86th Congress } 2d Session } JOINT COMMITTEE PRINT

SUBSIDY AND SUBSIDYLIKE 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

UNITED STATES
GOVERNMENT PRINTING OFFICE
62223 WASHINGTON : 1960

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington 25, D.C. - Price 25 cents

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LETTERS OF TRANSMITTAL

DECEMBER 15, 1960.

Members of the Joint Economic Committee:

Transmitted herewith for use of the Joint Economic Committee and other Members of the Congress is a staff report which has been undertaken in response to the committee's interest in Federal Government subsidies. This subject is closely related to the objectives of the Employment Act of 1946, in part, because of the relation of subsidies to the fiscal and tax policies as they affect economic stability and growth and, in part, because subsidies are clearly a part of the "plans, functions, and resources" of Government referred to in the act which can contribute to—or negate—efforts to promote maximum employment, production, and purchasing power.

The assistance of the executive agencies consulted in preparing these materials is greatly appreciated. It is hoped that this report will not only be useful to members of this committee and the Congress but also to those persons in the Executive who are concerned with carrying out the Nation's economic policy.

PAUL H. DOUGLAS,
Chairman, Joint Economic Committee.

NOVEMBER 25, 1960.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: The attached report on "Subsidy and Subsidylike Programs of the U.S. Government" has been prepared in accordance with the plans for the committee program for the year as set forth in the Annual Report of the Joint Economic Committee, filed with the Congress on February 29, 1960 (S. Rept. 1152, 86th Cong., 2d sess.).

As a step in an inquiry into the extent and impact of Federal Government subsidies, direct and indirect, the committee asked the staff "to find out what subsidies are being granted, to estimate their amounts, and to summarize their origin and rationale." These materials were to be compiled without any attempt at appraisal of desirability or relative merits of the various programs.

The study carries out the committee's directive with a view to providing a basis for more detailed studies if the committee should wish to proceed in this area. In the formulation of the study we have made use of earlier materials and tabulations prepared by the Bureau of the Budget and the Legislative Reference Service of the Library of Congress.

The study was prepared by Julius W. Allen, of the Legislative Reference Service, under the general direction of William H. Moore, of the committee staff.

JOHN W. LEHMAN,
Clerk and Acting Executive Director.

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SUBSIDY AND SUBSIDYLIKE 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 re-evaluated 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 formulating 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 attempt at appraisal in this study, is warranted on three counts. First, the growth of our Federal subsidy pattern has grown piecemeal and gradually 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 long-run 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. 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.

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 Dictionary of Business and Finance," by Donald T. Clark and Bert A. Gottfried, published in 1957, defines subsidy as—

> any direct financial aid, or grant of monetary assistance, such as that by a government to farmers, which is considered to be in the public interest. Other examples of subsidies include those paid to steamship lines to aid in the construction of merchant ships, and those paid to railroads and airlines in the form of payments for carrying mail.

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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.[1]

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 un-

[1] 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.

controlled monopoly. And here, the cost of the subsidy has been borne by the consumer in a higher price.[2]

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." [3]

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.[4]

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.[5]

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.

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[2] Wilcox, Clair, "Public Policies Toward Business" (revised edition). Homewood, Ill., Irwin, 1960, p. 429.

[3] Survey of Current Business. National Income Supplement, 1954 edition, p. 60.

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

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

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. If 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 premimum 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 Corporation'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.[6]

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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[6] 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.[7]

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 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.[8]

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

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

[8] 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 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.[1]

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.

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.

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

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[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.

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.

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.

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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 business.

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.

VIII. LENDING AND LOAN GUARANTEE PROGRAMS OF FEDERAL AGENCIES IN EFFECT IN FISCAL YEAR 1960

A. Direct loan programs

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 to colleges and universities.[3]

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

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

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[2] Loan, loan guarantee, and insurance programs are listed separately, below.
[3] Currently self-supporting.

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."

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

Department of Commerce: Maritime Administration: Direct loans for vessel construction; no new commitments made since 1956.

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

Department of State:

International Cooperation Administration: Loans under Agricultural Trade Development and Assistance Act to promote multilateral trade and economic development.

Development Loan Fund: Loans to governments of underdeveloped nations or organizations and persons therein.

Export-Import Bank (Principal foreign-lending agency of the Government.) Loans to finance exports and imports and to promote economic development in lesser developed countries.[3]

Small Business Administration:

Business loans to small business.

Disaster loans to small business.

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

Loans to State and local development companies.

Expansion of defense production: The Treasury Department (for domestic loans) and the Export-Import Bank (for foreign loans) have authority to make direct loans for expansion of industrial capacity, development of technological process or production of essential materials. No new commitments made in 1959 or expected in 1960 or 1961.

B. Loan guarantee and insurance programs [4]

Housing and Home Finance Agency:

Federal Housing Administration (currently self-supporting): 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.

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

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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.

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.

Development Loan Fund: Guarantees loans to governments of underdeveloped nations, their organizations and citizens.

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.

Flood insurance—Federal Flood Indemnity Administration.[6]

IX. FEDERAL AID PAYMENTS TO STATES AND LOCAL UNITS [7]

Department of Agriculture:
- Agricultural experiment stations.
- Cooperative agricultural extension work.
- School lunch program.
- National forests fund—shared revenues.
- Submarginal land program—shared revenues.
- Cooperative projects in marketing.
- State and private forestry cooperation, etc.
- Watershed protection and flood prevention.

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[5] See above, pp. 13, 14, 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. 13.

[6] No appropriations have been provided for this program to date.

[7] As reported in the 1959 Report of the Secretary of the Treasury.

Commodity Credit Corporation donations of commodities.
Commodity Credit Corporation special school milk program.
Removal of surplus agricultural commodities.

Department of Commerce:
Bureau of Public Roads—construction—Federal-aid highways (trust fund) and other.
State marine schools.

Department of Defense, Army: Lease of flood control lands—shared revenues.

Executive Office of the President: Office of Civil and Defense Mobilization—Federal contributions and research and development.

Department of Health, Education, and Welfare:
American Printing House for the Blind.
Office of Education:
Colleges for agriculture and mechanic arts.
Cooperative vocational education.
School construction and survey.
Maintenance and operation of schools.
Library services.
Defense educational activities.
Public Health Service:
Venereal disease control.
Tuberculosis control.
General health assistance.
Mental health activities.
Cancer control.
Heart disease control.
Sanitary engineering activities.
Construction of hospital and medical facilities.
Construction of waste treatment works.
Construction of health research facilities.
Polio vaccination assistance program.
Social Security Administration:
Grants to States for maternal and child welfare services.
Grants to States for old-age assistance.
Grants to States for aid to dependent children.
Grants to States for aid to permanently and totally disabled.
Grants to States for aid to the blind.
Office of Vocational Rehabilitation.

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.

Federal Power Commission: Payment to States under Federal Power Act—shared revenues.

Housing and Home Finance Agency:

Defense community facilities and services.

Urban renewal program.

Urban planning assistance.

Public Housing Administration—annual contributions.

Federal Aviation Agency—Federal airport program.

Tennessee Valley Authority.

Veterans Administration:

State and territorial homes for disabled soldiers and sailors.

State supervision of schools and training establishments.

X. FEDERAL AID PAYMENTS TO INDIVIDUALS WITHIN STATES [8]

Department of Agriculture:

Agricultural conservation program.

Administration of Sugar Act program.

Great Plains conservation program.

Commodity Credit Corporation—soil bank program.

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

Department of Defense:

Air Force National Guard.

Army National Guard.

Department of Health, Education, and Welfare:

National Institutes of Health.

Office of Education—defense educational activities.

Office of Vocational Rehabilitation—grants for special projects, training and traineeships.

Department of Labor:

Unemployment compensation for veterans and Federal employees.

Temporary unemployment compensation.

Atomic Energy Commission: Fellowships and assistance to schools.

National Science Foundation:

Research grants awarded.

Fellowship awards.

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 1959 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.

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[8] As reported in the 1959 Report of the Secretary of the Treasury.

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.

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 11 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 I and II 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 mutual security 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 I, as a summary table, shows the aggregate totals of subsidy programs under each of the utilized budget headings for fiscal years 1951 through 1961, the last 2 years being Budget Bureau estimates. As this table indicates, there has been a fairly steady increase in the total subsidies, as shown, increasing from $1,900 million in fiscal year 1951 to $7,460 million in fiscal year 1960. The most important element in the increase as shown is in the increase in net current expenses for agriculture and the increases in inventory accumulations.

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

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TABLE I.—*Net expenditures on subsidy and subsidylike programs of the Federal Government—Summary table (fiscal years 1951–61)*

[In millions of dollars]

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960 [1]	1961 [1]
Net current expenses for aids and special services:											
Agriculture	905	463	305	540	1,074	1,846	3,564	3,242	3,484	3,568	3,433
Business	809	1,041	934	648	757	1,066	1,011	1,280	1,493	1,352	[2] 864
Labor	197	200	215	216	269	412	333	388	761	327	337
Homeowners and tenants	−160	−129	−123	−116	−105	−89	−54	−40	−4	64	40
Additions to Federal assets:											
Major commodity inventories—net change:											
Civil	−1,079	−357	1,247	1,759	1,552	1,598	282	547	754	1,132	904
Major national security	769	846	864	905	840	451	431	568	253	192	110
Expenditures for other developmental purposes: Private physical assets	477	453	378	288	322	332	394	547	643	825	914
Total	1,918	2,517	3,820	4,240	4,709	5,616	5,961	6,532	7,384	7,460	6,602

[1] Estimate.

[2] The estimate for fiscal year 1961 was based in part on an anticipated increase in postal rates totaling $554,000,000 which was not enacted. A revised figure of $1,418,000,000 would appear to be a more accurate estimate.

NOTE.—Minus (—) indicates receipts exceeding expenditures.

Source: Budget of the U.S. Government, fiscal year 1953-61.

