

Part III

Farm Price and Income Supports

Because of the wide interest in farm price and income supports, a major topic in extension teaching in agricultural policy has pertained to this problem. The subcommittee assigned to this topic recognized the comprehensive analysis provided in the publication of the special committee report sponsored by the Farm Foundation, entitled "Turning the Searchlight on Farm Policy." The following statements are intended to further assist agricultural extension workers in preparing material to be used in developing a better public understanding of the issues involved in agricultural price and income policies.

FARM PRICE AND INCOME SUPPORTS THE LEVELS AND METHODS

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(Presented to the Conference by M. S. Williams)

INTRODUCTION

The primary objective of this paper is to discuss the alternative levels and methods of supporting farm prices and incomes. Before a discussion of the levels and methods is begun, criteria for appraising price and income supports will be discussed. Also specific programs which have either been tried or proposed will be outlined. The alternative programs will be appraised by huddle groups, using the criteria as yardsticks.

In this paper it is assumed that some kind of price and/or income supports is desirable. Also, the discussion is aimed at supports for the commercial farmer. It is generally recognized that the low-income or subsistence farmer is a special problem and that programs designed for the commercial farmer do little to aid the low-income farmer.

CRITERIA FOR APPRAISING PRICE AND INCOME SUPPORTS

There are always differences of opinion about a particular program or policy. Some kind of yardstick must be used if the program is to be appraised and the validity of the arguments for and against the program or policy is to be determined. The yardstick used should be acceptable not only to the proponents and

opponents of a particular policy, but to society as a whole. I have listed ten criteria to be used in the appraisal of price and income supports. The criteria are not basically different from those presented by several other workers in the field.¹ I believe they would be generally accepted as yardsticks for policy appraisal not only by economists but by the groups which make up our society.

The ten criteria for appraising price and income support programs are listed below.² A program should:

(1) STABILIZE INCOME AND PRODUCTION. Income instability arises from fluctuations in prices and/or production. A price and income support program should prevent undue fluctuations in prices and should help prevent the need for drastic short-time production changes, which are difficult to make, are costly to the farmer and to society, and frequently are in conflict with long-run goals. "Stabilize" as used in this criterion does not mean preventing any change, but it means preventing sudden changes and changes which do not make economic sense.

(2) ENCOURAGE A PRODUCTION OF EACH COMMODITY WHICH MEETS THE NEEDS OF THE COUNTRY FOR THE COMMODITY WITHOUT CREATING A SURPLUS. "Needs" include current domestic and export requirements, a reasonable carry-over, plus a stockpile for national security in some cases. The criterion specifically refers to an adequate production, but no surplus, for each and every commodity, and takes into consideration the changes in consumer demand over time.

¹See papers presented at the 1951 Policy Conference by George Westcott and C. B. Ratchford, which are published in *Increasing Our Understanding of Public Problems and Policies*, a paper presented by H. C. M. Case at the 1950 National Policy Conference, which is published in *Educational and Methods Conference in Public Policy*, and the Farm Foundation report, *Turning the Searchlight on Farm Policy*.

²Most of the ten criteria are included either directly or by inference in the ten criteria listed in the Farm Foundation report, but the amount of emphasis given to some of the criteria differs. It appears to the author that the Farm Foundation report overrates the importance of the relationship of price and income supports to the problems of monopoly and stabilizing the national economy and underrates the importance of administrative feasibility and political acceptability.

The criteria given in this paper place more emphasis than does the Farm Foundation report on the relationship of price and income supports to production problems such as securing adequate production, optimum product combination (as measured by consumer demand and production opportunities), efficient production, and desired rate of conservation. In a perfectly competitive and stable economy with reasonably mobile and divisible factors these production problems would automatically be solved. There are conditions, however, such as "stickiness" and "indivisibility" of factors, elements of monopoly throughout the economy, institutional barriers, and social goals conflicting with the individual goals (i.e., stockpiling for military purposes), which make it necessary to consider production problems.

(3) ENCOURAGE ECONOMIC PROGRESS AND EFFICIENT PRODUCTION OF FARM PRODUCTS. Efficient production requires that each producing unit combine the optimum number of enterprises, use an optimum combination of production factors, be at the optimum size, and use the most efficient techniques. Economic progress includes capital accumulation, development and adoption of new technology, and making changes, including shifting production of commodities between areas and farms to reflect changes in comparative advantages for producing a commodity.

(4) ENCOURAGE PRODUCTION ADJUSTMENTS AND PROVIDE ASSISTANCE TO THOSE ADVERSELY AFFECTED BY TECHNOLOGICAL ADVANCE AND GEOGRAPHIC SHIFTS IN PRODUCTION. Production adjustments may take the form of changes in the products produced, in the factors used, in the size of farm, or in the techniques used. Assistance to farmers adversely affected by economic progress could be directed to helping them either to reorganize their farms or to move out of agriculture.

(5) ENCOURAGE A RATE OF CONSERVATION THAT IS CONSISTENT WITH THE WELFARE AND OBJECTIVES OF SOCIETY AS A WHOLE. It is recognized that the optimum amount of conservation from the standpoint of society may differ from that of individuals. The program should serve the best interests of society as a whole.

(6) GIVE AGRICULTURE RETURNS COMPARABLE TO THOSE OF OTHER SEGMENTS IN THE ECONOMY.³ This does not imply that all incomes should be equal. It does mean that to the extent that farmers as a whole do their part, they should earn incomes comparable to those earned by other groups. It certainly does not imply that a public policy should result in higher incomes for farmers than for other groups.

(7) BE POLITICALLY ACCEPTABLE AND ADMINISTRATIVELY FEASIBLE. A program which meets the other criteria might not be politically acceptable because the methods for accomplishing the program are inconsistent with basic goals or institutions of society or because they delegate to administrators responsibilities usually reserved to Congress. Administrative feasibility includes not only the accomplishment of the objectives of the program

³In this criterion it is assumed that no surplus labor resources are employed in agriculture as measured by economic yardsticks. Criteria two and three require that surplus labor move out of agriculture.

but also compatibility with other criteria, such as the maintenance of individual freedom.

