on second-class mail is a subsidy to business. Others confine their definition to direct Government payments, to the remission of charges, and to the supplying of commodities or services at less than cost or market price.
>
> There is one concept of subsidy which extends to all persons and enterprises whose economic positions are improved, or whose purposes are advanced, as the result of Government action. This embraces industries whose profits would be less without protection of the tariff laws and the many other statutes that soften the full force of competition in a private enterprise economy; and this broad definition likewise encompasses all working people whose earnings are greater because of minimum wage, collective bargaining, and immigration laws.
>
> It is pointed out, by those favoring this definition, that the economic benefits accruing to industry and labor, from Government policies, are paid for—as are the costs of the farm program—by the general consuming and taxpaying public.
>
> Thus virtually all the population would seem to be in a subsidy recipient posture and, moreover, almost all are participating in the payment of the costs. It is certain that the total population feels the economic impact of the subsidy programs for industry, labor, and agriculture.[7]

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[5] Budget of the United States Government for the fiscal year ending June 30, 1966, p. 364.

[6] U.S. Congress, House. Committee on Agriculture. "Government Subsidy Historical Review" (83d Cong., 2d sess., committee print). June 3, 1954, pp. 1, 6.

[7] U.S. Congress. House. Committee on Agriculture. "Government Subsidy Historical Review" (86th Cong., 2d sess., committee print). May 10, 1960, pp. 2–3.

The Division of Audits of the General Accounting Office in May 1954 prepared the following analysis of the term "subsidy" as used in the General Accounting Office itself.

We [the General Accounting Office] use the term "subsidy" to refer to financial aid or assistance given by the Federal Government to private individuals or organizations or to non-Federal governmental entities. This aid may consist of incurring expenses on behalf of those individuals or organizations as well as making direct advances of funds or property with respect to which full repayment is not contemplated. On the other hand, we try to avoid the use of the term "subsidy" in referring to expenses incurred by one agency of the Federal Government on behalf of another.

Usage of the term in the applicable laws usually determines whether we use the term in our reports. It the law specifically uses the term, we will also use it. If the law uses an alternative term (e.g., grant, incentive payment, export payment), we tend to avoid using the term "subsidy" in favor of the specific language of the law. However, if the transaction fits the general definition of the term referred to in the preceding paragraph, we may use it, irrespective of the language of the law.

In our reports on audit of the Federal Maritime Board and the Maritime Administration, we use the terms "construction-differential subsidies" and "operating-differential subsidies." (See H. Doc. 472, 82d Cong.) These subsidies are paid pursuant to the provisions of titles V and VI of the Merchant Marine Act, 1936, and are called "subsidies" in that act. The beneficiaries of these subsidies are private operators of vessels in the foreign commerce of the United States.

In the cited report we used the term "disguised subsidies" in our recommendation that Congress consider eliminating the disguised subsidies accruing to private vessel operators in the form of tax deferments and exemptions and replacing them, if necessary, with direct subsidy payments.

The agricultural price support programs carried out by Commodity Credit Corporation result in financial aid or assistance to farmers and many of these involve substantial financial losses by the Federal Government. While such loss programs represent subsidies in a broad sense, we do not follow the practice of so referring to them in our reports. Generally, we describe such programs as price-support programs and any resulting losses are referred to as losses on price support operations. Under the International Wheat Agreement, Commodity Credit Corporation pays exporters the difference between sales prices of wheat or flour sold abroad and the higher domestic market prices. These payments represent subsidies and some of our audit reports have so referred to them, although the International Wheat Agreement Act does not use the term.

In our report on audit of the Federal Crop Insurance Corporation for fiscal year 1952 (H. Doc. 101, 83d Cong.), we referred to congressional appropriations of about $6 million annually to defray administrative and operating expenses incurred by the Corporation as a subsidization of the crop insurance program because these costs are not recovered from the insureds in the insurance premium rate. For the same reason we referred to the costs of certain services and benefits which under existing law are furnished to the Corporation by other Government agencies without charge as a subsidization of the crop insurance program. These services and benefits include the use of funds supplied by the Treasury without charge for interest, and employees' retirement, disability, and compensation benefits. We do not use the term "subsidy," however, in the sense that the Corporation has been subsidized, but state that the Corporation received certain services and benefits the costs of which are not included in the Corporaion's financial statements. The purpose of the latter statement is to disclose to the reader that the financial statements do not disclose the full cost of conducting the Corporation's activities. It is intended to be informative but not critical.

In our report on audit of Export-Import Bank of Washington for fiscal year 1952 (H. Doc. 125, 83d Cong.), we stated that applicable Federal laws do not require the Bank to pay certain costs incurred on its behalf by other Federal agencies and, therefore, these costs are not included in the Bank's financial statements. As in the case of Federal Crop Insurance Corporation, these costs include interest on funds supplied by the Treasury and the cost of furnishing employees' retirement, disability, and compensation benefits. Inasmuch as we were referring to the benefits received by one agency of the Federal Government at the expense of other agencies of the Federal Government, we did not use the term "subsidy" in connection with these benefits.

* * * We feel that it is impracticable to attempt a single all-purpose definition of the term "subsidy" to be used where applicable to the many varied, complicated, and vast undertakings of the Federal Government. Also, unfortunately, the term has become surrounded with a connotation of evil which I am sure the dictionaries never intended but which causes one to hesitate to make use of it wherever possible.[8]

Elmer B. Staats, Deputy Director of the Bureau of the Budget, in a letter to Senator Douglas, chairman of the Joint Economic Committee, dated May 21, 1960, also indicated a lack of official definition of subsidies by the Federal Government, as follows:

To date the Federal Government has not developed an authoritative definition which it applies in authorizing activities and appropriating funds. For example, the word "subsidies" is used in only one appropriation title ("Operating-differential subsidies" under maritime activities, Department of Commerce), and appears in the language of one other appropriation ("Ship construction," also under maritime activities, Department of Commerce).

From 1945 until 1949, the Bureau of the Budget prepared reports on "Federal Expenditures for Subsidies to Business and Farmers." Since that date, beginning with the budget for fiscal year 1951, issued in January 1950, the Bureau of the Budget has prepared a more comprehensive analysis showing separately Government expenditures of an investment type and those of a current expense type. Under the latter are included the category of "current expenses for aids and special services." Most of the expenditures under this category could be considered to be "subsidies" or expenditures of special benefit to specific groups. These "current expenses for aids and special services" are discussed in more detail below. However, there are other programs, commonly considered to be subsidies, which are not included among "current expenses for aids and special services." For example, subsidies for the construction of private merchant ships are included in the category "Expenditures for other developmental purposes," since they result in additions to private physical assets. Similarly, expenditures for which assets or collateral are obtained, such as the acquisition of farm commodities by the Commodity Credit Corporation, are not included among current expenses, but rather among the category, "Additions to Federal assets." Conversely, it may well be argued by some that certain of the "current expenses for aids and special services" should not be termed subsidies.

The Budget of the United States, uses, as one of its 16 object classes of expenditures, the category, "Grants, subsidies, and contributions." This phrase is defined in Bureau of the Budget Circular No. A–12, dated July 22, 1960, as follows:

Comprises grants, subsidies, gratuities, and other aid for which cash payments are made to States, other political subdivisions, corporations, associations, and individuals; contributions to international societies, commissions, proceedings, or projects, whether in lump sum or as quotas of expenses; contributions fixed by treaty; grants to foreign countries; taxes imposed by taxing authorities where the Federal Government has consented to taxation (excluding the employers' share of Federal Insurance Contribution Act taxes); and payments in lieu of taxes. Includes readjustment and other benefits for veterans, other than indemnities for death or disability. (Note that obligations under grant programs which involve the furnishing of services, supplies, materials, and the like, rather than cash are not charged to this object class, but to the object class representing the nature of the services, articles, or other items which are purchased.)

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[8] Letter from Robert L. Long, Director of Audits, U.S. General Accounting Office, May 13, 1954, to Ernest S. Griffith, Director, Legislative Reference Service, Library of Congress.

It is impossible to isolate the subsidy element from the general category, "grants, subsidies, and contributions." As the Bureau of the Budget has noted:

> The three component elements of object class No. 11 (grants, subsidies, and contributions) are not reported separately by the agencies and are probably not considered by them as mutually exclusive.[9]

PROPOSED DEFINITION FOR PURPOSES OF THIS REPORT

In order to provide a focus to this report, and to concentrate on those programs where the subsidy element is most readily recognized, the following definition, which combines elements of several of the definitions already cited, is suggested:

A subsidy is an act by a governmental unit involving either (1) a payment, (2) a remission of charges, or (3) supplying commodities or services at less than cost or market price, with the intent of achieving a particular economic objective, most usually the supplying to a general market a product or service which would be supplied in as great quantity only at a higher price in the absence of the payment or remission of charges. Government loans made at lower than market rates of interest or at rates below the cost of funds to the Government and Government insurance provided at lower than private insurance premium rates may also appropriately be considered as subsidies.

This definition distinguishes subsidies from the following other types of assistance:

(*a*) Aids to foreign governments.

(*b*) Aids to business, or farmers, which are intended to help the businesses in any program of its own choice; in such a case the Government does not determine the program which it wishes to see fulfilled.

(*c*) Purchases or sales made on the Government's own behalf which may prove more profitable to the private seller or buyer than comparable transactions on the open market, except where a primary motive of such transactions is assistance to a particular segment of the economy. Thus, some purchases of minerals for stockpiling and of surplus farm commodities could readily be conceived of as subsidies, whereas a Government contract for production of a plane or missile would not normally be considered to involve a subsidy.

(*d*) Grants-in-aid to States and local units.

One type of benefit that may have a subsidy element but often is not classed as a subsidy is differential tax treatment for particular categories of persons or groups, such as minerals producers, corporations installing certain defense facilities, cooperatives, or producers of goods protected from foreign competition by tariffs.[10]

Completely excluded from this report is the whole area of nongovernmental subsidy and subsidizing. Many cultural, educational, and recreational activities receive contributions from private sources which

[9] Letter from Elmer B. Staats, Deputy Director, Bureau of the Budget, to Senator Paul Douglas, chairman, Joint Economic Committee, May 21, 1960.

[10] For a discussion of the subsidy element in taxes, see Hubbell, Robert L., "Concealed Subsidies in the Federal Budget," National Tax Journal, vol. 10, September 1957: 214–227.

can be interpreted as subsidies. It is often remarked that bachelors and childless couples subsidize children's education through the taxes they pay. Even contributing to the support of a son-in-law is considered a subsidy by some, who may conceivably be motivated in part by envy. However, broadening the meaning of subsidy to include this type of nongovernmental assistance may well be considered to involve a *reductio ad absurdum.*

CHAPTER II

SCOPE OF SUBSIDIES

A better understanding and appreciation of the sweeping, amorphous character of subsidy programs may be gained by a mere listing of the various Federal programs, past and present, which, by one criterion or another, might be considered to partake of or involve an element of subsidy regardless of original intent of any particular program. This chapter undertakes such a classified listing. Needless to say, it would be easy in such a listing to overlook some program which should be included, just as it is to expand the listing unduly in order to underscore the many and graded facets of the concept. It will be readily apparent, moreover, that in a number of instances the listed subsidy programs could be included in more than one category. To avoid duplication, an attempt has been made to classify each program only in its primary category.

I. GRANTS TO BUSINESS FIRMS AND CORPORATIONS TO CARRY OUT SPECIFIC OBJECTIVES

Shipbuilding differential subsidy.—Maritime Administration.[1]

Shipbuilding subsidy for fishing vessels—Interior Department.

Ship-operating differential subsidy.

Subsidies to wartime producers of various raw materials and consumer items to stimulate production without violating price ceilings.

Land grants and cash contributions for railroad construction.

Government subscriptions to railroad securities.

Subsidies for carrying mail—ship and civil air carriers.

Partial financing of plants to generate electricity from atomic fuels.

II. FARM SUBSIDY PROGRAMS

Commodity price support program, administered by the Commodity Credit Corporation, which maintains a floor under the price of certain agricultural commodities, by guaranteeing such prices through nonrecourse loans to farmers.

Surplus disposal programs, domestic and export.

Conservation and soil bank payments.

International Wheat Agreement, under which the price of wheat to American farmers is maintained at levels above those on the world market.

[1] This subsidy is supplemented by (1) Government's assuming the full cost of defense features built into a ship; (2) generous trade-in allowances on old vessels; (3) easy-payment plans for vessel purchases; (4) Government loans of up to 75 percent of a vessel's purchase price, and (5) exemption of profits of subsidized shipping companies from corporate-income tax, when placed in reserves for new construction.

Sugar Act payments, a subsidy to domestic sugar producers who meet certain conditions of employment, production, and marketing.

Irrigation and flood control.

Grazing rights in national forestry and other public lands.

Agricultural extension services.

III. TAX BENEFITS TO SPECIFIC ECONOMIC GROUPS

Depletion allowances to minerals producers and other extractive industries.

Accelerated amortization of defense facilities, for holders of certificates of necessity.

Specific concessions to small business under the Technical Amendments Act of 1958.

Liberalized depreciation schedules.

Tax credits to modernize plants and machinery.

Authorized deductions on income tax computations are of particular assistance to particular groups of individuals, such as borrowers (including home mortgagors), the elderly, blind, and sick.

Any reduction in taxes will, of course, benefit certain individuals and firms more than others.

IV. INDIRECT ASSISTANCE TO SPECIFIC ECONOMIC GROUPS

Financing of highway construction, costs of which may be borne unequally, resulting, some maintain, in a subsidy to the trucking industry.

Financing of airport construction.

Construction of air navigation aids—traffic control equipment, weather reporting facilities, radio beams, instrument landing systems.

Improvements to harbors, dredging of rivers, construction of canals, and assisting in financing construction of canals.

Protective tariffs.

Government purchase restrictions under the Buy American Act.

Reserving coastal trade and trade with noncontiguous areas of the United States to American-flag shipping.

Cargo preference—several laws stipulating various kinds of cargo preference; e.g., requiring goods purchased for the Army and Navy, exports financed by Government loans, and half of foreign aid shipments to be transported in American-flag vessels.

V. GOVERNMENT ECONOMIC PROGRAMS WITH INCIDENTAL ECONOMIC EFFECTS SIMILAR TO THOSE OF SUBSIDIES

Letting of Government contracts for supplies, research, and development, etc.

Special provisions favoring (1) small businesses, and (2) depressed areas in awarding of Government contracts.

Disposal of surplus property, e.g. manufacturing plants, ships, and many other items, at less than market value.

Stockpiling of minerals and other strategic materials.

Silver purchasing.

VI. FREE SERVICES OR SERVICES BELOW COST, OFFERED BY THE FEDERAL GOVERNMENT [2]

Statistical information of many kinds of importance to business, industry, and labor. The more important Federal agencies furnishing statistical services free or at small charge to the public are:

Department of Agriculture: Agricultural Marketing Service.
Department of Commerce: Bureau of the Census; Office of Business Economics.
Department of Labor: Bureau of Labor Statistics.
Department of the Interior: Bureau of Mines.
Post Office Department.
Treasury Department: Internal Revenue Service.
Board of Governors of the Federal Reserve System.
Civil Aeronautics Board.
Federal Communications Commission.
Federal Trade Commission.
Housing and Home Finance Agency.
Interstate Commerce Commission.
Securities and Exchange Commission.

Maps, charts, and aids to navigation by the Coast and Geodetic Survey and Geological Survey.

Crop estimates by the Crop Reporting Service.

Weather forecasts by the Weather Bureau.

Scientific and industrial research by such agencies as the National Bureau of Standards, Geological Survey, Bureau of Mines, Forest Service, Fish and Wildlife Service, Tennessee Valley Authority, Bureau of Public Roads, Department of Agriculture, Food and Drug Administration, and the Atomic Energy Commission.

Certain postal services provided free and various others below cost, such as second- and third-class mail and rural free delivery.

Management and technical assistance to small businesses and area redevelopment agencies.

Assistance to small business in obtaining Government contracts.

Protection against forest fires.

Land grants and land sales to farmers.

Construction and assistance in maintaining farm-to-market roads.

VII. LENDING AND LOAN GUARANTEE PROGRAMS OF FEDERAL AGENCIES IN EFFECT IN FISCAL YEAR 1965

A. *Direct loan programs*

Department of Agriculture:

Rural Electrification Administration: Loans, chiefly to cooperatives, to provide electric power and telephone service to farms.

Farmers Home Administration: Loans to farmers to "strengthen the family-type farm and encourage better farming methods"; include operating, ownership, rural housing, land use, watershed, and emergency loans.

Commodity Credit Corporation: Loans to farmers with commodities as collateral.

[2] Loan, loan guarantee, and insurance programs are listed separately, below.

Department of Commerce: Area Redevelopment Administration: Loans for industrial, commercial, and public facilities in redevelopment areas.

Department of Health, Education, and Welfare: Office of Education: Loan funds for student financial aid, construction, and acquisition of teaching equipment.

Department of State: Agency for International Development: Loans under the Agricultural Trade Development and Assistance Act to promote multilateral trade and economic development, and other loans to develop resources of underdevelopment nations.

Department of the Interior: Bureau of Commercial Fisheries: Loans to fisheries.

Export-Import Bank: Loans to finance exports and imports and to promote economic development in lesser developed countries.[3]

Housing and Home Finance Agency:

Federal National Mortgage Association: Purchase of Government-insured mortgages.[3]

Urban Renewal Administration: Loans to local public agencies for slum clearance and urban renewal projects.[3]

Community Facilities Administration: Construction loans for college housing, for public facilities, and for facilities for the elderly.

Public Housing Administration: Loans to local authorities for construction of low-rent public housing.[3]

Office of Economic Opportunity:

Loans to combat poverty in rural areas.

Loans to small businesses and individuals interested in establishing small businesses.

Small Business Administration:

Business loans to small businesses.

Disaster loans to small businesses.

Purchases of debentures of and loans to small business investment companies.

Loans to State and local development companies.

Veterans' Administration: Direct housing loans in rural areas and small towns.[3]

B. Loan guarantee and insurance programs [4]

Housing and Home Finance Agency, Federal Housing Administration: Insures wide range of real estate loans.

Veterans' Administration: Housing, business, and farm loans to veterans guaranteed.

Farmers Home Administration: Insures farm ownership and soil and water conservation loans.

Commodity Credit Corporation: Private loans on commodities guaranteed.

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[3] Currently self-supporting.

[4] Several of these programs do not now involve net losses to the Federal Government. Insurance and loan guarantee programs involve Federal commitments which could result in losses to the Government at some future time. These programs are in the nature of subsidies in the sense of providing insurance or loan guarantee services not available or available only at higher cost from private enterprise.

Maritime Administration: Guarantees private construction loans and mortgages on most types of passenger and cargo-carrying vessels.

Civil Aeronautics Board: Guarantees loans for aircraft purchases by local air services and other small airlines.

Interstate Commerce Commission: Guarantees loans to railroads for certain purposes under Transportation Act of 1958.

Defense Production Act (sec. 301): Authorizes guarantees by various agencies on loans to defense contractors and subcontractors.

Export-Import Bank.

Small Business Administration.

VIII. INSURANCE PROGRAMS UNDERTAKEN BY THE FEDERAL GOVERNMENT [5]

Agricultural crop insurance—Federal Crop Insurance Corporation.

Bank deposit insurance—Federal Deposit Insurance Corporation.

Savings and loan association deposit insurance—Federal Savings and Loan Insurance Corporation.

Federal employees group life insurance—Civil Service Commission.

Federal employees civil service retirement insurance—Civil Service Commission.

Health insurance for Federal employees (participation in)—Civil Service Commission.

U.S. Government life insurance—Veterans' Administration.

National service life insurance—Veterans' Administration.

Veterans' special term life insurance—Veterans' Administration.

Old-age and survivors insurance—Bureau of Old-Age and Survivors Insurance.

Disability insurance—Bureau of Old-Age and Survivors Insurance.

Service-disabled veterans' insurance—Veterans' Administration.

Unemployment insurance (jointly with the States)—Bureau of Employment Security.

Railroad unemployment and sickness insurance—Railroad Retirement Board.

Maritime war risk insurance—Maritime Administration.

Aviation war risk insurance—Department of Commerce.

IX. FEDERAL AID PAYMENTS TO STATES AND LOCAL UNITS [6]

Department of Agriculture:
- Agricultural experiment stations.
- Cooperative agricultural extension work.
- School lunch program.
- National forests fund, shared revenues.
- National grasslands, shared revenues.
- Cooperative projects in marketing.
- State and private forestry cooperation, etc.
- Watershed protection and flood prevention.
- Special milk program.[7]

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[5] See above, pp. 14–15, for loan and mortgage guarantee and insurance. Several of the programs listed here do not involve net contributions by the Federal Government. See also footnote 4, p. 14.

[6] As reported in the 1964 Annual Report of the Secretary of the Treasury.

[7] Cash payments to States to increase consumption of fluid milk by children in nonprofit schools; net of refunds.

Removal of surplus agricultural commodities:
Food stamp program.[8]
Value of commodities distributed.
Commodity Credit Corporation, value of commodities distributed.[9]
Department of Commerce:
Bureau of Public Roads, construction:
Federal-aid highways (trust fund).
Other.
Grants for public facilities.
State marine schools.
Department of Defense:
Army:
Lease of flood control lands, shared revenues.
National Guard.
Civil Defense.
Funds appropriated to the President:
Disaster relief.
Accelerated public works program.
Department of Health, Education, and Welfare:
Office of Education:
Colleges of agriculture and the mechanic arts.
Cooperative vocational education.
Assistance for school construction.
Maintenance and operation of schools.
Library services.
Defense education activities.
Expansion of teaching in education of the mentally retarded.
Public Health Service:
Control of venereal diseases.
Control of tuberculosis.
Community health practice and research.
Mental health activities.
National Cancer Institute.
National Heart Institute.
Water supply and water pollution control.
Chronic diseases and health of the aged.
Radiological health.
Communicable disease activity.
Construction, hospital activities and health research facilities.
Construction, waste treatment works.
Welfare Administration:
Children's Bureau:
Maternal and child health services.
Services for crippled children.
Child welfare services.

[8] Federal share of the value of food stamps redeemed under the pilot food stamp plan.
[9] Cost of food commodities acquired through price-support operations.

Bureau of Family Services:
Old-age assistance.
Aid to dependent children.
Aid to the permanently and totally disabled.
Aid to the blind.
Aid to the aged, blind, or disabled.
Medical assistance for the aged.
American Printing House for the Blind.
Vocational Rehabilitation Administration.
Department of the Interior:
Federal aid in wildlife restoration and fish restoration and management.
Migratory Bird Conservation Act and Alaska game law, shared revenues.
Payments from receipts under Mineral Leasing Act, shared revenues.
Payments under certain special funds, shared revenues.
Bureau of Indian Affairs.
Department of Labor: Unemployment Compensation and Employment Service Administration (trust fund).
Federal Power Commission: Payments under Federal Power Act, shared revenues.
Federal Aviation Agency: Federal airport program.
Housing and Home Financing Agency:
Office of Administrator:
Low income housing demonstration programs.
Open space land grants.
Urban renewal program.
Urban planning assistance.
Public Housing Administration: Low-rent public housing program.
Small Business Administration: Grants for research and management counseling.
Tennessee Valley Authority: Shared revenues.
Veterans' Administration: State homes for disabled soldiers and sailors.
Miscellaneous grants.[10]

X. FEDERAL AID PAYMENTS TO INDIVIDUALS, ETC., WITHIN THE STATES [11]

Department of Agriculture:
Agricultural conservation program.
Sugar Act program.
Conservation reserve program.
Land-use adjustment program.
Great Plains conservation program.
Rural housing grants.

[10] Includes transitional grants to Alaska, flood-control payment, open space land, low-income housing, Federal payment to District of Columbia, Center for Cultural and Technical Interchange between East and West, White House Conference on Aging, drainage of anthracite mines, loan program of the Bureau of Reclamation, land acquisition of National Capital Park, Parkway and Playground System, Internal Revenue collections for Puerto Rico (shared revenues).
[11] As reported in the 1964 Annual Report of the Secretary of the Treasury.

Department of Commerce: State marine schools (subsistence of cadets).

Department of Defense:
- Army National Guard.
- Air Force National Guard.
- Civil defense.