TABLE II.—*Net expenditures on subsidy and subsidylike programs of the Federal Government, fiscal years 1956–61*

[In millions of dollars]

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960 [1]	1961 [1]
I. Net current expenses for aids and special services:											
Agriculture:											
Direct Federal programs:											
Commodity Credit Corporation:											
Transfer to supplemental stockpile	--------	--------	--------	--------	--------	([2])	([2])	84	315	237	127
Sales for foreign currency	--------	--------	--------	--------	130	615	1,338	1,073	1,022	1,055	1,172
Price support, supply, and related programs	475	--------	−69	60	472	603	975	876	872	1,589	1,487
International Wheat Agreement	180	261	131	59	100	35	114	253	169	184	136
Other	--------	--------	--------	42	--------	--------	--------	--------	--------	--------	--------
Soil bank program: Acreage reserve	--------	--------	--------	--------	--------	4	511	522	609	--------	--------
Sugar Act	69	60	63	66	70	65	67	70	67	74	78
Other Department of Agriculture programs	117	94	141	140	97	199	132	107	135	135	154
Other agencies	--------	−2	−23	2	17	10	128	6	3	5	5
Grants-in-aid:											
Removal of surplus commodities	--------	--------	--------	162	43	169	151	117	127	105	105
Commodity Credit Corporation	63	49	62	([3])	135	135	120	124	154	173	158
Other	--------	--------	--------	10	9	10	27	11	11	11	11
Total, Agriculture	905	463	305	540	1,074	1,846	3,564	3,242	3,484	3,568	3,433
Business:											
Civil-direct Federal programs:											
Department of Commerce:											
Air navigation aids	65	93	92	89	86	102	116	156	228	283	341
Payments to air carriers	--------	--------	--------	49	58	33	39	38	53	60	69
Maritime subsidies and administration	−10	50	63	100	121	142	114	127	133	165	153
Other	17	19	33	18	43	49	36	38	56	52	66
Department of Defense, civil functions:											
Rivers, harbors, and flood control	64	61	60	62	67	67	68	74	72	83	86
Panama Canal Company	--------	−36	−27	−11	−8	7	−14	−9	−6	−13	−11
Other	([3])	--------	--------	−9	2	−4	−1	1	−2	−1	−1
Post Office Department, excluding Government mail and nonbusiness service	552	670	624	307	346	462	502	664	736	525	[4] −43
Treasury Department, Coast Guard	98	137	166	164	21	139	130	144	177	184	201
Other agencies	15	58	−30	−155	5	−5	5	5	4	4	5
Major national security, expansion of defense production	8	−10	−47	33	16	74	17	41	42	9	−1
Total, business	809	1,041	934	648	757	1,066	1,011	1,280	1,493	1,352	[4] 864

See footnotes at end of table, p. 23.

TABLE II.—*Net expenditures on subsidy and subsidylike programs of the Federal Government, fiscal years 1956–61*—Continued

[In millions of dollars]

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960 [1]	1961 [1]
I. Net current expenses—Continued											
Labor:											
Direct Federal programs	19	14	13	13	77	13	14	64	464	11	34
Grants-in-aid:											
Unemployment compensation and Employment Service, Labor Department	178	186	202	203	192	231	248	291	297	315	303
Unemployment trust fund, Treasury	--------	--------	--------	--------	--------	168	71	33	--------	--------	--------
Total, labor	197	200	215	216	269	412	333	388	761	327	337
Homeowners and tenants:											
Direct Federal programs:											
Federal Home Loan Bank Board	--------	--------	−18	−21	−25	−27	−33	−38	−41	−50	−85
Housing and Home Finance Agency:											
Federal National Mortgage Association	--------	--------	−50	−39	−52	−27	−32	−30	−58	−39	−22
Federal Housing Administration	−167	−70	−81	−68	−118	−121	−112	−108	−98	−128	−163
Other	--------	−71	−8	−44	−10	−9	7	6	7	13	11
Grants-in-aid:											
Public housing	7	12	26	44	67	82	87	95	111	120	146
Urban renewal and slum clearance	--------	--------	8	12	34	14	30	35	76	140	150
Other	--------	--------	--------	--------	--------	--------	--------	--------	--------	8	3
Total, homeowners and tenants	−160	−129	−123	−116	−105	−89	−54	−40	−4	64	40
II. Major commodity inventories, net change:											
Civil:											
Commodity Credit Corporation: Agricultural commodities	−1,142	−370	1,354	1,700	1,686	1,577	231	510	740	1,120	895
Other agencies	63	13	−107	59	−134	21	52	37	14	11	9
Total, civil	−1,079	−357	1,247	1,759	1,552	1,598	282	547	754	1,132	904
Major national security:											
Funds appropriated to the President: Expansion of defense production	123	32	18	287	78	133	108	408	221	178	106
General Services Administration: Stockpiling of strategic and critical materials	646	814	846	618	762	318	323	160	32	14	4
Total, major national security	769	846	864	905	840	451	431	568	253	192	110
Total, major commodity inventories	−310	489	2,111	2,664	2,392	2,049	713	1,115	1,007	1,324	1,014

III. Additions to civil private physical assets:											
Research and development facilities: Department of Health, Education, and Welfare and National Science Foundation	-------	-------	1	1	(3)	-------	3	10	20	21	32
Agricultural conservation assistance	284	274	251	171	231	215	262	214	239	245	245
Soil Conservation Service	55	61	63	60	60	63	66	76	95	90	94
Commodity Stabilization Service: Conservation reserve	-------	-------	-------	-------	-------	-------	13	133	171	335	394
Commodity Credit Corporation: Loans to Secretary of Agriculture for agricultural conservation purposes	-------	-------	-------	12	−19	6	−13	22	7	1	−12
Department of Commerce: Merchant ships	70	42	2	1	5	14	17	28	28	50	68
Other agencies	12	14	12	3	3	4	5	5	6	4	4
Grants-in-aid:											
Private hospital construction	55	63	49	40	40	30	39	58	74	79	88
Other	-------	-------	-------	1	2	1	1	2	3	1	1
Total, additions to civil private physical assets	477	453	378	288	322	332	394	547	643	825	914
Grand total	1,918	2,517	3,820	4,240	4,709	5,616	5,961	6,532	7,384	7,460	6,602

[1] Estimate.
[2] Included among other CCC programs for fiscal years 1956 and 1957.
[3] Less than $500,000.
[4] The estimate for fiscal year 1961 was based in part on an anticipated increase in postal rates totaling $554,000,000 which was not enacted. A revised figure of $511,000,000 for Post Office and $1,418,000,000 for total net current expenses for business would appear to be a more accurate estimate.

Source: Budget of the U.S. Government, fiscal years 1938–61. Due to changes in classification, not all programs are strictly comparable over the entire period covered.

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 1951, in table III.

TABLE III.—*Net loans of the Federal Government to domestic private borrowers, fiscal years 1951–61* [1]

[In millions of dollars]

Agency or program	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960 (estimate)	1961 (estimate)
Small Business Administration	------	------	------	2	18	51	70	78	104	94	105
Reconstruction Finance Corporation	−49	−126	−6	−240	−40	−121	−50	------	------	------	------
Veterans' Administration:											
Housing loans	58	73	104	106	100	63	89	174	129	253	13
Other	------	------	------	------	------	------	------	------	90	100	102
Housing and Home Finance Agency:											
Federal National Mortgage Association	598	489	430	−181	196	−87	−115	1	858	136	83
College housing loans	------	1	14	35	24	15	48	66	72	73	60
Federal Housing Administration	−62	32	27	33	39	33	25	20	20	24	18
Other	------	------	−7	−7	−5	−9	−3	−9	−21	−166	−3
Department of Agriculture:											
Commodity Credit Corporation: Price support and grain storage loans	−181	33	542	265	551	45	−97	−457	1,082	−1,005	−208
Farmers Home Administration [2]	128	138	147	231	163	165	228	239	275	247	215
Rural Electrification Administration [2]	268	235	232	210	197	209	259	288	305	325	345
Farm Credit Administration	------	------	−81	−45	47	42	------	------	------	------	------
Department of Health, Education, and Welfare: Defense educational activities	------	------	------	------	------	------	------	------	31	38	51
Treasury Department	------	------	------	1	20	−11	−1	−12	−10	−7	−7
Other agencies	−15	25	19	−5	−7	3	------	7	−7	9	2
Funds appropriated to the President: Expansion of defense production	7	105	89	52	30	3	−19	−7	−21	−14	−11
Total	752	1,005	1,510	457	1,333	401	435	388	2,907	107	765

[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.

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

Source: "Budget of the U.S. Government, Fiscal Years 1953-61."

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 from 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 nearer, or up to, their parity level.

A comprehensive tabulation of the cost of agricultural and related programs is prepared annually by the Department of Agriculture and is the basis for table IV of this report, which gives data for groups of years back through fiscal year 1932. It is designed to present, in an objective and factual way, the realized costs of agricultural programs, and was prepared by the Department of Agriculture to meet the need for a single table which would cover in a consistent fashion all of the agricultural programs.

This table classifies agricultural programs into eight programs:

(1) Programs primarily for stabilization of farm prices and income; (2) programs primarily for conservation of resources; (3) credit and related programs for electrification, telephone facilities, farm purchase, maintenance, operation, and housing; (4) research, education, marketing, and regulatory; (5) school lunch and donations; (6) Farm Credit Administration; (7) wartime consumer subsidies on agricultural commodities; and (8) other, including wartime, defense, and special needs. It reflects, essentially, the cost to the taxpayer, over a period of time, of all the programs of the Department of Agriculture. It should be noted that the data in this table and in the following table 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" means the net cost actually incurred to date. It 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 Department's 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 IV and V 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.

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TABLE IV.—*Realized cost of agricultural and related programs, by function or purpose, fiscal years 1932–59*

[Millions of dollars]

	Total, fiscal years 1932–59	Fiscal years 1932–39	Fiscal years 1940–49	Fiscal years 1950–59	Fiscal year 1956	Fiscal year 1957	Fiscal year 1958	Fiscal year 1959
Programs primarily for stabilization of farm prices and income:								
CCC nonrecourse loan, purchase, and payment programs [1]	4,424.3	19.0	367.8	4,037.5	566.6	874.8	690.0	528.2
CCC supply, commodity export, and other activities	195.4		(326.4)	521.8	70.0	149.1	97.1	132.8
CCC interest, administrative, and other general costs	1,550.8	13.2	106.4	1,431.2	195.2	311.7	364.9	195.0
National Wool Act program	140.7			140.7	2.0	61.3	57.2	20.0
International Wheat Agreement [2]	1,029.9			1,029.9	92.3	90.1	82.4	48.3
Donations of commodities to other nations—excess of inventory cost over market value [3]	214.2			214.2	39.5	39.0	43.1	30.7
Commodities sold for foreign currencies under title I, Public Law 480 [4]	1,915.9			1,915.9	304.9	497.2	666.2	318.1
Removal of surplus agricultural commodities [5]	2,420.7	314.2	991.0	1,115.5	179.1	171.1	125.5	140.9
Sugar Act	(416.4)	(33.7)	(194.8)	(187.9)	(22.3)	(23.4)	(21.3)	(24.1)
Soil bank—acreage reserve program	1,662.3			1,662.3	3.6	514.7	535.3	608.7
Acreage allotment payments under the agricultural conservation program	2,354.8	881.7	1,473.1					
Other, including Agricultural Adjustment Act of 1933, parity payments, and other adjustment and surplus removal programs [6]	2,260.5	1,034.0	983.2	243.3	30.3	28.7	24.8	29.3
Total	17,753.1	2,228.4	3,400.3	12,124.4	1,461.2	2,714.3	2,665.2	2,027.9
Programs primarily for conservation of resources:								
Agricultural conservation program (exclusive of acreage allotment payments)	4,813.3	264.2	2,191.5	2,357.6	217.0	257.5	207.6	236.7
Soil bank—conservation reserve program	341.5			341.5	.2	37.3	133.4	170.6
Soil Conservation Service programs	995.6	69.7	296.4	629.5	63.6	66.2	73.6	90.0
Forest Service programs [7]	673.8	117.8	301.1	254.9	1.2	23.5	53.7	46.8
Watershed protection and flood prevention	177.2	1.7	20.1	155.4	19.4	21.8	25.9	34.8
Total	7,001.4	453.4	2,809.1	3,738.9	301.4	406.3	494.2	578.9
Credit and related programs for electrification and telephone facilities, and farm purchase, maintenance, operation, and housing:								
Lending programs:								
Rural Electrification Administration [8]	251.7	2.2	13.1	236.4	22.8	27.3	25.9	33.7
Farmers Home Administration [8]	91.8	132.4	21.6	(62.2)	(11.2)	(6.8)	(9.3)	(9.9)
Grants and other expenses, including salaries and expenses related to the above leading programs [7]	1,275.5	433.4	461.6	380.5	37.3	38.1	40.0	46.0
Total	1,619.0	568.0	496.3	554.7	48.9	58.6	56.6	69.8
Research, education, marketing, and regulatory:								
Research	1,290.3	159.7	351.6	779.0	88.0	98.5	108.7	127.7
Extension Service, including payments to States	768.7	110.2	228.2	430.3	46.7	51.9	58.8	63.2
Marketing services	243.1	26.7	59.3	157.1	16.7	18.2	22.7	32.9
Regulatory and disease and pest-control activities	939.5	202.8	244.0	492.7	60.8	63.5	66.8	77.1
Total	3,241.6	499.4	883.1	1,859.1	212.2	232.1	257.0	300.9