(8) **AVOID MONOPOLISTIC PRACTICES.** Programs should not restrict the farmer's choice of enterprises, production methods, or marketing practices. Also monopolistic practices which do not restrict the farmer but which impose restrictions on other groups, such as the consumer, in order to benefit the farmer should be avoided.

(9) **PROVIDE SOCIAL AND ECONOMIC RETURNS COMMENSURATE WITH THE COSTS.** The social costs, such as the higher prices consumers may pay because of restricted production, and social returns, such as the assurance of a plentiful supply of food, are more important than the monetary costs and returns, although it is difficult to identify all social costs and returns, much less assign a value to them.

(10) **BE CONSISTENT WITH OTHER POLICIES OF THE COUNTRY.** Price and income support programs should be consistent with such policies as: (a) those which try to prevent serious inflation and deflation, (b) those which contribute to national defense, (c) those which promote foreign trade and world economic cooperation, and (d) those promoting accepted goals of the country.

THE LEVELS OF PRICE AND INCOME SUPPORTS

The two main issues in price and income support policies are the levels of support and the methods of supporting prices and incomes. Most work in this field has been concerned with specific programs which combine a level of support and one or more methods. A discussion of levels independent of methods and vice versa should help point up the real problem areas. To this end this section is devoted to a discussion of levels of support.

While both the levels and methods are important, if an order of importance were assigned, first place would have to be given to the levels. The importance of the levels has to some extent been obscured until recently by emphasis being placed on methods and by a general acceptance of the belief that agriculture is entitled to parity and is not obtaining it.

High prices of food during the last few years, the trend toward higher support prices (which has been vigorously op-

posed by some farm leaders), and evidences of high farm incomes are beginning to bring forth discussion of levels of support.

Those in favor of high-level supports are saying: (a) that they help prevent deflation; (b) that they are needed to increase production; and (c) that they are necessary to give farmers incomes equal to those earned in other segments of the economy. Opponents of high-level supports are saying: (a) that they contribute to continuous inflation; (b) that they create or at least perpetuate inefficiencies (specific inefficiencies mentioned are the failure of low-income farmers to move out of agriculture, to make geographic shifts in production, to shift from products in low demand to products in strong demand, and to mechanize and adopt new technology); (c) that they cause the substitution of non-agricultural products for agricultural products; (d) that they cause substitution of one farm product for another when all products are not supported at the same high level; (e) that they may unstabilize incomes as there is no adjustment in price for large and small crops; (f) that they may increase income disparity (if agriculture is already getting more than its share); (g) that they cause monopolistic restrictions to be instituted; (h) that they lead to production controls and a restriction of the individual farmer's freedom; (i) that they do not safeguard against swings of the business cycle; (j) that they reduce exports and are inconsistent with national policies to promote world trade and economic cooperation. The arguments for and against low support levels are roughly the converse of those given for and against high-level supports.

What is the validity of these arguments? In order that as much light as possible may be thrown on the validity of these arguments, alternative levels of support are presented and appraised in the following sections.

Possible Levels of Support

At least three widely different levels of supports can be identified:

(1) **LOW-LEVEL SUPPORTS**, or more specifically those supports that would be effective only in periods of general depression and which would cover only "out-of-pocket" costs of the producer (perhaps about 50 percent of present parity).

(2) **HIGH-LEVEL SUPPORTS**, or more specifically those supports that would keep farm prices and/or incomes above the levels which would prevail in a free market at all times except in those short periods when demand is abnormally high in relation to supply (perhaps 100 percent of present parity or the average of prices during the last five years, whichever is higher).

(3) **INTERMEDIATE-LEVEL SUPPORTS**, or more specifically those supports between the high- and low-level supports. Theoretically, the intermediate supports could fall anywhere between the high- and low-level supports. We will assume that they are half way between the high and low, except as otherwise noted—i.e., 75 percent of parity.

Appraisal of Different Levels of Support

Economic models and empirical data which the economist has at hand are insufficient to make a conclusive appraisal of the level of supports.⁴ The incomplete data and logic which are in the tool chest of the economist will throw considerable light on the validity of the various arguments. In this appraisal the consequences of high, low, and intermediate levels of support are compared with each other and not with the consequences of no supports. It is assumed that if income supports were used, the payments would be based on production and not on need or some other welfare criterion. It is recognized that the incomplete logic and empirical data and choice of assumptions leave room for disagreement with the conclusions. However, using the available logic and data, the possible consequences of the three levels of support in relation to the criteria listed in the previous section are given below.

(1) **STABILIZE INCOME AND PRODUCTION**. High-level supports would not provide a high degree of income stability, although it is granted that with high-level supports income would be relatively high every year. Continuous high-level supports would cause income to vary directly with production and should help stabilize production and contribute to income stability. Until weather variations can be controlled, however, even a reason-

⁴This points up the need for further work in developing logic which explains conditions in a dynamic world and in gathering empirical evidence. Specific empirical evidence which would be helpful in appraising the levels of support are cause and effect relationships within and between commodities and elasticities of supply and demand.

ably stable production cannot be guaranteed. If storage operations were conducted in connection with the support program and if the products could be released, prices could be prevented from rising above support levels even during buying sprees.

Low-level supports would not provide reasonable income stability. They would decrease the range within which incomes could vary. The low-level supports would bring about this decrease in range by preventing incomes from dropping as low as they would without any supports and by permitting prices to rise in years of short production. This condition would give incomes as high as those earned in years of larger production and lower prices. Low-support levels would lead to "intended" changes in production. If these changes are accomplished quickly, usually incomes are unstabilized and social waste is the result.

Intermediate-level supports would promise considerable stability of both income and production, particularly if the level of support for individual commodities could be varied.