Department of Health, Education, and Welfare:
- Office of the Commissioner:
  - Cooperative research.
  - Assistance to refugees in the United States.
  - Juvenile delinquency and youth offenses.
- Office of Education:
  - Educational improvement for the handicapped.
  - Foreign language training and area studies.
  - Defense educational activities.
  - Cooperative research.
  - Expansion of teaching in education of the mentally retarded.
  - Expansion of teaching in education for the deaf.
  - Educational television facilities.
- Public Health Service:
  - Mental health activities.
  - Arthritis and metabolic disease activities.
  - Allergy and infectious disease activities.
  - Neurology and blindness activities.
  - Chronic disease and health of the aged.
  - National Cancer Institute.
  - National Heart Institute.
  - National Institute of Dental Research.
  - Community health practice and research.
  - Cancer research facilities.
  - Hospital and medical facility research.
  - General research and services.
  - General research support grants.
  - Nursing services and research.
  - Water supply and water pollution control.
  - Air pollution control.
  - Milk, food, interstate and community sanitation.
  - Occupational health.
  - Radiological health.
  - Accident prevention.
  - Hospital construction activities.
  - Construction of health research facilities.
  - Dental services and resources.
  - Communicable disease activities.
  - Child health and human development.
  - Environmental health sciences.
- Welfare Administration:
  - Children's Bureau:
    - Services for crippled children.
    - Child welfare research and demonstration grants.
    - Child welfare training grants.
    - Other.
  - Bureau of Family Services: assistance for repatriated U.S. nationals.

Vocational Rehabilitation Administration:
Grants for special projects.
Training and traineeships.
Department of Labor:
Unemployment compensation for Federal employees and ex-servicemen.
Area Redevelopment Act.
Manpower development and training activities.
National Science Foundation:
Research grants awarded.
Fellowship awards.
Atomic Energy Commission: felolwships and assistance to schools.
Veterans' Administration:
Automobiles, etc., for disabled veterans.
Readjustment benefits and vocational rehabilitation.

It will be apparent from an examination of this list that, first, there is some inevitable duplication and, second, there are a number of the programs, particularly in section IX, "Federal Aid Payments to States and Local Units," where the subsidy element may widely be considered to be negligible. Sections IX and X, which list Federal-aid payments to States and local units, and Federal-aid payments to individuals within States, are taken directly from the 1964 Annual Report of the Secretary of the Treasury. Much of the health and education assistance indicated in section IX is of such broad and general benefit and does not involve payments to businesses or subsidies as commonly defined that it need not be of further concern in this report.

From this list a further problem suggests itself. It is in many cases impossible to determine the incidence of these subsidy and subsidy-like programs. The school lunch program subsidizes the farmer by helping cut back on farm surpluses, but clearly also subsidizes the recipients of this food and their parents. The second-class postage rates are far from covering the costs of carrying the magazines and newspapers within this class, but the benefit of the subsidy is shared among publishers, advertisers, subscribers, and other readers.

41-788—65——4

CHAPTER III

ESTIMATED VOLUME OF FEDERAL SUBSIDY PROGRAMS

As the above discussion of the meaning and nature of subsidies suggests, it is probably impossible to make an estimate of the total subsidy payments of the Federal Government during any single year that would receive general acceptance. Inadequacies of cost accounting and the multiplicity of financing arrangements involved in different Federal payments compound the difficulty in arriving at such estimates. An attempt is made, however, in the following series of tables, to give a rough indication of trends in Federal expenditures which could readily be interpreted to be in the nature of subsidies. These tables are based exclusively on the special analysis, "Investment, Operating, and Other Budget Expenditures," which has been a part of the Budget of the U.S. Government during the last 15 years, beginning with the Budget for fiscal year 1951, published in January 1950.

This analysis divides Federal budget expenditures into two major categories: expenditures yielding benefits primarily in the current year and expenditures yielding benefits primarily beyond the year in which they are made. Subsidy items appear in both categories.

The bulk of what may readily be called subsidies falls, almost by definition, into the category, "current expenses for aids and special services." These current expenses for aids and special services are divided into the following seven major parts: (1) agriculture, (2) business, (3) labor, (4) homeowners and tenants, (5) veterans, (6) international, and (7) other. Included in tables 1 and 2 are the first four of these parts.

Current aids to agriculture consist chiefly of costs and losses stemming from the price-support program, the sale of surplus commodities for foreign currencies, and the payments under the soil bank program. Major items in current aids to business consist of aids to air and sea navigation and for maritime operating subsidies. Current aids to labor consist primarily of unemployment insurance and expenses of public employment offices. For homeowners and tenants, current aids consist chiefly of (1) annual contributions to local authorities for low-rent public housing projects; (2) grants for the capital losses of slum clearance and urban renewal projects; and (3) net administrative expenses for all housing programs. The actual current expenses for homeowners and tenants are now offset by receipts from the insurance of mortgages and saving and loan share accounts and the net earnings from holdings of mortgages and other housing loans.

Excluded from these tables are the current aids for veterans, largely compensation and pension benefits, expenses of an international nature, primarily grants under the international development program, and other aids and special services, which consist primarily of grants to help provide public assistance to the needy, grants to States to help finance low-priced school lunches, hospital operation and medical care by the Public Health Service, and various aids to Indians.

Among the various budget expenditures that are expected to yield benefits primarily beyond the year in which they are made, therefore in the nature of investment expenditures, two categories appear to be appropriately included as subsidies: under the general category of additions to Federal assets, the net addition to major commodity inventories, and under the general category of expenditures for other developmental purposes, the additions to private physical assets. Among the former, the main items are additions to the inventory of farm commodities held by the Commodity Credit Corporation and to stockpiles of strategic materials. To the extent that in future years these inventories are liquidated without loss, the ultimate cost to the Government, and thus the degree of subsidy involved, will be reduced. Among the latter, the main items are (1) payments and technical assistance for conservation and improvements of private farms, including cost-sharing payments under the conservation reserve program and the agricultural conservation program; (2) grants-in-aid for building of private hospitals and other health facilities; and (3) construction subsidies for merchant ships.

Table 1, as a summary table, shows the aggregate totals of subsidy programs under each of the utilized budget headings for fiscal years 1955 through 1966, the last 2 years being Budget Bureau estimates. As this table indicates, there was by this measure, a fairly steady increase in subsidy programs through fiscal year 1963, with estimates of some moderate decline in the following 2 fiscal years. The single most important element in the increase as shown is the increase in net current expenses for agriculture.

Table 2 provides greater detail for each of these same programs for the same period.

TABLE 1.—*Net expenditures on subsidy and subsidylike programs of the Federal Government—Summary table, fiscal years 1955–66*

[In millions of dollars]

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965 estimate	1966 estimate
Net current expenses for aids and special services	1,979	3,161	4,837	4,828	5,692	5,090	6,942	7,569	6,867	6,825	7,516	6,723
Agriculture	1,074	1,846	3,564	3,242	3,484	3,458	4,254	5,007	4,675	5,168	5,621	4,713
Business	741	992	994	1,238	1,451	1,278	1,787	1,750	1,845	1,251	1,418	1,375
Labor	269	412	333	388	761	324	892	869	400	457	495	620
Homeowners and tenants	−105	−89	−54	−40	−4	30	9	−57	−53	−51	−18	15
Additions to Federal assets: Major commodity inventories, net change	2,392	2,049	713	1,115	1,007	1,119	−341	−1,035	293	−361	−323	−528
Civil	1,552	1,598	282	547	754	1,032	−390	−1,089	256	−378	−309	−497
Major national security	840	451	431	568	253	87	49	54	37	17	−14	−30
Additions to civil private physical assets	322	332	394	547	643	836	940	1,004	936	946	916	922
Total	4,693	5,542	5,944	6,490	7,342	7,045	7,541	7,538	8,096	7,410	8,109	7,117

NOTE.—Minus (−) indicates receipts exceeding expenditures. Source: Budget of the U.S. Government, fiscal years 1957–66.

TABLE 2.—*Subsidy programs of the Federal Government—Net expenditures, 1955–66*

[In millions of dollars. For years ending June 30. Minus sign (—) indicates receipts exceeding expenditures. Excludes veterans programs, foreign aid, public assistance to the needy, grants to States to help finance low-priced school lunches, hospital operation and medical care administered by the Public Health Service, and various aids to Indians. Due to changes in classification, not all programs are strictly comparable for all years. Agency indications refer to status in fiscal year 1964]

Agency or program	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965 estimate	1966 estimate
Total	4,693	5,542	5,944	6,490	7,342	7,045	7,541	7,538	8,096	7,410	8,109	7,117
Net current expenses for listed aids and special services	1,979	3,161	4,837	4,828	5,692	5,090	6,942	7,569	6,867	6,825	7,516	6,723
Agriculture	1,074	1,846	3,564	3,242	3,484	3,458	4,254	5,007	4,675	5,168	5,621	4,713
Department of Agriculture:												
CCC and special export programs:												
Sales for foreign currency	130	615	1,338	1,073	1,022	1,232	1,455	1,455	1,483	1,415	1,247	1,140
Price support, supply, and related programs	472	603	975	876	872	1,515	1,992	2,693	2,433	2,858	3,385	2,495
Losses on long-term sales contracts	(1)	(1)	(1)	(1)	(1)	(1)	(1)	29	79	60	204	216
Transfer to supplemental stockpile	(1)	(1)	(1)	84	315	192	201	193	100	38	80	75
National Wool Act	(1)	(1)	(1)	(1)	20	93	61	65	63	73	32	39
International Wheat Agreement	100	35	114	(1)	48	66	76	90	74	126	30	28
Special milk program [2]	(1)	(1)	(1)	(1)	(1)	81	87	92	-----	-----	-----	-----
Other	135	135	147	377	255	8	−3	(3)	-----	−15	−6	−3
Agricultural Stabilization and Conservation Service:												
Sugar Act	70	65	67	70	67	74	72	80	77	87	103	95
Other	-----	-----	511	522	609	−1	−3	10	99	117	121	137
Agricultural Marketing Service:												
Removal of surplus agricultural commodities	43	169	151	117	127	67	203	215	112	240	242	312
Other	(4)	(4)	(4)	(4)	42	50	14	6	7	26	19	17
Agricultural Research Service	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	59	65	68	69
Other	106	215	132	118	104	76	79	71	82	74	77	84
Other agencies	17	10	128	6	3	4	19	7	7	5	21	11
Business	741	992	994	1,238	1,451	1,278	1,787	1,750	1,845	1,251	1,418	1,375
Department of Commerce:												
Maritime Administration, ship operating subsidies and administration	121	142	114	127	133	158	155	186	226	197	230	209
Patent Office	(5)	(5)	(5)	18	21	21	23	24	26	27	30	32
Other	43	49	36	20	29	23	28	41	51	58	63	63
Department of Defense (civil functions):												
Corps of Engineers, operation and maintenance	67	67	78	74	72	80	90	101	114	109	117	121
Other	−6	3	−15	−8	−8	−18	−11	−14	−7	−10	−11	−13
Post Office Department	346	462	502	664	736	495	875	722	691	36	108	78
Treasury Department, Coast Guard, navigation aids	43	139	130	144	177	176	199	205	210	249	266	269
Federal Aviation Agency [6]	86	102	116	156	228	273	333	387	431	469	487	492
Civil Aeronautics Board, payments to air carriers	58	33	39	38	53	60	78	82	82	84	87	84
Other agencies	−17	−5	−5	5	10	11	18	16	22	33	39	41
Labor	269	412	333	388	761	324	892	869	400	457	495	620

See footnotes at end of table.

TABLE 2.—*Subsidy programs of the Federal Government—Net expenditures, 1955–66*—Continued

[In millions of dollars. For years ending June 30. Minus sign (—) indicates receipts exceeding expenditures. Excludes veterans programs, foreign aid, public assistance to the needy, grants to States to help finance low-priced school lunches, hospital operation and medical care administered by the Public Health Service, and various aids to Indians. Due to changes in classification, not all programs are strictly comparable for all years. Agency indications refer to status in fiscal year 1964]

Agency or program	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965 estimate	1966 estimate
Department of Labor:												
Payment of Federal extended compensation account [7]				48	447		498	333				
Unemployment trust fund administration	192	231	248	291	297	317	379	508	375	453	466	556
Other	8	13	14	16	12	−1	8	15	19	−2	21	54
Other agencies	69	168	71	33	5	8	7	13	6	7	8	10
Home owners and tenants	−105	−89	−54	−40	−4	30	9	−57	−53	−51	−18	15
Housing and Home Finance Agency:												
Public housing	67	82	87	95	111	127	151	165	182	195	223	236
Urban renewal	34	14	30	35	76	102	139	163	186	211	278	329
Federal Housing Administration	−118	−121	−112	−108	−98	−142	−232	−129	−167	−162	−201	−225
Other	−62	−36	−25	−24	−51	−38	−13	−22	11	−5	7	3
Federal Home Loan Bank Board	−25	−27	−33	−38	−41	−20	−35	−233	−266	−289	−326	−326
Major commodity inventories, net change	2,392	2,049	713	1,115	1,007	1,119	−341	−1,035	293	−361	−323	−528
Civil	1,552	1,598	282	547	754	1,032	−390	−1,089	256	−378	−309	−497
Department of Agriculture, Commodity Credit Corporation, agricultural commodities	1,686	1,577	231	510	740	1,022	−390	−1,090	251	−388	−326	−514
Other agencies	−134	21	52	37	14	10		1	4	10	16	17
National defense	840	451	431	568	253	87	49	54	37	17	−14	−30
Funds appropriated to the President, expansion of defense production	78	133	108	408	221	79	32	27	12	−27	−48	−46
Other	762	318	323	100	32	8	17	27	26	45	34	16
Additions to civil private physical assets	322	332	394	547	643	836	940	1,004	936	946	916	922
Funds appropriated to the President, public works acceleration									1	23	28	22
Department of Agriculture:												
Agricultural stabilization and conservation	231	215	262	347	410	561	614	613	523	513	443	387
Soil conservation	60	63	66	76	95	91	105	105	112	96	104	84
Other	−19	6		22	7	(3)	1	1	9	20	22	28
Department of Commerce, merchant ships	5	14	17	28	28	70	97	143	103	86	80	98

Department of Health, Education, and Welfare:												
Private hospital construction	40	30	39	58	74	80	93	95	113	125	137	145
Health research facilities	(3)	--------	3	9	15	25	20	30	34	36	46	46
Other	--------	--------	--------	--------	--------	--------	1	3	4	6	12	58
National Science Foundation	(3)	(3)	(3)	(3)	5	3	7	14	36	40	41	51
Other agencies	5	5	6	8	9	6	2	--------	1	1	3	4

1 Included in "Other" Commodity Credit Corporation programs.
2 Included in Agricultural Marketing Service after 1962.
3 Less than $500,000.
4 Included in "Other" Department of Agriculture programs.
5 Included in "Other" Department of Commerce programs.
6 Primarily for air navigation aids.
7 Temporary unemployment compensation prior to 1960.

Source: Budget of the U.S. Government, fiscal years 1957–66.

One area of this "Budget Analysis of Investment, Operating and Other Budget Expenditures," which is excluded from the above two tables but which probably includes a sizable element of subsidy in it, is that of direct loans by Federal agencies. Although the total amount of funds lent cannot properly be considered to be subsidy in its entirety, and, in fact, the extent of subsidy in a Government loan is probably impossible to determine, such loans are sufficiently significant to an understanding of the range of subsidy programs to warrant a table indicating the net budget expenditures for loans to domestic private borrowers. These are shown, for fiscal years beginning with 1955, in table 3.

41-788—65——5

TABLE 3.—*Net loans of the Federal Government to domestic private borrowers, fiscal years 1955–66* [1]

[In millions of dollars]

Agency or program	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965 estimate	1966 estimate
Loans:												
Department of Agriculture:												
Commodity Credit Corporation: Price support and grain storage loans	551	45	−97	−457	1,082	−1,058	−272	449	433	705	−766	−117
Rural Electrification Administration [2]	197	209	259	288	305	321	291	293	332	330	201	203
Farmers Home Administration [2]	163	165	228	239	275	258	321	232	289	247	232	117
Department of Commerce: Area redevelopment fund and other	------	------	------	------	------	------	1	1	20	32	42	57
Department of Health, Education, and Welfare: Defense educational activities and other	------	------	------	------	31	42	58	77	93	112	154	248
Housing and Home Finance Agency:												
Federal National Mortgage Association	196	−87	−115	1	858	58	−2	−92	−440	−265	579	−501
College housing loans	24	15	48	66	72	81	100	115	173	133	127	143
Housing for the elderly	------	------	------	------	------	------	------	5	18	29	47	52
Federal Housing Administration	39	33	25	20	20	40	72	29	−98	−42	−37	20
Other	−5	−9	−3	−9	−21	−65	−4	−5	(3)	(3)	−2	24
Veterans Administration:												
Housing loans:												
Veterans' direct loans	100	63	89	174	129	229	174	112	−65	−23	−204	−713
Loan guarantee revolving fund	------	------	------	------	------	------	------	72	−106	87	25	−154
Other	------	------	------	------	90	100	95	1	2	2	1	1
Federal Home Loan Bank Board	------	------	------	------	------	------	------	------	2	41	12	−9
Small Business Administration	18	51	70	78	104	51	80	211	127	113	219	−220
Funds appropriated to the President:												
Expansion of defense production	30	3	−19	−7	−21	−9	−42	−4	−68	−36	−1	−1
Economic opportunity program	------	------	------	------	------	------	------		------	------	17	35
Other agencies	13	−8	−1	−5	−17	−15	−7		5	7	5	3
Total	1,326	480	484	388	2,907	33	865	1,497	717	1,472	−507	−812

[1] Net loans, as shown in this table, comprise the difference between disbursements and collections. Minus figures indicate greater repayments than disbursements. Not all programs are comparable throughout the period covered, due primarily to changes in classification and definition. Excludes Reconstruction Finance Corporation loan repayments which are reported through fiscal year 1957 only, and loans under the Farm Credit Administration which beginning Jan. 1, 1957, were excluded from budget expenditures.

[2] Program on a nonrevolving basis; data show gross loans.

[3] Less than $500,000.

Source: Special analysis D of Budget of the U.S. Government fiscal years 1957–66.

Related statistics of the Federal Government's loan program which may be of interest to students of Government subsidies are provided periodically in the Treasury Bulletin. Table 4, derived from its November 1964 issue, shows the amount of Federal Government loans outstanding, by purpose for the 10-year period ending June 30, 1964. Total loans have more than doubled in the decade under review. While loans outstanding to aid agriculture are still the largest category of Government loans to domestic borrowers, their share of total Federal loans outstanding to domestic borrowers has declined from 56 percent on June 30, 1955, to 43 percent on June 30, 1964. The percentage of Government loans outstanding to domestic borrowers going to aid homemakers has gone down from 27 to 25 percent, that to aid mortgage loan companies has gone up from 9 to 17 percent, that to aid industry has declined from nearly 4 percent to a little over 3 percent. All other loans outstanding (including those to aid education, and to aid States and territories) accounted for 4 percent of Government loans to domestic borrowers outstanding on June 30, 1955, and 11 percent on June 30, 1964.

As already indicated, the total volume of loans made or outstanding cannot be a measure of the amount of subsidy involved. This table can only provide another focus on a particular type of aid provided for certain segments of the economy.

TABLE 4.—*Loans outstanding for all business-type activities of the U.S. Government, excluding interagency loans but including foreign currency loans, classified by types of loans, fiscal years 1955–64*

[In millions of dollars]

End of period	Total [1]	To aid agriculture						To aid home owners		
		Total to aid agriculture	Agricultural credit corporations	Cooperative associations	Crop, livestock, and commodity loans [2]	Farm mortgage loans	Other	Total to aid home owners	Mortgage loans	Other
Fiscal years:										
1955	19,420.5	6,361.7	844.6	2,604.4	2,234.0	634.1	44.6	3,094.8	[3] 3,094.6	0.2
1956	20,547.5	6,789.6	894.4	2,774.4	2,452.9	275.3	392.5	3,377.7	3,302.7	[3] 74.9
1957	21,812.9	6,827.5	996.5	2,979.3	2,089.2	314.2	448.2	4,380.5	4,276.0	104.5
1958	22,893.4	6,913.4	1,227.0	3,191.6	1,688.2	359.2	447.3	4,628.2	4,473.5	154.7
1959	27,510.7	8,489.7	1,547.4	3,509.3	2,526.9	454.0	452.0	5,872.7	5,641.6	231.1
1960	29,568.3	7,797.5	1,697.8	3,748.2	1,360.7	504.5	486.1	7,563.6	7,247.0	316.6
1961	31,527.1	8,428.3	1,832.2	3,974.4	1,532.3	558.5	530.9	7,763.2	7,371.9	391.3
1962	36,154.9	9,793.0	1,998.6	4,231.0	2,272.6	661.6	629.1	8,340.6	7,874.2	466.4
1963	38,141.8	10,872.8	2,293.5	4,413.8	2,623.7	838.0	703.8	7,050.3	6,685.8	364.5
1964	41,630.0	11,743.9	2,507.3	4,656.6	2,839.0	992.6	748.4	6,699.2	6,243.9	455.3

See footnotes at end of table.

TABLE 4.—*Loans outstanding for all business-type activities of the U.S. Government, excluding interagency loans but including foreign currency loans, classified by types of loans, fiscal years 1955-64*—Continued

[In millions of dollars]

End of period	To aid industry				To aid financial institutions			To aid education	To aid States, Territories, etc.	Foreign loans [4]	Other loans
	Total to aid industry	Loans to railroads	Ship mortgage loans	Other	Total to aid financial institutions	Banks	Mortgage loans companies				
Fiscal years:											
1955	438.5	12.7	(5)	425.8	1,019.2	[6] 5.6	1,013.5	81.7	255.2	8,032.4	136.9
1956	626.9	12.7	221.0	393.2	1,180.6	7.2	1,173.4	113.2	226.8	8,171.6	61.1
1957	639.6	12.3	218.6	408.6	1,086.6	7.2	1,079.4	209.8	243.0	8,300.2	125.7
1958	654.2	8.0	191.0	455.2	933.7	4.2	929.5	374.9	270.9	9,046.2	71.9
1959	716.8	7.5	173.8	535.5	1,538.9	1.8	1,537.1	585.7	310.0	9,924.7	72.3
1960	753.6	7.2	155.2	591.3	1,801.5	31.7	1,769.8	830.4	348.9	10,266.8	205.9
1961	727.7	6.7	136.8	584.2	1,915.6	46.1	1,869.4	1,088.8	402.8	10,991.2	209.5
1962	876.1	32.8	120.7	722.5	2,768.2	1.1	2,767.1	1,393.5	528.1	12,196.3	259.1
1963	903.0	32.1	120.6	750.2	3,270.8	1.0	3,269.8	1,771.4	591.4	13,339.6	342.6
1964	954.4	27.8	108.9	817.7	4,769.9	1.0	4,768.9	2,109.4	625.3	14,341.1	386.8

[1] This table relates to all loan programs of Government agencies. It includes not only U.S. dollar and foreign currency loans, but also the loans made, all in U.S. dollars, by deposit funds and trust revolving funds. Pursuant to an amendment issued June 23, 1960, to Department Circular No. 966, this table now includes purchase money mortgages, mortgages purchased from insured lending institutions to prevent default, and similar long-term paper.

[2] Includes guaranteed loans held by lending agencies and certificates of interest.

[3] The major portion of the loans of the Veterans' Administration loan guaranty revolving fund is included under "Mortgage loans" in 1955 and under "Other" to aid homeowners thereafter. The Veterans' Administration loan guaranty program was converted to a revolving fund effective July 1, 1961, pursuant to the act approved July 14, 1960 (74 Stat. 533).

[4] Includes guaranteed loans held by lending agencies at the end of certain periods, participation certificates beginning June 30, 1963, and the loan to the United Kingdom.

[5] No loans were reported prior to Dec. 31, 1955. Beginning with that date, certain mortgage notes have been reported and are classified as mortgage loans.

[6] Includes loans to insurance companies amounting to $3.4 million as of June 30, 1955.

Source: Treasury Bulletin, November 1964.

