INCREASING THE DOMESTIC DEMAND FOR FARM PRODUCTS
BY GOVERNMENT PROGRAMS

H. M. Southworth

Our topic this morning is government programs to increase domestic demand for farm products. However, I understand that next week's speaker will discuss advertising and other forms of promotion for farm products, and a later speaker new and expanded industrial uses. This limits us this morning chiefly to what have been referred to as "distribution programs": actual purchase and distribution of commodities by the Government, sometimes referred to as "direct distribution"; and subsidies to their movement through ordinary marketing channels, like the present School Lunch Program and the former Food Stamp Plan.

With regard to such programs, I shall argue that they do not appear to me likely under present conditions to contribute importantly to solution of the farm surplus problem -- a conclusion in which I agree with the position taken by Willard Cochrane in his paper given here last fall.

In this connection, I recommend to you the study by Cochrane's group at Minnesota, a report of the first part of which is nearing publication. An advance draft of this report was made available to me. You will find in it a much more rigorous and searching analysis of this morning's topic than I am able to present.

As background for today's discussion, however, I should like first to summarize briefly our experience with programs of this kind in the United States: the chief types that have been used or proposed, and the circumstances that gave rise to them. Then I should like to suggest certain economic characteristics that seem to me important for understanding how they operate and what effects they accomplish.

Historical Origins of Distribution Programs. Historically, the so-called "distribution programs" were a phenomenon of the Great Depression of the thirties -- a response to the paradox of unmarketable surpluses of foods at the same time that large numbers of people were hungry. With nearly 25 percent of the labor force unemployed in 1933, the federal government bought...

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1/ Wetmore, John M.; Abel, Martin E.; Learn, Elmer W.; and Cochrane, Willard W. "Expanding the Demand for Farm Food Products in the United States. Part I--History and Potential". Minnesota Agricultural Experiment Station Technical Bulletin.
up surplus foods and gave them to the people in the bread lines and on the relief rolls. This emergency purchase and distribution program was initially carried out by the Federal Emergency Relief Administration. In 1935, Section 32 of Public Law 320 made available 30 percent of customs revenues as a continuing appropriation to be used to encourage the exportation and the domestic consumption of agricultural commodities, and operation of distribution programs was shifted into the Department of Agriculture as the Federal Surplus Commodities Corporation.

Unemployment in the late thirties continued chronically in the neighborhood of 8 to 10 million. Farm prices continued low in spite of production controls, and efforts to support farm prices continued to require removing substantial surpluses from the market. Considerable interest and ingenuity in the Department was directed towards devising broader and better approaches to the problem of subsidizing the consumption of farm surpluses by people of low income. The two most important programs adopted were the School Lunch Program and the Food Stamp Plan.

The School Lunch Program began as a special outlet for the surplus foods that were taken off the market by the federal government. During the war it was made a permanent program with the basis of operation shifted partly to cash grants instead of direct allotments of surplus foods. It continues as a separate program today.

The Food Stamp Plan was designed from the start as a means of subsidizing food purchases through regular commercial channels, rather than the purchase of surpluses and their distribution through public welfare agencies. Initiated in 1939 as an experiment, it received wide public acceptance and spread rapidly, but in 1943 it was discontinued as wartime conditions largely abolished the need for it.

A number of minor programs also were undertaken before the war for the expansion of domestic consumption, including a low-cost milk program, a cotton mattress program, and a Cotton Stamp Plan. Of these, the low-cost milk program has its counterpart today in the Special Milk Program conducted in connection with school lunches. It is the one of chief interest for our present analysis from the standpoint of its mechanics of operation.

Operations under the various food distribution programs at the start of the war are summarized in table 1, along with costs in a recent year for comparison. The prewar programs included in addition various cotton distribution programs, estimated to have cost in 1941 around $40 million. Inclusion of this amount would bring total expenditures at that time to around $200 million, or about half of the current-dollar amount of the 1957 programs.

The Food Stamp Plan at its height replaced much of the direct purchase and distribution of surpluses. The latter program was kept in operation throughout
the war, however, as a market support device, especially for perishables, and continues in this role today. The dominant importance of school lunches among the present programs is evident from the table, both in its right and as an outlet for surplus purchases.