(2) ENCOURAGE A PRODUCTION OF EACH COMMODITY WHICH MEETS THE NEEDS OF THE COUNTRY FOR THE COMMODITY WITHOUT CREATING A SURPLUS. High-level supports would tend to increase production on commercial farms by reducing the uncertainty, by making a more intensive application of factors profitable, and by keeping marginal resources in use in agriculture. Thus high-level supports would fulfill this criterion only when increased production is needed. Also if all products were supported at high levels, it is doubtful if changes in technology and demand would result in price changes sufficient to change the composition of the total output. Of course, products for which the demand is strong and which have not experienced technological advance could be supported at even higher levels than other products. Such a move, however, would probably conflict with the criterion of political acceptability. Of course, shifts in production could be obtained through production quotas, but this also would conflict with another criterion.

Low-level supports would decrease production except when demand is so strong in relation to supply that the support level is not even considered when production decisions are made. If, however, the overproduction occurs in conjunction with

depressed business conditions in the nonfarm segment of the economy, low support levels cannot be counted on to prevent an overproduction. Low farm prices, over several production periods, plus opportunities for expansion of nonfarm work definitely should reduce production. Low-level supports should not prevent changes in the quantities of the various commodities.

The effect of intermediate-level supports on production would be a lower production than that caused by high-level supports, but a larger production than that caused by low-level supports. Intermediate-level supports should promote some change in total product composition. Products in strong demand would be above the support level except in depressions, and this should cause an increase in production in the commodities in strong demand.

(3) ENCOURAGE ECONOMIC PROGRESS AND EFFICIENT PRODUCTION OF FARM PRODUCTS. High-level supports would encourage efficiency in the production of farm products by improving the farmer's capital position and by reducing uncertainty. They would lower efficiency by not forcing marginal producers either to produce more efficiently or to get out of agriculture. Also if production controls must be instituted as a result of high-level supports, serious inefficiencies would be created. The more important ones are preventing farmers from having optimum enterprise combinations, preventing shifts in production from one area to another, and preventing mechanization due to keeping the scale of the enterprise small. The inefficiencies created by the high supports probably outweigh the added efficiency they bring about.

Low-level supports would cause inefficiency by increasing uncertainty (thus causing a reduction in the application of factors and a slower rate of adoption of new technology) and by preventing the substitution of capital for labor.⁵

Intermediate-level supports would not encourage inefficiency to the extent of either high- or low-level supports. In some cases, they would be almost as effective as high-level supports for reducing uncertainty.

⁵The substitution of capital for labor would really depend upon relative factor prices rather than upon product prices. To the extent that incomes are lowered as a result of low supports, however, less leisure would be preferred and, therefore, capital would not be substituted for labor.

(4) ENCOURAGE PRODUCTION ADJUSTMENTS AND PROVIDE ASSISTANCE TO THOSE ADVERSELY AFFECTED BY TECHNOLOGICAL ADVANCE AND GEOGRAPHIC SHIFTS IN PRODUCTION. High-level supports would discourage production adjustments, particularly if all products were supported at the same relative level. There would be little incentive to change the commodities produced. Indeed, such changes might be impossible if production controls were necessary due to the high-level supports. The high supports would discourage the movement of people out of agriculture. On the other hand, high-level supports would encourage mechanization (except in cases where production controls prevented it) and would help increase production, if that is the adjustment desired. High-level supports would not provide any direct aid and, indeed, very little indirect aid to persons adversely affected by technological advances and geographic shifts in production. High-level supports might well prevent sudden geographic shifts in production and sudden technological advances, working a hardship on some producers.⁶

Low-level supports would encourage adjustments except to the extent that increased uncertainty and poor capital positions would retard adjustments. They should encourage the movement of resources out of agriculture. Low-level supports would not provide much assistance to those adversely affected by sudden geographic shifts or by technological advance.

A well-designed system of intermediate price supports could encourage the changing of products produced and mechanization. They would be less effective than low-level supports in forcing geographic shifts in production and the movement of resources out of agriculture. Intermediate-level supports would not provide assistance to those adversely affected by geographic shifts or technological advance.

(5) ENCOURAGE CONSERVATION. High-level supports would encourage conservation by improving the farmer's capital position and by reducing uncertainty. It has been argued, with some justification, that high support levels have caused undue

⁶It is not implied that supporting either prices or incomes is the best way to secure production adjustments or that other programs could not be used to solve the adjustment problem. Price and income support programs should do their part, however, toward solving the adjustment problem and at least not be inconsistent with programs designed to encourage adjustments.

exploitation by causing high production. Much of the exploitation has been due, however, to uncertainty and to a conviction that high prices were not here to stay. If allotments are necessary due to high supports, conservation might also be encouraged.

Low-level supports would not encourage conservation.

Intermediate levels would fall in between high and low supports with regard to conservation.

(6) GIVE AGRICULTURE RETURNS COMPARABLE TO THOSE EARNED IN OTHER SEGMENTS OF THE ECONOMY. High-level supports would undoubtedly increase farmers' incomes over a period of years. With the inelastic demand facing most farm products, the decrease in consumption would not be great enough to offset the increase in income gained through higher prices. When farm incomes are low relative to those of other segments of the economy, high support levels fulfill this criterion. Available data indicate that high support levels are not necessary today to insure large producers an income equivalent to those earned in other segments of the economy. High-level supports are not effective in raising the incomes of subsistence farmers.

Low-level supports would affect the farmer's income position only in case of very low prices. The inelastic demand plus the probability of heavy increases in production due to propitious weather could result in a sharp drop in income when low-level supports are in effect. The drop might be so great that even if farmers' incomes were equal to or above those earned in other segments of the economy, only the most efficient farmers would receive incomes as high as those earned in other segments of the economy.

Intermediate-level supports would fall between high and low supports with regard to effect on income. If the intermediate-level supports could be varied within substantial ranges between the high and low supports, they would fulfill the criterion almost every year for commercial farmers. No level of support would fulfill this criterion for the subsistence farmer.