CHAPTER IV

AGRICULTURAL SUBSIDY PROGRAMS

HISTORICAL BACKGROUND

Before World War I, the following developments occurred which, in a sense, subsidized agriculture. In 1862, the Homestead Act made western public domain available for settlement. In the same year the Land Grant College Act donated free land to the States for the establishment of colleges of agricultural and mechanic arts. Under the Hatch Act of 1887, Federal aid was extended to encourage more extensive agricultural research. The Smith-Lever Act of 1914 set up a federally aided system of education for the farmer. In brief, before World War I the main emphasis of American agricultural policy was on expanding the services to improve farming methods, on assistance in marketing, and on meeting the demand for improved long-term credit facilities.

The most important program to aid agriculture during the period from 1918 to 1933 was incorporated in the Agricultural Marketing Act of 1929 which established the Federal Farm Board and a revolving fund of $500 million. When price-depressing surpluses appeared on the market, loans were to be made available to farmers through cooperatives and so-called stabilization corporations to enable these farmers to hold surpluses off the market. The hope was that the surpluses could be disposed of later as prices improved. On account of deteriorating economic conditions and growing world surpluses the Board was unable to succeed in its objectives of maintaining farm prices and disposing of surplus commodities.

CURRENT PROGRAMS

Farm programs which are widely interpreted as subsidies have received a great deal of attention in recent years, particularly in view of the substantial increases in costs which have occurred. Data on the various farm programs and their actual realized costs are available in considerable detail, probably in more detail than comparable subsidy programs in most other fields.

Most of the current farm subsidy programs had their origins in the early days of the New Deal, although many aspects of the program, such as the soil bank and foreign disposal of surplus commodities, have been developed primarily since the end of World War II. Prior to 1933, the primary emphasis in farm programs designed to bolster farm prices was on loans by the Federal Farm Board. Since 1933, the scope of farm subsidy programs has been broadened to include (1) the production control and soil conservation programs, which have tried to prevent the production or marketing of price-depressing surpluses; (2) surplus removal programs to divert price-depressing surpluses fom the general market; (3) the commodity price support program, which has put a "floor" under the prices of certain agricultural commodities; and (4) parity payment programs, to bring the prices received by producers of basic agricultural commodities near, or up to, their parity level.

A comprehensive tabulation of the cost of agricultural and related programs, prepared by the Office of Budget and Finance, U.S. Department of Agriculture, is the basis for table 5 of this report, which gives data for fiscal years 1955–64. It is designed to present, in an objective and factual way, the realized costs of agricultural programs, and to do so in a single table covering all such programs in a consistent fashion.

This table classifies agricultural programs into eight groups: (1) Programs primarily for stabilization of farm prices and income; (2) storage, handling, and transportation of commodities; (3) special programs for disposal of agricultural commodities abroad (primarily the foreign assistance (Public Law 480) and international wheat agreement programs); (4) programs primarily for conservation of resources; (5) credit and related programs for electrification and telephone facilities, and farm purchase, maintenance, operation, and housing; (6) research, education, marketing, and regulatory; (7) school lunch and donations; and (8) other, including wartime, defense, and special needs.

The realized costs shown in this table and in table 6, on Commodity Credit Corporation operations, refer to net costs to the Government and do not indicate actual amounts paid to farmers or amounts received in the sale of farm commodities. "Realized cost" was adopted as the basis for this table since (1) it is a realistic measure of the actual financial results of program operations within a specified time, and (2) it is a common denominator which can be applied to all programs regardless of how they are financed. For example, the advancing of a loan to a borrower under one of the Department's lending programs is not considered a cost. It is regarded as an investment which will be repaid. However, the interest paid by the Government on funds provided for lending purposes is considered a realized cost of the year in which it accrues. Similarly, interest collected from the borrower is included as income, or a reduction of cost. The principal amount of a loan becomes a cost only in the event the borrower defaults and the loan is written off by the Department. This example is illustrative of how the realized cost approach comprises elements of cost as distinguished from cash outlays, and how it also takes into account income and program credits. The realized cost basis can be applied to all programs since, regardless of how funds are made available for carrying out a program, there is in each instance a measurable net cost of operations to date. Many of the Departments programs are financed directly from appropriations, some activities are carried out by corporations using their corporate funds, and others are operated from revolving funds. Funds available, therefore, is not a practicable common denominator for all programs; it likewise does not take into account income or offsetting receipts arising from operations. Realized cost does not include any element of anticipated gains or losses and, accordingly, is not synonymous with "accrued cost" or "accrued income and expense." Thus the figures in tables 5 and 6 showing realized costs of various agricultural programs cannot show the ultimate costs involved and the decreases in "subsidy" which may result from the sale of accumulated inventories.

TABLE 5.—*Realized cost of agricultural and related programs, by function or purpose, fiscal years 1955–64*

[This statement reflects the realized cost of agricultural and related programs for the 10-year period, July 1, 1954 to June 30, 1964. Data for fiscal years 1962–64 are not strictly comparable with earlier data because of changes in accounting concepts and policy. The basic principles for determination of costs remain the same, however, and are as follows: (1) For activities financed from appropriated funds, the expenditures less receipts arising from the activities so financed; (2) for noncorporate loan funds, the losses on loans and the net interest cost or income; and (3) for Commodity Credit Corporation and Federal Crop Insurance Corporation corporate funds, the net gains or losses from operations and the interest cost to Treasury on Government-subscribed capital. Interest cost to Treasury on noncorporate loan funds and on Government-subscribed capital of corporations has been computed on the basis of the average rate incurred by Treasury on the public debt in each of these years.]

[In millions of dollars]

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Programs primarily for stabilization of farm prices and income:										
CCC nonrecourse loan and purchase program [2]	49.1	67.9	375.5	175.8	0.5	(41.5)	[3] 1,438.2	321.8	9.0	216.1
Acreage diversion and price-support payments, feed grains	------	------	------	------	------	------	333.2	803.0	677.3	1,028.5
Acreage diversion and price-support payments, wheat	------	------	------	------	------	------	------	65.1	268.6	193.8
Cotton equalization program payments	------	------	------	------	------	------	------	------	------	62.6
CCC supply, commodity export, and other activities	48.3	69.0	148.9	97.1	132.8	311.8	306.3	268.2	179.3	213.3
CCC interest, administrative and other general costs	81.7	195.2	311.7	364.9	195.0	478.1	442.7	373.6	467.0	470.1
National Wool Act program	0.2	2.0	61.3	57.2	20.0	92.7	60.9	65.3	63.2	73.2
Removal of surplus agricultural commodities	58.9	179.1	171.1	125.5	140.9	89.7	203.3	213.8	130.6	268.7
Sugar Act	(13.0)	(22.3)	(23.4)	(21.3)	(24.8)	(21.0)	(45.2)	(18.5)	(61.1)	(8.7)
Soil bank—acreage reserve program	------	3.6	514.7	535.3	608.7	------	------	------	------	------
Other, including Agricultural Adjustment Act of 1933, parity payments, other adjustment and surplus removal programs, and administrative expenses, Agricultural Stabilization and Conservation Service	35.1	30.3	28.7	24.8	29.3	32.5	40.4	67.9	69.6	81.7
Total	260.3	524.8	1,588.5	1,359.3	1,102.4	942.3	2,779.8	2,160.2	1,803.5	2,599.3
Storage, handling, and transportation of commodities: [4]										
Storage and handling, CCC-owned commodities	236.2	310.2	14.6	327.4	371.2	476.1	426.8	393.2	377.3	365.4
Transportation:										
CCC-owned commodities	138.5	189.5	188.7	180.4	167.6	83.0	164.2	134.0	170.1	178.1
Ocean transportation, Public Law 480 program [5]	7.6	16.4	73.9	74.7	102.1	95.4	140.6	157.1	194.7	204.3
Total	382.3	516.1	577.2	582.5	640.9	654.5	731.6	684.3	742.1	747.8
Special programs for disposal of agricultural commodities abroad (foreign assistance):										
Commodities sold for foreign currencies under title I, Public Law 480 [6]	121.9	288.5	457.3	619.4	252.7	430.8	522.5	534.2	405.2	392.9
Donations of commodities to other nations, excess of inventory cost over market value [7]	37.8	39.5	34.9	35.7	21.7	25.9	54.0	81.7	67.8	67.8
Long-term supply contracts under title IV, Public Law 480	------	------	------	------	------	------	------	8.6	19.4	12.6
International Wheat Agreement [8]	99.7	92.3	90.1	82.4	48.3	66.3	76.5	90.1	74.2	125.8
Bartered materials for supplemental stockpile	------	------	(3.8)	6.4	(11.1)	(4.3)	(9.7)	(8.3)	(1.1)	[3] .3
Total	259.4	420.3	578.5	743.9	311.6	518.7	643.3	706.3	565.5	598.8

Programs primarily for conservation of resources:										
Agricultural conservation program	230.7	217.0	257.5	207.6	236.7	236.5	247.0	248.8	235.0	237.6
Soil bank, conservation reserve program	----------	0.2	37.3	133.4	170.6	333.1	333.1	338.6	311.5	296.7
Cropland conversion program	----------	----------	----------	----------	----------	----------	----------	----------	4.3	10.1
Soil Conservation Service programs	59.0	63.6	66.2	73.6	90.0	87.2	95.5	97.9	102.6	108.0
Forest Service programs	14.4	1.2	23.5	53.7	46.8	39.1	186.6	124.0	127.3	150.3
Watershed protection and flood prevention	14.9	19.4	21.8	25.9	34.8	43.8	50.1	59.0	79.5	84.9
Total	319.0	301.4	406.3	494.2	578.9	739.7	910.3	868.3	860.2	887.6
Credit and related programs for electrification and telephone facilities, and farm purchase, maintenance, operation, and housing:										
Lending programs:										
Rural Electrification Administration [9]	19.8	22.8	27.3	25.9	33.7	46.3	38.4	41.8	45.4	58.9
Farmers Home Administration [9]	(6.4)	(11.2)	(6.8)	(9.3)	(9.9)	(5.2)	(7.8)	(8.3)	(8.0)	(4.9)
Grants and other expenses, including salaries and expenses related to the above lending programs	36.0	37.3	38.1	40.0	46.0	41.8	44.5	45.5	49.9	57.5
Total	49.4	48.9	58.6	56.6	69.8	82.9	75.1	79.0	87.3	111.5
Research, education, marketing, and regulatory										
Research	71.2	88.0	98.5	108.7	127.7	130.4	139.7	152.4	171.5	180.2
Extension Service, including payments to States	42.2	46.7	51.9	58.8	63.2	63.7	67.3	70.2	74.6	79.3
Marketing services	12.8	16.7	18.2	22.7	32.9	35.5	42.9	45.8	51.7	58.3
Regulatory and disease and pest control activities	47.6	60.8	63.5	66.8	77.1	72.4	79.7	86.1	93.8	100.4
Total	173.8	212.2	232.1	257.0	300.9	302.0	329.6	354.5	391.6	418.2
School lunch and donations:										
School lunch and special milk programs	105.5	128.3	156.2	166.7	218.4	234.0	241.4	260.5	263.0	277.5
Other domestic donations	154.0	95.0	157.3	50.6	73.1	78.6	71.6	191.4	238.0	226.2
Foreign donations	237.8	299.1	255.2	277.8	202.3	164.4	227.3	304.6	315.4	310.3
Total	497.3	522.4	568.7	495.1	493.8	477.0	540.3	756.5	816.4	814.0
Other, including defense and special needs	40.2	38.8	49.1	56.2	43.1	41.5	44.4	65.8	70.9	68.6
Total, above items	1,981.7	2,584.9	4,059.0	4,044.8	3,541.4	3,758.6	6,054.4	5,674.9	5,337.5	6,245.8

See footnotes on succeeding page.

41-788—65——6

[1] This table on realized costs of agricultural and related programs reflects, essentially, the cost to the taxpayer, over a period of time, of all the programs of the Department of Agriculture. Data on realized cost for years prior to fiscal year 1962 are not strictly comparable with the later data principally because of a change in the accounting policy of the Commodity Credit Corporation with respect to the valuation of inventories. Prior to June 30, 1961, CCC inventory value included, in addition to acquisition cost, other costs for storage, handling, transportation, processing, packaging, etc. As of June 30, 1961, the Corporation adopted the policy of including in inventory value only acquisition costs and costs of any packaging or processing performed after acquisition. It was not practicable to make adjustments, in all respects, to place the realized cost of CCC operations for earlier years on a basis comparable with present determinations. The basic principles for the determination of realized cost remain the same, however, as described above.

[2] Includes the loss on CCC donations representing the excess of inventory cost over market value of commodities donated. The market value of such donations is included below in the categories designated "School lunch and donations" and "Other, including defense, and special needs."

[3] Includes losses resulting from commodity inventory revaluation adjustment of $1,268,500,000, and reseal loan storage adjustment of $80,900,000, at June 30, 1961.

[4] Exclusive of transportation cost on commodities acquired under section 6, National School Lunch Act, and the program for removal of surplus agricultural commodities (sec. 32) since such acquisitions are frequently on a delivered basis and the cost is not readily identifiable.

[5] The amounts shown (1) exclude the cost of ocean transportation on shipments under title IV, Public Law 480, for which reimbursement in U.S. dollars is required from foreign importers; and (2) reflect a credit against the cost of ocean transportation for shipments under title I, Public Law 480, equal to 23.2 percent of the U.S. dollar equivalent of the required reimbursement in foreign currencies. The percentage of 23.2 represents the average amount of the foreign currencies collected, based on U.S. dollar equivalents, that are used by the United States for purposes specified in section 104, Public Law 480.

[6] Represents the net realized cost of commodities shipped to foreign countries in accordance with the provisions of the Agricultural Trade Development and Assistance Act (Public Law 480, 83d cong., as amended). The total cost for the period covered (fiscal years 1955-64), exclusive of ocean transportation was $11,472,200,000. This total cost has been reduced by the U.S. dollar equivalent of foreign currencies collected under the program during the period amounting to $7,447,200,000, exclusive of collections offset against ocean transportation costs (see footnote 5).

[7] The market value of such donations is included below in the category designated "School lunch and donations."

[8] The expenditures under this program are for payment of the difference between the price specified in the International Wheat Agreement and the domestic price of wheat.

[9] The realized cost of the noncorporate lending programs of the Rural Electrification Administration and the Farmers Home Administration reported in this statement should not be confused with figures reported for these programs on the accrued income and expense basis. The latter basis differs from realized cost principally because it includes (1) income earned but not yet collected, (2) interest costs charged to the agency rather than interest costs to the Treasury on borrowed funds, and (3) an estimated allowance for possible losses on loans. Since realized cost is a common denominator applicable to all programs regardless of how they are financed, it has been used as the reporting basis throughout this statement. Accrued income and expense is another well established reporting basis for these lending programs and is used appropriately in other reports which are prepared from time to time.

NOTE.—Figures in parentheses ( ) indicate excess of credits, to be deducted.

Sources: U.S. Department of Agriculture, Office of Budget and Finance.

The amount of subsidy involved in these eight groups of programs is, again, debatable. Most observers would probably classify the programs primarily for stabilization of farm prices and income, including those for disposal of farm surpluses at home and abroad, as essentially subsidy programs. The great majority of these programs, shown in the first three groups in table 5, are administered by the Commodity Credit Corporation, whose activities are considered in more detail below.

The research, educational, marketing, and regulatory programs would be less likely to be called subsidies than most of the other programs listed. For the remainder of the programs, the incidence of subsidy is difficult to ascertain. The conservation programs have the dual function of conserving or improving the productivity of farmland, which is of benefit to future generations of consumers as much as to farmers themselves, and of taking certain lands out of cultivation, thereby cutting down on production, and raising prices.

School lunch and foreign donation programs likewise are designed to dispose of surplus commodities without disrupting normal trade and distribution channels and also to benefit the families whose children receive the milk and lunches at less than cost, and the foreign recipients of shipments abroad.

COMMODITY CREDIT CORPORATION

Table 6 is a summary table of realized losses and costs of the Commodity Credit Corporation from its inception on October 17, 1933, through June 30, 1964. It has proved useful to classify these realized losses and costs into two distinct groups: (1) those realized net losses and costs which are reimbursed to the Commodity Credit Corporation by appropriations in accordance with Public Law 87–155, approved August 17, 1961 (earlier payments being reclassified accordingly), and (2) the cost of programs under specific statutory authority for separate reimbursement, the most important of which are the cost of shipments of grain and cotton for foreign currencies, under the Public Law 480 program, and the cost of the International Wheat Agreement.

Price support program

Among the first group, by far the most important are the losses under the price support program, which have totaled over $13 billion over the life of the program. This program maintains farm commodity prices at levels higher than would prevail in their absence by means of loans and purchases of surpluses. All loans are made against commodity security and borrowers may discharge their obligations without personal liability by turning over pledged commodity to the Corporation. These forfeitures of collateral are treated as repayments of loans.

From the beginning of the program in October 1933 through June 30, 1964, the largest single item in this loss was in the price support of corn and corn products, which totaled about $3.1 billion, or 24 percent of the total price support program over this nearly 21-year period. Other major losses occurred in price support of wheat and wheat products ($2.8 billion), milk ($2.0 billion), cotton ($2.1 billion), butter and butter products ($1.2 billion), oils and oil seeds ($0.6 billion), and potatoes ($0.5 billion).

Closely related are the stabilization payments for diverting excess acreage of feed grains and wheat to conserving uses. These started in fiscal year 1961. For feed grains these amounted to $2.5 billion of which $0.8 billion represents the loss in fiscal year 1962, $0.7 billion the loss in fiscal year 1963, and $0.6 billion the loss in fiscal year 1964. Total acreage diversion payments for wheat amounted to $0.4 since fiscal year 1961.

Among the other price support and related programs in the first category mentioned above, other major costs and losses included net interest totaling nearly $3 billion, cost of the wartime consumer subsidy program, totaling over $2.1 billion, and the commodity export program, largely of wheat, upland cotton, and rice, with losses totaling $1.8 billion. Operating at a net gain of $372 million through June 30, 1964, were the supply and foreign purchase programs, involving a variety of commodities, including grains and seeds and bulk oils.

Consumer subsidy program

If only by its title, the consumer subsidy program of the Commodity Credit Corporation and also the related program of the Reconstruction Finance Corporation during World War II were most widely recognized as directly involving subsidy payments. Over half of the $2.1 billion loss to the Commodity Credit Corporation, $1.2 billion, was accounted for by the loss of a single program, that of dairy production, beginning in fiscal year 1944. Other commodities on which major losses were incurred by the Commodity Credit Corporation under the wartime consumer subsidy program were wheat for feed ($238 million), sugar ($115 million), and soybeans ($97 million). Certain World War II consumer subsidies on food items were administered by the Reconstruction Finance Corporation, the more important being on meat, involving a loss of $1.548 million, flour ($384 million), butter ($182 million), and coffee ($41 million). Both Commodity Credit Corporation and Reconstruction Finance Corporation wartime consumer subsidies had as their essential objective the encouragement of greater production while holding down, or rolling back, retail prices. For example, the dairy production subsidy involved direct payments to producers on milk and butterfat to compensate for increased costs of feed and farm labor and to maintain OPA ceiling prices. RFC's meat subsidy involved subsidy payments to slaughterers to permit increased returns to livestock producers while rolling back retail meat prices to September 1942 levels. The flour subsidy was paid to millers to permit increased grower prices, in accordance with minimum legal requirements, while maintaining the ceiling prices on flour.

"Food for Peace" program

Among the second group of CCC-operated programs, those operated under specific statutory authority for separate reimbursement, the largest by far is the combined programs carried out under Public Law 480, 83d Congress approved July 10, 1954, which provides for the sale and distribution of surplus food supplies abroad. This has been designated the "food for peace" program. Title I provides for the sale of agricultural commodities for foreign currencies; title II provides for distribution of surplus agricultural commodities for famine relief and other assistance; title IV provides for long-term dollar credit sales of U.S. farm products abroad. Since this act was passed, in 1954, the cost to the Commodity Credit Corporation of operations under the act has totalled $13.9 billion. Losses in the title I program were by far the largest, $12.3 billion, which can be divided among major commodities as follows:

	Billion
Wheat and products	$7.4
Cotton	1.6
Rice	.8
Soybeans and products	.6
Meat and dairy products	.3
Tobacco	.3
Cottonseed and products	.2
All other	1.1

Losses under title II totaled $1.5 billion of which nearly $0.8 billion was the loss on wheat and nearly $0.3 billion the cost of ocean transportation of donations under title II. Losses under title IV totaled less than $0.2 billion.

The intent of Public Law 480 is, of course, twofold, to provide an additional outlet for U.S. surplus agricultural commodities, especially grain, and to alleviate hunger and malnutrition in friendly free nations of the world. The subsidy element is thus shared by the U.S. producer, who benefits from the support to the American prices as a result of the removal of surplus stocks, and the foreign consumer who receives certain foods that would otherwise not be available at all or only at higher prices.

International Wheat Agreement

Second to the Public Law 480 programs, among those operated by the CCC under specific statutory authority for separate reimbursement, is the International Wheat Agreement program. Under the present International Wheat Agreement, the Commodity Credit Corporation pays the difference between the world price under the wheat agreement and the U.S. support price. Thus, like the Public Law 480 programs, a subsidy is paid, the benefits of which accrue in part to foreign consumers of wheat and in part to American wheat producers—the benefits fluctuating with changes in the world and U.S. wheat prices.

The total cost of the International Wheat Agreement to the Commodity Credit Corporation since its inception has amounted to $1,463 million, of which $845 million occurred in the latest 10-year period, 1955–64. The highest loss occurred in fiscal year 1964, when the net loss amounted to $126 million.

Other Commodity Credit Corporation programs

Other major CCC programs operating under specific statutory authority for separate reimbursement include (1) bartered materials (acquired under the Public Law 480 program), which were transferred to the supplemental stockpile (valued at $1,339 million); the National Wool Act program ($448 million); gross cost of eradication of diseases of animals and poultry and brucellosis ($219 million); and the special milk program for children (act of July 1, 1958, as amended) ($173 million).

It is difficult to ascertain to what extent these losses in the various Commodity Credit Corporation programs can properly be designated as subsidies. The problems of definition considered at the beginning of this report find specific application here.

The program which unquestionably fitted the definition of subsidy was that of the wartime consumer subsidies where the term "subsidy" was specifically used, and where payments, designated as subsidy payments, were made to producers with specific public objectives in view. This subsidy program, just as the Reconstruction Finance Corporation subsidy program discussed briefly below, was essentially a part of the wartime price control program. It consisted of a series of devices designed to stimulate production and at the same time to keep prices to consumers from rising. The cost of specific subsidies was justified as being preferable to the general increase in prices which would have eliminated the need for these subsidies as stimulants to needed production.

More difficult to classify are the losses under the price support programs. While these programs in many cases took the form of nonrecourse loans to participating farmers, the intent of the price support programs seems rather clearly to be to assure the farmers higher prices for specific agricultural products than they would otherwise receive, and as such, these farmers may appropriately be considered to receive a subsidy.

Other Commodity Credit Corporation programs would appear to subsidize other economic groups at least as much as farmers. Food distributed in the national school lunch program, to institutions, and to persons in low-income groups would certainly seem to subsidize the consumers of this food more than its producers. Similarly, some of the subsidy element in the food export programs gives to exporters of these foods and foreign consumers a subsidy.

SUGAR ACT PAYMENTS

Sugar Act payments serve as a subsidy to domestic sugar producers who meet certain conditions of employment, production, and marketing. However, these are offset by sugar excise and import taxes so the program as a whole has resulted in a net gain to the Treasury. It is the consumer of sugar who bears the cost of this subsidy. The Sugar Act program for the fiscal years 1955–64, inclusive, resulted in a net gain of $259.3 million.