Economic Analysis of Distribution Programs. How does one go about the comparative analysis and appraisal of these various measures for subsidizing increased consumption of agricultural commodities, or of new proposals that may be offered along similar lines? We should recognize at the start three aspects of them that are relevant: the political, the administrative, and the economic. My direct concern here will be with the economic; to the extent that I do turn to the other two aspects it will be chiefly as they condition or limit the operation from an economic standpoint.

From an economic standpoint, a chief distinguishing characteristic is how alternative programs deal with what has been called the "problem of substitution." To what extent does consumption under the program really

Table 1. Food Distribution and School Lunch Programs:
Federal cost, fiscal years 1941-42 and 1957.

<table>
<thead>
<tr>
<th>Program</th>
<th>Year ending June --</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1941</td>
</tr>
<tr>
<td></td>
<td>(million dollars)</td>
</tr>
<tr>
<td>Direct distribution to institutions and welfare cases</td>
<td>66.7</td>
</tr>
<tr>
<td>Food stamp</td>
<td>82.8</td>
</tr>
<tr>
<td>School Lunch</td>
<td></td>
</tr>
<tr>
<td>Direct distribution</td>
<td>13.1</td>
</tr>
<tr>
<td>Indemnity plan</td>
<td>----</td>
</tr>
<tr>
<td>Low cost milk</td>
<td>1.5</td>
</tr>
<tr>
<td>Relief milk</td>
<td>0.6</td>
</tr>
<tr>
<td>School milk</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>164.7</td>
</tr>
</tbody>
</table>

1/ Special Milk Program

Source: Agricultural Statistics
constitute an increase? To what extent do the beneficiaries merely substitute it for what they would have consumed anyway in the absence of a program?

The same question is argued currently in connection with some of our foreign-aid programs. What assurance do we have that wheat supplied to India, for example, free or at a reduced price, is actually over and above the wheat that India would have bought from us without such a program? An analogy closer to home is provided by the Soil Bank. It is often asserted that acreage put into the Soil Bank is in land that the farmer did not intend to plant anyway, or is at least in his poorest land, or in land that seemed doomed to crop failure; so that the program does not begin to achieve its objective of cutting down production until it passes the size at which such land has been taken out. Similarly, a program that distributes surplus apples or grapefruit to people is not likely actually to increase consumption much until they are given more apples or grapefruit than they would have bought anyway.

A program that consists simply of Government purchase of commodities and distribution of them to people has no adequate means of dealing with this "substitution problem." Recipients can be required to swear or certify that the commodities will not be substituted for "normal" purchases. This is perhaps most likely to be effective in the case of distribution to eleemosynary institutions and the like. We customarily require assurances of this sort in connection with the foreign aid programs referred to. But even with institutional outlets it is difficult to set up realistic tests of what the "normal" purchases would be.

Particularly is this true with a continuing program under which the distributions through the program are received year after year and come to be, as a practical matter, part of the "normal" source of supply of the recipients. To determine in such a case what consumption would have been without the program becomes not only difficult but somewhat irrelevant -- it does not involve a realistic alternative. (Unless, of course, discontinuance of the program is actually contemplated, in which case the shoe is on the other foot.)

School Lunch Program. Analysis of the School Lunch Program reveals the difficulties that arise. School lunches were originally promoted, as previously indicated, through making foods available under the direct distribution program. Since at the start schools serving lunches were the exception rather than the rule, most of the distribution was to new lunch programs, in schools where lunches had not been served before. Hence there was an a priori case that the distributions constituted an increase in consumption of the foods that were supplied -- and, even, indeed, that they brought about increased consumption of other foods, in that a satisfactory lunch program could hardly be operated solely with the free surplus foods.

The question was raised, of course, to what extent the lunches at school merely substituted for lunches that the children would otherwise have been provided by their families. But the program began in a time of economic depression, when it was evident that quite a number of children simply had no lunch at home, and that for many others lunch was most meager. Emphasis was placed upon requiring that the lunches be served free or at a reduced price to children lacking the money to pay the regular price. And it was, I think, generally agreed that the expenditure under the program did represent at least in large part an increase rather than a substitution in consumption.

Meanwhile, the lunch program fit in with the current educational trends. With larger schools, and especially with consolidated schools serving children from an extensive district, many of whom come by bus, organized provision for the children's lunches is obviously a necessity. The program that helped meet this necessity was immensely popular. It grew rapidly, and it came soon to be looked upon not just as a means for disposing of surplus foods but more as a program important to the general social welfare.