(7) BE POLITICALLY ACCEPTABLE AND ADMINISTRATIVELY FEASIBLE. High-level supports would not be politically accept-

able except when a shortage of food was imminent.⁷ Administrative feasibility is more important in connection with the method than with the level of support. High-level supports would create more administrative problems, however, than low-level supports.

Low-level supports also are not politically acceptable to farmers and probably not to society. This is proved by the testimony at any Congressional hearing on price and income supports. Serious administrative difficulties are encountered with low-level supports because the program would be ineffective at times, causing wide variations in personnel and facilities needed.

Intermediate-level supports are both politically acceptable and administratively feasible.

(8) PERMIT THE MAXIMUM AMOUNT OF FREEDOM IN PRODUCING AND MARKETING. High-level supports would restrict the farmer's freedom unless there is a demand for maximum production of almost all commodities. Assuming there is not a demand for maximum production, high-level supports would result in one or more of the following monopolistic practices: over-all decreases in production due to prices being above those determined in a free market, production controls in the form of acreage allotments or marketing quotas, two-price systems, specifying markets and marketing practices to be used, dumping, and destroying products to capitalize on inelasticity of demand. It should not be overlooked that there is considerable, and probably an increasing, amount of monopoly throughout the economy. Although some people deplore this fact and recommend that agriculture set a pattern by going against this trend, it is not at all clear that such a move is possible or feasible, or even desirable. The institutional framework in which agriculture operates cannot be ignored or treated lightly when policy recommendations are being made.

Low-level supports would avoid most of these monopolistic practices. However, production controls and/or marketing

⁷This appears to be in conflict with action taken by the 81st Congress. Congress was considering only a few commodities, however, and considerable political hay was made of the war in Korea. The picture might have been different if all commodities had been considered and there had been no emergency.

quotas may have to be imposed even with low supports in case of a depression.

Intermediate-level supports would be between high and low levels with regard to effect on avoiding monopolistic practices.

(9) MAKE COSTS COMMENSURATE WITH RETURNS.⁸ It is generally accepted that the monetary costs of high-level supports would exceed returns. The social returns, such as assurance of plenty of food, increased conservation, and increased efficiency, however, may more than offset the monetary and social costs such as high prices, income instability, and monopolistic practices and thus make high-level supports desirable.

The monetary returns from low-level supports would almost certainly exceed costs. Social costs of such a program, however, may far exceed returns.

Intermediate-level supports would fall between high and low supports with respect to costs and returns.

(10) BE CONSISTENT WITH OTHER POLICIES. High-level supports are inconsistent with the country's foreign policies—both economic and political (except when high production is needed to help feed the world.) High-level supports are generally consistent with the basic economic policies of stabilizing the economy at a high level and of guaranteeing every person a fair standard of living. It has been argued with some logic that high supports unstabilize the economy by stimulating inflation when this is not the desired end; but there is considerable evidence to indicate that this is not the case. By stimulating production, high-level supports could be deflationary in an inflationary situation. Also assuming that high-level supports do cause monopolistic practices to be established, they conflict with the basic goal of individual freedom in our society.

Low-level supports would not be inconsistent with foreign policies, but they would be inconsistent with domestic economic policies (to the extent that high-level supports are consistent). Low-level supports could conflict with the goal of giving every person a fair standard of living.

Intermediate-level supports would be varied and could be made consistent with most of our major policies.

⁸Opinions must be relied upon almost altogether in this case. Neither logic nor the empirical data that are available are very helpful.

THE METHOD OF SUPPORTING PRICES AND INCOME

Once the level of support is determined, the question of method arises. The major methodological considerations hinge around: (1) the method of computing the support levels, and (2) the method of obtaining and maintaining any given support level.

The two considerations are discussed in the section which follows. The ten criteria previously listed are not used to appraise the several methods as many of the criteria are not directly applicable.

Methods of Determining Support Levels

In this section different methods for determining support levels are presented and discussed.

Although each has numerous variations, there appear to be two major ways of arriving at support levels. The first method involves adjusting prices in some past period to present conditions by some index of prices paid by farmers. Prices determined by this method will be called parity prices in the discussion that follows. The second method involves administrators or the Congress setting support prices without reference to past relationships. Expected conditions in the future and present conditions would be the determinants of the support price. The prices arrived at by the second method will be called forward prices in this paper. This is really a misnomer, however, as forward prices strictly speaking refer to prices that are announced before the production cycle starts rather than to a method of determining prices. Even prices computed under the first method could be forward prices. The second method calls for setting support prices which, except in depression periods, would call for a volume of production in the longer run sufficient to fill the anticipated needs for the product. In depression periods support prices would be established which would boost the sagging economy. Although schedules of forward prices have not been computed, proponents of forward prices leave the impression that forward prices would be lower than parity prices. This raises a question as to whether the real issue is not the support level rather than the method.

Several criticisms have been made of parity prices. The criticisms have been directed in particular at parity prices which

have 1910-14 as a base period. The major criticisms which have been made are as follows:

FIRST, parity prices do not necessarily give farmers incomes equivalent to those earned in nonfarm employment, which is the real goal of parity prices. For parity prices to insure farmers the income goals, farmers must have incomes equivalent to those earned in other segments of the economy during the base period. Also there must not be technological advance, or technological advance must be at the same rate in all segments of the economy, the demand for products must remain the same for all products, and the same percent of total resources must be employed in all segments now as during the base period for parity prices to give parity income today. All of these conditions certainly do not prevail.

SECOND, parity prices reflect demand and technology existing during some past period. This condition could result in several undesirable consequences. It could cause resources to be devoted to the production of one commodity which, in the absence of support prices, would be devoted to the production of some other commodity. For example, technological advances since 1910-14 in the production of wheat have lowered the cost of production. In view of the relative declining demand for wheat, the lower production costs, and the inelasticity of demand, wheat prices should drop, which would cause resources to be moved from the production of wheat to some other commodity in stronger demand. Support prices, based on the period preceding the technological improvement and the decrease in demand for wheat, have not permitted wheat prices to fall and have made wheat production very profitable. Parity prices have encouraged resources to be devoted to wheat production rather than the converse, which is the desirable course. The support prices based on 1910-14 conditions have also given the wheat farmers large incomes—probably larger than those earned by other groups of farmers and persons employed in nonfarm work. It is doubtful if a public program should raise incomes for one group above those earned by other groups and at the expense of other groups. Further, it is doubtful if such a program would be tolerated by society if this were its intent.