FARMERS HOME ADMINISTRATION

Programs of the Farmers Home Administration are designed to assist low-income farm and rural families. This assistance takes the form of credit for specific purposes which cannot be obtained at reasonable terms and rates elsewhere, together with assistance to borrowers in planning and adopting sound farm practices. Loans are made primarily for rural housing, to facilitate farm ownership and operation, for soil and water conservation, for livestock feeding and acquisition of farm machinery, and for emergencies. Rural largely nonfarm housing loans have increased particularly during the past decade. In fiscal year 1963, Farmers Home Administration loans totaled $795.2 million of which 37.8 percent were farm operating loans, 27.9 percent farm ownership loans, 23.5 percent rural housing loans, 7.9 percent emergency loans, and 3 percent soil and water conservation loans. The extent of subsidy involved in a loan program such as this, either in terms of cost to the Government or economic gain to the recipient, cannot be determined. For many years the interest paid on

TABLE 6.—*Realized loss (or gain*) and Commodity Credit Corporation costs, Oct. 17, 1933, through June 30, 1964*

REALIZED LOSS OR GAIN* ON COMMODITY OPERATIONS

Commodity or item	Realized loss or gain* on price-support and related programs [1]: Price support	Commodity export	Total price-support and commodity export	Supply and foreign purchase	Emergency feed	Other [2]	Total	Cost of programs operated under specific statutory authority for separate reimbursement: Public Law 480: Title I	Title II	Title IV [3]	Total	International Wheat Agreement	Other [4]	Total	Grand total
Feed grains:															
Corn (and products)	$2,865,711,758	$31,770,420	$2,897,482,178		$165,210,084		$3,062,692,262	$435,961,353	$123,009,448	$661,144	$559,631,945		$361,994	$559,993,939	$3,622,686,201
Grain sorghum	813,674,029	20,573,932	834,247,961		49,185,761		883,433,722	104,056,274	22,074,126	1,961,125	128,091,525		87,884	128,179,409	1,011,613,131
Barley	194,088,235	24,083,051	218,171,286		6,364,407		224,535,693	225,327,239	37,208,816	108,928	262,644,983		76,530	262,721,513	487,257,206
Oats (and products)	94,519,870	7,833,981	102,353,851		20,423,332		122,777,183	10,061,008		131,922	10,192,930		5,398	10,198,328	132,975,511
Rye (and products)	22,805,891	4,374,730	27,180,621				27,180,621	10,357,024	94,055	91	10,451,170			10,451,170	37,631,791
Total, feed grains	3,990,799,783	88,636,114	4,079,435,897		241,183,584		4,320,619,481	785,762,898	182,386,445	2,863,210	971,012,553		531,806	971,544,359	5,292,163,840
Wheat (and products)	2,089,714,316	709,963,176	2,799,677,492		3,539,053		2,803,216,545	399,536,695	789,540,165	69,713,767	8,258,790,627	$1,433,029,637	76,779,423	9,768,599,687	12,571,816,232
Rice	228,129,085	127,674,454	355,803,539				355,803,539	818,308,104	54,326,898	17,082,087	889,717,089			889,717,089	1,245,520,628
Tobacco	43,665,959		43,665,959	*$4,768,084			38,897,875	281,951,387		4,534,766	286,486,153		3,748,524	290,234,677	329,132,552
Cotton:															
Extra long staple	7,494,162		7,494,162				,494,162	16,842,484	1,337,536		18,180,020			18,180,020	25,674,182
Upland	1,273,391,336	844,633,226	2,118,024,562	*7,771,934			2,110,252,628	1,609,769,839	17,562,934	45,503,475	1,672,836,248		3,278,302	1,676,114,550	3,786,367,178
Dairy products:															
Butter (and products)	1,208,425,880	6,975,979	1,215,401,859				1,215,401,859	30,696,378	36,144,582	1,718,362	68,559,322			68,559,322	1,283,961,181
Cheese	570,989,377		570,989,377				570,989,377	8,329,299	30,332,572		38,661,871			38,661,871	609,651,248
Milk	1,579,561,516	36,307,640	1,615,869,156			$344,271,679	1,960,140,835	87,558,854	78,123,236	2,010,900	167,692,990		172,850,753	340,543,743	2,300,684,578
Whey	3,584,209		3,584,209				3,584,209	147,114			147,114			147,114	3,731,323
Total, dairy products	3,362,560,982	43,283,619	3,405,844,601			344,271,679	3,750,116,280	126,731,645	144,600,390	3,729,262	275,061,297		172,850,753	447,912,050	4,198,028,330
Oils and oilseeds:															
Soybeans (and products)	26,606,577	12,285	26,618,862				26,618,862	577,327,828		21,064,238	598,392,066			598,392,066	625,010,928
Peanuts (and products)	266,410,022		266,410,022				266,410,022								266,410,022
Cottonseed (and products)	118,116,846		118,116,846		17,427,514		135,544,360	214,731,605	10,780,771	623,551	226,135,927			226,135,927	361,680,287
Flaxseed and linseed oil	172,468,809		172,468,809				172,468,809	1,418,947			1,418,947			1,418,947	173,887,756
Olive oil	578,132		578,132				578,132								578,132
Tung oil	4,733,851		4,733,851				4,733,851								4,733,851
Castor beans	171,193		171,193				171,193								171,193
Total, oils and oilseeds	589,085,430	12,285	589,097,715		17,427,514		606,525,229	793,478,380	10,780,771	21,687,789	825,946,940			825,946,940	1,432,472,169
Honey	897,154		897,154				897,154								897,154
Naval stores	*1,000,595		*1,000,595				*1,000,595								*1,000,595
Beans, dry edible	111,729,808		111,729,808				111,729,808	5,890,981	6,715,331	699,626	13,305,938			13,305,938	125,035,746
Peas, dry edible	824,436		824,436				824,436								824,436
Seeds	38,717,268		38,717,268				38,717,268	417,996			417,996			417,996	39,135,264
Hops	954,200		954,200				954,200								954,200
Pecans	3,751		3,751				3,751								3,751
Wool	115,963,017		115,963,017				115,963,017						448,255,622	448,255,622	564,218,639
Flax fiber	397,113		397,113				397,113								397,113
Hemp and fiber	21,459,155		21,459,155				21,459,155								21,459,155
Eggs	189,698,695		189,698,695				189,698,695	5,145			5,145			5,145	189,703,840
Turkeys	*11,070		*11,070				*11,070								*11,070
Potatoes	478,582,600		478,582,600				478,582,600	1,797,514			1,797,514			1,797,514	480,380,114
Sweetpotatoes	135,421		135,421				135,421								135,421
Sugar	*23,830		*23,830	*59,731			*83,561								*83,561
Sugar beets	16,517,269		16,517,269				16,517,269								16,517,269
Commodities not separately identified:															
Mixed foods					60,675		60,675			2,319,395	2,319,395			2,319,395	2,380,070
Grains and seeds				*75,955,243			*75,955,243						179,030	179,030	*75,776,213
Vegetable oil products	74,839,204	20,676,302	95,515,506				95,515,506	587,967	18,868,346		19,456,313			19,456,313	114,971,819
Bulk oils				*39,889,316			*39,889,316								*39,889,316
Processed and packaged commodities				*39,219,365			*39,219,365								*39,219,365
Poultry products		42,851	42,851				42,851	9,914,959			9,914,959			9,914,959	9,957,810
Vegetables, canned	*11,942		*11,942				*11,942								*11,942
Fruits:															
Dried	14,882,320		14,882,320				14,882,320	6,927,484			6,927,484			6,927,484	21,809,804
Fresh								4,721,434			4,721,434			4,721,434	4,721,434
Canned	1,732,374	4,171	1,736,545				1,736,545	4,986,812			4,986,812			4,986,812	6,723,357
Meat (and products)		6,530	6,530				6,530	140,873,836		2,969,912	143,843,748			143,843,748	143,850,278
Foodstuffs				*5,706,276			*5,706,276								*5,706,276
General commodities purchase				*202,045,452			*202,045,452								*202,045,452
Strategic and critical materials	7,410,826		7,410,826				7,410,826						[5] 1,339,496,121	1,339,496,121	1,346,906,947
Offshore procurement premiums	457,891		457,891				457,891								574,891
Other	*1,329		*1,329	3,576,113			3,574,784								3,574,784
Ocean transportation on sec. 416 donations									258,723,799		258,723,799			258,723,799	258,723,799
Total, commodity operations	12,658,994,789	1,834,932,728	14,493,927,517	*371,839,288	262,210,826	344,271,679	14,728,570,734	12,008,505,560	1,484,842,615	171,103,289	13,664,451.464	1,433,029,637	2,045,119,581	17,142,600,682	31,871,171.416

OTHER COSTS AND LOSSES

Commodity or item	Price support	Commodity export	Total price-support and commodity export	Supply and foreign purchase	Emergency feed	Other [2]	Total	Title I	Title II	Title IV [3]	Total	International Wheat Agreement	Other [4]	Total	Grand total
Storage facilities						$12,883,984	$12,883,984								$12,883,984
Production cost research													$1,039,877	$1,019,877	1,039,877
Accounts and notes receivable						15,366,301	15,366,301								15,366,301
Interest:															
Expense						3,662,817,596	3,662,817,596	$246,569,556	$19,698,854	$3,356,451	$269,624,861	$29,485,420	31,680,115	330,790,396	3,993,607,992
Income						*677,136,415	*677,136,415								*677,136,415
Net						2,985,681,181	2,985,681,181	246,569,556	19,698,854	3,356,451	269,624,861	29,485,420	31,680,115	330,790,396	3,316,471,577
Operating expenses (net)						764,720,910	764,720,910					177,503	26,577,042	26,754,545	791,475,455
Direct payments:															
Cotton						[6] 62,609,966	62,609,966								62,609,966
Feed grains	[7] $382,409,240		$382,409,240			[8] 2,459,529,993	2,841,939,233								2,841,939,233
Wheat	[7] 79,169,092		79,169,092			[8] 448,379,518	527,548,610								527,548,610
Total	461,578,332		461,578,332			2,970,519,477	3,432,097,809								3,432,097,809
Eradication of diseases of animals and poultry and brucellosis													[9] 218,803,520	218,803,520	218,803,520
Cost of wartime consumer subsidy program						2,102,281,073	2,102,281,073								2,102,281,073
Total, other costs and losses	461,578,332		461,578,332			8,851,452,926	9,313,031,258	246,569,556	19,698,854	3,356,451	269,624,861	29,662,923	278,100,554	577,388,338	9,890,419,596
Grand total	13,120,573,121	$1,834,932,728	14,955,505,849	*$371,839,288	$262,210,826	9,195,724,605	24,041,601,992	12,255,075,116	1,504,541,469	174,459,740	13,934,076,325	1,462,692,560	2,323,220,135	17,719,989,020	41,761,591,012

[1] Programs for which the realized net loss or cost is reimbursed to Commodity Credit Corporation by appropriations in accordance with Public Law 87-155, approved Aug. 17, 1961.

[2] Includes the special milk program for children and other items which are individually identified.

[3] Includes credit sales to foreign governments which will be subject to separate reimbursement only in the event of default by such governments.

[4] Includes the following activities: Transfer of wheat to the Government of Pakistan (Public Law 77, 83d Cong.); emergency famine relief to friendly peoples (Public Law 216, 83d Cong.); transfer of hay and pasture seed (Public Law 524, 83d Cong.); cotton classing and tobacco grading (various annual U.S. Department of Agriculture appropriation acts); Credit Commodity Corporation grain made available for wildlife pursuant to Public Laws 654, 84th Cong. and 87-152); animal disease eradication activities (Commodity Credit Corporation Charter Act, Public Law 806, 80th Cong., and various annual U.S. Department of Agriculture appropriation acts); bartered materials for supplemental stockpile (Agricultural Act of 1956); special milk program for children (act of July 1, 1958, as amended); National Wool Act (title VII, Agricultural Act of 1954) and costs for research conducted by Agricultural Research Service authorized by Public Law 88-250.

[5] Represents the value at which bartered materials were transferred to the supplemental stockpile.

[6] Represents cotton equalization program payments.

[7] Represents price-support payments on 1963 crops.

[8] Represents acreage diversion payments.

[9] Represents gross cost without giving effect to proceeds from sale of Mexican canned meat which were used to reduce amounts for which appropriations were requested.

Source: Commodity Credit Corporation Report of Financial Condition and Operations as of June 30, 1964, Revision of Schedule 9.

outstanding loans has come close to covering their cost. However, the expenses of administration are still borne in part by taxpayers. The magnitude of the Farmers Home Administration lending program from fiscal years 1955–66 is shown in the following table.

TABLE 7.—*Disbursements and repayments of loans of the Farmers Home Administration, fiscal years 1955–65*

[In millions of dollars]

Fiscal year	Disbursements	Repayments
1955	235	212
1956	246	231
1957	309	239
1958	334	279
1959	350	284
1960	311	249
1961	369	262
1962	587	373
1963	760	495
1964	739	524
1965 (estimate)	858	661
1966 (estimate)	1,036	960

Source: Special analysis E, Federal credit programs; Budget of the U.S. Government, fiscal years 1957–66.

RURAL ELECTRIFICATION ADMINISTRATION

The Rural Electrification Administration makes loans for the purpose of financing electric systems and telephone service to rural areas. By such loans it has made possible the extension of electric power and telephone service to many farms at an earlier date and at lower cost than would otherwise have been possible. In the field of rural electrification, which the REA has undertaken since 1935, the REA makes loans to qualified borrowers, with preference to nonprofit and cooperative associations and to public bodies. Loans cover the full cost of constructing powerlines and other facilities to serve persons in rural areas who are without central station electric service. They bear 2 percent interest and are repaid over a maximum period of 35 years. This rate of interest is lower than the rate at which the Treasury Department can now borrow long and intermediate term funds. Repayments in the aggregate have been ahead of schedule, but interest charges have not been high enough to cover all of the Government's expenditures. However, during much of REA's history, the borrowing costs to the Treasury Department have been estimated by some analysts to have been less than 2 percent. As of June 30, 1964, in the electrification program cumulative repayments of principal and interest amounted to an estimated $1,387.1 million and $661.9 million respectively.

The telephone program of the REA was begun on October 28, 1949. Under the act of that date, the REA is empowered to make loans to existing telephone companies and to cooperative nonprofit, limited-dividend, or mutual associations owning or operating telephone facilities. Interest rate provisions are essentially the same as those for electrification. As of June 30, 1964, REA telephone borrowers had repaid the Government under the rural telephone program an estimated $76.9 million in principal and $67.9 million in interest, or a total of $144.8 million. Table 8 shows net loans in the electrification and telephone programs from their inception through fiscal year 1965 estimates.

TABLE 8.—*Rural Electrification Administration net loans through June 30, 1965*

[In millions]

Fiscal year	Electrification	Telephone[1]
Cumulative through 1955	$3,046	$234
1956	191	78
1957	299	79
1958	236	87
1959	170	97
1960	211	104
1961	272	139
1962	256	91
1963	339	82
1964	261	87
1965 (estimate)	272	93
1966 (estimate)	300	97
Cumulative through 1964	5,281	1,078
Cumulative through 1966 (estimate)	5,853	1,268

[1] Program started in October 1949.

Source: Budget of the U.S. Government for fiscal years 1958–66.

FARM CREDIT ADMINISTRATION

The Farm Credit Administration is not directly a lending agency, but serves as the supervisory authority for the Federal land banks, production credit corporations and associations, Federal intermediate credit banks, and banks for cooperatives. Several of these agencies are actually owned by member banks, corporations and associations; and in such cases there is no question of a Federal subsidy at the present time. Thus, the Federal land bank system is cooperative and completely farmer owned. Of the 484 production credit associations in operation on January 1, 1964, 480 had paid off all their Government capital and were then completely owned by their farmer-members; the remaining associations were largely owned by the farmer-members. Legislation passed in 1956, Public Law 809, 84th Congress, provided that production credit corporations were to be merged in the Federal intermediate credit banks, and that the Government's capital in the Federal intermediate credit banks was to be retired.

About half of the capital of the banks for cooperatives is now furnished by the Federal Government. As of June 30, 1963, Government investment in banks for cooperatives amounted to $80.9 million, and privately owned capital to $80.1 million. Until the passage of the Farm Credit Act of 1953 the funds provided by the Federal Government to the banks for cooperatives were without interest or other charges for the use of the money. In the words of the Hoover Commission task force:

> This has enabled the banks to accumulate earnings, and in some instances to lend at rates of interest more advantageous to the borrowers than those which they would have had to pay to other lenders. The result has been the subsidized establishment of a specialized credit system for cooperative business enterprises, and to some extent, through the system, the grant of subsidies to individual co-ops.[1]

It is not possible, so far as we have been able to determine, to ascertain the amount of subsidy involved in these credit programs of the Farm Credit Administration.

[1] U.S. Commission on Organization of the Executive Branch of the Government, Task Force on Lending Agencies. Task force report on lending agencies, 1955, p. 55.

CHAPTER V

MARITIME SUBSIDIES

HISTORICAL BACKGROUND

As early as 1789 legislation was passed by the First Congress of the United States which was similar in intent to some of the maritime subsidies of today. The first tariff act, enacted in that year, stipulated that goods imported into the United States on American vessels should have a 10-percent reduction in customs duties, and imposed a tonnage tax in favor of American shipping.[1]

Probably the first literal subsidy by the Federal Government was paid in 1845 when Congress authorized the Postmaster General to award mail subsidies, with preference to be given to steamships which could be converted into vessels of war. Between 1847 and 1858, $14.4 million was expended on mail subsidies to help establish various steamship lines to Bremen, Le Havre, Liverpool, Panama, Oregon, and Cuba. Subsidies were discontinued in 1858 because they appeared to some to be an unnecessary drain on the Public Treasury and because several of the lines became involved in financial difficulties.

For a decade after the Civil War, 1867–74, mail subsidies were revived. Subsidies were granted to steamship companies carrying mail to Brazil, Hawaii, and the Far East. The subsidies paid to the Pacific Mail Line produced one of the worst scandals of the Grant era. The investigation of the activities of the Pacific Mail lobby brought the whole subsidy process into disrepute, and in 1874 all existing subsidy contracts were terminated.

In 1891 Congress passed the Ocean Mail Act, which provided for mail subsidies until 1928. During this period $29.6 million was expended, more than half going to the American Line which operated between New York and England. The Jones-White Mail Subsidy Act of 1928 provided further aids for the private shipping industry. The shipbuilding loan fund of $25 million established by the Merchant Marine Act of 1920 to facilitate construction of new ships was increased to $250 million and the terms of the loans were made easier. Mail subsidies were liberalized and payments gradually increased from $9 million for the fiscal year 1929 to $29 million for the fiscal year 1934. Current subsidies are provided for under the Merchant Marine Act of 1936.

Historically, subsidies to private shipping interests have been justified on the ground that a large foreign trade fleet giving employment to American citizens and capital contributes to national defense, assures against an interruption of service in time of war, and pro-

[1] U.S. Congress. House. Committee on Agriculture, "Government Subsidy Historical Review." May 10, 1960, p. 1.

motes foreign trade by improving the quality of service available to American businessmen and by safeguarding them against discrimination. On the other hand, subsidies at times have operated to enrich the recipient rather than to maintain or enlarge the fleet.

In addition to the subsidies mentioned, other aids to shipping have been granted by the Government since the founding of the Republic. Legislation enacted in 1789 provided that only ships built in the United States and belonging to American citizens could register under the American flag. Following World War I, private ship operators were allowed to acquire vessels from the Government at a fraction of their original value and shipbuilders were granted loans on unusually favorable terms.

CURRENT PROGRAMS

As previously noted (p. 3), the maritime ship operating-differential subsidies are the only Federal subsidy programs where the word "subsidy" appears in the appropriations title. The word "subsidy" also appears in the language of the appropriation for ship construction and in the basic legislation authorizing ship construction-differential subsidies and the 1960 legislation authorizing subsidies for construction of fishing vessels. Similarly, the only program listed in the index of the Budget of the United States under the heading of "Subsidies" (beginning with the budget for the fiscal year 1953) is that of "operating-differential subsidies, maritime activities, Commerce."

Although these programs are thus unequivocally subsidies by even the narrowest of definitions, it is difficult to set forth simply the total volume of these maritime subsidies. This is due in part to the fact that payments for the construction of a given vessel extend over several years; in part because of provisions for recapture and cancellation of subsidies for several years after the subsidy has actually been provided; and partly because of necessary adjustments and revisions made by the Maritime Administration and others in the subsidy data.

In addition, these subsidies are supplemented by numerous other Federal programs designed to assist the American merchant marine. The more important will be noted below.

Both the construction-differential and the operating-differential subsidies are specifically designed to carry out the Federal merchant marine policy, as stated in title I of the Merchant Marine Act of 1936 (49 Stat. 1985) as follows:

> It is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine (a) sufficient to carry its domestic waterborne commerce and a substantial portion of the waterborne export and import foreign commerce of the United States and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign waterborne commerce at all times, (b) capable of serving as a naval and military auxiliary in time of war or national emergency, (c) owned and operated under the United States flag by citizens of the United States insofar as may be practicable, and (d) composed of the best equipped, safest, and most suitable types of vessels, constructed in the United States and manned with a trained and efficient citizen personnel. It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a merchant marine.

Construction-differential subsidy

The construction-differential subsidy is intended to aid the shipbuilding industry by absorbing the excess in cost of construction in a U.S. shipyard over that in foreign shipyards. It is authorized under title V, sections 501 and 502, of the Merchant Marine Act of 1936 (49 Stat. 1995, 52 Stat. 955). Under this title, as amended, the Maritime Subsidy Board is empowered to aid a U.S. citizen in the construction of a new vessel to be used in the foregn commerce of the United States. The Board is empowered to have such a vessel constructed in a shipyard in the United States, to pay such construction cost, and then to sell the vessel to the applicant, a U.S. citizen, for an amount equal to the estimated cost of the construction of the vessel if it had been constructed in a foreign shipbuilding center which is deemed by the Board to furnish a fair and representative cost of construction of such vessel. The difference between the cost of constructing the vessel in the United States and the estimated cost of constructing the vessel in a foreign shipyard is termed a construction-differential subsidy. Until 1960, no such subsidy could exceed 50 percent of the cost of the vessel, except that Public Law 85–521, approved July 15, 1958, authorized the Government to construct two superliners and sell one each to the United States Lines Co., and American President Lines, Ltd., at a price that would represent certain national defense allowances and a construction-differential subsidy allowance in excess of the 50-percent allowance, permitted under the 1936 act. However, thus far there has been no appropriation by the Congress of funds for the construction of the superliners contemplated under the 1958 act.

By Public Law 607, 86th Congress, approved July 7, 1960, the 50-percent limit was raised to 55 percent for a period of 2 years with keels laid after June 30, 1959. The following year, under Public Law 87–222, approved September 30, 1961, the construction-differential subsidy rate of 55 percent on new construction was made applicable to the reconstruction or reconditioning of passenger ships where the shipyard contract was entered into after June 30, 1959.

By Public Law 87–877, approved October 24, 1962, this act was further amended to provide that, in the case of reconstruction or reconditioning of passenger vessels, the construction-differential subsidy approved and paid shall not exceed 60 percent of reconstruction or reconditioning costs, except that after June 30, 1964, the construction-differential subsidy shall not exceed 50 percent of such cost for the construction, reconstruction, or reconditioning of any vessel. This law further provides, in effect, that any contract for reconstruction or reconditioning entered into after June 30, 1959, may, with the consent of the parties thereto, be modified to increase the construction-differential subsidy rate on passenger vessels to the actual rate as determined by the Board, not to exceed 60 percent. These provisions were extended an additional year, to June 30, 1965, by Public Law 88–370, approved July 11, 1964.

Two methods may be used for paying the construction-differential subsidy. Under the first method the Government awards the construction contract to the low-bid American shipyard and pays the yard the full contract price of the ship. The ship is then sold by the Government to the American operator at a price equal to the estimated foreign construction cost of the ship (less cost of the national defense features). Under the second method, the operator and the Government enter into a contract with the shipbuilder under which the Government pays to the shipbuilder the sum of the construction differential and national defense allowances, with the operator paying the balance of the domestic construction cost of the vessel. The Government simultaneously contracts with the operator as to the conditions under which the U.S. payments will be made to the shipyard. The latter method is the only one which has been used since 1955.

A construction-differential subsidy may be paid to any American-flag owner who builds a ship in a U.S. shipyard to be used in the foreign trade of the United States. The applicant must possess the financial and operating ability to operate the prospective ship in the contemplated service in the U.S. foreign trade. Detailed plans of a ship must be submitted to the Maritime Administration and the Secretary of the Navy for approval. The prospective ship should be reasonably calculated to replace wornout or obsolete tonnage, or otherwise to carry out effectively the purposes and policy of the Merchant Marine Act.