School lunch and donations:								
School lunch and special milk programs [9]	1,548.6	------------	357.6	1,191.0	128.3	156.2	166.7	218.4
Other domestic donations	665.1	------------	------------	665.1	95.0	157.3	50.6	73.1
Foreign donations	1,532.7	------------	------------	1,532.7	299.1	285.1	298.3	230.0
Total	3,746.4	------------	357.6	3,388.8	522.4	598.6	515.6	521.5
Other, including wartime, defense, and special needs	821.9	18.0	468.6	335.3	38.8	49.1	56.2	43.1
Total, above items	34,183.4	3,767.2	8,415.0	22,001.2	2,584.9	4,059.0	4,044.8	3,542.1
Farm Credit Administration (including the farm credit system and salaries and expenses of the Farm Credit Administration) [10]	540.4	308.9	[11] 252.8	(21.3)	2.2	3.0	1.5	1.3
Wartime consumer subsidies on agricultural commodities:								
Paid by Commodity Credit Corporation	2,102.3	------------	2,102.1	0.3	------------	------------	------------	------------
Paid by Reconstruction Finance Corporation	2,143.3	------------	2,143.3	------------	------------	------------	------------	------------
Total	4,245.6	------------	4,245.4	0.3	------------	------------	------------	------------

[1] 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 wartime, defense, and special needs."

[2] 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.

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

[4] 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 fiscal year 1959 was $1,113,254,336, representing (1) the excess of the investment in CCC-owned commodities shipped over the export sales value, $150,862,853; (2) the cost of financing exportation, $938,208,823 (primarily cost of commodities shipped from private stocks and ocean transportation); and (3) interest of $24,182,660. The total cost is reduced by a credit of $795,148,196 for foreign currencies collected under this program in fiscal year 1959, resulting in a net realized cost of $318,106,140. The credit consists of the U.S. dollar proceeds ($83,326,274) from sales of foreign currencies at rates of exchange current at time of sales of such currencies, and the U.S. dollar equivalent of (1) foreign currencies used for the purposes authorized by sec. 104 of the act ($465,332,772), valued at the rate specified in the agreement for loan and grant disbursements, and for other disbursements, at the rate at which the transfer from Treasury was made; and (2) foreign currency balances on hand at June 30, 1959 ($1,327,589,930), valued at the Treasury selling rate at that date, less foreign currency balances on hand at June 30, 1958 ($1,081,100,730), valued at the Treasury selling rate as of June 30, 1958.

[5] Excludes cash payments to schools for part of their school lunch program expenditures during fiscal years 1943 to 1949, inclusive.

[6] Includes (1) acreage allotments and marketing quotas program; (2) parity payments; (3) Agricultural Adjustment Act of 1933 and related acts; (4) Agricultural Marketing Act revolving fund and payments to stabilization corporations for losses incurred; and (5) miscellaneous, including 4 miscellaneous programs as follows: (*a*) net operating results of the Federal Surplus Commodities Corporation which operated from 1935 to 1942 for the purpose of purchasing, processing, storing, handling, transporting, and disposing of surplus agricultural commodities and products for relief; (*b*) retirement of cotton pool participation trust certificates; (*c*) removal of surplus cattle and dairy products; and (*d*) transfer of hay and pasture seeds to Federal land administering agencies. The amount of $1,034 million shown for the period 1932–39 represents $378.6 million for costs of programs conducted by the Federal Farm Board in the years 1932–34, and $655.4 million for costs of the Agricultural Adjustment Act of 1933 and related acts.

[7] The amounts shown include the purchase of about 24 million acres of land principally in the period from 1935 to 1940 at a total cost of approximately $128 million, distributed as follows: Forest Service programs, $36 million; Farmers Home Administration through its predecessor agencies, $46 million; and through funds transferred to the Department by emergency relief agencies, $46 million.

[8] 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. On the accrued income and expense basis the lending operations of REA reflect a net income of $49.5 million for the period covered by this statement, exclusive of any interest charges on direct appropriations used in the lending program.

[9] Includes costs under the National School Lunch Act in addition to sec. 32 funds used from fiscal years 1943 to 1949, inclusive, for cash payments for school lunch programs. Also includes costs of the special milk program for children, financed from funds of the Commodity Credit Corporation, for the fiscal years 1955 to 1959, inclusive.

[10] The Farm Credit Administration, which supervises the institutions comprising the farm credit system, was transferred from the Department of Agriculture and established as an independent agency of the Government on Dec. 4, 1953. Since the Farm Credit Administration was a part of the Department during much of the period covered by this statement and since its programs are agricultural in nature, the realized cost of FCA activities has been retained as a part of the statement.

[11] Includes $9.3 million representing the cumulative net loss of capital subscribed to the regional agricultural credit corporations which were liquidated in 1949.

NOTE.—Figures in parentheses indicate excess of credits.

The amount of subsidy involved in these various categories is, again, debatable. Most uncontroversial would be considering wartime consumer subsidies as subsidies. These, of course, were subsidies to consumers more than subsidies to farmers. Most observers would also classify the price support and stabilization programs as essentially subsidy programs. Almost all of these programs, as shown in the first group in table IV, 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

The two major subsidy programs of the Commodity Credit corporation have been its price support operations and its wartime consumer subsidy program. Details are shown in table V on pages 31–33.

Price support program

The larger of these two programs is the price support program. It 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 commodities to the Corporation. These forfeitures of collateral are treated as repayments of loans.

Under the Agricultural Act of 1949, as amended, commodities are classified into three categories: (1) basic commodities for which support is mandatory; these are corn, cotton, wheat, rice, tobacco, and peanuts; (2) nonbasic commodities for which support is also mandatory; these now include feed grains other than corn (oats, barley, grain sorghums, and rye), wool, mohair, tung oil, honey, milk, and butterfat; under the Agricultural Act of 1949, support was also made mandatory for Irish potatoes, but Public Law 471, 81st Congress, provides that potato prices cannot be supported unless marketing quotas are in effect; such quotas are not now in effect; and (3) other commodities for which support is permissive, discretionary with the Secretary of Agriculture.

TABLE V.—*Realized losses in Commodity Credit Corporation programs from Oct. 17, 1933, through June 30, 1960* [1]

[In millions of dollars]

Program and commodity	Oct. 17, 1933, through June 30, 1941	July 1, 1941, through June 30, 1946	July 1, 1946, through June 30, 1955	Fiscal year ended June 30—					Oct. 17, 1933 through June 30, 1960
				1956	1957	1958	1959	1960	
Price support program (CCC nonrecourse loan, purchase and payment programs): [1]									
Basic commodities:									
Corn	20.1	14.3	192.7	111.8	247.1	175.8	233.9	164.8	1,160.6
Cornmeal [2]	—	—	(*)	—	21.3	27.7	22.5	17.2	88.6
Cotton:									
Extra long staple	—	—	—	4.1	2.1	(*)	.4	.8	7.3
Upland	27.4	(218.3)	(76.3)	62.3	418.4	279.5	100.9	211.4	805.2
Cotton, export differential [3]	—	27.7	13.7	—	—	—	—	—	41.4
Cotton, Puerto Rican and cotton, rubber barter	—	(11.2)	*	—	—	—	—	—	(10.9)
Peanuts and peanut butter [2]	—	—	118.1	9.2	16.8	11.0	17.5	13.2	185.9
Rice	—	—	(9.3)	18.9	65.4	18.4	31.5	27.8	152.7
Tobacco	2.1	(7.1)	4.8	.4	.1	4.3	1.8	(.2)	6.2
Wheat	6.2	11.8	276.2	99.8	95.8	44.3	79.8	36.2	650.0
Wheat flour [2]	—	—	(.5)	(.5)	39.8	82.5	78.8	73.9	274.0
Total	55.8	(182.6)	519.4	306.0	906.7	643.5	567.2	545.1	3,361.0
Designated nonbasic commodities:									
Milk and butterfat:									
Butter	—	—	256.9	141.7	24.1	21.6	41.0	34.5	519.7
Butter oil	—	—	46.8	72.9	1.4	*	(*)	(*)	121.2
Cheese	—	—	113.8	83.7	77.9	80.5	26.7	7.7	390.3
Milk, dried	—	—	262.9	95.6	110.5	112.5	104.7	70.3	756.4
Milk, fluid (armed services and Veterans' Administration)	—	—	4.3	7.3	16.4	30.4	23.0	23.6	104.9
Whey	—	—	.6	2.9	(*)	—	—	—	3.6
Subtotal	—	—	685.3	404.1	230.3	245.0	195.4	136.1	1,896.2
Barley	—	*	25.7	49.7	11.6	37.8	7.3	20.9	153.1
Grain sorghum	—	(.4)	85.3	63.3	27.5	23.0	26.4	18.0	243.0
Oats	—	—	19.7	16.1	25.5	15.0	4.2	9.2	89.7
Potatoes, Irish [4]	—	25.2	453.2	.1	(*)	*	—	—	478.6
Rye	*	(.1)	2.9	7.6	5.4	3.2	.2	.9	20.3
Wool [5]	*	15.8	77.6	59.2	66.8	22.2	86.3	53.9	381.7
Tung oil and honey	—	—	1.2	.5	.2	*	1.6	1.0	4.5
Total	*	40.6	1,350.9	600.7	367.2	346.3	321.4	240.0	3,267.1

See footnotes at end of table, p. 33.