THIRD, as parity prices are partially based upon prices paid by farmers, farm prices do not fall if a general overproduction

of farm products is accompanied by prosperity in the nonfarm sectors. This would prevent, or at least retard, the movement of resources out of agriculture, which is the course of action clearly indicated by prosperity in nonfarm sectors but overproduction and low prices in the farm sector.

FOURTH, when prices are used as goals as is the case in parity prices, the underlying maladjustments, which are normally reflected in prices, are hidden. For example, guaranteeing 90 percent of parity for cotton has done little to solve most of the major problems in the cotton belt (i.e., small farms, low ratio of capital to labor, etc.) Yet 90 percent of parity, plus acreage controls at times, have kept these problems from being reflected in prices and have probably helped prevent the solution of these problems either through normal price movements or by programs designed to solve the major problems.

FIFTH, the parity formula has proved to be a good tool for raising support prices in general and for keeping the support prices of some commodities higher than can be justified. Since a formula is impersonal, little criticism is invoked when support prices are raised, due to a change in one factor of the equation. Also the formula provides justification for higher support prices for some commodities than either economics or ethics justifies. It is doubtful if many commodity groups would have the courage to ask for the benefits they now receive without a parity formula as justification. The hearings before Congressional committees studying price-support measures in the spring of 1952 indicate that the parity formula has been used to raise support levels.

Most of these criticisms really assume a high level of support. Probably if an intermediate level of support and certainly if a low level of support were in effect, for all practical purposes, the second, third, and fourth criticisms would not apply. In normal times even with intermediate-level supports, variation in prices would be sufficient for changes in demand and/or technology to cause a reallocation of productive resources.

A modernization of parity, such as that set forth in the Agricultural Act of 1949, would also help eliminate the criticism that parity prices direct resources into an aggregate production dictated by historical demand and technological conditions. For example, the parity price for wheat under the formula specified in the 1949 act is \$2.14 per bushel as compared

with the old parity price of \$2.45. On the other hand, the "new" parity price for beef was \$21.30 per hundredweight in May 1952 as compared with an old parity price of \$15.00. Such changes should redirect resources in a manner indicated by current demand and supply conditions, particularly if high support prices are not guaranteed. If a flexible or sliding support level, such as that specified in the 1949 act, were also put into effect and most commodities were included, practically all of the criticisms advanced against parity prices would be overcome.

On the other hand, parity prices have several advantages.

FIRST, they are politically acceptable and administratively feasible. It is always desirable from the standpoint of an administrator for his decisions to be determined by a formula. At times in the past and perhaps at times in the future it will be desirable to support prices at what appear to be very high levels. Parity prices enable the administrators to establish high price supports. The administration can blame the high price supports on an impersonal formula. The Congress is reluctant to change basic laws and besides if Congress finally does get around to looking into the matter, much of the public cry against high support prices may have disappeared.

SECOND, supports derived from parity prices probably prevent wide and sudden price changes which might occur, if there were no price supports or if support prices were set without a formula because of temporary conditions such as propitious or bad weather conditions or a sharp increase or decrease in exports. The short-run sharp changes might redirect resources into channels which are in conflict with long-run use of the resources. Also, drastic price changes often result in a loss to individuals and society. A reasonable amount of price stability must be considered an asset.

There are several criticisms of forward prices even if a low or intermediate level of supports is obtained:

FIRST, administrative difficulties arise, and forward prices are probably not politically acceptable. Difficulties arise with respect to: (a) computing "equilibrium" prices, (b) having the ratios of these "equilibrium" prices to each other make economic sense, (c) preventing pressure groups from influencing the forward price, and (d) obtaining Congressional sanction for the

price-setting methods and procedures. Economists and administrators do not have too good a record in predicting correct relationships (primarily because of the tremendous amount of uncertainty). Also past experiences show that the Congress does not readily turn over policy-making functions to an administrative branch. It is not clear that forward prices are not as easily manipulated to give higher support prices as the support prices derived from a historical parity. Indeed, under conditions such as those witnessed in the last two years, when a great effort was made to stimulate production, forward prices likely would be above those derived from a parity formula. This is not bad if there is really a need to stimulate production. However, would not efforts be made to maintain the high prices just as efforts were made in the last Congress to prevent a shift to a "new" and lower parity?

SECOND, forward prices may not cause the desired allocation of resources, even though this is their primary purpose. For example, let us assume that wheat production should be decreased from 1 billion to 700 million bushels. Could a price be set which would cause the desired reduction and still be at a high enough level to accomplish other objectives of the program such as avoiding controls and giving a fair income to wheat producers? On the other hand, assume that efforts are being made to reduce the output of a large number of commodities by reducing the forward price, but that an increase is needed for broilers and pork. In such a situation a small change in prices favoring pork and broilers might result in an overproduction of these commodities. Even more serious difficulties might be encountered in case of a shortage of milk and in case relatively higher prices were guaranteed for three to five years, which would be one production cycle. Changes in goals from the spring of 1950 to date indicate what could and probably would happen on a much larger scale if a full-fledged forward pricing program were in effect and conditions remain as unsettled as they have been for over two decades. Such a program could well cause less stability in agricultural production and income than is desirable.

THIRD, to work effectively forward prices require a fairly strong demand, a nonfarm economy that can absorb any resources liberated from agriculture, and no overproduction of

farm products. Are these conditions likely to prevail over a period of years? The experience of the thirties indicates that low prices cannot be counted on to reduce output sharply in a depression.

Forward prices have the following advantages:

FIRST, assuming that forward prices which make economic sense can be set, they would bring about desirable adjustments in agriculture. They should encourage production of the quantity demanded at the support level and promote efficiency in production.