The construction-differential subsidies payable for fiscal years 1950–64 are reported by the Maritime Administration as follows:

TABLE 9.—*Net construction-differential subsidies payable, fiscal years, 1950–64*

[In thousands]

Fiscal year:	*Amount*	Fiscal year—Con.	*Amount*
1950	$16,722	1959	$21,762
1951	18,887	1960	68,218
1952	9,008	1961	102,119
1953	(896)	1962	136,861
1954	5,538	1963	90,523
1955	5,359	1964	77,234
1956	1,614		
1957	16,379	Total, July 1, 1949,	
1958	22,638	to June 30, 1964	$591,966

NOTE.—Figure in parentheses indicates credit. This amount includes adjustment of $64,696 made in subsequent years reducing subsidy paid on SS *United States*.

In addition, beginning with fiscal year 1955, reconstruction-differential subsidies amounted to—

Fiscal year:	*Million*
1955	$0.3
1956	14.4
1957	1.1
1958	4.7
1959	7.1
1960	4.8
1961	1.2
1962	4.2
1963	4.2
1964	1.7

These are subsidies for the reconversion of ships, also authorized by the Merchant Marine Act of 1936.

The $592 million of construction-differential subsidies in the postwar period is payable for the construction of 123 vessels, 6 in the postwar construction program (through 1956) and 117 in the current program (1957 through June 1964). These 117 vessels have been or are being constructed for 12 companies as shown in the following table (major passenger ships are shown by name):

TABLE 10.—*Ships built with construction-differential subsidies, 1946–64*

[In thousands of dollars]

Company	Postwar construction program	Current program	Total
American Mail Line, Ltd			29,871
5 cargo ships		29,871	
American Export Isbrandtsen Lines, Inc			83,606
Independence	11,933		
Constitution	12,049		
12 cargo ships		59,624	
American President Lines, Ltd			20,470
5 cargo ships		20,470	
Farrell Lines, Inc			30,573
6 cargo ships		30,573	
Grace Line, Inc			58,957
Santa Rosa (combination passenger-cargo vessel)		10,140	
Santa Paula (combination passenger-cargo vessel)		10,138	
10 cargo ships		38,679	
Gulf & South American Steamship Co., Inc			18,460
5 cargo ships		18,460	
Lykes Bros. Steamship Co., Inc			101,380
29 cargo ships		101,380	
Delta Steamship Lines, Inc			14,247
3 cargo ships		14,247	
Moore-McCormack Lines, Inc			84,089
Argentina (combination passenger-cargo vessel)		10,169	
Brazil (combination passenger-cargo vessel)		10,169	
14 cargo ships		63,751	
Pacific Far East Line, Inc			30,108
3 Mariner-type vessels	15,188		
2 cargo ships		14,920	
States Steamship Co			32,599
6 cargo ships		32,599	
United States Lines Co			87,606
United States	18,647		
16 cargo ships		68,959	
Total	57,817	534,149	591,966

An indication of the relationship between the subsidy payments for some of the cargo ships in the current program, as shown above, and the total contract cost of these vessels, is shown in table 11.

TABLE 11.—*Contract costs and subsidy payments for 109 cargo ships and 4 combination ships on which construction subsidies have been paid—as of June 30, 1964*

[In thousands of dollars]

Line	Number of ships	Basic contract cost	Owner's contract cost	Maritime Administration contract cost	Subsidies paid through June 30, 1964
American Export Isbrandtsen Lines, Inc	12	$125,011	$64,426	$60,585	$59,624
American Mail Line, Ltd. [1]	5	58,549	29,138	29,411	29,871
American President Lines, Ltd	5	68,155	32,368	35,787	20,470
Delta Steamship Lines, Inc. [1]	3	29,288	14,970	14,318	14,247
Farrell Lines Inc	6	62,723	31,772	30,951	30,573
Grace Line, Inc. [1 2]	10	150,137	71,945	78,192	38,679
Gulf & South American Steamship Co., Inc	5	42,239	20,234	22,005	18,460
Lykes Bros. Steamship Co., Inc. [1]	29	271,112	135,399	135,713	101,380
Moore-McCormack Lines, Inc. [1]	14	148,641	74,340	74,301	63,751
Pacific Far East Line, Inc. [1]	2	27,087	12,093	14,994	14,920
States Steamship Co. [1]	6	68,124	35,660	32,464	32,599
United States Lines Co	16	164,598	84,179	80,419	68,959
Total	113	1,215,664	606,524	609,140	493,533

[1] Includes ships constructed under adjusted price contracts which require that the construction-differential subsidy percentages (not to exceed the 50 percent or 55 percent rate limitation applicable) will be determined when the final contract price for construction of the ships is determined with appropriate adjustment of construction-differential subsidies being made by payment by the owner to the Board or by the Board to the owner, as the case may be.

[2] Includes 4 combination ships.

From this table it can be noted that on these 113 ships the Maritime Administration expects to assume about 50 percent of the total contract cost; thus far through June 30, 1964, they have paid in subsidies to ship construction firms about 40 percent of the basic contract cost.

It may be noted that about 14.1 percent of the total construction-differential subsidy paid since the end of World War II has been used in the construction of the seven named passenger liners listed in table 10. Among these is the *United States*, the largest and fastest passenger ship ever built in this country, winner of both eastbound and westbound transatlantic ship speed records in July 1952.

As of June 30, 1964, there were pending from 7 American-flag operators applications for construction-differential subsidy contracts to aid in the construction of 17 cargo ships and 7 dry bulk carriers. There were two applications for reconstruction or reconditioning on file as of that date involving the retrofitting of 27 ships.

Similar aid has been provided on a small scale for the construction of fishing vessels in the shipyards of the United States by Public Law 86–516, approved June 12, 1960, and continued and expanded by Public Law 88–498, approved August 30, 1964. These laws are designed to assist certain depressed segments of the fishing industry and are administered by the Secretary of the Interior. Under the 1960 law $2.5 million was authorized annually for the program; this was increased to $10 million annually by the 1964 law, the U.S. Fishing Fleet Improvement Act, which extended the construction-differential subsidy program to June 30, 1968. The program was originally limited to construction of fishing vessels operated in fisheries found to be suffering injury from fish imports, and the subsidy was not to exceed 33⅓ percent of the cost of constructing such a vessel in a shipyard of the United States. Under the 1964 law, certain conditions previously necessary to obtain a subsidy were eliminated and the maximum differential subsidy payment was raised to 50 percent of the vessel's cost in a U.S. shipyard.

Under the 1960 law six vessels have been built and seven others contracted for. Subsidies for the six vessels constructed amounted to $546,000; the seven applications pending involve $56,000.

Operating-differential subsidy

The operating-differential subsidy is intended to compensate U.S. operators for higher operating costs than those borne by foreign operators. Under title VI, sections 601–603, of the Merchant Marine Act of 1936 (49 Stat. 2001), the Maritime Subsidy Board is empowered to grant an operating-differential subsidy to aid a citizen of the United States in the operation of a vessel to be used in an essential service, route, or line in the foreign commerce of the United States. The operating-differential subsidy, which is intended to place the proposed operations of such vessels on a parity with those of foreign competitors, is the excess amount of the cost of items of operating expense in which it is found the applicant is at a substantial disadvantage in competition with foreign vessels over the estimated cost of the same items of expense were the vessel operated under registry of a foreign country whose vessels are substantial competitors of the vessels covered by the contract.

The determination of the amount of subsidy due is a complex process. The operating-differential subsidy payments are determined and stated as percentages of the subsidizable expense of a U.S. operator.

Separate rates are determined for each type of expense (e.g., wages, subsistence, maintenance and repairs, and insurance) for each type of vessel on each trade route which takes into consideration each principal foreign-flag competitor. Calculating these rates requires a large amount of foreign-cost information which must be maintained on a current basis. Since many foreign-flag operators are not willing to divulge their costs, which are to be used as a basis for determining subsidy payments to their subsidized U.S.-flag competitors, the Maritime Administration has been compelled to obtain the information elsewhere and as a consequence has been compelled to base at least part of its calculations upon assumptions.[2]

The following table provides the basic data on operating-differential subsidies from their resumption in January 1947 through June 30, 1964.

TABLE 12.—*Ship operating-differential subsidies, 1947 to June 30, 1964*

[Dollar figures in thousands]

Calendar year	Voyages	Estimated gross subsidy accrual	Estimated recapture accrual	Estimated subsidy payable	Actual payments (net after recapture)	Estimated balance to be paid
1947	476	$13,439	$10,229	$3,210	$3,210	----------
1948	1,017	28,077	14,506	13,571	13,571	----------
1949	1,242	44,213	14,523	29,690	29,690	----------
1950	1,292	57,874	9,241	48,633	48,633	----------
1951	1,303	71,963	25,799	46,164	46,164	----------
1952	1,336	89,367	25,743	63,624	63,624	----------
1953	1,521	106,296	12,949	93,347	93,347	----------
1954	1,437	107,357	2,841	104,516	104,516	----------
1955	1,553	115,146	11,950	103,196	103,196	----------
1956	1,654	128,194	22,443	105,751	105,524	$227
1957	1,729	147,419	25,014	122,405	117,439	4,966
1958	1,743	147,115	3,814	143,301	140,580	2,721
1959	1,718	159,530	2,640	156,890	154,285	2,605
1960	1,697	168,068	5,529	162,539	155,774	6,765
1961	1,661	170,862	1,823	169,039	159,934	9,105
1962	1,732	184,703	4,151	180,552	166,794	13,758
1963	1,748	193,536	(1,260)	194,796	175,915	18,881
1964 (1st 6 months)	930	99,678	(200)	99,878	42,203	57,675
Total	25,789	2,032,837	191,735	1,841,102	1,724,399	116,703

The actual operating-differential subsidy obligation for fiscal years 1950–63, with estimates for fiscal years 1964 and 1965, as shown in the budget of the United States, are presented in table 13 as follows:

TABLE 13.—*Obligations for maritime operating-differential subsidies, fiscal years 1950–65*

[In thousands of dollars]

Year:	*Amount*	Year—Continued	*Amount*
1950	5,785	1959	127,693
1951	8,903	1960	153,232
1952	41,438	1961	176,860
1953	61,730	1962	187,872
1954	85,038	1963	188,315
1955	115,391	1964	186,626
1956	135,342	1965 (estimated)	196,000
1957	108,292	1966 (estimated)	190,000
1958	120,032		

Source: Budget of the U.S. Government for fiscal years 1952–66.

[2] U.S. Department of Commerce. Office of the Under Secretary of Commerce for Transportation and the Maritime Administration. "Maritime Subsidy Policy." April 1954, p. 96.

In order to receive an operating-differential subsidy, an American ship operator must agree to—

(1) The establishment of reserve funds to provide for (*a*) replacement and acquisition of ships, (*b*) prompt payment of his obligations to the United States, (*c*) continued maintenance and operation of subsidized vessels;

(2) The use of articles, materials, and supplies produced in the United States and the repair of subsidized vessels within the continental limits of the United States; and

(3) Retain earned profits in excess of 10 percent of "capital necessarily employed" for a 10-year accounting period; at the end of the period, he must repay to the Government half of all profits in excess of 10 percent, up to the full amount of the subsidy received. In actual practice this "recapture" is estimated throughout the period and is retained by the Government by reducing subsidy payments, with any necessary adjustments being made at the total accrual less recapture).

As is evident, the actual sequence of payments of operating-differential subsidy payments is necessarily involved. The sequence, effective with respect to payments after July 1, 1962, is normally as follows:[3]

(1) An initial advance is made of 90 percent of the subsidy accrued, provided it does not exceed 95 percent of the subsidy payable (subsidy accrued less recapture). The rates applied are tentative pending final determination.

(2) After an audit of the subsidizable voyage costs has been made by Maritime Administration, the operator is allowed up to 95 percent of the total subsidy accrual (provided it does not exceed 95 percent of the total accrual less recapture).

(3) The final 5 percent of the subsidy accrued less recapture is paid after an annual accounting has been made and clearance of final subsidy rates for the particular year involved has been approved.

This procedure helps to explain why, as of June 30, 1964, there was still an estimated balance of $116.7 million to be made in subsidy payments for voyages made from 1956 to 1964, inclusive, compared to subsidies actually paid for the same period of $1,727.4 million.

The following 15 companies are operating 318 ships (14 passenger, 17 combination, and 287 cargo ships) under operating-differential subsidy agreements as of July 1, 1964:

[3] In accordance with Public Law 87–243, approved Sept. 14, 1961.

TABLE 14.—*Companies operating ships under operating-differential subsidies as of July 1, 1964*

Company	Ships			
	Passenger	Combination	Cargo	Total
American Export Isbrandtsen Lines, Inc	3	2	38	43
American Mail Line, Ltd			9	9
American President Line, Ltd	3	2	19	24
Bloomfield Steamship Co			4	4
Delta Steamship Lines, Inc		3	10	13
Farrell Lines, Inc			15	15
Grace Line, Inc	2	10	12	24
Gulf & South American Steamship Co., Inc			6	6
Lykes Bros. Steamship Co., Inc			52	52
Moore-McCormack Lines, Inc	2		41	43
Oceanic Steamship Co	2		3	5
Pacific Far East Line, Inc			10	10
Prudential Lines, Inc			5	5
States Steamship Co			13	13
United States Lines Co	2		50	52
Total	14	17	287	318

Of the above-listed vessels the following cargo vessels were owned by the Federal Government and were being operated under the subsidy agreements by the operators under use agreements:

American Mail Lines, Ltd	2
Prudential Lines, Inc	2
United States Lines Co	4
Total	8

These 318 ships operated by 15 companies are required to make a minimum of 1,623 annual voyages and a maximum of 2,061 voyages a year. In calendar year 1963 an estimated 1,748 voyages were made compared to 1,859 estimated for 1964.

As of June 30, 1964, there were pending applications for operating-differential subsidies for a minimum of 395 and a maximum of 548 voyages involving 107 ships and 5 companies which are not now subsidized.

As of June 30, 1964, contracts of mortgage insurance and commitments to insure mortgages amounted to $454 million.

Other aids to shipping

There are many other aids to the shipping industry provided by the Federal Government. The following are among the more significant:

1. Federal insurance of privately financed ship construction loans

and mortgages: The Government is authorized to insure construction loans equal to 75 percent of the construction or reconstruction cost of virtually all types of vessels documented under the laws of the United States. When the vessel has been completed, the Government may insure a mortgage not exceeding 87½ percent of the actual cost of constructing a vessel of not less than 3,500 gross tons and 14-knot speed. On vessels not meeting these specifications or on vessels built with construction subsidy aid, the maximum mortgage insurance must not exceed 75 percent of the actual cost. As of June 30, 1963, contracts of mortgage insurance and commitments to insure mortgages amounted to approximately $431 million, covering 70 ships.

2. Direct mortgage assistance: The Government may contract for the construction of a ship, and upon completion sell it to the operator for 25 percent down (or 12½ percent down if the vessel is of not less than 14-knot speed and 3,500 gross tons), taking a mortgage on the balance of the purchase price, which would be paid back in regular installments over the statutory life of the vessel. This type of aid is not being used at the present time.

3. Trade-in allowances on purchases of new ships: A maritime operator may trade in to the Government an obsolete vessel in exchange for an allowance of credit on the purchase price of a new ship. This allowance is not paid directly to the owner of the obsolete vessel, but is (*a*) applied to the cash payment required of the owner if the Government constructs a new vessel for sale to the owner; or (*b*) paid, for the account of the owner, to the shipbuilder constructing a new vessel under a private financing arrangement. The minimum age at which a vessel may be considered obsolete has been reduced from 17 to 12 years, and for tankers to 10 years.

From January 28, 1958, when the current program started, through June 30, 1964, 88 obsolete ships have been traded in by 11 companies for a gross allowance of $61.8 million on the purchase price of 83 new vessels constructed or to be constructed in U.S. shipyards, as follows:

TABLE 15.—*Number of ships traded in and gross allowances, by company, from Jan. 28, 1958, through June 30, 1964*

Company	Number of ships traded in	Gross trade-in allowance
		Thousands
American Export Isbrandtsen Lines, Inc	12	$11,996
American Mail Line Ltd	5	3,351
American President Lines, Ltd	3	4,050
Delta Steamship Lines, Inc	4	2,542
Farrell Lines Inc	7	3,633
Grace Line Inc	2	1,103
Lykes Bros. Steamship Co., Inc	21	12,336
Moore-McCormack Lines, Inc	9	9,463
Prudential Lines Inc	2	946
States Steamship Co	6	3,368
United States Lines Co	17	8,987
Total	88	61,775

Prior to October 1, 1960, the gross trade-in allowance was determined to be the restricted world market value. Effective from October 1, 1960, to date, the gross trade-in allowance has been determined to be the average of the restricted world market value and the domestic market value.

Public Law 401, 87th Congress, dated October 5, 1961, amended section 510 of the Merchant Marine Act, 1936, to provide for the trade-in of obsolete vessels in connection with the construction of new vessels either at the time of executing the construction contract or at the time of delivery of the new vessel. The only companies who have traded in vessels under the provisions of this law from October 5, 1961, through June 30, 1964, are Farrell Lines, Inc., three vessels, and Lykes Bros. Steamship Co., Inc., four vessels.

4. Tax benefits: The principal tax benefit specifically allowed ship operators is the exemption from income tax charges of income from reserve funds. Subsidized operators are required to deposit annually in reserve funds all profits after taxes in excess of 10 percent of "capital necessarily employed in the business." Annual depreciation allowances, based on total acquisition cost, and capital gains from sale or loss of a vessel must also be deposited in a reserve. Such operators may also make voluntary deposits in excess of these amounts into these reserves when authorized by the Maritime Administration. Deposits are not taxable unless withdrawn and paid into operator's general funds. Nonsubsidized operators may deposit in construction reserve funds gains from the sale or loss of a vessel (capital gains). The establishment and maintenance of these funds has been of assistance to American ship operators in building up funds to cover ship replacement costs.

5. Cargo preference: Half of U.S. Government-financed cargoes must be transported in U.S.-flag ships. All U.S. exports purchased with Government loans must be carried in U.S.-flag vessels, except that waivers may be granted under special circumstances. All cargoes destined exclusively for the use of the U.S. Military Establishment must be carried in U.S.-flag ships to the extent that such vessels are available at reasonable rates.

6. Reservation of coastwise trade: Ever since 1789 it has been the policy of the Federal Government to reserve the U.S. coastwise trade to ships built in the United States and owned and operated by citizens of the United States. This has been extended to include the noncontiguous parts and possessions of the United States, Alaska, Hawaii, and Puerto Rico.

7. Sale of surplus ships: Under the Merchant Ship Sales Act of 1946, 843 ships, built for the Maritime Commission during World War II, were sold to U.S. citizens for U.S.-flag operations at a price of one-fourth to one-fifth of their replacement cost. By January 15, 1951, ship sales under the Merchant Ship Sales Act of 1946 totaled $1,776.3 million. (Net sales after vessel trade-in allowances have been deducted were $1,697.4 million.) This represented about a 40.1-percent return on the war cost of these ships. Of the $1,697.4 million, $461.8 million represented domestic cash sales; $317.8 million represented domestic mortgages; $687.8 million foreign cash sales; and $229 million foreign mortgages. No ships have been sold under the 1946 act since 1951.

However, Public Law 86–575, approved July 5, 1960, and effective for a 5-year period from that date, provides for the exchange of certain war-built vessels that have been owned and operated by citizens of the United States without operating subsidy for more modern and efficient war-built vessels owned by the United States. Thus far, through June 30, 1964, under the provisions of this law, about 16 American-flag operators have exchanged 29 owned war-built vessels for 25 war-built vessels owned by the Government. About 12 American-flag operators have applications pending for exchange of war-built vessels at this time.

8. Loans at low rates of interest for construction of merchant vessels: No new commitments for direct loans for construction of merchant vessels have been made since 1956 and none are anticipated for 1964 and 1965. Loans outstanding are expected to decline from $99 million in 1964 to $77 million by the end of 1966.

9. Reduced charter hire of Government-owned vessels, so as to encourage private operations.

10. Research and development of new types of vessels.

11. Payment for national defense features incorporated in vessels built either with or without subsidy.[4]

[4] These various aids are described further in the following U.S. Department of Commerce publications: (1) "The American Merchant Marine and Federal Assistance Programs," 1960, 12 pp.; (2) "A Review of Direct and Indirect Types of Maritime Subsidies With Special Reference to Cargo Preference Aid," 1956, 65 pp.; (3) "A Review of Maritime Subsidy Policy in the Light of Present National Requirements for a Merchant Marine and a Shipbuilding Industry," 1954, 132 pp.

CHAPTER VI

OTHER TRANSPORTATION SUBSIDIES

AIR CARRIERS

As in shipping, the original subsidies for air transportation took the form of mail subsidies. The Air Mail Act of 1925 provided for the retirement of the Post Office from flying activities and the awarding of mail contracts to private companies by competitive bidding. At first no subsidy was envisaged, and payments were limited to four-fifths of the airmail revenue. Subsequently, the basis for payment was changed, (1) to increase compensation to the carriers, and (2) to reduce airmail postage rates. As a result, payments to airmail carriers exceeded estimated airmail revenue in 1929 by nearly $7 million. In 1930 Congress passed the Waters Act which established a new formula for mail payment, providing more liberal compensation, and designed to encourage passenger traffic. This act created an active demand for new service, and payments to airmail carriers mounted from nearly $17 million in 1931 to nearly $20 million in 1932.

Charges of collusion between the mail carriers and Post Office officials lead to the cancellation of all airmail contracts in 1934. The Air Mail Act of 1934 restored contract operations and competitive bidding. Total payments to airmail carriers increased from $9 million in 1935 to a little over $14 million in 1938. The Civil Aeronautics Act of 1938 further liberalized airmail payments.

During much of our recent history the exact amount of subsidy payments was not segregated from total payments to air carriers. Under Reorganization Plan No. 10, which became effective August 1, 1953, it was provided that on and after October 1, 1953, the Postmaster General will pay to each certificated air carrier a fair and reasonable "service" rate for the transportation of mail by aircraft, which will be fixed by the Civil Aeronautics Board without regard to a "subsidy" rate. The Civil Aeronautics Board then pays all compensation in excess of the "service" rate which will represent the "subsidy" paid by the Board to certificated air carriers. The subsidy payments are determined by the Civil Aeronautics Board following formal proceedings and opportunity for hearing in which the carrier demonstrates a statutory need for a subsidy. The total of the subsidy in any given case depends upon the volume of service and the extent to which the revenues of the carrier from all commercial sources (including the service mail payments from the Postmaster General) fail to meet its prudently incurred costs.

In its September 1964 report on subsidy for U.S. certificated air carriers, the Civil Aeronautics Board describes the purpose of this subsidy as follows:

> Provision for payment of subsidy by the Board to air carriers is made in section 406 of the act, which vests the Board with the responsibility for making subsidy payments to U.S. mail certificated air carriers in such amounts as are found necessary to further the threefold national interest embracing the commerce, postal service, and the national defense. Subsidy for the various air carriers has materially assisted in achieving national policy objectives set out by the Congress. In time of war, a reservoir of trained pilots, airline personnel, and modern aircraft is assured. As a result of having been strengthened through subsidy support, the industry is ready at any time to provide such personnel and equipment. In addition to assisting in the attainment of national defense considerations, subsidy has been and will continue to be one of the most effective means of advancing the commerce of the United States and the postal service. Although the carriers receive the subsidy, it is, in effect, the smaller communities that are its direct beneficiaries through the operations of carriers such as the local service airlines. The Congress has chosen to develop modern and efficient air transportation for these communities by subsidy under section 406, and one of the Board's primary responsibilities in administering this program is to assure maximum public benefit for every subsidy dollar.

During the past decade there have been significant shifts in the groups of airlines receiving subsidy. Domestic trunklines and international carriers received substantial subsidies in fiscal year 1954, although the trend was by then already sharply downward. By fiscal year 1960 no subsidy payments were being made to any international carriers or for domestic trunkline service. The subsidy shown in table 16 under trunklines for fiscal years 1964 and 1965 is for Northeast Airlines services in the New England area which are deemed substantially similar to those of the 13 local service carriers. Subsidies for local service carriers have been steadily rising, from 41.6 percent of all subsidies in fiscal 1954 to 81.9 percent in fiscal 1963, with a slight decline, to 79.6 percent in each of fiscal years 1964 and estimated 1965.