TABLE V.—*Realized losses in Commodity Credit Corporation programs from Oct. 17, 1933, through June 30, 1960* [1]—Continued

[In millions of dollars]

Program and commodity	Oct. 17, 1933, through June 30, 1941	July 1, 1941, through June 30, 1946	July 1, 1946, through June 30, 1955	Fiscal year ended June 30—					Oct. 17, 1933, through June 30, 1960
				1956	1957	1958	1959	1960	
Price support program—Continued									
Other nonbasic commodities:									
Beans, dry edible	----------	0.2	46.2	9.8	13.8	3.4	0.5	0.5	74.3
Cottonseed and products	----------	----------	63.7	44.5	7.6	1.0	.8	.2	117.4
Eggs [6]	----------	.2	189.4	.1	----------	----------	----------	----------	89.7
Flaxseed and linseed oil	----------	*	140.3	7.6	2.5	15.4	1.6	1.3	168.8
Fruit, dried	----------	.1	14.8	----------	----------	----------	----------	----------	14.9
Grapefruit juice	----------	----------	1.7	----------	----------	----------	----------	----------	1.7
Hemp and hemp fiber	----------	20.2	1.3	----------	----------	----------	----------	----------	21.5
Hops	0.2	.8	----------	----------	----------	----------	----------	----------	1.0
Naval stores	4.4	(6.0)	2.8	(.5)	.1	(*)	(*)	(2.3)	(1.5)
Olive oil	----------	----------	.6	----------	----------	----------	----------	----------	.6
Peas, dry edible	----------	*	.9	(.1)	----------	----------	----------	----------	.8
Seeds	----------	*	27.0	9.8	1.7	*	*	----------	38.7
Soybeans	----------	----------	(3.7)	3.5	.7	1.6	5.7	10.3	18.2
Sugar beets	----------	----------	16.5	----------	----------	----------	----------	----------	16.5
Nonbasic commodities, other [7]	----------	.7	*	----------	----------	----------	----------	----------	.7
Total	4.6	16.4	501.3	74.8	26.4	21.4	8.6	9.6	663.3
Exchange commodities: Strategic and critical materials	----------	----------	----------	(.2)	.2	11.5	(5.8)	.7	6.3
Total, price support program	60.4	(125.6)	2,371.6	981.4	1,300.5	1,022.7	891.3	795.5	[10] 7,297.7
Special milk program for children	----------	----------	22.2	45.3	56.6	66.1	74.0	80.6	344.8
Supply program: [1 9]									
Cotton and linters	----------	(1.6)	(.3)	----------	----------	----------	----------	----------	(1.9)
General commodities purchase [10]	----------	----------	(188.4)	(.7)	(.7)	(5.8)	(.3)	(.3)	(196.1)
Grains and seeds	----------	(24.0)	(51.8)	(*)	(*)	*	(*)	(*)	(75.9)
Oils (bulk)	----------	(*)	(.9)	(*)	----------	----------	----------	----------	(1.0)
Processed and packaged commodities [11]	----------	----------	(39.3)	(*)	*	.1	(*)	(*)	(39.2)
Tobacco	----------	(4.2)	(.6)	----------	----------	----------	----------	----------	(4.8)
Other	----------	3.1	.3	(*)	*	----------	----------	(*)	3.4
Total, supply program	----------	(26.7)	(280.9)	(.8)	(.7)	(5.8)	(.3)	(.3)	(315.5)
Foreign purchase program: [9 12]									
Cotton	----------	(5.4)	(.5)	----------	----------	----------	----------	----------	(5.9)
Fats and oils	----------	(22.5)	(16.4)	----------	----------	----------	----------	----------	(38.9)
Foodstuffs	----------	(4.6)	(1.1)	----------	----------	----------	----------	----------	(5.7)
Other	----------	.3	(.1)	----------	----------	----------	----------	----------	.2
Total, foreign purchase program	----------	(32.3)	(18.0)	----------	----------	----------	----------	----------	(50.3)

Emergency feed program:									
Corn			17.0						17.0
Cottonseed meal			17.4						17.4
Oats			4.0						4.0
Wheat			3.5						3.5
Total, emergency feed program			41.9						41.9
Commodity export program:									
Cotton		7.1	5.4				8.8	234.4	255.8
Cotton products					14.2	15.5	13.1	18.7	61.5
Barley							12.0	3.7	15.7
Corn						.5	14.6	8.1	23.2
Grain sorghum							11.1	3.8	14.9
Oats							3.3	2.3	5.6
Rice							4.5	11.5	16.0
Rye							1.1	1.1	2.2
Wheat		1.2	75.7	69.6	117.7	53.4	38.4	17.9	373.9
Wheat flour					15.5	31.6	25.4	9.6	82.1
Other [13]					*	*	*	*	.1
Total, commodity export program		8.3	81.1	69.6	147.4	101.0	132.4	311.1	851.0
Storage facilities program		10.1	1.8	.3	.2	.1	(*)	(.1)	12.5
Accounts and notes receivable (chargeoffs)		(*)	3.0	1.0	2.2	1.7	.6	.9	9.4
Total (excluding wartime consumer subsidy costs) [14]	60.4	(166.2)	2,222.8	1,096.8	1,506.2	1,185.9	1,098.1	1,187.7	8,191.6
Wartime consumer subsidy program		2,130.6	(28.3)	*					2,102.3
Grand total	60.4	1,964.4	2,194.5	1,096.8	1,506.2	1,185.9	1,098.1	1,187.7	10,293.8

*Less than $50,000.

[1] Allocation of losses and gains as between "Price support program" and "Supply program" for the period prior to the fiscal year 1947 was made on the basis of an analysis completed in April 1949. Since accounting records maintained prior to July 1, 1946, did not provide for this segregation, it was necessary to analyze program results in detail and in some cases make an estimate of the distribution between "Price support" and "Supply" of the total operating result as shown by the accounting records. This analysis was based on all known factors concerning the operations with respect to each commodity.

[2] Acquired by exchange or processing of price support commodities or by direct purchase.

[3] Includes export differential on owned or pooled cotton only. Differential on exporters' cotton included under "Commodity export program."

[4] Includes price support loss of $3,000,000 on the 1943 and 1944 potato programs, which was formerly included under the "General commodities purchase program."

[5] Incentive payments to wool producers are included on this schedule in order to reflect total price support activity. Reimbursements by appropriation of $267,000,000 are not included.

[6] Includes price support loss of $12,000,000 on the 1944 egg program, which was formerly included under the "General commodities purchase program."

[7] Consists of castor beans, American-Egyptian cotton, flax fiber, pecans, Puerto Rican and Virgin Island sugar, sweetpotatoes, turkeys, and canned vegetables.

[8] Amounts recovered or to be recovered from appropriations authorized in certain acts of the Congress by the Commodity Credit Corporation are not reflected as losses.

[9] Portion of overall supply and foreign purchase program effective July 1, 1952.

[10] Includes gain of $179,000,000 carried as "Special reserve, general commodities purchase program" as of June 30, 1946, and transferred to income in May 1947. Also see footnotes 5 and 7, above.

[11] Activity under this program prior to July 1, 1950, was reported as general supply program.

[12] Insofar as possible, operating results have been retroactively classified to correspond with current budgetary programs. In some instances, the accounts maintained prior to July 1, 1946, did not make possible a precise segregation of the results of foreign procurement operations.

[13] Consists of butter and butter products, dried milk, and citrus, meat, and poultry products.

[14] Includes losses totaling $56,000,000 on price support commodities disposed of in accordance with Public Laws 389 and 393, 80th Cong., i.e., transferred to foreign assistance outlets at a price equal to price of a quantity of wheat having equivalent caloric value. The Corporation was reimbursed for these losses by the Secretary of the Treasury. Also includes loss of $42,000,000 on emergency feed program for which the Corporation was reimbursed by appropriation pursuant to Public Law 40, 84th Cong.

NOTE.—Realized gains are shown by dollar figures in parentheses.

Source: U.S. Commodity Credit Corporation. Reports of financial conditions and operations as of June 30, 1959, and June 30, 1960.

From October 17, 1933, through June 30, 1960, the farm price support program has resulted in a net loss to the Commodity Credit Corporation of $7,298 million. The largest single item in this loss was in price support of corn; this has resulted in a loss of $1,161 million or 15.9 percent of the total. Other major losses occurred in the programs for wheat and wheat flour ($924 million); dried milk ($756 million); upland cotton ($805 million); butter ($520 million); Irish potatoes ($479 million); and cheese ($390 million). For basic commodities (corn, cotton, peanuts, rice, tobacco, and wheat) as a whole there was a net loss to the Commodity Credit Corporation of $3,361 million. The group of designated nonbasic commodities, which includes dairy products, barley, grain sorghum, honey, oats, Irish potatoes, rye, tung oil, and wool, had a total net loss during the 24-year period of $3,267 million. Other nonbasic commodities (about 27 in all) resulted in a net loss of $663 million, over 70 percent of this being accounted for by losses in the egg, flaxseed and linseed oil, and cottonseed programs.

Consumer subsidy program

The second major program was the wartime consumer subsidy program which resulted in a net loss to the Government of $2,102 million, almost all of this incurred during World War II. In fact over half of this total loss, $1,205 million, was accounted for by the loss in 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.

Other Commodity Credit Corporation programs

Other Commodity Credit Corporation programs that have operated at a loss through June 30, 1960, include the commodity export program ($851 million), the special milk program for children ($345 million), the emergency feed program, with a loss totaling $42 million, all during fiscal years 1954 and 1955, and the storage facilities program ($12 million). Programs of the Commodity Credit Corporation which have operated at a net gain through June 30, 1960, include the supply program, involving purchases of a variety of commodities ($315 million) and the foreign purchase program, which was terminated in 1955 ($50 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 fits 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 a subsidy.

Other agricultural assistance programs

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, 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. It is most difficult, if not impossible, to determine how much of the benefit of the wheat agreement accrues to the domestic producer and how much to the foreign consumer. As noted in table IV, the realized cost to the U.S. Treasury of the International Wheat Agreement in fiscal year 1956 was $92.3 million, and for fiscal years 1957, 1958, and 1959 amounted to $90.1 million, $82.4 million, and $48.3 million, respectively.

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 1938 to 1959, inclusive, resulted in a net gain of $416.4 million. For the fiscal year 1956 the net gain was $22.3 million, for 1957, $23.4 million, for 1958, $21.3 million, and for 1959, $24.1 million.

The school lunch and donations programs, like the International Wheat Agreement, are essentially a subsidy both to the consumers, domestic and foreign, to whom the surplus commodities are distributed and to producers whose prices are stabilized to some degree by this program. Domestic consumers are primarily school children, persons in eligible institutions and individual welfare recipients. The net expenditures were $522.4 million for fiscal year 1956, $598.6 million for fiscal year 1957, $515.6 million for fiscal year 1958, and $521.5 million for fiscal year 1959.

