DISCUSSION: EXPERIENCES WITH RECENT PRICE STABILIZATION PROGRAMS FOR AGRICULTURE

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Dr. Mayer's treatise on *Experiences with Price Stabilization Programs for Agriculture* is logically developed, skillfully written, and particularly timely. It consists of a rather general treatment of past and present experiences with programs for agricultural price stabilization with especial emphasis given to recent program efforts of the 1970's. The approach of the paper is in essential accord with the assignment given by the planners of these meetings, and the content of the paper is very interesting.

However, because the professional community and the general public have such a keen and continuing interest in recent adjustments in food prices, the contribution of the paper could, perhaps, benefit from a more comprehensive treatment of the underlying issues and economic rationale related to some of the program decisions which influenced the behavior of food prices. Mayer is eminently qualified to speak more directly to these issues from his position as senior staff economist with the Council of Economic Advisors. However, he may justifiably feel that other considerations more than offset any possible benefits from greater candor regarding these recent actions.

Also, despite Mayer's masterful job of presenting his subject in a straightforward and highly understandable fashion, it is recognized that an exhaustive treatment of some ramifications of programs of economic stabilization and price controls are perhaps too complex to be undertaken within the time frame provided for this presentation.

In any event, the objective of my comments on this paper is to call attention to selected points which may deserve some further amplification and add a few additional observations of my own.

Early in the discussion of the historical aspects of programs of price stabilization, Mayer took note of the emergence of price supports with prices at above-equilibrium levels as the predominant and most enduring feature of farm legislation during the past 40-45 years. He further recounted the fact that crop production capacity relative to potential demand was sufficiently great to hold prices against minimum support levels during most of this period. The noted exceptions were primarily limited to abnormal periods of war, post-war adjustment, and crop production failures in other parts of the world. Finally, the extent to which farm prices departed from, or pressed upon, the level of minimum price supports was seemingly interpreted by the author as an appropriate measure of the production capacity of American agriculture.

Such an interpretation of production capacity seems to depart from the more traditionally accepted meaning of this concept. However, this difference is not of sufficient importance to be pursued here, except for the further included implication that current merits of these long-established programs should be judged on the basis of how well they meet the need for price stabilization during periods of changing economic conditions, e.g., during the last 18 months.

While no effort is made here to judge the merits or shortcomings of past or present agricultural programs – Mayer has also excluded this as a key issue for discussion – I feel that an evaluation of the effectiveness of the price support program as an instrument of stabilization within the context of the economic climate of the present and the recent past is unwarranted, misleading, and begs the major issue.

It should be recognized that, despite the attendant price stabilizing feature of past and present

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price support programs, the primary intent of this legislation was to help maintain agricultural prices and incomes over time and not to serve as a buttress for price stabilization during periods of abnormal market conditions. In fact, it has been repeatedly demonstrated that the price stabilization feature of price supports has been a primary source of difficulty during periods of rapidly increasing agricultural production. While it has been less frequently experienced, it is nevertheless evident that programs of price support have little direct effect on prices when major upswings in demand occur. During such periods production capacity in agriculture may be modified; but the primary short-term impact on price results from adjustments in production within the existing scale of farm plants.

However, price support policy does influence the level of agricultural production capacity which is maintained over time. Therefore, as Mayer seemed to suggest, it is relevant to ask ourselves if the trauma of possible periodic upswings in food prices is great enough to justify the possible added expense of maintaining an agricultural plant which can and will consistently produce a sufficient output to forestall such eventual occurrences.

Public disenchantment with increases in the cost of living has been clearly apparent for some time. Consumers' responses to increased food costs have included outcries for congressional investigation, filing of class actions in the courts, consumer boycotts, and other actions in quest of relief from rising prices.

It is commonly held among agricultural economists, however, that the recent experience of rapidly rising food prices is in general the result of a strong and persistent inflationary trend in the total economy with additional impetus provided by substantial increases in foreign demand for selected farm products (notably grain). The result of this situation was very dramatically exhibited when feed prices rocketed upward in early 1973. Efforts to stabilize food prices, which quickly led to the price freeze in June of last year, further added to the problem as production of several agricultural products declined (notably red meats, dairy products, and poultry).

The chronology of the actions and reactions leading up to and including the June, 1973, decision which placed indirect, but effective, control on farm prices was developed in detail by Mayer. While it is understandable that the rapid acceleration in food prices during this period and the accompanying public outcry was disturbing to almost everyone, it is unfortunate that a course of action was chosen which many viewed at the time as being counterproductive in bringing about desired stability or reduction in the price of certain foods.

While granting the inherent advantages of viewing problems in retrospect, it would appear that much of the eventful adverse results of placing price ceilings on such products as red meat, poultry, eggs, and dairy products was predictable before the fact. As Mayer pointed out in his paper, "What was readily evident to all analysts was that ceilings on meat prices were feasible only if feed costs did not rise." It would seem that this observation is equally applicable to most livestock products.

However, despite the apparent recognition of the problems inherent in such action and the rise in feed prices – which accelerated in 1973, but was substantially in process during the latter months of 1972 – the freeze was imposed (Table 1). Although Mayer's comments were most helpful in recounting the disruptive effects of this action on the food industry, a convincing rationalization of the decision to implement the freeze was not provided.

Table 1. MONTHLY INDEX OF PRICES PAID BY FARMERS FOR FEED, UNITED STATES, 1972-73 *

Month	1972	1973
	1967=100	
January	104	135
February	103	140
March	104	144
April	105	141
May	105	155
June	105	177
July	106	171
August	106	195
September	108	195
October	110	178
November	113	176
December	126	184

*Source: Agricultural Prices, Statistical Reporting Service, U. S. Dept. of Agriculture.

I agree with Mayer that there is need to reexamine our food policies for the effects of both surplus and scarcity in domestic production of food. We may be guilty of an "excess production obsession" which deserves modification in light of recent experiences. We have current observations of public reaction to rapid increases in food prices which reveal an apparent lack of understanding of the basic essentials for sustained production of food. Perhaps we have become so accustomed to "excess agricultural output," administered prices for farm products, and relatively cheap food that we view any departure from this posture, for any reason, as unwarranted and deserving of immediate action to reestablish the former condition.

To say the least, the course of action which was chosen to deal with food price developments of the recent past seemed to reflect a substantial lack of realism in addressing the basic elements of the underlying problem. As Mayer suggested, the need for new ideas and thoughts is evident.