The estimated decline in subsidies to local service carriers in fiscal 1965 is due to a number of factors which have been improving the financial and economic position of these carriers, including: (1) the favorable trend in traffic, unit costs, and load factors; (2) the continuation, in refined form, of a class subsidy rate for this group of carriers, which class rate concept was first implemented on January 1, 1961; (3) the improvement of route structures through the award to these carriers of more profitable routes and more flexible operating authority; (4) the suspension or curtailment of services at the weakest traffic generating points in accordance with the Board's "use it or lose it" policy; and (5) the benefits of the more modern type aircraft currently in service, many of which were acquired by the carriers under the provisions of loan guarantee legislation.

TABLE 16.—*Estimated subsidy accruing for various classes of air carrier services, fiscal years 1954–65*

[In thousands of dollars]

Fiscal year	Total	Domestic trunklines	Local service carriers	Helicopter operators	Alaskan and Hawaiian carriers	International carriers		
						Trans-atlantic	Trans-pacific	Latin American
1954	58,427	3,848	24,299	2,574	8,992	1.625	6,803	10,286
1955	39,791	2,825	22,358	2,656	8,195	232	----------	3,525
1956	43,218	1,819	24,122	2,735	7,910	488	351	5,793
1957	48,627	1,585	28,445	3,771	7,923	437	923	5,543
1958	52,540	2,283	32,703	4,419	8,224	----------	882	4,029
1959	50,018	1,201	36,452	4,860	7,505	----------	----------	----------
1960	65.739	----------	51,808	4,930	9,001	----------	----------	----------
1961	72,336	----------	57,023	5,538	9,775	----------	----------	----------
1962	80,473	----------	65,269	5,781	9,423	----------	----------	----------
1963	83,515	----------	68,390	5,000	10,125	----------	----------	----------
1964	85,930	2,628	68,413	4,300	10,589	----------	----------	----------
1965	84,203	3,326	67,000	3,358	10,519	----------	----------	----------

Source: U.S. Civil Aeronautics Board. Subsidy for U.S.-certificated air carriers, September 1964.

Aside from these direct subsidies, air carriers have also benefited from such varied governmental assistance as airport and airway facilities, other navigation aids, aeronautical research and development conducted under governmental auspices, the safety regulations of the Civil Aeronautics Administration, and the sale of surplus aircraft, available to both new and existing companies engaged in civil transport. Tables 17 and 18 show the extent of the Federal-aid airport program through January 1, 1964.

TABLE 17.—*1947–63 Federal-aid airport program, number of airports and Federal funds allocated, through Jan. 1, 1964*

Type of airport	Airports	Federal funds
Total all airports	1,887	$798,647,927
Air carrier airports	670	690,619,900
General aviation airports	1,217	108,028,027

Source: U.S. Federal Aviation Agency, FAA Statistical Handbook of Aviation, 1964 edition, p. 10.

TABLE 18.—*1947–64 Federal-aid airport program*[1]*—Status as of Jan. 1, 1964*

State or other area	Funds (thousands of dollars)			Number of airports	Number of projects
	Total	Federal	Sponsor		
Total	1,624,139	798,646	825,493	1,897	5,821
United States	1,604,281	787,950	816,331	1,893	5,796
Alabama	20,758	10,476	10,282	22	78
Alaska	35,252	23,629	11,623	74	135
Arizona	23,902	13,049	10,853	26	127
Arkansas	11,480	5,691	5,789	46	116
California	153,457	73,553	79,904	104	440
Colorado	28,622	14,765	13,857	35	113
Connecticut	12,709	6,349	6,360	8	41
Delaware	1,662	864	798	1	12
District of Columbia	0	0	0	0	0
Florida	64,563	31,005	33,558	48	151
Georgia	39,466	19,669	19,797	50	137
Hawaii	30,205	10,309	19,896	9	31
Idaho	7,400	4,135	3,265	39	118
Illinois	104,794	49,832	54,962	51	224
Indiana	30,598	15,059	15,539	30	104
Iowa	23,021	11,416	11,605	57	167
Kansas	11,358	5,604	5,754	63	130
Kentucky	23,231	11,344	11,887	24	85
Louisiana	38,976	18,664	20,312	26	99
Maine	5,069	2,507	2,562	23	55
Maryland	14,783	7,275	7,508	10	38
Massachusetts	31,858	15,560	16,298	24	108
Michigan	62,823	29,768	33,055	71	246
Minnesota	40,000	19,828	20,172	62	192
Mississippi	17,179	8,234	8,945	46	111
Missouri	42,224	20,742	21,482	56	131
Montana	11,396	6,020	5,376	46	144
Nebraska	18,069	8,880	9,189	68	169
Nevada	15,672	9,003	6,669	15	51
New Hampshire	4,133	2,062	2,071	11	37
New Jersey	25,536	12,506	13,030	11	39
New Mexico	9,695	5,427	4,268	26	68
New York	136,718	62,126	74,592	31	161
North Carolina	21,483	10,704	10,779	38	105
North Dakota	7,474	3,664	3,810	36	91
Ohio	59,609	29,095	30,514	25	108
Oklahoma	38,254	18,928	19,326	57	153
Oregon	18,078	9,323	8,755	35	119
Pennsylvania	84,368	40,658	43,710	47	179
Rhode Island	7,332	3,579	3,753	4	10
South Carolina	12,920	6,513	6,407	33	60
South Dakota	4,753	2,513	2,240	50	98
Tennessee	40,565	20,378	20,187	47	141
Texas	91,777	45,393	46,384	112	288
Utah	14,924	9,200	5,724	30	91
Vermont	2,645	1,318	1,327	8	25
Virginia	24,899	12,310	12,589	22	78
Washington	27,110	13,391	13,719	38	111
West Virginia	15,780	7,752	8,028	9	51
Wisconsin	30,927	15,166	15,761	63	148
Wyoming	4,774	2,714	2,060	26	82
Outside United States	19,858	10,696	9,162	4	25
Puerto Rico	16,362	8,167	8,195	2	12
Virgin Islands	3,496	2,529	967	2	13

[1] Cumulative 1947–64 programs under which grants are made to public agencies to aid the development and improvement of public airports (includes seaplane bases and heliports).

Source: Federal Aviation Agency. FAA Statistical Handbook of Aviation, 1964 edition, p. 11.

MOTOR CARRIERS

Whether the extensive expenditures on highway and street improvement constitute a direct subsidy to the motor carrier industry has been widely debated. Representatives of the motor carrier industry have contended that through registration fees, gasoline taxes, and other charges which have gone into the construction of public roads, the industry has met all the costs properly attributable to it. This is denied by railroad spokesmen. Studies sponsored by the Federal Coordinator of Transportation indicate that for the periods studied, 1932 and 1934, the motor carrier industry as a whole was not the recipient of any form of public subsidy. However, certain parts of the industry, such as farm trucks and trucks of 1½ tons and less, did not meet the costs assigned to them.

RAILROADS

Both the total and the net subsidies to railroads by Federal and State Governments are subject to some uncertainty. The principal direct subsidies to the railroads took the form of land grants from 1850 to 1871 to aid in the construction of new railroads. This system of land grants reached a high point in the years 1862–66, when over 100 million acres were turned over to the railroads. According to a detailed study by the U.S. Federal Coordinator of Transportation, published in 1940, altogether the railroads received Federal and State land grants amounting to approximately 183 million acres valued at an estimated $429 million. Of this amount, 134 million acres came from Federal grants and 49 million acres from State grants. In all, some 70 railroads were aided by Federal land grants; 7 present systems or predecessor companies received 83 percent of the net Federal acreage conveyed and 81 percent of the Federal and State acreages.

In addition to the estimated $429 million in land grants, about $853 million of assistance in the construction of railroads were provided by Federal and State Governments.[1] The components of this additional aid were:

	Amount (in millions of dollars)
Lands donated for right-of-way and other carrier purposes by local governments, individuals, associations and private corporations, including apparent aids	232
Rights in public domain	118
Federal and State right-of-way grants	87
Collective subscriptions to railroad stocks by citizens	87
Vacation of streets to railroads	77
Contributions of cash, material, equipment, construction, labor, and securities by States, local governments, individuals, associations, and private corporations in aid of construction	63
Subscriptions to railroad stocks and bonds by States and local governments	50
Loans by Federal Government in aid of construction of Pacific railroads	48
Loans by States and local governments in aid of construction	46
All other [1]	45

[1] Includes guarantee or endorsement of railroad bonds by States and local governments, tax-exemption aid to railroads by States and local governments, drawbacks of duties of railway iron, and expense of Federal railway surveys, and aids to railroads by States through grants of banking privileges.

[1] U.S. Federal Coordinator of Transportation. "Public Aids to Transportation," vol. 1, p. 19.

From 1932 to 1940 railroads have been granted loans amounting to about $161 million on very favorable terms by the Reconstruction Finance Corporation and the Federal Emergency Administration of Public Works.

In return for the grants it made, the Federal Government received certain financial benefits, the most important of which was reduced transportation charges on mail, troops, and Government property carried on the land-grant railroads. These rates were customarily about 80 percent of the regular rates. The savings to the Government through the reduced-rate provisions are estimated to have amounted to $138,700,000 up to June 30, 1934. Due to the rapid increase in Government activity thereafter, the savings to the Government rose rapidly. The burden on the railroads led to the elimination of land-grant deductions on nonmilitary traffic in 1940. Nevertheless, the war brought about such a rise in military traffic that it is estimated that the amount of land-grant reductions for the fiscal year ended June 30, 1943, alone amounted to $240 million and the total of all land-grant deductions to that date were estimated at $580 million. Under a statute passed in 1945, land-grant rate reductions ceased on October 1, 1946. Total reduced rate reductions by then are estimated at over $1 billion.

The Transportation Act of 1958 provided for Federal guaranteeing of loans to railroads upon approval by the Interstate Commerce Commission and eased the requirements for abandoning and curtailing unprofitable runs.

Proposals have been made to subsidize certain railroad services which are now undertaken only at a loss, notably passenger commuter trains. Related to this is the Urban Mass Transportation Act of 1964 which authorized $375 million in Federal grants to States and localities over a 3-year period to assist public or private transit companies in providing adequate mass transportation in the Nation's cities.

WATER CARRIERS

Aside from direct land grants to canal companies, public aid to water carriers has historically taken the form principally of Government improvement and maintenance of waterways. Between 1827 and 1866 the Federal Government granted 6,340,339 acres of public lands to private interests to aid in canal building and river improvement, in addition to right-of-way grants. Further, the Federal Government contributed various sums in the form of direct appropriations, subscriptions to the stock of, or loans to, private canal companies, and also deposited with the States so-called surplus funds derived from the sale of public lands. Even today, the maintenance of waterways, improvements of rivers and harbors, and providing various navigation aids such as lights and buoys may be considered to subsidize inland and coastal water transportation companies.

CHAPTER VII

BUSINESS SUBSIDIES

The subsidy and subsidylike programs included in this chapter are those of the Post Office Department, the provisions for accelerated amortization of defense facilities, and aids to minerals producers. Just as not all of the programs listed under agricultural subsidies were designed exclusively as subsidies to farmers, so not all of the benefits of the postal and other subsidies considered here redound exclusively to businessmen. However, in general, these and the above-mentioned subsidies to shipping and other transportation companies may be considered as subsidies to business, in contrast to the subsidies to agriculture discussed in chapter IV.

POST OFFICE DEPARTMENT

The difficulties in ascertaining what should and what should not be considered as a subsidy are well illustrated in the case of the many postal services which are carried on at a loss and which contribute to the postal deficit. This deficit, over the 8-year period from July 1, 1955 through June 30, 1963, has amounted to over $5.6 billion.

The subsidy element in the postal deficit differs in many respects from the direct subsidy payments already considered. No payments are made to individuals or private businesses to encourage production or the performance of additional services. Instead, throughout its history, the Post Office has carried various classes of mail and performed many other services at a loss, based on a computation of costs appropriately attributable to each class of service. The determination of the allocation of these costs to the various postal services has been undertaken by the Post Office Department since 1926. Its Cost Ascertainment Division, using accounting and statistical means, attempts to measure (1) the revenue realized from each class of service rendered, (2) the incurred costs chargeable to each class of service on the basis of its "use" of the facilities and personnel, and (3) thereby establishes the difference between revenues and such costs for each class of service. This cost ascertainment system does not attempt to evaluate such service differences as the value of priority or deferment given to any one class of mail or service, relative values of the various services to the public, and the relative values of the items handled.

On the basis of the cost ascertainment calculations, the greatest dollar loss has consistently been in second-class mail, which comprises primarily newspapers and periodicals. The rates are kept low in the conviction that the widespread distribution of newspaper, magazines, and other periodical literature is in the interest of the American people and is stimulated by low postal rates. At the same time publishers of newspapers and magazines, and perhaps those advertising in them, benefit directly from these low rates and have actively and repeatedly opposed attempts to raise them. It remains a debatable point as to who is the primary beneficiary of these low postal rates, the magazine and newspaper publishers, their advertisers, or the purchasers of these same publications.

Third- and fourth-class mail are also carried at a considerable loss. Third-class mail consists of merchandise, printed matter, and other mailable matter not in first and second classes, not exceeding 16 ounces; and fourth-class mail is mainly parcel post. Other revenue-producing services which the Post Office has usually carried out at a loss include registry, insurance, cash on delivery, special delivery, and money orders. In addition, the Post Office Department furnishes nominal-rate distribution of second-class mail delivered within the county of publication, and free reading matter for the blind.

Since World War II, the only postal services which have almost always been carried on at a profit, based on calculations of the Post Office Division of Cost Ascertainment, are first-class domestic mail and postal savings. It has been argued by postal officials that considering the preferential treatment accorded first-class mail at all points from original mailing to final delivery, even this class of mail does not pay rates which properly reflect the value of the preferential treatment.

The present postal policy of the United States has been explicitly formulated by the Postal Policy Act of 1958 (Public Law 85–426, approved May 27, 1958, 72 Stat. 134) and amended by title II of the Postal Service and Federal Employees Salary Act of 1962 (Public Law 87–793, 76 Stat. 832). As part of the 1958 act the Congress determined that "postal rates and fees shall be adjusted from time to time as may be required to produce the amount of revenue approximately equal to the total cost of operating the Postal Establishment less the amount deemed to be attributable to the performance of public services under section 104(b) of this title" (sec. 103(c)(4)). In other words, the postal operations with the exception of a specified list of services are expected to be self-supporting in the aggregate, although deficits in certain classes would be expected to continue, to be counterbalanced by surpluses in other classes.

In these acts these special services are called public services; in some instances the Post Office Department labels them as identifiable subsidies. They are, for the most part, specific reductions from the rates of particular classes of mail, as follows:

1. Second-class mail:
   (*a*) Reduced rates of postage on newspapers or periodicals of certain nonprofit organizations (sec. 104(a)(1)(A)).
   (*b*) Reduced second-class postage rates to publications of certain organizations for religious and classroom use (sec. 104(a)(1)(I)).
2. Third-class mail:
   (*a*) Reduced third-class rates for certain nonprofit organizations (sec. 104(a)(1)(J)).
3. Fourth-class mail:
   (*a*) Reduced-rate mailing rates for books (sec. 104(a)(1)(L)).
   (*b*) Reduced-rate mailing for publications for the blind (sec. 104(a)(1)(B) and (G)).

4. First-class mail, all others:

(*a*) Free mailing privileges for official mail matter of the Pan American Union and the Pan American Sanitary Bureau (sec. 104(a)(1) (B) and (G)).

(*b*) Free mailing privileges to the diplomatic corps of the countries of the Pan American Postal Union (sec. 104(a) (1) (E)).

(*c*) Free mailing privileges to certain individuals (widows of Presidents) (sec. 104(a) (1) (H)).

(*d*) Free postage for ballots, voting instructions, etc., under the Federal Voting Assistance Act of 1955 (sec. 104(a) (1) (K)).

(*e*) Free postage and reduced postage rates on reading matter and other articles for the blind (sec. 104(a) (1) (D)).

5. Ten percent of the gross cost of the operation of third-class post offices and the star-route system, and 20 percent of the gross cost of the operation of fourth-class post offices and rural routes (sec. 201(b) of 1962 act).

6. Loss incurred in performing nonpostal services such as the sale of documentary stamps for the Department of the Treasury (sec. 104 (a)(3)).

7. Loss incurred in performing special services such as cash on delivery, insured mail, special delivery, and money orders (sec. 104(a) (4)).

8. The additional cost of transporting U.S. mail by foreign air carriers at a Universal Postal Union rate in excess of the rate prescribed for U.S. carriers (sec. 104(a) (5)).

The Post Office Department has labeled the losses on first-, second-, third-, and fourth-class mail as public services (items 1-4 above) in certain reports as "public service costs" and in others as "identifiable subsidies." Table 19 indicates the extent of these particular public service losses on identifiable subsidies for fiscal years 1956 through 1964.

TABLE 19.—*Postal public services losses and costs, fiscal years 1956–64* [1]

[In thousands of dollars]

	1956	1957	1958	1959	1960	1961	1962	1963	1964 (estimated)
I. Total loss resulting from transmission of matter in the mails free of postage or at reduced rates of postage as provided by statute	25,194	27,127	31,807	38,497	36,400	48,150	61,850	257,221	281,312
Second-class mail	3,102	3,423	3,493	4,148	5,784	7,483	8,858	145,049	152,342
Mailings of authorized nonprofit organizations	2,144	2,451	2,508	3,094	4,616	6,217	7,323	81,247	85,667
Mailings within county of publication	839	835	833	830	849	836	905	58,787	61,401
Publications for religious and classroom use	119	137	152	224	319	430	630	5,015	5,274
Third-class mail: Mailings of authorized nonprofit organizations	5,990	6,064	6,805	11,558	13,262	19,715	26,356	58,224	65,371
Fourth-class mail: Special-rate materials	14,928	16,427	20,008	21,170	16,039	19,347	24,937	51,387	60,686
39 U.S.C. 4554:									
(a) Books	13,256	14,448	17,691	17,815	13,787	15,987	21,248	46,060	54,939
(b) Library books	1,672	1,979	2,317	3,355	2,252	3,360	3,689	5,327	5,747
Pan American mail	160	223	246	276	121	137	141	311	334
Pan American Union and Pan American Sanitary Bureau	64	103	87	74	68	82	86	144	170
Diplomatic Corps of Pan American countries	96	120	159	202	53	55	55	167	164
Matter-for-the-Blind	1,015	990	1,255	1,345	1,194	1,468	1,558	2,250	2,579
Mailing at 1 cent a pound	50	51	84	69	57	87	73	95	117
Matter mailed free	965	939	1,171	1,276	1,137	1,381	1,485	2,155	2,462
II. Rural operations (10 percent of the gross cost of the operation of 3d-class post offices and the star-route system, and 20 percent of the gross cost of this operation of the 4th-class post offices and rural routes)	---	---	---	---	---	---	---	88,681	93,966
III. Loss incurred in performing nonpostal services for other agencies [2]	14,574	16,165	16,996	18,235	17,151	19,500	20,000	21,738	22,829
IV. Loss incurred in performing special services	39,859	22,973	13,821	15,822	16,219	51,400	37,200	44,445	53,586
V. Additional cost of transporting U.S. mail on foreign-flag air carriers	1,143	1,100	1,100	850	1,000	850	850	800	800
Grand total	80,770	67,365	63,724	73,404	70,770	119,900	119,900	412,885	452,493

[1] Data beginning with fiscal year 1963 are not comparable with earlier years. This is due primarily to the following factors: (1) Data prior to fiscal year 1963 are based on budget estimates of revenue foregone and other concessions, while beginning with fiscal year 1963 data represent "losses" or "total losses" which are defined as "the amounts by which the total allocated costs incurred by the Postal Establishment in the performance of the public services enumerated * * * exceed the total revenues received by the Postal Establishment for the performance of such public services." (2) Data on public service losses on rural operations are based on provisions set by the Congress in 1962.

[2] Excludes estimated expenses for civil service functions related to post office personnel. Does not include cost or reimbursement for transportation of military mails.

Source: U.S. Post Office Department. Bureau of Finance.

The relationship of these subsidies to the postal deficit as a whole since 1956 is shown in table 20.

TABLE 20.—*Postal deficit (various bases) and identifiable subsidies, fiscal years 1956–63*

[In millions of dollars]

	1956	1957	1958	1959	1960	1961	1962	1963	Total 1956–63
Reported postal budgetary deficit	464.0	547.8	890.6	605.1	634.5	875.4	837.3	[1] 819.4	5,674.1
Less identifiable subsidies:									
Revenue concessions from regular postage rates	25.2	27.1	31.8	38.5	36.4	48.2	61.9	257.2	526.3
Special services [2]	39.9	23.0	13.8	15.8	16.2	51.4	37.2	44.4	241.7
Rural operations [2]	----	----	----	----	----	----	----	88.7	88.7
Mail transportation subsidies	1.2	1.1	1.1	.9	1.0	.8	.8	.8	7.7
Nonpostal services [2]	14.6	16.2	17.0	18.2	17.2	19.5	20.0	21.7	144.4
Total identifiable subsidies	80.9	67.4	63.7	73.4	70.8	119.9	119.9	412.9	1,008.9
Budgetary deficit exclusive of identifiable subsidies	383.1	480.4	826.9	531.7	563.7	755.5	717.4	406.5	4,665.2
Add postal costs paid by other departments: [3]									
Retirement fund accruals	125.3	127.6	5.1	(4)	(4)	(4)	(4)	(4)	258.0
Workmen's compensation	4.0	4.4	5.2	4.5	5.2	6.4	6.9	[5] 5.4	42.0
Custodial and maintenance costs	18.9	24.3	18.2	21.7	7.5	15.0	18.5	19.1	143.2
Unemployment compensation	7.0	7.2	9.7	11.0	8.5	11.6	8.4	7.2	70.6
Other costs (estimated)	2.0	2.2	2.2	2.2	----	----	----	----	8.6
Total paid by other departments	157.2	165.7	40.4	39.4	21.2	33.0	33.8	31.7	522.4
Government-wide postal deficit attributable to rate deficiencies	540.3	646.1	867.3	571.1	584.9	788.5	751.2	438.2	5,187.6

[1] Revenue deficiency on accrual basis beginning in 1963, new obligation authority comparable to earlier years, $808.4 million.
[2] Pursuant to 39 U.S.C. 2303, as amended by Public Law 87-793, beginning with fiscal year 1963.
[3] Prior to 1963 excludes depreciation on public buildings used in the postal service.
[4] Retirement accruals assumed by the Department under Public Law 85-854 effective July 13, 1957.
[5] Total $6.8 million of which $1.4 million was funded in 1963.

Source: U.S. Post Office Department. Bureau of Finance.

Among the identifiable subsidies, mail transportation subsidies were the major element through fiscal year 1953. Beginning on October 1, 1953, the subsidy element in airmail payments was shifted from Post Office Department accounts to accounts of the Civil Aeronautics Board. These are discussed above, on pages 55–57.

The main elements in the postal budgetary deficit are indicated in the following table:

TABLE 21.—*Postal budgetary deficit*[1] *by classes of service, fiscal years 1953–63*

[In millions of dollars]

Fiscal year	Total	First-class mail	Domestic airmail	Second-class mail	Third-class mail	Fourth-class mail	Controlled circulation publications	Special services	Nonpostal services for other agencies	International mail	All others	Rural operations [2]
1953	650.4	(82.5)	42.0	239.8	158.6	151.5	0.5	38.6	12.9	53.4	35.6	-------
1954	399.1	(63.3)	(3.6)	232.2	147.2	23.3	1.1	34.8	12.4	5.3	9.7	-------
1955	362.7	(62.3)	(20.3)	233.0	172.0	(1.9)	1.4	47.7	12.4	(6.9)	(12.4)	-------
1956	464.0	(35.7)	(23.4)	252.5	205.9	15.1	2.0	39.9	14.6	(4.5)	(2.4)	-------
1957	547.8	(26.4)	(20.7)	260.4	246.2	40.1	1.8	23.0	16.2	(3.3)	10.5	-------
1958	890.6	137.1	(9.3)	285.8	323.1	116.9	3.3	13.8	17.0	8.5	(5.6)	-------
1959	605.1	(135.4)	(21.5)	303.5	287.1	133.1	3.0	15.8	18.2	7.9	(6.6)	-------
1960	634.5	(114.8)	(19.0)	331.0	269.7	128.8	2.8	16.2	17.2	13.1	(10.4)	-------
1961	875.4	([3])	(18.7)	356.7	294.6	166.0	4.7	51.4	19.5	18.8	(17.7)	-------
1962	837.3	(6.2)	(21.7)	361.8	277.1	160.1	5.3	37.2	20.0	6.4	(2.8)	-------
1963	819.4	(133.8)	(28.5)	355.6	310.3	161.5	6.2	44.4	21.7	9.2	(15.9)	88.7

[1] Postal budgetary deficit represents the difference between revenues and apportioned expenditures.
[2] In accordance with Public Law 87–793 (sec. 201), consists of 10 percent of third-class post office costs ($13,600,000 in fiscal year 1963), 10 percent of star routes costs ($8,600,000 in fiscal year 1963), 20 percent of fourth-class post office cost, ($7,500,000 in fiscal year 1963), and 20 percent of costs of rural route ($59,000,000 in fiscal year 1963).
[3] Less than $100,000.