Soil conservation practices are being encouraged at present by three distinct programs of the Department of Agriculture. The Soil Conservation Service provides, primarily, educational and technical assistance to cooperators in the conservation program. The Department of Agriculture's agricultural conservation program is designed to relieve farmers of a part of the cost of specific conservation programs which, it is maintained, the farmers would not perform adequately with their own resources. Finally, the soil bank conservation reserve program, authorized in 1956, is a long-range program under which farmers voluntarily contract to take cropland out of production for a specified number of years and devote it to conservation uses. In return, the farmer receives (*a*) an annual rental payment for the contract period; and (*b*) assistance in either cash or conservation materials for carrying out approved conservation practices on the reserved acreage.

The following table shows the realized cost of these three programs for the last 6 fiscal years:

TABLE VI.—*Agricultural conservation programs, fiscal years 1954–59*

[In millions of dollars]

Fiscal year	Soil conservation [1]	Agricultural conservation program	Soil bank-conservation reserve programs
1954	57.0	163.1	----------
1955	59.0	230.7	----------
1956	63.6	217.0	0.2
1957	66.2	257.5	37.3
1958	73.6	207.6	133.4
1959	90.0	256.7	170.6

[1] Does not include the watershed protection and flood prevention programs which are not usually considered as subsidies.

Programs of the Farmers Home Administration are designed to assist low-income farm 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 to facilitate farm ownership, for soil and water conservation, for livestock feeding, for housing, and for emergencies. In fiscal year 1959, 67.1 percent of loans authorized were farm operating loans, 21.7 percent farm housing loans, 10.1 percent farm ownership loans, and 1.2 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 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 1951 through 1961 is shown in the following table.

TABLE VII.—*Farmers Home Administration lending program, fiscal years 1951–61*

[In millions]

Fiscal year	Loan obligations incurred	Collections of loan principal and interest	Fiscal year	Loan obligations incurred	Collections of loan principal and interest
1951	$153.1	$128.2	1957	$253.1	$186.1
1952	155.1	136.7	1958	237.4	215.8
1953	164.3	128.2	1959	279.0	241.7
1954	182.1	133.8	1960 (estimated)	251.5	247.4
1955	145.6	161.6	1961 (estimated)	203.3	262.9
1956	161.6	174.9			

Source: Budget of the U.S. Government, fiscal years 1953–61.

Salaries and expenses of the administration of direct and insured loan programs in fiscal year 1959 were approximately $32 million.

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, 1959, in the electrification program cumulative repayments of principal and interest amounted to $774.5 million and $373 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, 1959, REA telephone borrowers had repaid the Government under the rural telephone program $13.2 million in principal, including $1.6 million ahead of schedule, and $9.1 million in interest, or a total of $22.3 million. Table VIII shows net loans in the electrification and telephone programs from their inception through fiscal year 1961 estimates.

TABLE VIII.—*Rural Electrification Administration net loans through fiscal year 1961*

[In millions]

Fiscal year	Electrification	Telephone [1]	Fiscal year	Electrification	Telephone [1]
Cumulative through 1950	$2,205	$3	1958	$236	$87
1951	222	38	1959	170	97
1952	165	41	1960 (estimate)	239	104
1953	146	36	1961 (estimate)	218	80
1954	147	66	Cumulative through 1959	3,942	575
1955	161	50	Cumulative through 1961 (estimate)	4,399	759
1956	191	78			
1957	299	79			

[1] Program started in October 1949.

Source: Budget of the U.S. Government for fiscal years 1953–61.

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 498 production credit associations, 458 had paid off all their Government capital by the end of 1958 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.

The capital of the banks for cooperatives is predominantly furnished by the Federal Government. As of June 30, 1959, Government investment in banks for cooperatives amounted to $138.4 million, and privately owned capital to $38.2 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 custom 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, LeHavre, 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 promotes foreign trade by improving the quality of service available to Ameri-

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

can 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 already noted above (p. 7), 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 water-borne commerce and a substantial portion of the water-borne 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 water-borne 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 Federal Maritime Board is empowered to aid a U.S. citizen in the construction of a new vessel to be used in the foreign 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; but in no case may such subsidy exceed 50 percent of the cost of the vessel. By Public Law 607, 86th Congress approved July 7, 1960, this limit was raised from 50 to 55 percent for a period of 2 years for vessels with keels laid after June 30, 1959. Prior to the passage of this act, the 50-percent limitation had been waived only in special legislation authorizing construction of two superliners. Under Public Law 85–521, approved July 15, 1958, the Government was authorized 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 construction under Public Law 85–521, as the Congress has not appropriated any funds for the construction of these vessels.

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 to 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 through 1960 are reported by the Maritime Administration as follows:

TABLE IX.—*Net construction-differential subsidies payable, fiscal years 1950–60*

[In thousands]

Fiscal year:	*Amount*
1950	$16,722
1951	18,887
1952	9,008
1953	(896)
1954	5,538
1955	5,359
1956	1,614
1957	$16,379
1958	22,638
1959	21,762
1960 (through Mar. 31)	44,114
Total, July 1, 1949, to Mar. 31, 1960	161,125

NOTE. Figure in parenthesis 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 $0.3 million in fiscal year 1955, $14.4 million in fiscal year 1956, $1.1 million in fiscal year 1957, $4.7 million in fiscal year 1958, and $7.1 million in fiscal year 1959. These are subsidies for the reconversion of ships, also authorized by the Merchant Marine Act of 1936.

The $161.1 million of construction-differential subsidies in the postwar period is payable for the construction of 44 vessels, 6 in the postwar construction program (through 1956) and 38 in the current program (1957 through March 1960). These 44 ships have been or are being constructed for 9 companies as shown in the following table (major passenger ships are shown by name):

TABLE X.—*Ships built with construction-differential subsidies, 1946–60*

[In thousands of dollars]

Company	Postwar construction program	Current program	Total
American Export Lines, Inc.			40,038
Independence	11,933		
Constitution	12,049		
8 cargo ships		16,056	
American Mail Line: 3 cargo ships		690	690
American President Line, Ltd.: 2 cargo ships		3,645	3,645
Grace Line, Inc.			20,277
Santa Rosa (combination passenger-cargo vessel)		10,136	
Santa Paula (combination passenger-cargo vessel)		10,141	
Lykes Bros. Steamship Co., Inc.: 9 cargo ships		22,426	22,426
Mississippi Shipping Co., Inc.: 3 cargo ships		3,695	3,695
Moore-McCormack Lines, Inc.			36,460
Argentine (combination passenger-cargo vessel)		10,172	
Brazil (combination passenger-cargo vessel)		10,172	
7 cargo ships		16,116	
Pacific Far East Line, Inc.			15,247
3 Mariner-type vessels	15,188		
2 cargo ships		59	
United States Lines Co.: *United States*	18,647		18,647
Total	57,817	103,308	161,125

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 XI.

TABLE XI.—*Contract costs and subsidy payments for 29 cargo ships, as of 1960*

[In thousands of dollars]

Line	Number of ships	Basic contract cost	Owner's contract cost	Maritime Administration's contract cost [1]	Subsidies payable through Mar. 31, 1960
American Export Lines, Inc.	8	90,493	46,676	43,817	16,056
American President Lines, Ltd.	2	29,132	19,208	9,924	3,645
Lykes Bros. Steamship Co., Inc.	9	84,868	46,850	38,018	22,426
Mississippi Shipping Co.	3	29,408	14,970	14,438	3,695
Moore-McCormack Lines, Inc.	7	73,465	38,295	35,171	16,116
Total	29	307,367	165,999	141,368	61,938

[1] Including allowances for cost of national defense features.

Source: U.S. Maritime Administration.

From this table it can be noted that on these 29 ships the Maritime Administration expects to assume 46 percent of the total contract cost; thus far through March 31, 1960, they have paid in subsidies to ship construction firms 20 percent of the total contract cost.

It may be noted that more than half of the total construction-differential subsidy payable since the end of World War II is used or is to be used in the construction of the seven named passenger liners listed in table X. 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, 1959, there were pending from 9 American-flag operators applications for construction-differential subsidy contracts to aid in the construction of 27 cargo ships, 3 combination cargo/passenger ships, and in the reconstruction of 2 passenger ships and 1 C–4 type cargo ship to a roll-on roll-off type ship.

A new limited ship construction subsidy program was authorized in 1960 for fishing vessels, to be administered by the Department of the Interior. By Public Law 86–516, approved June 12, 1960, the Congress authorized a sum of $2.5 million annually for the next 3 years for payments of subsidies to aid in the construction of fishing vessels. Payments would not be permitted to exceed one-third of the construction costs. Every vessel so constructed would be required to be of U.S. registry, would land all its catches in American ports, and would employ for its crew only American citizens or aliens legally domiciled in the United States. Payments are limited to fishing vessels that are part of a fishery being injured or threatened by increased fish imports. Thus far $750,000 has been appropriated to carry out provisions of this act.

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 Federal Maritime 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, stores, 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, 1960.

TABLE XII.—*Ship operating-differential subsidies, 1947 to June 30, 1960*

[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	28,075	14,503	13,572	13,572	----------
1949	1,242	44,216	14,380	29,835	29,835	----------
1950	1,292	57,876	9,063	48,813	48,813	----------
1951	1,303	71,937	25,608	46,328	46,328	----------
1952	1,336	89,193	25,613	63,580	62,456	----------
1953	1,517	106,173	12,824	93,349	91,353	$1,124
1954	1,448	107,163	2,377	104,786	100,501	1,996
1955	1,557	114,738	11,901	102,837	98,173	4,285
1956	1,655	128,032	21,845	106,188	95,299	4,664
1957	1,736	146,754	26,275	120,478	106,047	10,888
1958	1,744	145,281	5,644	139,637	120,690	14,432
1959	1,750	154,864	2,197	152,666	125,637	18,947
1960 (1st 6 months)	900	78,810	1,911	76,899	26,710	27,030
						50,189
Total	18,973	1,286,549	184,371	1,102,178	968,624	133,554

Source: U.S. Department of Commerce, Maritime Administration.

The actual operating-differential subsidy obligations for fiscal years 1950–59, with estimates for fiscal years 1960 and 1961, as shown in the Budget of the United States, are presented in table XIII as follows:

[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.

TABLE XIII.—*Obligations for maritime operating-differential subsidies, fiscal years 1950–61*

[In thousands of dollars]

Year:	*Amount*	Year—Continued	*Amount*
1950	$5,785	1956	$135,342
1951	8,903	1957	108,292
1952	41,438	1958	120,032
1953	61,730	1959	127,693
1954	85,038	1960 (estimated)	128,918
1955	115,391	1961 (estimated)	150,000

Source: Budget of the U.S. Government for fiscal years 1952–61.

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 end of the 10-year period.

As is evident, the actual sequence of payments of operating-differential subsidy payments is necessarily involved. The sequence is normally as follows:

(1) An initial advance is made of 75 percent of the subsidy accrued, provided it does not exceed 90 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 90 percent of the total subsidy accrual (provided it does not exceed 90 percent of the total accrual less recapture).