SECOND, forward prices could be useful for combatting depressions. In a depression parity prices would likely fall just at the time they should be maintained or increased. On the other hand, forward prices could be maintained at the depression level or even raised if such a move were politically acceptable. A dilemma is faced, however, by those promising high supports during a depression period. The higher prices would probably stimulate production just when it should be curtailed. The answer would be stimulating demand or directly reducing production.

In the final analysis, the question of whether modernized parity prices are more desirable than forward prices depends upon future economic conditions. If there is full employment and a continuing need for a large production of farm products, the administrative difficulties of forward pricing would probably cause parity prices to be more feasible. If there are likely to be serious depressions, forward prices may be desirable.

Methods for Supporting Prices

In this section the alternative methods for achieving a given support level are presented and discussed. The major methods proposed are compensatory payments, non-recourse loans and purchases, and subsidies to consumers to increase demand. (The food stamp plan, the school lunch program, and the International Wheat Agreements are examples of the last.)

In any particular program a combination of all three methods could be used. For analytical purposes, however, they will be considered separately. Also it is assumed in the discussion that storage operations will not be conducted in connection with

compensatory payments or subsidies to consumers. Storage operations must be conducted in connection with the non-recourse loan and purchase program.

It must be recognized that the level also has a bearing on method of supporting prices. If the support level is low, either method would be used infrequently. In this discussion it is assumed that the support level is such that some method of supporting prices is required frequently. Several disadvantages of supporting prices by non-recourse loans are listed below:

FIRST, the storage of farm products tends to create large surpluses which depress the market in years when supply is just adequate or slightly below average. These surpluses tend to make the farmer permanently dependent on the government. Actually pressure is applied to prevent the stored products from being released in years of short supply so that farmers can receive the benefit of higher prices. If the products are not released, they ultimately must be destroyed or dumped on some foreign country.

SECOND, maintaining high prices through loans and purchases tends to reduce the quantity of agricultural products used, particularly by foreign countries. This could result in a lower income for agriculture. If exports are maintained in spite of high support prices, devices such as the International Wheat Agreement must be used and some of these devices would be in conflict with other policies of the country.

THIRD, when perishable commodities are supported by purchases, there likely is a substantial loss. This loss causes quite a stir and jeopardizes the entire program. This situation may make the program administratively unfeasible.

FOURTH, storage programs benefit the large farmer much more proportionately than the small farmer as the large farmer is able to take greater advantage of the program.

FIFTH, the total cost of a storage and purchase program is quite high. Monetary costs may not be high, but the high prices paid by consumers plus any spoilage or wastage of stored or purchased products makes the total cost quite high.

SIXTH, loans and purchases do not provide even the psychological guides that are permitted with compensatory payments.

With compensatory payments, the producers at least find out the free market price for their products. This fact undoubtedly would have some bearing on redirecting resources.

SEVENTH, loans and purchases make production controls more likely than compensatory payments as the former curtails demand. If production controls are initiated, inefficiencies are created.

Non-recourse loans and purchases, however, are not without advantages. Several advantages are listed below:

FIRST, storage and purchase operations contribute to the welfare of the economy by storing products to be used in times of national emergency and short supply and by making purchased products available to school children, disaster areas, and needy foreign countries.

SECOND, storage and purchase operations have proved to be politically acceptable and administratively feasible in the case of storable products. Secretary of Agriculture Brannan agrees that these operations are not administratively feasible if all commodities are to be supported.⁹

THIRD, the monetary cost has not proved too high, particularly where the level is not too high and in times of prosperity.

FOURTH, the government's storage operations, to a certain extent, are taking the place of private storage and eliminating the role of speculators. If the government's storage program is more efficient than private storage, society benefits. The elimination of the gains of speculators and the distribution of these gains to producers and/or consumers is also a benefit.

Compensatory payments are not without disadvantages as indicated by the following criticisms:

FIRST, compensatory payments do not appear to be politically acceptable to either farmers or the Congress. Farmers argue that their welfare should not be placed in the hands of Congress. Congressmen hesitate to accept compensatory payments because of the high monetary costs (although this would depend to a large extent on the level) and pressure from farmers. There are

⁹See his testimony on farm price supports and production goals before the 82nd Congress.

also objections to subsidizing consumption for high-income consumers and industries that use farm products, which would be the result of compensatory payments.

SECOND, compensatory payments do not permit the accumulation of stocks to be used in an emergency or in times of low production.

THIRD, administrative difficulties would be encountered as every producer would be involved. Also determining the payment for each producer would be a tremendous task.

Compensatory payments would have several advantages, the more outstanding of which are:

FIRST, the consumer would be given a break. Of course, much of the monetary cost would be paid by nonfarm consumers, but all would not pay in proportion to the benefits received. The low-income consumers would be the ultimate beneficiaries.

SECOND, the quantity consumed both at home and abroad should be increased. This could result in higher incomes for farmers. This should help prevent the need for production controls and the resulting inefficiencies.

THIRD, efficiency should be increased by compensatory payments in several ways. The same per unit payment would be made regardless of the costs and returns to the individual producer. This would place a premium on efficient production. Also the compensatory payments would come as a kind of wind-fall profit which should help farmers accumulate capital.

FOURTH, compensatory payments would be excellent for boosting a sagging economy in two ways. They would make, probably cause, deficit financing for the government and also would place more funds in the hands of farmers.

FIFTH, small farmers would benefit as much proportionately as large farmers if they produced as efficiently. Of course, the large producers would still receive the largest benefits.

Subsidies to stimulate demand, particularly those that stimulate foreign demand and assist low-income families, have always appealed to farmers. There would, however, be several disadvantages to subsidies:

FIRST, it is doubtful if subsidies to either domestic or foreign consumption would insure a given price level at all times, and it would probably fail to do so at times when farmers most need the higher prices and when higher prices are desirable to boost a sagging economy. More specifically, it is doubtful if price and income elasticity for farm products within the country are such that a sharp increase in production could be absorbed at any reasonable price level, particularly if the overproduction occurred during a decline in business activity. Also foreign demand might not be increased substantially by merely lowering prices. Prices have too small an effect on the foreign demand in today's complicated foreign trade picture to affect sharply the quantity taken in the short run.