NOTE.—Figures in parentheses indicate excess of revenues.

Source: U.S. Post Office Department, Bureau of Finance and Administration.

It is possible to argue that the total deficit as shown in this table understates the postal subsidy since losses in certain services, especially second-, third-, and fourth-class mail, are counterbalanced in part by the excess of revenues over apportioned costs in other services, especially first-class mail. Thus, in fiscal year 1963, the deficit of second-, third-, and fourth-class mails and from rural operations combined totaled $916.1 million, compared with the total postal deficit of $819.4 million. The lower total deficit resulted primarily from the fact that first-class mail had revenues totaling $133.8 million greater than its apportioned expenditures.

However, in a letter to the chairman of the Joint Economic Committee dated June 13, 1960, Hyde Gillette, Assistant Postmaster General, Bureau of Finance, stated that the Post Office Department takes the position that postal subsidies should be restricted to identifiable public service costs, and should not include the entire postal deficit. In his words:

> The postal deficit that has existed in recent years after making allowance for public services as now being determined by the Congress, while undoubtedly benefiting the mail user at the expense of the taxpayer, is not the result of any conscious effort to furnish assistance or privilege to specified groups or individuals. It is simply the consequence of inadequate rate action, primarily by the Congress, in adjusting total revenues to the level of costs, as specified by the Postal Policy Act. Rather than a subsidy, it would seem more appropriate to consider this deficit, after identifiable public services, as a revenue gap attributable to deficient rates.

On the other hand, the case can readily be made that not merely the reductions from the regular classes of mail that make up the bulk of the so-called public service costs considered by the Department as identifiable subsidies but the class structure itself involves a considerable element of subsidy. It is often argued that publishers of books, magazines, and newspapers, and bulk mail shippers of advertising matter are in effect subsidized by the low rates which are in effect for second-, third-, and fourth-class mails. It is, of course, difficult to assess the extent of this subsidy, and the degree to which the recipients of books, magazines, and other printed matter, as opposed to the publishers and other businesses sending mail out by second-, third-, and fourth-class mail, are the beneficiaries of the existing postal rates.

Complicating the issue of the amount of subsidy involved in postal operations is the argument that the difference between postal rates and costs, as ascertained by the Division and Cost Ascertainment, Bureau of Finance and Administration, Post Office Department, provides an inadequate basis for determining subsidies. As already noted, the preferential treatment accorded first-class mail, and the corresponding delays frequently encountered by other mail classes, gives first-class mail a greater value than is recognizable on the basis of cost analysis. Similarly many of the larger second-class users perform such postal services as presorting, and providing transportation to local post offices or railroad stations. This service is only indirectly reflected under a cost ascertainment system.

It may be noted that the cost ascertainment figures themselves have at times come under attack as based on too small a sample of mail carried or services rendered, and thus as being inadequate, or sometimes in error. A common criticism is that costs allocated to first-class mail are understated. On the other hand, the cost ascertainment system has operated continuously since 1926 and has received critical evaluation and support from many sources, both public and private.

ACCELERATED AMORTIZATION OF DEFENSE FACILITIES FOR TAX PURPOSES

Granting accelerated amortization for tax purposes had as its primary objective providing the incentive for rapid construction of needed defense production facilities. However, there is a widespread, although not unanimous, belief that the provisions of the Internal Revenue Code allowing accelerated depreciation for tax purposes of construction projects certified by the Government as being in the interests of defense involve a subsidy. The extent of the subsidy ultimately depends on (1) future tax rates, (2) the rate of return on investment of the funds available as a result of reduced taxes arising from the accelerated amortization, and (3) the changes in the value of the dollar. If corporate tax rates and rates of return on investments are assumed to remain the same over 25 years, or over the normal operating life of the facility being amortized, the corporation receives the benefit of the lower taxes for the first 5 years during which the facility is depreciated for tax purposes, and has, in effect, additional funds, comparable to an interest-free loan, to use for increasing working capital, repaying bank loans, etc., during that time. There is, however, less deduction available to the corporation in computation of its taxes after the 5-year period during which the amortized facility has been written off. If corporate taxes are reduced in the future, the corporation whose facilities have been written off at the accelerated rate benefits. But if corporate taxes are increased, the corporation would be paying more taxes in the aggregate than if it had not obtained a certificate of necessity permitting it to write off its defense facilities at the accelerated rate. The difference in total tax payments under the two alternatives is probably less significant in most cases than benefits the corporation will receive as a result of investment of funds available from the tax deferral involved in accelerated amortization of defense facilities. The corporation, of course, has a wide option as to the use of these funds, including investment in plant or facilities of the firm, investment in securities of other firms or governmental units, increasing working capital, and repayment of debt.

During World War II, certificates of necessity were issued for a total of $7,300 million, of which about $5,700 million were reported for tax purposes. Benefits from this program came largely after 1943.

The program of accelerated amortization was renewed after the outbreak of the Korean war in 1950. From the beginning of the program on November 1, 1950, through its termination on December 31, 1959, the estimated costs of facilities for which certificates of necessity were granted was $39,600 million. Of this amount $23,300 million or 59 percent were certified as eligible for accelerated depreciation.

The Treasury Department has estimated what effect the excess of the accelerated amortization over the normal depreciation will have on Federal tax collections, based on certificates of $22,422 million, issued through October 1956. Their results are shown in the following table and illustrate the subsidy element as discussed in the first paragraph of this section.

TABLE 22.—*Effect of allowance of emergency amortization certificates on tax liabilities*[1]*—Certificates issued through Oct. 31, 1956*

[In millions of dollars]

Calendar year	Decreases in tax collections	Calendar year	Increases in tax collections
1950	7	1961	126
1951	113	1962-66 (average)	239
1952	308	1967-71 (average)	122
1953	583	1972-76 (average)	99
1954	737		
1955	892	Total 1961-76	2,426
1956	918	Total after 1976	2,326
1957	745		
1958	543		
1959	302		
1960	48		
Total	5,196		

[1] Computed on the basis of a straight-line rate of 6 percent, assuming that all certificate holders use the declining-balance method at 200 percent of the straight-line rate for assets acquired after Jan. 1, 1954, switching to straight line when it becomes advantageous; also assumes effective tax rates, including rate decrease schedules under present law.

Sources: U.S. Congress. Joint Committee on Internal Revenue Taxation, "A Report on 5-Year Amortization of Emergency Defense Facilities Under Section 168 of the Internal Revenue Code of 1954," 1956, p. 12. Congressional Record (daily), July 26, 1955, p. 9928.

The amounts actually certified for accelerated amortization in each fiscal year from 1951 through 1959 are shown in the following table:

TABLE 23.—*Certificates of necessity for accelerated amortization, fiscal years 1951–59*

[Dollar values in millions]

Year	Number	Amount applied for [1]	Total [2]	Amount certified eligible for rapid amortization [3]	
				Amount	Percent
1951	2,322	$7,878	$7,614	$5,326	70
1952	9,692	14,020	13,268	7,534	57
1953	5,466	6,465	6,175	3,333	54
1954	2,077	3,099	2,991	1,629	54
1955	1,258	1,745	1,694	983	58
1956	1,405	6,193	6,042	3,808	63
1957	669	2,132	1,940	1,056	54
1958	74	138	122	74	60
1959	130	108	95	57	61
Grand total	23,093	41,778	39,941	23,800	60
Net adjustments [4]	−937	−1,958	−452	−551	
Net total [5]	22,156	39,820	39,489	23,249	59

[1] Estimated total cost of profects as shown on applications.
[2] That portion of the total amount applied for which remains after the elimination of disallowable items such as land, administrative facilities, and replacement of existing facilities.
[3] That portion of the total amount certified which is determined to be attributable to national defense purposes, and therefore is eligible for rapid tax amortization for income tax purposes.
[4] Largely composed of amendments and corrections for which allocation to period was determined to be administratively infeasible.
[5] As of June 30, 1959.

Source: U.S. Office of Civil and Defense Mobilization, Annual Statistical Report, June 30, 1959 p. 181.

As this table suggests, there was a sharp curtailment of the accelerated tax amortization in 1957, as a result of congressional legislation. The program was terminated as of December 31, 1959. Thus, the data in table 22 are not affected to any major extent.

Since 1950, the industries which have received most of the certificates of necessity are primary metal, chemical, petroleum, machinery, ordnance, aircraft, missiles, research and development, and utilities. During fiscal year 1959 almost all of the certificates of necessity which were approved were for missile and rocket research and development.

Minerals producers received 518 certificates of necessity by the end of the first quarter of 1958 when all minerals goals for tax amortization were closed. From 25 to 90 percent of the value of the facilities was authorized for accelerated amortization, depending on minerals involved. Nearly two-thirds of the certificates to minerals producers were for producers of iron, including taconite (138 certificates), lead and zinc (49 certificates), lime, limestone, and dolomite (43 certificates), aluminum (37 certificates), copper (29 certificates), uranium (23 certificates), and titanium (22 certificates). From August 1957 through December 1959, issuance of certificates of necessity was limited to facilities (*a*) for the production of new or specialized defense items, (*b*) to provide research and development services for the Department of Defense or for the Atomic Energy Commission, or (*c*) to provide primary processing for uranium ore or uranium concentrate under a program of the Atomic Energy Commission for the development of new sources of uranium ore or uranium concentrates. Defense facilities which were otherwise eligible for accelerated amortization were given additional percentages of certification over the normal percentage pattern, (*a*) if located in a surplus labor area, or (*b*) for the cost of protective construction including personnel shelters.

AIDS TO MINERALS PRODUCERS

The accelerated amortization of certain mining facilities allowed for tax purposes, as indicated above, is only one of numerous methods used by the Federal Government to assist the mining industry. Indeed, the mining industry offers another good example of the difficulties involved in determining the amount of subsidy received by a particular industry. Assistance to the mining industry has been given for many decades but has been expanded appreciably following World War II. In fact, the Bureau of Mines, established in 1910, has for 50 years been engaged in programs designed to conserve and develop mineral resources, thereby assisting mine owners and operators.

Silver purchases

The first silver purchase program was authorized in 1878. In that year the Bland-Allison Act was passed, requiring the Treasury to buy specific quantities of silver each month, the metal thus purchased being added to the stock of money. In 1934, Congress passed the Silver Purchase Act of 1934 (48 Stat. 1178) which directed that silver purchases should be continued until silver would amount to one-fourth of the metal backing for the currency. In that year the buying price of silver was set at 50 cents an ounce, compared to a market price for silver of 24.5 cents an ounce in 1932. In 1939 the price was raised to 71.11 cents and again in 1946 to 90.5 cents. As a result of this price-supporting program, production of silver has tripled. For many years the Government purchased nearly all of the domestic silver produced. But in 1956–58, and in 1960 and subsequent years, its purchases became a much smaller part of the market. The mint sold substantial amounts of silver to industry in 1956, and much larger amounts in 1961. Its sales in the latter year were almost 45 percent as much as the year's production. On November 28, 1961, the Treasury suspended sales of silver to domestic industrial users. Prices for silver rose to a high of 104.75 cents in 1961, to 122 cents in 1962, and to 129.3 cents in 1963. Large-scale redemption in silver of silver certificates began on September 12, 1963; silver could be obtained at 129.3 cents an ounce by redeeming certificates. Silver dollars totaling about 460 million were taken out of circulation by collectors. The United States became a net exporter of silver.

The silver purchase programs were terminated by act of June 4, 1963, which also authorized replacement of $1 and $2 silver certificates with Federal Reserve notes of such denominations. Authority to mint $45 million new silver dollars was enacted in July 1964.

At the end of September 1964, the Office of Minerals Exploration (Department of the Interior) increased to 75 percent (from the previous 50 percent) its share in the total cost of new private silver exploration ventures. Contracts from July 26, 1961, to September 1964 would cost the Government $788,738, at 50 percent of cost. The Office of Minerals and Solid Fuels also was instructed by the Secretary of the Interior to determine how much silver would be available for potential mobilization needs, and to develop information needed to establish an adequate mobilization base.

Changes in the metallic composition of subsidiary coinage are being considered by the Government.

Stockpiling programs

The several stockpiling programs which have been undertaken since the end of World War II were approved by the Congress largely as a result of the severe shortages experienced during the war and the intention of preventing any recurrence of such shortages. A parallel objective has been to provide an incentive for sufficient production to maintain an active mining industry in the United States. Recently there is some evidence that the latter objective has gained precedence over the former, as stockpiling goals have been reached and, due to changing concepts of requirements in a future war, reduced in several instances.

The acquisition of minerals and other strategic materials for stockpiling has taken place under several statutes, the most important being the following:

1. Strategic and Critical Materials Stock Piling Act of 1946 (Public Law 520, 79th Cong., as amended by Reorganization Plan No. 3, effective June 12, 1953.)
2. Defense Production Act of 1950 (Public Law 744, 81st Cong.).
3. Domestic Minerals Expansion Act of 1953 (Public Law 206, 83d Cong.).
4. Agricultural Trade Development and Assistance Act of 1953 (Public Law 480, 83d Cong.). This act is designed to permit imports of strategic materials in exchange for surplus agricultural commodities and thus does not provide assistance directly to domestic minerals producers.
5. Domestic Tungsten, Asbestos, Fluorspar, and Columbium-Tantalum Production and Purchase Act of 1956 (Public Law 733, 84th Cong.).
6. Federal Facilities Corporation Act of 1956 (Public Law 608, 84th Cong.).

Purchases and losses under the Defense Production Act program from December 1950 through June 30, 1964, are shown in the following table:

TABLE 24.—*Summary of Defense Production Act metals and minerals inventory—Total purchases, inventory, and operating costs, Dec. 29, 1950, to June 30, 1964*

Commodity	Total purchases	Inventory at cost	Sales from inventory: Received from sales	Sales from inventory: Government cost	Sales from inventory: Gain or (loss)	Operating expenses	Net operating profit or (loss)	June 30, 1964, market value of inventory
Aluminum (pig)	$647,527,843.31	$415,649,887.81	$229,193,313.81	$231,877,955.50	($2,684,641.69)	$18,581.61	($2,703,223.30)	$395,703,000
Aluminum subsidy (power)	----------	----------	----------	----------	----------	19,108,396.88	(19,108,396.88)	----------
Aluminum (sheet)	4,783,156.24	0	5,036,339.50	4,783,156.24	253,183.26	75,171.76	178,011.50	----------
Asbestos	2,102,610.87	2,102,610.87	0	0	0	43,789.52	(43,789.52)	1,428,000
Bauxite	25,304,369.86	18,167,964.20	7,085,435.32	7,136,405.66	(50,970.34)	77,416.94	(128,387.28)	16,003,000
Beryl	1,966,487.25	1,425,842.61	426,831.36	540,644.64	(113,813.28)	202,217.57	(316,030.85)	839,000
Bismuth	52,361.89	52,361.89	0	0	0	0	0	52,000
Chrome	38,583,538.71	35,879,914.63	2,468,088.92	2,703,624.08	(235,535.16)	572,093.02	(807,628.18)	14,382,000
Cobalt	56,660,357.92	52,075,345.88	3,996,049.76	4,585,012.04	(588,962.28)	112,677.37	(701,639.65)	37,853,000
Columbium tantalum	79,789,264.80	60,673,092.13	11,068,895.53	19,116,172.67	(8,047,277.14)	999,056.54	(9,046,333.68)	10,765,000
Columbium tantalum subsidy	----------	----------	----------	----------	----------	6,276,886.38	(6,276,886.38)	----------
Copper	134,710,123.06	53,459,283.15	87,382,832.01	81,250,839.91	6,131,992.10	432,717.51	5,699,274.59	60,544,000
Copper subsidy	----------	----------	----------	----------	----------	1,884,794.14	(1,884,794.14)	----------
Cryolite	15,338,836.06	5,917,527.67	5,886,690.93	9,421,308.39	(3,534,617.46)	198,193.12	(3,732,810.58)	2,786,000
Fluorspar	14,962,095.64	1,394,452.72	10,278,689.32	13,567,642.92	(3,288,953.60)	44,678.24	(3,333,631.84)	806,000
Graphite	177,545.00	0	28,637.24	177,545.00	(148,907.76)	50,625.03	(199,532.79)	----------
Lubricating graphite development	----------	----------	----------	----------	----------	173,858.06	(173,858.06)	----------
Lead	15,145,972.00	0	13,239,811.13	15,145,972.00	(1,906,160.87)	253,393.20	(2,159,554.07)	----------
Magnesium	122,754,518.01	0	110,860,261.85	122,754,518.01	(11,894,256.16)	3,721,870.72	(15,616,126.88)	----------
Manganese	226,349,118.34	178,999,743.80	29,619,215.93	47,349,374.54	(17,730,158.61)	5,341,675.15	(23,071,833.76)	66,058,000
Mercury	6,802,842.87	0	6,826,241.11	6,802,842.87	23,398.24	11,103.91	12,294.33	----------
Mica	53,251,105.64	41,494,349.48	3,959,788.49	11,756,756.16	(7,796,967.67)	1,488,997.26	(9,285,964.93)	19,307,000
Molybdenum	39,889,847.74	0	38,457,047.90	39,889,847.74	(1,432,799.84)	74,530.73	(1,507,330.57)	----------
Nickel (Nicaro)	146,817,753.47	911.81	178,746,316.14	146,816,841.66	31,929,474.48	86,588.75	31,842,885.73	1,000
Nickel (other)	304.451,794.26	100,309,889.57	155,354,997.69	204,141,904.69	(48,786,907.00)	31,574,121.31	(80,361,028.31)	77,308,000
Rutile	----------	----------	----------	----------	----------	1,258,444.35	(1,258,444.35)	----------
Scrap (nonferrous)	532,904.48	0	426,312.89	532,904.48	(106,591.59)	0	(106,591.59)	----------
Selenium	----------	----------	----------	----------	----------	228,442.64	(228,442.64)	----------
Tin	176,592,885.97	0	175,024,671.37	176,592,885.97	(1,568,214.60)	16,788.03	(1,585,002.63)	----------
Titanum	184,171,425.53	178,716,422.52	4,653,213.90	5,455,003.01	(801,789.11)	2,427,180.30	(3,228,969.41)	57,007.000
Tungsten	365,194.190.11	317,538,522.84	35,597,372.69	47,655,667.27	(12,058,294.58)	2,049,407.29	(14,107,701.87)	104,479,000
Zinc	27,718,031.63	0	21,668,892.72	27,718,031.63	(6,049,138.91)	93,434.56	(6,142,573.47)	----------
Total	2,691,630,980.66	1,463,858,123.58	1,137,285,947.51	1.227,772,857.08	(90,486,909.57)	78,897,131.89	(169,384,041.46)	865,321,000
Minerals and metals expenses not included above:								
Research and development	----------	----------	----------	----------	----------	----------	(7,553.80)	----------
Losses on receivables and advances	----------	----------	----------	----------	----------	----------	(6,143,759.00)	----------

Depreciation	-----	-----	-----	-----	-----	-----	(7,058,024.70)	-----
Loss on disposal of capital assets	-----	-----	-----	-----	-----	-----	(31,044,908.23)	-----
Other	-----	-----	-----	-----	-----	-----	(2,693,960.92)	-----
Total	-----	-----	-----	-----	-----	-----	(46,948,206.65)	-----
Income from interest, rentals, etc.	-----	-----	-----	-----	-----	-----	30,224,955.59	-----
Total not included above	-----	-----	-----	-----	-----	-----	(16,723,251.06)	-----
Net operating loss, minerals and metals program	-----	-----	-----	-----	-----	-----	186,107,292.52	-----

NOTE.—Does not include purchases of rubber in the amount of $866,143,152.31 which was sold for a net operating profit of $13,804,808.97.

Source: U.S. Congress, Joint Committee on Defense Production, 14th annual report Jan. 12, 1965 (89th Cong., 1st sess., H. Rept. 1), pp. 28–29.

The net operating loss for these purchases and related programs through June 30, 1964, is estimated at $186.1 million. The most important minerals in terms of net losses through June 30, 1964, are nickel, aluminum, magnesium, columbium-tantalum, and manganese.

It may be noted that in this table the word "subsidy" is used in three instances to indicate certain designated programs involving payments to minerals producers. The loss of $19.1 million under the aluminum subsidy (power) program was a loss resulting from a program to cover excess power costs of reactivated facilities and excess power cost resulting from water shortages in the Pacific Northwest. Payments were made to three aluminum companies. The $1.8 million copper subsidy was the result of a program designed to keep in production copper mines of six companies which would go out of production as a result of increased costs and fixed ceiling prices during the Korean conflict. The $6.3 million columbium-tantalum subsidy was paid as a bonus in a program to stimulate the output of these metals. The first two of these programs expired in April 1953, and the third within the next 2 years.

The extent of Government purchases and estimated net losses under the Domestic Minerals Expansion Act of 1953 is shown in table 25. The net loss of $30.0 million through June 30, 1964, is less than one-sixth of the losses sustained under the Defense Production Act. However, it is estimated, in terms of market values prevailing at mid-1964, that future losses under the Domestic Minerals Expansion Act program will amount to about $254.8 million, making an ultimate net cost of the program of $284.9 million. Of the total ultimate net cost, 44 percent is designed for tungsten producers, 30 percent for manganese producers, 15 percent for columbium-tantalum producers, and 11 percent for all other.

TABLE 25.—*Government purchases and estimated net losses under domestic minerals purchase regulations (including Public Law 206, through June 30, 1964)*

Requisition	Termination date	Unit	Program limitation quantity	Purchases during fiscal year 1964 [1]		Cumulative purchases [1]		Estimated gross program cost [2]	Probable ultimate net cost		
				Quantity	Amount	Quantity	Amount		Realized to June 30, 1964 [3]	Estimate for future [4]	Total
Public Law 206, 83d Cong.											
Asbestos	Oct. 1, 1957	Short tons, crude No. 1 and/or crude No. 2 asbestos.	1,500			1,499	$1,762,541	$2,1[illegible]5,000	$43,000	$674,000	$717,000
		Short tons crude No. 3				850	340,070				
Beryl	June 30, 1962	Short dry tons, beryl ore	4,500			3,268	1,826,774	2,56[illegible]000	171,000	582,000	753,000
Columbium tantalum	Dec. 31, 1958	Pounds, contained combined pentoxide.	15,000,000			15,567,912	60,637,262	67,373[illegible]000	11,312,000	31,496,000	42,808,000
Manganese:											
Butte-Phillipsburg	June 30, 1958	Long-ton units, recoverable manganese.	6,000,000			6,020,471	9,074,869	11,210,[illegible]0	5,474,000	3,849,000	9,323,000
Deming	do	do	6,000,000			6,215,258	12,036,388	12,319,0[illegible]	283,000	10,528,000	10,811,000
Wenden	do	do	6,000,000			6,108,316	10,743,179	10,959,00[illegible]	216,000	8,855,000	9,071,000
Domestic small producers.	Jan. 1, 1961	Long-ton units, contained manganese.	28,000,000			28,069,901	71,398,922	71,865,00[illegible]	1,627,000	53,696,000	55,323,000
Mica	June 30, 1962	Short tons, hand-cobbed mica or equivalent.	25,000			25,000	26,449,056	35,495,000	7,757,000	22,188,000	29,945,000
Tungsten	July 1, 1958	Short-ton units, tungsten trioxide.	3,000,000			2,996,280	189,212,786	189,799,000	[illegible]159,000	122,947,000	126,106,000
Public Law 520, 79th Cong.											
Chrome	June 30, 1959	Long dry tons, chrome ore and/or chrome concentrates.	200,000			199,961	18,588,036	[5] 18,588,000			
Total							402,069,883	422,313,000	30,[illegible],000	254,815,000	284,857,000

[1] Includes purchase cost of materials only.
[2] Includes (a) purchase cost of materials delivered, (b) initial transportation charges to storage site, and (c) operating costs of depots established under program.
[3] Includes actual loss from resales, operating costs of depots, and transportation charges.
[4] Represents primarily estimated inventory losses based on current market value.
[5] Purchase made with stockpile funds (Public Law 520) for delivery to stockpile.