With the onset of the war, the problem of surpluses diminished, and the decline of unemployment did away with the free WPA Labor that State Welfare agencies had depended upon to man their food distribution facilities. Beginning in 1943, the program was shifted increasingly to a cash indemnity basis, and in 1946 it was given independent legislative authority in the National School Lunch Act (P.L. 396, 79th Cong.), with responsibility for it shared between the Department of Agriculture and the Federal Office of Education.

Eligibility for payments was made dependent upon serving lunches meeting specified quality standards, thus making the federal aid an incentive to a higher level of food consumption that might otherwise prevail. But basically the program has become an integral part of an accepted and enduring institutional pattern, within which the question of continuing it is not, in my judgement, likely to turn on its effectiveness in expanding the consumption of agricultural commodities.

Low-Cost Milk Program. 3/ Associated with the School Lunch Program currently is the Special Milk Program, initiated in 1954, through which extra milk is made available to children at a reduced price, either at lunch or at "milk breaks" at other times during the day. This is a revival of the prewar Low-Cost Milk Program. That plan, operated from 1940 to 1943 in several large cities under Federal Milk Marketing Orders, made milk available at a reduced price both to school children and to public assistance families - the

latter, in most cities, through special depots. The reduced price was made possible by producers' accepting less than the established Class I price for milk, by dealers' contracting to handle it at less than their customary margin, and by a federal subsidy to close the remaining gap.

In such a program the "substitution problem" turns upon the extent to which participants increase consumption in response to the lower price -- in economic language, upon the "elasticity with respect to price" of their demand. Most studies have indicated that the general demand for fluid milk is relatively inelastic with respect to price -- that the chief response to price reduction is reduced expenditure rather than increased consumption. Surveys made in connection with the low-cost milk program, however, found substantial increase in participants' consumption in most cities. Many people who previously bought no milk were induced to buy it at the low price. The results suggested that demand among the low-income group was perhaps elastic, and certainly much less inelastic than for the population at large.

**General Price Subsidies.** If this is generally true, it is a significant fact for programs to increase consumption. The simplest way, of course, to subsidize consumption of a product is for the government to make payments at some convenient point in the marketing channel that permit a reduction in the price to all buyers. Such subsidies were used for a number of foods during the war as an adjunct of price control or as an incentive to increased production. The much-argued Brannan Plan, likewise, involved essentially this approach.

Such a plan has the great merit of administrative simplicity. But from the standpoint of the increase in consumption that can be achieved with a given government expenditure, a general price subsidy is quite inefficient for any commodity or group of commodities with highly inelastic demand. The subsidy will result chiefly in consumers' saving on expenditures, rather than increasing their consumption. (The similarity of this to the "substitution problem" is apparent.) The domestic demand for all farm products, or for all food products, as well as for many individual farm products -- including some of those in serious surplus, like wheat -- is probably in this category. A large supply brings less in the market than a small supply.

But if one can separate out particular groups of consumers -- such as those of low income -- whose demand is more elastic than the average, and can devise a subsidy that reduces the price to them only, the government money is much more efficiently spent. The advantage works in two ways. The beneficiaries of the reduced price will respond chiefly by consuming more, thus increasing the market demand. And in the process they will be helping bid up the price to the rest of the consuming public, who (their demand being inelastic) will respond chiefly by spending more rather than curtailing consumption. Through this effect upon the general market,
a well designed discriminative pricing scheme can increase returns (including subsidy) by more than the amount spent on subsidizing the reduced price to the favored group.

Food Stamp Plan. This was the aim of the low-cost milk program. It was likewise, in essence, the basic principle of the Food Stamp Plan.

The idea of the low-cost milk program was originally suggested not just for milk but as a general plan for use with any surplus commodities. It was proposed that persons on relief or other public assistance be permitted to buy such products at a reduced price, the difference to be made up through government reimbursement of the sellers. This "two-price" proposal met a hostile public reception, and was quietly dropped. Some months later the Food Stamp Plan was proposed, and apparently was popular from the start.

The Stamp Plan was not a "two-price" plan as such. But it had, to the economist, striking similarity. At any rate, it was designed specifically to deal with the "substitution" problem.