(3) The final 10 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.[3]

This procedure helps to explain why, as of June 30, 1960, there was still an estimated balance of $133.6 million to be made in subsidy payments for voyages made from 1951 to 1960, inclusive, compared to subsidies actually paid for the same period of $873.2 million.

[3] U.S. Department of Commerce. Office of the Under Secretary of Commerce for Transportation and the Maritime Administration. "Maritime Subsidy Policy." April 1954, p. 79.

The following 14 companies are operating 310 ships (29 passenger-cargo combinations and 281 cargo ships) under operating-differential subsidy agreements as of January 1, 1960:

	Ships
American Export Lines, Inc	28
American Mail Lines, Ltd	9
American President Lines, Ltd	24
Bloomfield Steamship Co., Inc	4
Farrell Lines, Inc	14
Grace Line, Inc	33
Gulf & South American Steamship Co., Inc	5
Lykes Bros. Steamship Co., Inc	54
Mississippi Shipping Co., Inc	13
Moore-McCormack Lines, Inc	42
The Oceanic Steamship Co., Inc	6
Pacific Far East Lines, Inc	9
States Steamship Co	13
United States Lines Co	56

Under present contracts, these 310 ships operated by 14 companies are required to make a minimum of 1,650 annual voyages and a maximum of 1,995 voyages a year. In calendar year 1959 an estimated 1,711 voyages were made, compared to 1,800 estimated for 1960. The Budget Bureau estimates further that subsidy funds for the operation and replacement of these 310 ships until expiration of the agreements would approximate $4,000 million. Congress annually authorizes the maximum number of voyages which are to be covered by subsidy contracts.

Each subsidized round-trip voyage, including a pro rata construction subsidy, is estimated at $140,000, based on existing legislation, current operating and construction costs, and current conditions in the shipping industry.

As of January 1, 1960, there were pending applications for operating-differential subsidies for a minimum of 404 and a maximum of 705 voyages, involving 140 ships and 11 companies. One of the factors in this increase is the opening of the St. Lawrence Seaway, making the Great Lakes more accessible to oceangoing vessels.

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 January 1960, contracts of mortgage insurance and commitments to insure mortgages amounted to approximately $400 million.

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 February 13, 1958, when the current program started through 1959, 36 obsolete ships have been traded in for a gross allowance of $35.2 million on the purchase price of 34 new vessels to be constructed in U.S. shipyards. Most of the obsolete vessels are leased back to the operators until the new ships are delivered, with reductions in the trade-in allowance to compensate for the use of the vessel by the operator from the time of trade-in until delivery of the new ship to him.

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 the end of 1956, 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 $229.0 million foreign mortgages.

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 1960 or 1961. Loans outstanding are expected to decline from $207 million in 1959 to $175 million by the end of 1961.

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 led 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. This procedure is now authorized under section 406 of the Federal Aviation Act of 1958. 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 January 1960 report on service mail pay and subsidy for U.S. certificated air carriers, the Civil Aeronautics Board describes the purpose of this subsidy as follows:

> 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. Apart from national defense considerations, it has been and will continue to be one of the most effective means of advancing the commerce of the United States. Although the carriers receive the subsidy, it is, in effect, the smaller communities that are the direct beneficiaries thereof through the operations of the relatively small carriers, such as the local service carriers. Congress has chosen to develop modern and efficient air transportation for these communities by subsidy under section 406 of the Federal Aviation Act.

Table XIV shows the extent of the mail subsidy to certificated air carriers annually, beginning with fiscal year 1951, as compared to the actual service mail pay. Over the past decade the subsidy, as a percent of service mail pay, has undergone a significant reduction. In fiscal year 1951 it amounted to 153.8 percent of the service mail pay. By fiscal year 1959 this had dropped to a low of 64.4 percent of service mail pay. For fiscal years 1960 and 1961 this is expected to rise to 73 percent, due largely to an expansion of service by local air carriers.

TABLE XIV.—*U.S. certificated air carriers: comparative summary of volume of mail, service mail pay, and subsidy estimated for operations, during the fiscal years 1951–61*

[In thousands]

Fiscal year	Mail, ton-miles	Service mail pay	Subsidy	Total service mail pay and subsidy
1951	77,387	$44,562	$68,676	$113,328
1952	92,108	51,774	62,541	114,315
1953	94,410	53,879	66,817	120,696
1954	108,259	54,763	64,000	118,763
1955	131,536	56,451	44,710	101,161
1956	145,293	61,046	43,583	104,629
1957	155,818	65,002	44,068	109,070
1958	164,797	68,264	46,884	115,148
1959	190,882	80,325	51,789	132,114
1960 (estimated)	200,917	86,422	63,152	149,574
1961 (estimated)	218,038	94,108	69,251	163,359

Source: U.S. Civil Aeronautics Board. Service mail pay and subsidy for U.S. certified air carriers, January 1960.

During the past decade there have been significant shifts in the groups of airlines receiving a subsidy. In fiscal year 1951 subsidy payments to domestic trunklines exceeded those to local service carriers, and those to international carriers in the aggregate were greater than subsidies to either domestic trunklines or local service carriers. However, by fiscal year 1960, no subsidy payments were being made to domestic trunklines or any international carriers. On the other hand, subsidies to local service carriers as a percent of all subsidies have increased every year, from 5.4 percent in fiscal year 1951 to 72.3 percent in fiscal year 1959 and an expected 81.6 percent in fiscal year 1961. These shifts since 1951 are shown in table XV.

TABLE XV.—*Subsidy estimates for various classes of air carrier services, fiscal years 1951–61*

[In thousands of dollars]

Fiscal year—	Total	Domestic trunklines [1]	Local service carriers [1]	Helicopter operators	Alaskan and Hawaiian carriers [1]	International carriers		
						Transatlantic	Transpacific	Latin American
1951	68,676	17,612	17,310		3,324	10,382	10,776	9,272
1952	62,541	6,411	18,990		6,146	5,837	11,641	13,516
1953	66,817	3,527	21,850		8,736	4,182	12,173	16,349
1954	64,000	3,880	24,299	2,574	8,992	1,625	6,803	15,827
1955	44,710	3,054	22,570	2,656	8,197	232	[3] −1,065	9,066
1956	43,583	1,857	24,442	2,735	7,911	488	351	5,799
1957	44,068	1,586	28,777	3,770	6,694	437	262	2,542
1958	46,884	2,282	33,246	4,419	6,910			27
1959	51,789	1,201	37,493	4,860	8,235			
1960 (estimated)	63,152		49,571	4,859	8,722			
1961 (estimated)	[2] 69,251		[2] 56,534	4,760	7,957			

[1] Includes nonpriority mail.
[2] Includes the $2,500,000 additional subsidy estimated for the local service group of carriers.
[3] Reflects final system rate for Pan American effective Jan. 1, 1955. Although all divisions were affected, only in the Pacific division a negative amount of subsidy resulted.

Source: U.S. Civil Aeronautics Board. Service mail pay and subsidy for U.S.-certified air carriers, January 1960.

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 auspicies, 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 XVI and XVII show the extent of the Federal-aid airport program through December 31, 1959.

TABLE XVI.—*1947–60 Federal-aid airport program—Number of airports and Federal funds allocated, as of Dec. 31, 1959*

Service type	Air commerce airports		General aviation airports	
	Number	Federal funds	Number	Federal funds
		Thousands		*Thousands*
Secondary [1]	14	$1,026	683	$26,395
Feeder	1	309	177	25,783
Trunk	30	14,748	427	80,795
Express	65	57,023	19	6,098
Continental	37	75,678	5	2,344
Intercontinental	31	110,060		
Intercontinental express	16	108,180		
Seaplane facilities [1]	20	554	2	29
Heliports	0	0	1	84
Total	214	367,578	1,314	141,528

[1] Secondary type airports and seaplane bases in Alaska are counted as air commerce airports.

Source: U.S. Federal Aviation Agency. FAA Statistical Handbook of Aviation, 1960 edition, p. 10.

TABLE XVII.—*1947–60 Federal-aid airport program, status as of Dec. 31, 1959*

State or possession	Total programed (all funds in thousands)				
	Sponsor funds	Federal funds	Total funds	Number of airports	Number of projects
Alabama	$7,317	$7,297	$14,614	19	55
Alaska	4,036	10,410	14,446	63	88
Arizona	7,844	8,463	16,307	22	107
Arkansas	4,172	4,074	8,246	36	87
California	51,893	44,504	96,397	88	313
Colorado	7,140	7,082	14,222	31	90
Connecticut	3,841	3,851	7,692	7	28
Delaware	439	444	883	1	9
District of Columbia	0	0	0	0	0
Florida	19,777	18,129	37,906	28	91
Georgia	11,633	11,744	23,377	32	96
Hawaii	8,931	6,096	15,027	9	22
Idaho	2,256	2,776	5,032	39	103
Illinois	36,793	32,091	68,884	36	141
Indiana	8,757	8,056	16,813	24	75
Iowa	7,389	7,198	14,587	42	119
Kansas	3,909	3,764	7,673	53	100
Kentucky	9,505	8,944	18,449	17	63
Louisiana	16,699	14,127	30,826	25	81
Maine	2,332	2,325	4,657	18	44
Maryland	5,391	5,222	10,613	9	30
Massachusetts	11,139	10,373	21,512	24	79
Michigan	22,626	19,133	41,759	59	183
Minnesota	14,121	13,801	27,922	52	138
Mississippi	4,196	4,111	8,307	30	75
Missouri	16,492	15,892	32,384	43	97
Montana	2,343	2,735	5,078	38	110
Nebraska	5,715	5,657	11,372	64	144
Nevada	3,354	5,547	8,901	13	38
New Hampshire	886	883	1,769	9	26
New Jersey	12,170	9,091	21,261	9	29
New Mexico	3,082	3,871	6,953	23	54
New York	40,907	34,112	75,019	25	115
North Carolina	7,111	7,052	14,163	21	68
North Dakota	1,815	1,820	3,635	31	76
Ohio	22,727	21,385	44,112	23	77
Oklahoma	10,559	10,630	21,189	45	108
Oregon	7,439	7,672	15,111	27	91
Pennsylvania	33,539	30,513	64,052	39	125
Rhode Island	2,963	2,801	5,764	2	8
South Carolina	1,959	1,982	3,941	18	46
South Dakota	1,776	2,014	3,790	43	83
Tennessee	12,104	12,157	24,261	28	95
Texas	30,789	29,395	60,184	91	218
Utah	5,673	6,893	12,566	27	69
Vermont	871	861	1,732	6	17
Virginia	6,107	5,964	12,071	13	46
Washington	9,711	9,379	19,090	36	92
West Virginia	5,638	5,561	11,199	9	41
Wisconsin	12,078	11,560	23,638	55	111
Wyoming	1,858	2,450	4,308	23	72
U.S. total	531,802	501,892	1,033,694	1,525	4,273
Puerto Rico	5,584	5,608	11,192	1	9
Virgin Islands	631	1,606	2,237	2	11
National total	538,017	509,106	1,047,123	1,528	4,293

Source: U.S. Federal Aviation Agency. FAA Statistical Handbook of Aviation, 1960 edition, pp. 10–11.