SECOND, a subsidy to all consumers would probably not be politically acceptable due to the high monetary cost and objections to subsidizing consumption for high-income families and industries using farm products.

THIRD, a subsidy on certain commodities might be politically acceptable, but this would place restrictions on an individual's choice, which conflicts with the goal of maintaining individual freedom.

FOURTH, a subsidy that would keep farm prices at any given level would be very costly.

There is one argument in favor of a general subsidy for domestic consumption. The diets of the country should be improved, which in turn should result in desirable consequences. In periods of falling prices the high financial cost could prove to be a blessing if it contributed to deficit financing. It is difficult to find an argument in favor of a continuing subsidy for foreign consumption. Of course, the farmers would be benefited, but there should be a more direct, effective, and desirable means of accomplishing this end.

Either non-recourse loans and purchases or compensatory payments could accomplish a given price level. In all probability, however, some combination of all three methods would prove more desirable than any one method.

ALTERNATIVE PRICE AND INCOME SUPPORT PROGRAMS

Numerous alternative proposals have been made for changing the price and income support programs now in effect. Each

of the proposals combines a level and one or more methods of support. The more important proposals are discussed in this section. These proposals will be appraised by huddle groups.

The proposals which will be outlined in this section are as follows:

1. Forward prices and compensatory payments.
2. National marketing quotas.
3. Subsidies for domestic consumption.
4. Subsidies for export.
5. Redefined price parities and flexible supports.
6. Parity income.
7. Income support standards.
8. Full employment parity.

FORWARD PRICES AND COMPENSATORY PAYMENTS. Under this proposal the Secretary of Agriculture would announce support prices in advance of the breeding or planting seasons for agricultural products. The support prices would remain in effect for at least one production cycle. In periods of full employment, the level of each forward price would be determined with a view to calling forth a volume of production in the longer run which would suffice to fill anticipated needs for the product. In periods of depression, when prices could not be set low enough to clear the market, forward prices of the predepression period might be used. These prices would mitigate the effects of the depression on farmers and be useful in stimulating business in the entire economy.

The forward prices would be guaranteed through storage operations and compensatory payments which would make up the difference between the actual market price and the predetermined support price. The market price would be allowed to fall until the market would absorb the supplies, and no surpluses would develop.

Any over-all level of supports could be used under this proposal. The proponents have in mind an intermediate level when all commodities are considered. The support prices for individual commodities might be quite low or quite high.

NATIONAL MARKETING QUOTAS. This proposal would tie forward prices and compensatory payments to variations in supply.

The scheme would in no way restrict production but would establish forward prices and compensatory payments in relation to a national marketing quota. The level of support for each commodity would be set to call forth the quantity specified in the national marketing quota in normal years. In depression years the level would be higher—probably at the predepression level. This quota would apply to the crop as a whole and would not be broken down into individual farm allotments or quotas. Farmers would be expected to adjust their production to variations in their gross incomes, and not merely to variations in the prices and payments received. An example for cotton will show how the proposal is supposed to work.

The government would announce, let us say, a forward price of 25 cents on a total production of twelve million bales, and thus guarantee to farmers a total gross income of one billion five hundred million dollars, regardless of how much cotton each farmer would actually produce. If the crop turned out to be fifteen million bales, the price guarantee of 25 cents would apply to only twelve fifteenths of the amount actually sold by each farmer, and the government would pay the difference between the market price and the guaranteed price only on that amount. Assuming that the market price dropped to 20 cents, each producer would receive five cents in compensatory payments for 80 percent of the actual poundage sold by him.

The proposal for national marketing quotas also advocates that farmers should have a wide range of choices as to the form in which they would take the compensatory payments (called supplementary payments in the proposal). Instead of being paid in cash these payments would be made in the form of grants-in-aid to farmers for carrying out approved production practices, somewhat in the manner of the agricultural conservation payments (ACP) of the PMA. In normal years the payments would be directed largely toward helping farmers to carry out needed adjustments in the fields of production, marketing, and consumption. If prices remained depressed over time, the most important use of the supplementary payments would be in helping farmers to shift part of their production to other lines, or even to get out of farming altogether. In short, supplementary payments would be used to attack the production and adjustment problems of particular farms, or regions, or periods.

As in the case of the forward prices and compensatory payments proposal, any level of support could be used. It is assumed, however, for purposes of discussion that an intermediate level of support would be used.

SUBSIDIES FOR DOMESTIC CONSUMPTION. Several proposals have been made for subsidizing domestic consumption. The specific proposal, which will be considered, is known as the National Food Allotment Plan.

This plan, sponsored for several years by Senator Aiken of Vermont, starts from the idea that every American, regardless of income, is entitled to a diet considered adequate by the nutritionists. Low-income groups often cannot afford such a diet, even if they spend a comparatively high portion of their incomes, say 40 percent, for food. The plan proposes to "subsidize" the purchasing power of these groups in the following way. Every family, regardless of its income, would have the privilege of exchanging 40 percent of its income for food coupons (let us say, at the post office). The face value of these coupons would equal the retail costs of the adequate diet. The difference between the family's contribution and the actual value of the coupons in retail stores would be borne by the government. People whose incomes were more than two and a half times the cost of the adequate diet, would have little incentive to buy the coupons, since 40 percent of their income would be sufficient for paying the retail prices of the food they want. The benefits of the scheme, though available to everybody, would thus accrue to those families who would have to spend more than 40 percent of their incomes if they had to buy the adequate diet at normal retail costs.

This plan supposedly would keep farm prices at an intermediate level.

