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Current and parity incomes for farmers

Already a great advance has been made toward price and income parity for farmers but these goals have not yet been attained. In 1940, when parity income would be 9 3/4 billion dollars or more, income from farm marketings may be about 8 billion and Government payments to farmers, including 225 million of parity payments already appropriated, may be close to 3/4 billion, making a total of 8 3/4 billion. This would be short of income parity by a billion or more. If parity payments are dropped, the difference in 1941 would be larger, unless market developments were favorable to farmers. It is our position that an approach to parity of incomes for farmers is both equitable and economically desirable.

Appropriations and certificate plan

If parity payments are to be maintained or increased, should they be made out of the general funds, that is, out of general taxation, or out of special taxes allotted through the certificate plan? Appropriations from the general funds presumably would come to some extent from income and other taxes based on ability to pay. The cost under the certificate plan would fall mostly on consumers of products made from cotton, wheat, and rice, in accordance with the poundage of these materials in products bought. A large portion of the cost would be paid by people with low incomes. It is exceedingly difficult to compare the incomes of farm and nonfarm groups to determine whether those receiving the payments (in relatively large amounts each) are worse off than those who would make the payments (in relatively small amounts each, the tax being spread over a large number of people). But it is clear from the point of view of income distribution and also from the point of view of putting idle funds to work that making payments out of the general funds of the Treasury would be better than making them out of the proposed consumer taxes.

There is, moreover, a fundamental objection to making, in effect, such large appropriations without the annual review accorded those for practically all other purposes; in this connection it should be noted that the amount of taxes under the certificate plan would automatically increase if prices received declined relative to prices paid (and vice versa).

Another important argument for appropriations from the general funds rather than the special taxes proposed is that farmers really can not afford to lose more of their markets. Domestic cotton consumption would probably be curtailed as a result of a 6 cent tax--a study of the effects of the processing tax by the Bureau of Agricultural Economics would suggest a loss of perhaps half a million bales annually. This total might be reduced by distribution of cotton goods through extension of the Food Stamp Plan but in many particular cases competitive materials certainly would be given a great advantage by an increase of perhaps one-third in the cost of the highest grades of cotton and two-thirds for the lowest grades. A decrease in consumption would lower production and have an unfavorable effect on producers, particularly farm laborers, who in any event would be benefited only indirectly. The effect of the tax on consumption might be lessened if the certificate plan were revised to bear less heavily on the low-value uses of cotton, and more heavily on high-value products where the cost of the raw material is small relative to the price of the finished goods (lawn, lace, and broadcloth fabrics, for example, as against mattresses or overalls).

If the certificate plan is adopted, demand for protection from competing domestic materials would probably take form similar to the compensating taxes under the A.A.A., which were very troublesome, and extended almost endlessly. Cotton manufacturers and growers asked for compensatory taxes on silk, rayon, and paper; wheat millers and growers for taxes on corn, rye, and the imported starches. Devices of this sort would run counter to the efforts of various agencies to eliminate restraints on domestic trade. They would not be involved if funds were appropriated direct from the Treasury.

The principal argument advanced for the certificate plan is that this year and every other year it will provide larger payments than can be obtained any other way and make possible the continuation of effective measures to control production and supplies in the interest of consumers as well as of producers. Consumers, it is urged, would probably not begrudge the producer his parity price. Also, once the certificate plan was adopted, funds would be made available automatically each year; how this would work out actually is uncertain--relating payments to specific taxes might make them a target in an election year even if incomes are higher than in other recent years.

Fixed price plans and certificate plan

It is understood that the suggestion of the certificate plan has been made partly to meet a demand for a system of fixed or guaranteed parity prices on the domestically consumed portion of staple crops. The certificate plan would be preferable to a system of fixed prices since while the effect on the consumer would be approximately the same the certificate plan would channel the benefit to cooperating producers, thus supporting the broad adjustment and ever-normal granary program.

Summary

To summarize, it is our judgment that efforts to establish a better relationship between the income of farmers and of others should continue, particularly if it can be done in a way that would contribute to the effectiveness of the broader farm program. Our first preference is for appropriations financed by taxes derived in accordance with ability to pay. Our next choice would be a combination of appropriations and the certificate plan, with appropriations sufficient to reduce materially the amount of the taxes under the certificate plan and sufficient to provide payments for some other groups not covered by the certificate program. If, however, the choice is between discontinuance of parity payments and possible consequent dislocation of the farm program on the one hand, and the certificate plan on the other, or between a system of fixed or guaranteed prices and the certificate plan, then the certificate plan, with certain revisions, would be favored.

In thinking about revision the following questions might be considered.

(1) How can substitution of other materials, notably for cotton, be prevented? Even if new outlets are gained by extension of the Food Stamp Plan it would be unfortunate for cotton growers to lose markets narrowly held with current price relationships.

(2) What provision can be made for integrating the certificate program with the parity payment program in 1940; and subsequently for continuing parity payments to corn producers, who are now receiving 50 to 60 million dollars a year of such payments?

(3) If many other nonmilitary appropriations ace actually decreased this year, should parity payments to cotton, wheat, and rice growers be increased as much as would be necessary to bring the income of these groups all the way to parity? (The amount to be collected for these groups under the plan as outlined would be around 400 or 500 million dollars as compared with average parity payments to them of about 150 million dollars on the past two crops.)