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

The principal direct subsidies to the railroads took the form of land grants from 1850 through 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. All in all, the railroads received Federal and State land grants amounting to approximately 183 million acres. It has been estimated that the total amount of public aid given to railroads to promote construction amounts to $1,282 million.[1]

In addition, since 1932, loans on very favorable terms have been made to railroads by the Reconstruction Finance Corporation and the Federal Emergency Administration of Public Works. Other early indirect aids to railroads took the form of lowering the import duty of railroad iron, mail service contracts, and grants of rights-of-way over public lands.

The Transportation Act of 1958 provides for Federal guaranteeing of loans to railroads upon approval by the Interstate Commerce Commission and eases 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.

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.

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

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 14-year period from July 1, 1945, through June 30, 1959, has amounted to $7 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 1925. 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 newspapers, 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 8 ounces; and fourth-class mail is parcel post. Other revenue producing services which the Post Office has consistently carried out at a loss include registry, insurance, cash on delivery, special delivery, money orders, and postal notes. In addition, the Post Office Department carries on a number of nonrevenue functions, including free distribution of second-class mail published within the county in communities without postal delivery, penalty mail by Government departments, 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 Analysis, 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). As part of this 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 the act 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*) Free-in-county mailing privileges for newspapers (sec. 104(a)(1)(C)).

(*c*) 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) (F)).
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 (C)).
   (*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. Loss resulting from the operation of such prime and necessary public services as the star route system and third- and fourth-class post offices (sec. 104(a) (2)).
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 mony 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 public services (items 1–4 above) and the additional cost of carrying U.S. mail by foreign air carriers (item 8 above) in certain reports as "postal rate concessions for certain subclasses of mail," in others as "public service costs" and in still others as "identifiable subsidies." Table XVIII indicates the extent of these particular identifiable subsidies for fiscal years 1956 through 1961.

TABLE XVIII.—*Revenue concessions from regular postage rates for certain subclasses of mail, fiscal years 1951–61*

[In thousands of dollars]

	1956	1957	1958	1959	1960 [1]	1961 [1]
2d-class mail:						
Reduced-rate mailings: Newspapers and periodicals of certain nonprofit organizations	2,144	2,451	2,508	3,094	4,605	6,217
Free-in-county mail	839	835	833	830	829	836
Reduced-rate mailings, exempt 2d class publications for religious and classroom use	119	137	152	224	310	430
Total, 2d class	3,102	3,423	3,493	4,148	5,744	7,483
3d-class mail: Reduced rates, exempt 3d-class mailings of nonprofit organizations	5,990	6,064	6,805	11,558	14,981	19,715
4th-class mail:						
Reduced-rate mailings:						
Books	13,256	14,448	17,691	17,815	15,838	15,987
Library books	1,672	1,979	2,317	3,355	3,140	3,360
Matter for blind at 1 cent per pound	50	51	84	69	87	87
Total, 4th class	14,978	16,478	20,092	21,239	19,065	19,434
1st-class mail, all others:						
Free-for-blind mails	965	939	1,171	1,276	1,330	1,381
Frank mail, other than Members of Congress	96	120	159	202	55	55
Pan American Union and Pan American Sanitary Bureau, penalty mails	64	103	87	74	82	82
Total	1,125	1,162	1,417	1,552	1,467	1,518
Cost of excess rates paid to foreign air carriers to transport mail	1,143	1,100	1,100	850	1,000	850
Grand total postal rate concessions	26,337	28,227	32,907	39,347	42,257	49,000

[1] Estimated.

Sources: U.S. Post Office Department. Cost Ascertainment Report, 1956–59. U.S. Congress. House, Committee on Post Office and Civil Service, Postal Rate Revision (hearings, Mar. 19–Apr. 18, 1957, p. 51). U.S. Postmaster General. Survey of Postal Rates, Apr. 20, 1960 (86th Cong. 2d sess., H. Doc. No. 381. pp. 108–109). U.S. Congress. House. Committee on Appropriations. Treasury and Post Office Departments Appropriations for 1961 (hearings, Jan. 11, 1960, p. 88).

The relationship of these subsidies to the postal deficit as a whole since 1946 is shown in table XIX, which is in the form as submitted by the Post Office Department.

TABLE XIX.—*Postal deficits (various bases) and identifiable subsidies, fiscal years 1946–59*

[In millions of dollars]

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	Total
Reported postal budgetary deficit	129.1	205.6	276.8	577.5	545.5	564.6	719.5	650.4	399.1	362.7	464.0	547.8	890.6	605.1	6,938.3
Less identifiable subsidies:															
Rate advantages to specific users	5.7	6.4	7.6	7.5	5.0	7.8	13.4	19.4	21.8	23.8	25.2	27.1	31.8	38.5	241.0
Mail transportation subsidies	14.2	28.8	52.5	77.0	79.6	75.2	70.3	75.7	18.3	1.2	1.2	1.1	1.1	.9	497.1
Total identifiable subsidies	19.9	35.2	60.1	84.5	84.6	83.0	83.7	95.1	40.1	25.0	26.4	28.2	32.9	39.4	738.1
Budgetary deficit exclusive of identifiable subsidies	109.2	170.4	216.7	493.0	460.9	481.6	635.8	555.3	359.0	337.7	437.6	519.6	857.7	565.7	6,200.2
Add postal costs paid by other departments: [1]															
Retirement fund accruals	44.0	46.3	60.0	79.7	86.3	88.1	96.0	94.6	105.7	112.7	125.3	127.6	5.1	(2)	1,071.4
Workmen's compensation	3.0	3.0	3.0	3.0	3.0	3.0	3.7	2.5	3.0	3.2	4.0	4.4	5.2	4.5	48.5
Custodial and maintenance cost	-------	-------	-------	-------	-------	9.1	9.1	9.1	9.1	9.7	18.9	24.3	18.2	21.7	129.2
Unemployment compensation	-------	-------	-------	-------	-------	-------	-------	-------	-------	6.5	7.0	7.2	9.7	11.0	41.4
Other costs (estimated)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2	2.2	2.2	28.6
Total paid by other departments	49.0	51.3	65.0	84.7	91.3	102.2	110.8	108.2	119.8	134.1	157.2	165.7	40.4	39.4	1,319.1
Total	158.2	221.7	281.7	577.7	552.2	583.8	746.6	663.5	478.8	471.8	594.8	685.3	898.1	605.1	7,519.3
Less unreimbursed services for other departments:															
Nonpostal services	18.8	20.1	20.0	22.9	22.8	15.7	17.0	17.4	17.7	16.0	14.6	16.1	17.0	18.2	254.3
Penalty and franked mail	30.7	28.9	24.9	27.8	28.4	26.8	34.5	33.9	(3)	-------	-------	-------	-------	-------	235.9
Total	49.5	49.0	44.9	50.7	51.2	42.5	51.5	51.3	17.7	16.0	14.6	16.1	17.0	18.2	490.2
Governmentwide postal deficit attributable to rate deficiencies	108.7	172.7	236.8	527.0	501.0	541.3	695.1	612.2	461.1	455.8	580.2	669.2	881.1	586.9	7,029.1

[1] Excludes depreciation on public buildings used in the postal service.
[2] Retirement accruals assumed by the Department under Public Law 84–854, effective July 13, 1957.
[3] Penalty and franked mails reimbursed to the Department commencing in 1954 under provisions of Public Law 83–286.

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

It may be noted that 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 49–51.

The main elements in the postal budgetary deficit, as shown in the first line of table XIX, are indicated in the following table:

Table XX.—Postal budgetary deficit by classes of service, fiscal years 1951–59 [1]

[In millions of dollars]

Fiscal year	Total	1st class	Domestic airmail	2d class	3d class	4th class
1951	564.6	(102.4)	26.0	196.2	130.1	131.1
1952	719.5	(52.4)	32.5	236.4	191.9	153.7
1953	650.4	(82.5)	42.0	239.8	158.6	151.5
1954	399.1	(63.3)	(3.6)	232.2	147.2	23.3
1955	362.7	(62.3)	(20.3)	233.0	172.0	(1.9)
1956	464.0	(35.7)	(23.4)	252.5	205.9	15.1
1957	547.8	(26.4)	(20.7)	260.4	246.2	40.1
1958	890.6	137.1	(9.3)	285.8	323.1	116.9
1959	605.1	(135.4)	(21.5)	303.5	287.1	133.1

Fiscal year	Controlled circulation publication	Special services	Nonpostal services for other agencies	International mail	All other
1951	(2)	49.9	13.2	63.7	56.8
1952	(2)	53.8	12.3	47.8	43.5
1953	0.5	38.6	12.9	53.4	35.6
1954	1.1	34.8	12.4	5.3	9.7
1955	1.4	47.7	12.4	(6.9)	(12.4)
1956	2.0	39.9	14.6	(4.5)	(2.4)
1957	1.8	23.0	16.2	(3.3)	10.5
1958	3.3	13.8	17.0	8.5	(5.6)
1959	3.0	15.8	18.2	7.9	(6.6)

[1] Postal deficits represent the difference between revenues and apportioned expenditures.
[2] Included in 2d-class mail.

NOTE.—Figures in parentheses indicate excess of revenues.

Source: U.S. Post Office Department Cost Ascertainment Reports, 1951–59.

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 1959, the deficit of second-, third-, and fourth-class mails combined totaled $723.7 million, compared with the total postal deficit of $605.1 million. The lower total deficit resulted primarily from the fact that first-class mail had revenues totaling $135.4 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 even 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 Analysis, Bureau of Finance, 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 likewise is not 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.

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 XXI.—*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 XXII.—*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 projects 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 XXI 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.

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, the price which is still in effect. As a result of this price-supporting program, production of silver has tripled. For many years virtually the entire domestic output of silver has been diverted to the Government, and almost all of the silver used by industry has been imported at lower prices from abroad.

