Wool Marketing

problems of tariffs, support prices or subsidies confront growers

H. R. Wellman

Tariffs, purchases or loans and direct payments to wool growers are methods of achieving a particular objective; namely, to maintain returns to domestic wool producers above the level that would otherwise prevail. Whether this objective is desirable is a separate question.

Purchases or loans and direct payments to producers of wool are very similar in their more important aspects. The main advantages of direct payments also can be claimed for purchases or loans, and the chief faults of purchases or loans also can be found in a program of direct payments.

Under either method the government would determine the level of support prices to growers, and under either method it would have to levy taxes or borrow money to pay the difference between the support price and the market price. The amount of the subsidy required would be about the same under one method as under the other. And since in both cases this subsidy would presumably be paid from general revenues, the distribution of the tax burden among individuals also would be the same.

The adoption of either method would inevitably put government into the wool business—the business of fixing the level of support prices and the business of collecting taxes or borrowing money to carry out the support prices.

An indispensable feature of an acceptable purchase or loan program is authority to dispose of stocks acquired without undue restrictions.

Since purchases or loans involve a direct subsidy and are otherwise quite similar they may be grouped—in the interest of brevity—under the term, bounty. For a valid comparison of a tariff with a bounty it should be assumed that the average returns to wool producers over a period of a number of years would be the same.

Though the average returns over a period of years may be the same, the returns in any particular year might be quite different. Under a tariff there is no certainty that grower prices in any particular year will be at or above a certain level. All that a tariff does is to raise the domestic price above the world price, usually, although not always, by the amount of the tariff. It does not put a floor under the world price.

A bounty type of program can assure growers a minimum price irrespective of the level of world prices. Although domestic wool may have to be sold to the trade for less than the price guaranteed growers, the loss is paid by the government. If the market price rises above the support level, the gain goes not to the government, but to the individual wool producers.

In addition to the degree of price certainty provided domestic producers, tariffs also differ from bounties with respect to the distribution of the burden among domestic consumers. The total burden upon domestic consumers is the same under a tariff as under a bounty—but the distribution of the burden is different.

A tariff on wool reduces the real income of wool consumers by reason of the increase in the price of wool which it brings. A bounty on wool reduces the real income of taxpayers by reason of the increase in taxes required to pay the bounty. While most buyers of woolen goods also pay federal taxes, their expenditures on woolen goods are not directly proportional to the taxes they pay.

Many people argue that a bounty which comes mainly out of income taxes levied mostly on the upper and middle income groups is always preferable to a tariff which raises prices to the poor as well as to the rich. This argument is plausible and yet there is the suspicion that it may not be universally valid. The answers to at least two questions are needed:

First, do the rich have enough income left after paying present income taxes to provide the amount that would be required if bounties were substituted for tariffs? In this connection it is well to remember that the federal government now derives considerable revenue from import duties, and that this amount of revenue in addition to that required for bounties might also have to come from income taxes.

The second question relates to the problem of encouraging investment in new undertakings that provide employment and help create and maintain purchasing power. This is a complex subject. Some competent authorities believe that too great an increase in income taxes on the rich may dry up risk capital and hence restrict the future level of production and employment.

Import quotas are similar to tariffs in that both devices are designed to raise domestic prices by restricting foreign supplies. They differ from tariffs, however, in some important respects. To mention only one: Tariffs provide revenue to the government, import quotas do not.

If import quotas are substituted for tariffs, the loss in revenue must be made up by increased taxes elsewhere. The community bears as heavy a burden in the form of higher prices under an import quota as under a tariff, and in addition it has an added burden in the form of higher taxes. True, more dollars are made available to foreign countries under an import quota than under a tariff, assuming the same volume of imports in both cases, and consequently foreign countries are able to buy more goods and services from the United States. If expansion of international trade rather than protection of a domestic industry is the prime objective, then both tariffs and import quotas should go.

On the assumption that protection is to be accorded domestic wool producers, a tariff is to be favored over either a purchase and loan program or a program of direct payments to producers in periods of national prosperity. In a severe depression there are marked advantages to direct subsidies either by means of a purchase or loan program without restrictions on sales or by means of direct payments to growers. Funds to pay the subsidies should be raised by borrowing, not by increasing taxes. The tariff should be reduced sufficiently to permit imports to be as large as in the predepression years.

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CALIFORNIA AGRICULTURE

Progress Reports of Agricultural Research, published monthly by the University of California College of Agriculture, Agricultural Experiment Station.

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