In fact, persons whose chief interest in it was as a welfare, rather than an agricultural, measure objected to it for this very reason. The plan undertook, through a device that I shall describe in a moment, to make sure that the subsidy made available to participants should be spent solely for food, and indeed for specific foods designated as being in surplus. Social welfare people objected that for many of the recipients increased food consumption was not the only crying need, and that cash grants that recipients would be free to use also for better housing, better clothing, or more of other necessities would make a greater contribution to their welfare. The likelihood that comparable appropriations could be obtained for a system of cash grants appeared small at that time, however, whereas the Stamp Plan had the tangible support of agriculture and the food trades. So such objections were largely ignored -- a case, perhaps, of political considerations over-riding economic ones.

The essence of the Food Stamp Plan was the following device. Persons eligible for participation were offered the opportunity to obtain, free of charge, blue-colored stamps good for the purchase of specified foods at their local grocery store. To avail themselves of this opportunity, however, they had to buy orange-colored stamps, likewise redeemable in foods (in this case any foods) at their grocery. Only people of low income -- usually those on public relief or WPA employment rolls -- were eligible.

to participate. And the amount they were required to invest in the orange stamps was calculated to correspond to the amount of money that persons of low income would normally spend for food.

The orange-and-blue-stamp device provided means of assuring that participants in the program would continue to spend money out of their own pockets for food - an amount as near to their previous level of expenditures as could be specified through the orange-stamp purchase requirement. Thus participants were prevented from substituting the grants for their own "normal" purchases. (This was reinforced by requiring communities in which the Plan was introduced to guarantee that their own relief allowances would not be curtailed.)

The restriction on the commodities that could be bought with the free blue stamps was further intended to direct the subsidy chiefly to those foods specified as being in surplus. Here, however, politics again intruded upon economics. For such a restriction to be effective, obviously, the list of foods purchasable with the blue stamps would have needed to be kept small, else recipients would be able to spend all their blue stamps without going over the quantities of the specified commodities that they would have chosen to buy anyway without the restriction. But a great many industry groups were successful in insisting that their products be declared in surplus, with the result that during much of the Plan's operation so many different foods could be bought with the blue stamps that it is doubtful the restriction had much effect.

The Food Stamp Plan was initiated in Rochester, New York, in May of 1939. Within three years it had expanded to areas that included over half the population of the United States, and expenditures on it had come to exceed those for direct distribution, including the distribution to school lunches (see again table 1).

There was some experimentation with variations of it. One involved varying the orange-stamp purchase requirement to more closely represent "normal" expenditure levels of different classes of participants -- taking account especially of family size -- with a view to closer control of the "substitution problem". Another was to offer participants additional free blue stamps if they bought more than the minimum requirement of orange stamps -- with the object of multiplying the increase in consumption. I have mentioned that participation was in general limited to persons on relief or other public assistance. Another experiment was to open it to all persons below a specified standard of income.

A proposal discussed but never attempted was to redeem the stamps to retailers at less than face value -- on the ground that the stamp business represented an increase in volume that the retailer should find it worth his
while to handle at less than his regular margin. Such an arrangement was used, as I indicated, in the low-cost milk program, as a device to make the government expenditure go farther.

Growth of the program, and elaboration of it along lines such as I have indicated, brought administrative headaches. Ingenious persons found ways of chiseling, requiring a policy system. Managing the stamps presented increasing problems as their volume grew. Banks became less gracious about handling them without making a special service charge.

Furthermore, some agricultural people suspected that the program was more a welfare than an agricultural device, and as such should not be charged wholly against the agricultural appropriation. Not all of them were convinced by the economists’ explanations that the Plan was an efficient use of funds for expanding markets and supporting prices. Actual purchase of a farm product by a government buyer in a primary market is a tangible act that a farmer can see and believe -- regardless of arguments that the price effect of the purchase may be largely nullified because of the “substitution problem.”

Food Allotment Plan. 5/ Wartime disappearance both of food surpluses and of unemployment, however, was the reason for discontinuance of the program in 1943. There simply was no longer sufficient need for it.