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 Paroduction 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, 1959, are shown in the following table:

TABLE XXIII.—*Summary of Defense Production Act inventory—Total purchases, inventory, and operating costs, December 1950 through June 30, 1959*

[In millions of dollars]

Commodity	Total purchases	June 30, 1959, 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, 1959 market value of inventory
Aluminum (pig)	551.1	345.2	206.0	205.9	0.1	[1]	0.1	336.1
Aluminum subsidy (power)						19.1	(19.1)	
Aluminum (sheet)	4.8		5.0	4.8	.3	.1	.2	
Asbestos	2.1	2.1				[1]	[1]	1.4
Bauxite	25.3	18.2	7.1	7.1	(.1)	.1	(.1)	15.5
Beryllium	1.4	.9	.4	.5	(.1)	.2	(.3)	.5
Bismuth	.1	.1						.1
Chrome	29.5	26.8	2.5	2.7	(.2)	.6	(.8)	11.2
Cobalt	44.0	39.5	4.0	4.6	(.6)	[1]	(.6)	33.1
Columbium-tantalum	77.6	60.0	10.6	17.6	(7.0)	1.0	(8.0)	12.4
Columbium-tantalum subsidy						6.3	(6.3)	
Copper	128.0	75.4	56.2	52.6	3.7	.4	3.2	85.7
Copper subsidy						1.8	(1.8)	
Cryolite	15.3	10.8	3.6	4.6	(1.0)	.2	(1.2)	6.7
Fluorspar	15.0	1.4	10.3	13.6	(3.3)	[1]	(3.3)	1.0
Graphite	.2	.2				.1	(.1)	
Lubricating graphite development						.2	(.2)	
Lead	14.9	2.8	11.8	12.1	(.3)	.3	(.5)	1.8
Magnesium	122.8		110.9	122.8	(11.9)	3.7	(15.6)	
Manganese	194.5	158.2	27.8	36.3	(8.5)	5.3	(13.8)	55.7
Mercury	6.8		6.8	6.8	[1]	[1]	[1]	
Mica	37.1	25.5	3.8	11.5	(7.8)	.9	(8.7)	13.3
Molybdenum	39.9		38.5	39.9	(1.4)	.1	(1.5)	
Nickel—Nicaro	124.0	22.3	117.8	101.8	16.1	[1]	16.1	29.6
Nickel—other	233.4	92.3	110.6	141.0	(30.4)	2.7	(33.2)	65.8
Rutile						[1]	[1]	
Scrap (nonferrous)	.5		.4	.5	(.1)		(.1)	
Selenium						.2	(.2)	
Tin	176.6	1.0	174.1	175.6	(1.5)	[1]	(1.5)	1.1
Titanium	168.0	163.6	4.3	4.5	(.1)	2.0	(2.1)	72.2
Tungsten	366.9	325.5	34.5	41.5	(6.9)	2.0	(9.0)	99.8
Zinc	27.7		21.7	27.7	(6.0)	.1	(6.1)	
Total	2,407.5	1,371.6	968.7	1,035.8	(67.1)	47.4	(114.5)	843.0

Minerals and metals expenses not included above:								
Research and development							(1)	
Losses on accounts receivable and advances							(5.5)	
Depreciation							(5.2)	
Loss on disposal of assets							(7.3)	
Other							(.8)	
Total							(18.8)	
Income from interest, rentals, etc							24.4	
Total not included above							5.6	
Net operating loss							(108.9)	

[1] Less than $50,000.

Source: U.S. Congress. Joint Committee on Defense Production, 9th annual report, Jan. 13, 1960 (86th Cong., 2d sess., H. Rept. 1193), p. 31.

The net operating loss for these purchases and related programs through June 30, 1959, is estimated at $108.9 million. The most important minerals in terms of net losses through June 30, 1959, 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 XXIV. The net loss of $23.7 million through 1959 is less than a quarter of the losses sustained under the Defense Production Act. However, it is estimated, in terms of market values prevailing at the end of 1959, that future losses under the Domestic Minerals Expansion Act program will amount to about $258.5 million, making an ultimate net cost of the program of $282.2 million. Of the total ultimate net cost, 46 percent is designed for tungsten producers, 29 percent for manganese producers, 15 percent for columbium-tantalum producers, and 10 percent of all other.

TABLE XXIV.—*Government purchases and estimated net losses under domestic minerals purchase program (Public Law, 206) through June 30, 1959*

[Dollar figures in thousands]

	Termination date	Unit	Quota limitation	Actual purchases [1]				Estimated [2] gross program cost	Probable ultimate net cost		
				Fiscal year 1959		Accumulative			Realized [3] to June 30, 1959	Estimate [4] for future	Total
				Quantity	Cost	Quantity	Cost				
Asbestos:											
Crude No. 1 and 2	Oct. 1, 1957	Short ton	1,500			1,499	$1,763	$2,145	$42	$674	$716
Crude No. 3						850	340				
Beryl	June 30, 1962	do	4,500	370	$203	2,318	1,289	2,574	146	711	857
Chromite	June 30, 1959	Long ton	200,000			199,961	18,588	[5] 18,588			
Columbium-tantalum	Dec. 31, 1958	Pound	15,000,000			15,567,912	60,637	67,373	11,237	30,447	41,684
Manganese:											
Butte-Philipsburg, Mont	June 30, 1958	Long-ton unit	6,000,000			6,020,471	9,075	11,227	2,114	7,563	9,677
Deming, N. Mex	do	do	6,000,000			6,215,258	12,036	12,371	238	10,797	11,035
Wenden, Ariz	do	do	6,000,000			6,108,316	10,743	11,211	186	9,360	9,546
Domestic small producers	Jan. 1, 1961	do	28,000,000	6,730,752	17,682	26,087,372	66,729	72,085	1,598	49,019	50,617
Mica	June 30, 1962	Short ton	25,000	3,411	3,309	17,834	17,979	32,968	7,631	20,365	27,996
Tungsten	July 1, 1958	Short-ton unit	3,000,000			2,996,280	189,213	189,739	509	120,559	130,068
Total					21,195		388,392	420,281	23,701	258,495	282,196

[1] Includes purchase cost of materials only.

[2] Includes (1) purchase cost of materials delivered, (2) estimated purchase cost of materials remaining to be delivered under the program, (3) initial transportation charges to storage site, and (4) operating cost 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, 9th annual report, Jan. 13, 1960 (86th Cong., 2d sess., H. Rept. No. 1193), p. 43.

Expansion of productive capacity

The Defense Production Act in addition to providing for stockpiling strategic and critical materials as shown above authorized a program to encourage the expansion of productive capacity and supply of materials. This program is administered by the General Services Administration, with certification for individual parts of the program made by the Office of Civil and Defense Mobilization. The OCDM has approved expansion contracts to increase the mining and/or refining capacity for materials, such as aluminum, copper, nickel, and titanium, and also to expand facilities for machine tool production. As table XXV shows, the gross transactions of these expansion programs through June 30, 1959, totaled $7,647 million with an estimated probable ultimate net cost to the United States of $1,021 million. The General Services Administration received no new program certifications during the fiscal year 1959 nor any substantive changes in existing program limitations.

TABLE XXV.—*Expansion programs certified to the General Services Administration through June 30, 1959, under the Defense Production Act of 1950*

[In millions]

Material or program	Gross transactions	Probable ultimate net cost to United States	Material or program	Gross transactions	Probable ultimate net cost to United States
Aluminum	$1,558.8	$27.1	Titanium	$231.4	$130.3
Cobalt	126.7	18.2	Tungsten	369.2	246.8
Copper	626.9	(13.9)	All other	699.2	354.6
Machine tools	1,546.2	10.3			
Magnesium	129.5	18.4	Total	7,646.9	1,020.8
Manganese	460.0	130.3	Working capital certified		783.2
Nickel	837.0	102.1			
Rubber	882.5	(7.3)	Total borrowing authority certified		1,804.0
Tin	179.5	3.9			

Source: U.S. General Services Administration, "10th Annual Report of the Administrator of General Services," June 30, 1959, p. 38.

Assistance by General Services Administration

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

Table XXVI.—*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									$1,535,805	$1,555,079
Aluminum	745,119	80	$120,750	79		$15,735	$19,274					
Antimony	194	60										
Arsenic	465	65									2,147	2,147
Asbestos												
Barite	2,271	30									25,540	25,540
Bauxite	30,041	80							$150		2,721	2,871
Beryllium					$45	34					1,013	1,013
Bismuth												
Borates	1,966	25										
Bromine	5,061	50										
Cadmium	276	60									40,751	40,751
Chrome			1,500	70		3,445					114,370	114,370
Cobalt									625		97,889	98,514
Columbium-tantalum	3,685	80	2,850	90		155					674,086	675,991
Copper	228,525	75			121,900	534	1,905				15,541	15,541
Cryolite	6,659	75										
Diatomite	6,355	35									20,000	20,000
Dolomite			2,636	80							15,839	15,839
Fluorspar						1,280						
Fluorspar and fluorides	4,282	65										
Garnet	299	60										
Germanium	110	70								$613	286	899
Graphite												
Gypsum	158	60										
Hospital equipment			850	85								
Iron, including taconite	1,244,300	65									0	0
Iron ore					57						20,817	20,817
Lead												
Lead and zinc	63,314	60										
Lime, limestone, and dolomite	48,697	60										
Lime rock					92			0				0
M-day machine tool pool order								$4,800				4,800
Machine tool (elephant)								1,285,744				1,285,744
Machine tools (pool)			31,212	84		53,782		0				0
Marine turbine and gear										129,271	209	129,480
Magnesium	7,024	50	386	74					2,704		466,147	468,851
Manganese	18,756	75	4,750	92	15,000	9,117					45,000	45,000
Mercury	1,091	80										

See footnotes at end of table.

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

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*
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									0	0
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		0	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 thousand 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 August 31, 1959, $22.9 millions had been disbursed under this program and repayments made totaling $3.2 millions.

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. 30, 35, and 36.)

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 govermental, 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]

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[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. It is estimated that the military buys about $17 billion of new equipment each year and sells off an amount that originally cost $10 billion. Most of this 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. Altogether it is estimated that in fiscal year 1960 goods that cost $2,400 million were sold to the public for $121 million, or about 5 percent of the original cost.

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 make 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 Fince 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 the 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.

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.

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.[2] 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.

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 RESOURCES AND REGIONAL DEVELOPMENT PROGRAMS[3]

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

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

[3] See also the Joint Economic Committee's print, "Energy Resources and Government," issued in 1960.

Electrification Administration program, has already been discussed above, pp. 37 and 38.

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 constitute a subsidy, similar to the accelerated amortization of defense facilities, discussed above, pp. 60–63.

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. This carries on, for example, power production, manufacture of fertilizer, flood control, improvement of navigation facilities, topographic mapping, and educational programs. The fertilizer program is considered by many to constitute a subsidy to the farmers receiving and using its products. Farmers pay only transportation costs for it. In 1956 the TVA produced 3 percent of all the plant nutrient manufactured in the United States. This is, of course, a far more extensive program than one just of research and experimentation. To the extent that this fertilizer is distributed below cost instead of sold commercially at competitive prices, there is an element of subsidy to the recipients of TVA fertilizer. In the Tennessee Valley Authority it has also been seriously questioned whether the power rates it charges are adequate to cover all capital costs, and to the extent that those costs are not covered, as they must be by private utilities, those benefiting from the lower TVA rates receive a subsidy. Because the various TVA programs, like many of the other reclamation, power, flood control, and irrigation projects, interact upon each other, it has been virtually impossible to determine the extent of subsidy involved. 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 $1,390 million in calendar year 1948 to $4,430 million in 1958 and there is every indication that this expansion will continue. Inevitably many of the firms receiving research and development contracts have been able to derive substantial commercial benefit from the results of this research. 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

[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.

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.

O