Source: U.S. Congress. Joint Committee on Defense Production, 14th annual report, Jan. 12, 1965 (89th Cong., 1st sess., H. Rept. 1), p. 38.

Assistance by General Services Administration

A broad indication of the other programs of assistance to mineral producers and other contractors that have been carried on by the General Services Administration may be found in the following table:

TABLE 26.—*General Services Administration summary statement of assistance to contractors, by type and program, cumulative through Dec. 31, 1956*

Material program	Tax amortization		Loan guarantee		Direct Government loans certified	Total advances to contractors	Procurement transactions					
	Total estimated cost of facilities	Normal percent allowed	Maximum amount authorized	Average percent guaranteed			Subsidy payments	Industrial machinery	Research contracts	Processed at Government plant	Purchase contracts	Total gross transactions
	Thousands		*Thousands*		*Thousands*	*Thousands*	*Thousands*	*Thousands*	*Thousands*	*Thousands*	*Thousands*	*Thousands*
Alumina	$132,491	80										
Aluminum	745,119	80	$120,750	79		$15,735	$19,274				$1,535,805	$1,555,079
Antimony	194	60										
Arsenic	465	65										
Asbestos											2,147	2,147
Barite	2,271	30										
Bauxite	30,041	80									25,540	25,540
Beryllium					$45	34			$150		2,721	2,871
Bismuth											1,013	1,013
Borates	1,966	25										
Bromine	5,061	50										
Cadmium	276	60										
Chrome			1,500	70		3,445					40,751	40,751
Cobalt											114,370	114,370
Columbium-tantalum	3,685	80	2,850	90		155			625		97,889	98,514
Copper	228,525	75			121,900	534	1,905				674,086	675,991
Cryolite	6,659	75									15,541	15,541
Diatomite	6,355	35										
Dolomite			2,636	80							20,000	20,000
Fluorspar						1,280					15,839	15,839
Fluorspar and fluorides	4,282	65										
Garnet	299	60										
Germanium	110	70										
Graphite										$613	286	899
Gypsum	158	60										
Hospital equipment			850	85								
Iron, including taconite	1,244,300	65										
Iron ore					57							
Lead											20,817	20,817
Lead and zinc	63,314	60										
Lime, limestone, and dolomite	48,697	60										

Lime rock					92							
Machine tool (elephant)								$4,800				4,800
Machine tools (pool)			31,212	84		53,782		1,285,744				1,285,744
Magnesium	7,024	50	386	74						129,271	209	129,480
Manganese	18,756	75	4,750	92	15,000	9,117			2,704		466,147	468,851
Mercury	1,091	80									45,000	45,000
Mica									214		48,027	48,241
Mica, natural sheet	1,254	45										
Mica, synthetic sheet	208	90										
Mineral development											382	382
Molybdenum	22,994	75			540						154,192	154,192
Mullite	47	65										
Nickel	90,884	82				49,533			6,586	120,757	578,166	705,509
Pallets (for storage of quebracho tanning extract)			60	90								
Phosphate rock	11,621	50										
Quartz crystals	632	50										
Rare earths	4,219	75										
Refractory clay	1,213											
Refractory magnesias	19,691	65										
Rubber											882,704	882,704
Rutile and monazite	2,182	65							10		1	11
Salt	451	50										
Sand	805	30										
Scrap (nonferrous)											533	533
Selenium	101	70							288			288
Soda ash	16,200	30										
Sulfur	22,342	70										
Tin						2,841					179,471	179,471
Tin-tungsten			374	100								
Titanium	117,779	90				51,718			2,429		212,667	215,096
Tungsten	5,960	65			124	88					370,056	370,056
Zinc					1,080	370	18				28,930	28,948
Administrative expense											14,596	14,596
Custodial											3,389	3,389
U.S. Treasury expense											52,797	52,797
Grand total	2,869,722		165,357		138,838	188,632	21,197	1,290,544	13,006	250,641	5,604,072	7,179,460

GENERAL NOTE.—Amounts appearing in columns on both sides of the double line are integral parts of total procurement operations and therefore should not be added together. For example: A procurement contract for new facilities could provide for an advance of funds for working capital against future production under the contract without increasing the total amount of the procurement contract.

Source: U.S. Congress, Joint Committee on Defense Production, Progress Report No. 38 on the Defense Production Act, hearings, May 21, 1957, pp. 32-33.

It will be noted that this table includes certain programs already referred to in this report, such as tax amortization, subsidy payments, and purchase contracts. However, it gives a better conception of the breadth of these programs than has been suggested heretofore. Comparable data have not been compiled for the period following December 31, 1956, in part because a number of the programs included in the table have been inactive since that time.

Other assistance

The Office of Minerals Exploration in the U.S. Department of the Interior is the agency through which the Government furnishes financial assistance in exploration for 32 mineral commodities. It contracts with eligible applicants to pay up to one-half of the cost of work authorized for the exploration. The Government's contribution may not exceed $250,000 in any single contract. The contract provides for repayment of the Government's contribution with interest by a royalty on production from the land described therein. If there is no production, there is no obligation to repay. This is an extension of the program formerly administered by the Defense Minerals Exploration Administration, as authorized by act of August 21, 1958 (72 Stat. 700). As of June 30, 1964, $23,346,000 of Government funds had been disbursed under this program and repayments made totaling $4,875,000.

Other types of assistance to minerals producers which the Federal Government currently provides include making loans and advance payments, guaranteeing loans, building access roads to mineral properties, and to some extent depletion allowances for tax purposes, protective tariffs and import quotas.

CHAPTER VIII

MISCELLANEOUS SUBSIDY AND SUBSIDYLIKE PROGRAMS

SURPLUS PROPERTY DISPOSAL

Although no subsidy has usually been intended, the disposal of surplus products by the Government has at times resulted in benefits to particular segments of the population, with the cost borne by the taxpayers of the Nation. The benefits derived from the disposal of surplus farm commodities have already been discussed (pp. 32, and 37–38).

The disposal of various kinds of property considered surplus by Government agencies, primarily military property, has reached sizable proportions and continues to be a major administrative task. The total volume of war surplus property accumulated from World War II has been estimated at close to $50 billion. Of this amount $27,200 million was disposed of through the War Assets Administration (and predecessor and successor agencies); $10,400 million overseas through the State Department, the Army, and the Navy; and $12,300 million worth of shipping, through the Maritime Commission and other agencies.

Of the $27,200 million of net acquisitions administered by the War Assets Administration, $10,300 million were not sold but given to various governmental, educational, and other agencies, and in some cases to friendly foreign nations; $15,100 million worth (reported cost) of surplus property were sold with a sales realization of $4,100 million. The difference between the reported cost and sales realization cannot, of course, all be considered as a subsidy, since the reported cost does not take into account such factors as depreciation, deterioration, obsolescence. Some purchasers, however, were able by surplus sales programs to obtain goods at lower prices than prevailed on the open market for comparable items.

The experience in the disposal of surplus property following the Korean war has been similar to post-World War II disposal. According to the Commission on Organization of the Executive Branch of the Government (Hoover Commission) Task Force on Surplus Property:

> In the 3 years and 9 months preceding March 31, 1954, $2,167 million (at acquisition cost) was disposed of with return to the Government of but $168 million—about 7.7 percent of cost. Some of the reported acquisition cost—especially in the sale of airplane scrap—are estimates only, and consequently the average return may be even lower. The tendency is toward smaller percentage returns, due to a growing glut of surpluses in increasingly saturated markets.[1]

[1] U.S. Commission on Organization of the Executive Branch of the Government, Task Force on Use and Disposal of Federal Surplus Property. Report on use and disposal of Federal surplus property. February 1955, p. xviii.

Surplus disposal continues to be a major element in a rounded military procurement program. Obsolescence and quality deterioration with age make it necessary for the military to dispose of sizable quantities of salable materials each year. The 1963 annual report of the Department of Defense reported that the Department generated excess and surplus property with an acquisitions cost of $5.1 billion in fiscal year 1963. Of this total $1.2 billion was reutilized within the Department of Defense. Over half of the total ($2.54 billion) was designated for sale as scrap and $0.9 billion was sold as usable property. Less than $100 million was realized in cash from sales of Defense excess and surplus property during fiscal year 1963.

The following table shows the trend in the sale of surplus personal property for the fiscal years 1959–63:

TABLE 27.—*Government-wide sales of surplus personal property, fiscal years, 1959–63*

Fiscal year	Acquisition cost of usable property (in billions)	Proceeds (in millions)		
		Usable property	Scrap	Total
1959	$2.1	$99.6	$66.0	$165.6
1960	2.1	105.0	62.2	167.2
1961	1.6	88.4	57.1	145.5
1962	1.0	68.7	43.9	112.6
1963	.7	45.5	29.6	75.1

Source: General Services Administration. Annual report, fiscal year 1963, p. 6.

Most of the surplus property generated within the Government is disposed of to other Government agencies, schools, hospitals, civil defense agencies, and State governments for educational and health purposes. Much of the material is sold as scrap having no other use.

RECONSTRUCTION FINANCE CORPORATION WARTIME SUBSIDIES

The subsidy programs of the Reconstruction Finance Corporation are, of course, now only a matter of historical record. A brief discussion of their magnitude and character is included because, during World War II, these subsidies were among the largest in the Government and because the payments made as subsidies were subsidies in the most unequivocal sense.

The subsidy programs of the Reconstruction Finance Corporation were adopted as a war measure for the purpose of stimulating production of materials and supplies essential to the national defense and the war effort. Authorization for its subsidy operations is found in section 5d of the Reconstruction Finance Act (15 U.S.C. 606b) which permits the Corporation to "produce, acquire, carry, sell, or otherwise deal in strategic and critical materials, as defined by the President" and in section 2(e) of the Emergency Price Control Act of 1942, as amended by the Stabilization Extension Act of 1944. The latter limited the subsidy functions of the RFC after July 1, 1945. Certain agricultural subsidies were transferred from the RFC to the Commodity Credit Corporation by the act of July 31, 1945.

Public Law 88, 79th Congress, June 23, 1945, provided for specific maximum amounts authorized for subsidy payments by the RFC.

From the inception of the program in 1942 to June 30, 1951, the RFC expended in subsidy payments an aggregate amount of approximately $3,123 million. By that date, the Corporation's activities in connection with these programs were virtually completed, with the exception of the clearance and settlement of a few subsidy claims which were still pending. Some of the principal items involved were meat, petroleum, flour, butter, zinc, copper, excess transportation costs, coffee, lead, woodpulp, and nitrate of soda.

In addition to the direct subsidy programs of the Reconstruction Finance Corporation, two other programs have been included in the category of "subsidies to producers and others" as listed in the RFC report for the fiscal year 1951. Reimbursements to producers of aluminum for extra power costs during the war totaled $26 million and losses of the U.S. Commercial Company totaled $2.6 million.

Like the consumer subsidy program of the Commodity Credit Corporation, discussed above, this program was essentially part of the price control program. It permitted prices to consumers to remain at levels which were unremunerative to producers whose output was essential during the war. These subsidies were inducements to high-cost producers to add to total production despite the unremunerative ceiling prices established and enforced.

HOUSING PROGRAMS

In the above pages, the major subsidy programs which have been in operation for several years and for which statistics are available have been described. There are, of course, many other programs which have some of the characteristics of subsidies, but which either are of limited duration or for which the amount of subsidy involved is difficult to ascertain.

Many of the Government's housing programs subsidize, in effect, homebuilders, financing institutions, owners, and renters. The low-rent housing program of the Public Housing Administration enables tenants of these public housing units to obtain better living accommodations than they would otherwise be able to obtain at comparable rentals. Homebuilding has been accelerated and homeownership stimulated through the loan and guarantee programs of constituent agencies of the Housing and Home Finance Agency. The Federal Housing Administration insures mortgages and property improvement loans made by private lending institutions. The Federal National Mortgage Association, among other functions, provides stability for the mortgage lending market by improving the distribution of investment capital available for residential mortgage financing through its secondary market operations. Finally, the Veterans Administration, independent of the Housing and Home Finance Agency, guarantees housing, business, and farm loans made by private lenders to World War II and Korean war veterans, and also makes loans—to the extent funds are made available by the Congress—directly to veterans for the purchase or construction of homes in areas where the guarantee program is ineffective because of a lack of private loans

at 5¼ percent interest, formerly 4½ percent. As noted in chapter II, not all of the Government housing loan programs now involve a net cost to the Government.

LENDING PROGRAMS

Some industrial concerns have been able to obtain loans on more favorable terms than would be available from private sources from the Reconstruction Finance Corporation before 1952, and more recently from the Small Business Administration. Loans to American exporters and to foreign firms and governments to finance the purchase of American goods are made through the Export-Import Bank. Guarantees of, and participation in, private loans are also undertaken by the Export-Import Bank.

BENEFITS TO BANKS

Banks themselves have been the recipients of benefits from the Federal Government which may be interpreted to be in the nature of subsidies. Some of the more important are the following.

Although stock held by member banks in the Federal Reserve banks is not essential to the functioning of the Reserve System, since the money-creating power comes from the Congress, the member banks nonetheless receive an assured income of 6 percent on this Federal Reserve stock.

The Treasury keeps its funds in commercial banks under special rules which give the banks an opportunity for profit since interest is not paid on the tax and loan accounts representing taxes collected and the proceeds of sales of Treasury securities. The Treasury transfers parts of the accounts to the Federal Reserve banks, at prescribed intervals, and attempts to synchronize the withdrawals with Federal expenditures. In this interval, the commercial banks can plan on the employment of these Treasury deposits in the making of loans. Bank earnings would thus be diminished if the Treasury made its calls for immediate transfer to Federal Reserve banks or if the Treasury required the banks to pay interest on these deposits.[2]

The banking laws of the United States and the various States support the banks in the position that not all depositors are likely to withdraw deposits at the same time. The result is that banks need and in fact do hold as reserves only a fraction of the amount of demand which might be made upon them. When the reserve requirements of commercial banks are established at low levels or reduced, the banks may expand credit and their earning assets without any real cost to themselves.

Banks also have been able to expand their loans significantly as a result of the Federal Government's various loan insurance programs, listed on pages 13 and 14 above, and the Government's participation in other loans, such as some of those of the Small Business Administration.

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[2] A study of costs and benefits of the tax and loan accounts, based on 1963 experience, entitled "Report on Treasury Tax and Loan Accounts and Related Matters" was issued by the Fiscal Service of the Treasury Department on Dec. 21, 1964.

There are various other ways in which the U.S. Government, especially through the operations of the Federal Reserve System, absorbs costs which might ordinarily be expected to be paid by the commercial banking system iself. This absorption of costs by the Reserve System amounts in effect to a Government subsidy. While the par collection system of clearing checks at face value is generally accepted as a national good, there is no clear or persuasive reason why the banks should not pay the costs of check clearing, as they do indeed in some local situations, through local clearinghouses. As it is, the commercial banks, in effect, receive a subsidy in an amount which would otherwise have gone into the Treasury accounts through the residual earnings of the Federal Reserve banks. The Government and the Federal Reserve System also bear part of the cost of such services as handling, sorting, and maintaining stocks of coin and currency, which banks would otherwise have to absorb.

TAX BENEFITS

Some students of taxation have claimed that various tax provisions, as they have worked out, tend to favor certain firms, industries, and individuals, and thus might be interpreted to involve an element of subsidy.[3] The provisions for accelerated amortization of certain facilities for tax purposes have already been mentioned. The depletion allowances for petroleum, sulfur, gas, and other extractive industries are designed to permit producers by means of a tax credit to recoup the reduction in capital involved in the extraction of particular raw materials, and thus to encourage the development of these resources. The liberalized depreciation allowance approved by the Treasury Department in 1962 and the investment tax credit passed by Congress also in 1962 proved of particular benefit to certain companies and industries.

State and local governments have encouraged new businesses by providing for specific exemptions from business and property taxes.

Attempts to obtain greater equity in the tax structure have resulted in benefits that tend to help particular groups of individuals, such as home mortgagors and other borrowers, those with high medical expenses, the aged, etc. Such tax provisions benefiting individuals might readily be considered outside the scope of subsidies as more narrowly defined.

NATURAL RESOURCE AND REGIONAL DEVELOPMENT PROGRAMS

A large proportion of the Government's irrigation, reclamation, power, and other natural resource and regional development programs are frequently considered as subsidies. One of these, the Rural Electrification Administration program, has already been discussed above (pp. 41–42).

The reclamation program of the Federal Government had its inception, like the earlier land grants, in the goal of settling new lands. To the extent that the cost of construction of irrigation projects was borne by interest-free funds, even though repaid, this would consti-

[3] See, for example, Hubbell, Robert L., "Concealed Subsidies in the Federal Budget." National Tax Journal, vol. 10, September 1957 : 214–227.

tute a subsidy, similar to the accelerated amortization of defense facilities, discussed above (pp. 67–70).

With the coming of multipurpose projects and the assumption by the Federal Government of responsibility for fish and wildlife conservation and for flood control, it becomes difficult to determine what elements of subsidy are involved in the costs of entire projects.

A conspicuous example of a multiple-purpose project, where a determination of the extent of subsidy is particularly difficult, is the Tennessee Valley Authority. The TVA carries on such diverse functions as electric power production, manufacture, development, and research on fertilizers, flood control, improvement of navigation facilities, topographic mapping, and educational programs.

The argument as to whether or not the TVA power rate charges are adequate to cover all capital costs, on a basis comparable to private electric utility companies, remains an unresolved issue. There is general agreement that TVA rates have covered the costs of building and operating the facilities that are used exclusively in generating and transmitting power. There is no such agreement as to whether they have borne a fair share of the joint costs of multipurpose facilities. The allocation of the costs of dams as among navigation, flood control, and power remains a matter where wide divergence of views persists. There is also disagreement as to whether a subsidy is involved if the rates charged are insufficient to permit a rate of return comparable to that generally considered a fair rate of return (e.g., 5½ or 6 percent) for regulated private electric utility companies. Finally, a subsidy may be involved where the taxes, or payments in lieu of taxes, are less than the amount of such taxes (Federal, State, and local) which an equivalent utility company might pay.

The TVA in 1956 produced 3 percent of all the plant nutrients manufactured in the United States; by 1963 this was down to about 1 percent. Sales of fertilizer are not on a commercial basis, but are made to organizations collaborating in an educational program aimed at improving the manufacture, distribution, and use of fertilizers. The sales of fertilizers together with the value (the lower of sale prices or cost) of fertilizers used in farm test demonstrations and other TVA programs in fiscal year 1963 amounted to $18 million. Total costs amounted to $19.8 million, leaving a net expense of production and distribution of $1.8 million. To the extent that recipients of this fertilizer are able to obtain it at a price below that of competitive commercial fertilizers, they may be said to be receiving subsidies.

Some of these programs certainly pay for themselves, others do not; some do not pay for themselves directly but tend to raise the economic potential of the area, thereby increasing its ability to pay more taxes and to add more substantially to the wealth and income of the Nation. The Columbia Valley, Upper Colorado, and St. Lawrence Seaway projects may be cited as other multipurpose projects with benefits accruing in the first instance to particular areas and groups of people. In fact, any Federal public works, once approved and begun, will obviously funnel funds and benefits into the area in which it is located, with the cost borne by the Nation's taxpayers as a whole.

It is clear that many of these reclamation, power, flood control, and irrigation programs, as well as related programs for the protection of forests, for the assistance of agriculture, and for the promotion of transportation benefit one segment of the population or one geographic region at the cost of the taxpayers in general. As the Hoover Commission reported, with particular reference to public power projects:

> It is obvious from the financial experience [of public power projects] that the Federal taxpayer is subsidizing these projects. The burden, however, is very unequally distributed.
>
> When these present Federal programs are completed, the total population directly benefited will be less than 10 percent of the whole population.
>
> This subsidy is even more sharply illustrated in the case of the States of New York, New Jersey, and Pennsylvania, which have 20 percent of the total population, and pay 29 percent of the taxes and receive no Federal power.[4]

TARIFFS

To the extent that tariffs shield American producers from foreign competitors, such tariffs act as a subsidy to these producers. In this case, it is the American consumer paying a higher price than he would without the tariff who pays the subsidy, rather than the Government. Under the Buy American Act of 1933, procurement officers of the Federal Government are required to purchase goods produced in the United States unless their price exceeds the price of goods produced abroad by more than a specified percentage. These and other import restrictions, such as import quotas, undoubtedly are of substantial benefit to many domestic producers and thus might well be considered to amount to a subsidy. However, the quantification of the dollar amount of the "subsidy" involved in a particular tariff schedule is difficult, and calculation of a reliable estimate of the overall dollar benefit of tariffs to protected American producers in the aggregate that could be compared to other subsidies does not appear to be feasible.

WAR CONTRACTS

Both the letting of war contracts and termination of such contracts, despite provisions for renegotiation, often resulted in providing a return to contract holders that could be construed to involve a subsidy. With the stress on speed in both cases, substantial subsidized returns to individual contractors were inevitable. Even under current procedures, it does not appear possible to avoid entirely a subsidy element in the letting of defense contracts. It should be stressed that almost always whatever subsidy effect results from war contract performance is incidental and is not planned or anticipated in the course of negotiating such contracts. Current provisions to favor critical labor surplus areas, and to a limited extent small businesses, in the letting of defense contracts may be interpreted to have an economic impact comparable to that of a subsidy, although no direct subsidy is involved.

RESEARCH AND DEVELOPMENT

The Government has been rapidly increasing the amount of funds it has been putting into research and development, especially for military purposes. Federal funds for research and development have expanded from $3,308 million in fiscal year 1955 to an estimated

[4] U.S. Commission on Organization of the Executive Branch of the Government, "Water Resources and Power, a Report to the Congress," June 1955, vol. 1, p. 109.

$14,979 million in fiscal year 1964. Inevitably many of the firms receiving research and development contracts have been able to derive substantial commercial benefit from the results of this research. The Atomic Energy Commission is authorized under the Atomic Energy Act of 1954 to subsidize private activity directly by research and development contracts, and to do so indirectly by performing research itself on behalf of private firms and by adjusting its charges for nuclear fuel and its payments for the plutonium "ash" produced by private reactors.

Small business as a whole has found it very difficult to participate effectively in the Federal Government's research and development program. Here again, the subsidy involved is incidental to the main purpose of these contracts, and not part of the intent of the Government programs for which these contracts are granted.

MINIMUM WAGE LEGISLATION

It is possible to argue that minimum wage legislation provides a subsidy for those who, as a result of such legislation, receive a higher wage than they would otherwise. It is, however, important to recognize that in some cases such legislation might result in curtailment of employment in marginal covered industries, and might cause a shift of workers from such industries to uncovered industries or out of gainful employment entirely. The amount of subsidy involved is unmeasurable in any case. Even less directly, it might be maintained that the Wagner Act, to the extent that it encouraged the growth of the trade union movement, made it easier for workers to bargain effectively for higher wages. The unemployment insurance and social security benefits have had certain administrative costs borne by the Federal Government; until these programs become entirely self-supporting, a subsidy element is involved.

It is evident that this selection of Government programs includes many that are far removed from the payment of a subsidy, more strictly defined as a payment by the Federal Government to an individual or firm in order to induce it to supply a product or perform a service that would be supplied in as great quantity only at a higher price without such subsidy. They have been included simply as samples of the kinds of Government action which might be considered to subsidize certain individuals or groups of society.

CONCLUSION

It is apparent from the foregoing discussion that, in the course of our history, the Federal Government has engaged in a great variety of subsidy and subsidylike programs. Originally they were limited substantially to assistance to transportation interests, to encourage foreign trade and domestic expansion and development; more recently subsidies have expanded to the point where few segments of our economy are completely unaffected by them. Diverse as these subsidy programs are, it is unrealistic either to condemn or to praise Federal subsidies as such. Each particular program which is determined to contain an element of subsidy must be judged independently, taking into account the economic, social, and political conditions prevailing at the time.

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