Following the war, the question was raised of reviving the Food Stamp Plan, and an improved version of it was proposed: the National Food Allotment Plan, legislation for which was recurrently introduced by Senator Aiken, of Vermont, and others. This proposal was designed to enable everyone to afford an adequate diet at a cost commensurate with his means. It provided, first, that the cost of such a diet be determined periodically, on the basis of the nutritive standards of the National Research Council interpreted in terms of customary consumption patterns, which might be varied by locality. Then it provided that any person should be permitted to buy stamps or certificates, good for the purchase of foods, equal in value to the cost thus determined, but paying for them a specified percentage of his income. This got away from the necessity under the Food Stamp Plan of requiring a means test as the basis of participation. Obviously, participation would have no appeal to people whose income was high enough that they were already buying an adequate diet for less than the certificates would cost them. But for lower-income people it would offer an opportunity to increase their food consumption. And at the same time it offered similar protection to that of the Stamp Plan against the substitution of grants for the participant’s normal expenditure.

5/ See S. 1151, 79th Cong., 1st Sess. (June, 1945) and similar bills in subsequent sessions.
The Allotment Plan would also be self-adjusting to changing economic conditions. With spreading unemployment, such as was experienced last year, more people would find it worthwhile to participate, and the program would automatically expand to cushion the reduction in food-purchasing power. (It might also, of course, tend to accentuate inflationary forces pushing up food prices, in that the level of benefits under the program would go up correspondingly; but such an "escalator" arrangement can be argued for in terms of the need to protect the diets of low-income people against the impact of inflation.)

The proposal was intended chiefly as a general expander of food consumption, rather than a device for moving specific surpluses. But it could obviously be made to serve the latter end by earmarking certain of the certificates for specific commodities, to the extent that forced increase in consumption of them could be reconciled with the nutritional objectives. Dairy products, for example, would seem a likely candidate for such favored treatment.

A program of this kind would appear in principle to have considerable merit, both from the standpoint of agriculture and from the standpoint of general welfare. Yet it has never, so far as I know, been in imminent prospect of enactment. Even proposals for limited experimentation with such a plan have not been considered seriously.

The first reason why the proposal has aroused little interest was indicated by Cochrane in his presentation last fall: at the levels of consumer income and food consumption that have prevailed since the war, it is hard to make out a convincing case for it on welfare grounds. Cochrane stated last fall, and the study that his group is about to publish will further document, that the people of the United States could all be provided an adequate diet at a "moderate-cost" level -- one using "food combinations consistent with food expenditures and preference of middle income families" -- without increasing the index of all food consumption, nor the demand for farm resources to produce the food. In fact, his calculations result in some decrease in both these items. This finding is consoling for the longer view that anticipates population growth as ultimately outrunning food supplies. But it is hardly promising as offering short-run hope for demand expansion through programs to improve nutrition.

If everyone ate a "liberal-cost diet", Cochrane's group finds, this would "come close to eliminating the current level of agricultural surplus." This, however, is not a "better" diet from a nutritive standpoint. It means getting the same nutritional intake as with the moderate-cost diet, but from sources higher on the hog. Educating the public to a luxurious standard of food consumption might be an acceptable goal of advertising and promotion, which you may wish to discuss next week. But in the present state of public morals it would hardly be acceptable as the goal of public subsidies to food distribution that are justified in the name of welfare needs, which is what we are concerned with this afternoon.
Here we have, I think, the basic difficulty with programs to subsidize food consumption as solutions to the present agricultural problem. These programs were born in depression, and in depression they made sense. Large numbers of people were hungry, yet farm products were going begging in the markets. Distribution had broken down. The situation cried out for ways of bridging this gap, of getting the food into the hands of the people who needed it. Welfare aims and agricultural aims went hand in hand. Restricting farm production could be justified only as a temporizing measure. Increasing consumption obviously was the basic need.

Since the war, this has not been the situation. We have surpluses. But we do not have any large number of hungry people in the United States who are in obvious urgent need of them.

And even in case depression should again strike there would not be the justification for food distribution programs that there was in the thirties. We now have extensive programs of benefits to cushion the effects of unemployment. How effective they are was demonstrated last year, when consumer purchasing power remained high in spite of a sharp increase in unemployment. And politically it seemed clear that had the recession been prolonged additional and more vigorous measures would have been adopted for supporting the purchasing power of consumers.

The social workers who, back in 1940, futilely objected to the Food Stamp Plan on the grounds that the poor should have cash grants rather than subsidies earmarked for foods seem to have won their point in the final outcome.