SUBSIDIES FOR EXPORT. Two-price systems in the field of foreign trade in agricultural products are not intended to help consumers abroad, but to secure to the American producer prices higher than those prevailing in the world market. Under proposals of this type, exporters would be given a subsidy on the commodity exported with the expectation that they would bid up domestic farm prices by the amount of the subsidy. The result would be that the level of prices received by domestic

producers and paid by the domestic users of the commodity would be higher than the prices received in foreign markets.

The crucial problems are, first, the amount of the subsidy per unit, and second, the financing of the subsidy. On the latter problem, the easiest solution would seem to be outright payment by the Treasury. Another proposal, popular during the twenties and still a live issue with some farm organizations, would finance the export subsidy by a levy on the domestic producers and would figure its amount from supply conditions.

It will be assumed for appraisal purposes that the subsidy would be paid out of general funds and that it would achieve an intermediate level of support.

REDEFINED PRICE PARITY AND FLEXIBLE SUPPORTS. This proposal was part of the so-called Aiken Bill (Title II of the Agricultural Act of 1948). The principal points of the original version were:

(1) To bring the parity-price formula up to date by basing it on the most recent ten-year average of prices received by farmers.

(2) To announce price-support levels in advance of the planting season.

(3) To support price levels through non-recourse loans and direct purchases as in the present programs.

(4) To make support price levels vary with supply conditions. When expected supplies are thought to be in line with anticipated demand, prices would be supported at a predetermined level, say at 75 percent of parity. When supplies are expected to be larger than demand, the support level would move down by a certain percentage, and vice versa.

(5) Originally, the minimum support level of 60 percent of parity was thought to be sufficient for bringing supplies in line with demand. As an afterthought, however, it was proposed that in cases of severe market gluts, such as are caused by business depressions or chronic oversupplies, production controls should be resorted to in the form of marketing quotas. If farmers agreed to those marketing quotas, they would receive higher support prices than otherwise.

PARITY INCOME. No matter how price parities are defined and put to work, they would always disturb the function of price changes as directives for production adjustments. It has been advocated, therefore, that price-support standards, as based on parity, be discarded in favor of income-support standards. The proposal would get away from the support of individual commodities and would support farm income regardless of what commodities would enter into the sales receipts of the individual farm. At the same time, the proposal would not need historical bases for determining the income standards. Instead, a certain ratio of the per capita farm income to the per capita income of the nonfarm population would be used as a measuring stick. The method of executing the program is as follows:

(1) When prices are too low to provide the average farmer a "fair" share of the national income, the total farm income should be increased by supplementary payments from the government. The percentage by which the farm income should be increased would be determined by the relationship between the per capita income of farmers and the per capita income of non-farm people.

(2) The same percentage payment should be made to all farmers. The primary purpose of this method is not to interfere with the influence of price changes upon redirecting agricultural production.

(3) The distribution of the payments among individual farmers would depend upon their incomes for the year. As a basis for payments the farmer's total cash receipts would be used, but purchases of feed and livestock would be deducted because these latter are not contributions of the individual farm.

It is assumed that this proposal would try to give over-all incomes similar to those resulting from high-level supports.

INCOME SUPPORT STANDARDS. The widely discussed program associated with the name of Secretary of Agriculture, Charles F. Brannan, in fact is a combination of several proposals which have already been covered. The significance of the program lies in the attempt to combine these features in such a way that they appeal to several politically potent groups all at once.

The main points of the program are the following:

(1) Price parities would be discarded in favor of an over-all income standard which would be figured from the cash receipts of farmers for the average of the immediately preceding ten years. The level of price supports would be derived from that standard, the percentage difference by which prices should be higher being the same for all commodities.

(2) Commodities to be supported would comprise a list of all the important items sold by all farms.

(3) The support method would be the same for the storable commodities as under the present program. For perishables, the plan would advocate the use of compensatory payments. This is the most conspicuous feature of the program.

(4) Producers would be eligible for the benefits of the support program if: (a) reasonable soil conservation practices were carried out, (b) controls were complied with when necessary to keep supplies down and when approved by farmers, and (c) the total sales volume of the farm did not exceed a certain limit.

This program definitely proposes high-level supports.

FULL EMPLOYMENT PARITY. The basic idea of the full-employment parity would be to guarantee farmers at least as much income as they would get if the economy were fully employed. The parity would be computed by:

(1) Determining the average percentage of the total national income which farmers actually received as cash income during the most recent five-year period.

(2) Determining the minimum amount of gross national income necessary to maintain reasonably full employment and a sound economy for the coming year.

(3) Multiplying the percentage arrived at in step (1) by the national income arrived at in step (2) to obtain gross parity cash income for agriculture.

(4) Comparing the gross parity cash income arrived at in step (3) with the average actual cash farm income for the most recent five-year period. If actual is less than the gross parity cash income, the percentage difference should be computed.

(5) Multiplying the percentage of parity arrived at in step (4) by the average individual commodity price prevailing during the five-year period to get the desired parity price for each commodity. This would give the parity prices.

Price would be supported by compensatory payments on the part of the crop used for domestic production.

A high level of support would be intended by the program.

RESOURCE USE AND FARM PRICE AND INCOME PROGRAMS

By Harold G. Halcrow

It is the objective in this paper to briefly discuss farm income and resource programs within a broad setting, not confined to direct price and income supports but including general problems of resource allocation and efficiency in a long-range setting. Moreover, it is the objective to outline how these questions may be placed before a general farm audience in a meeting where agricultural policy is under discussion. The outline may be presented in a variety of ways but is perhaps best presented by giving the broad setting and objectives of agricultural policy before turning to the discussion of programs and means.

THE SETTING FOR FARM INCOME AND RESOURCE PROGRAMS

Two main topics, (1) farm production and efficiency and (2) the level and stability of farm income, are described as the major parts of the setting. These are presented as the income and resource problems with which policy attempts to deal. The following topical heads are suggested as a basis for discussion:

1. FARM PRODUCTION AND EFFICIENCY

a. General efficiency and productivity of agriculture in the United States.

b. The range of efficiency in agriculture—with discussion of underemployment, size of farm, and capital allocations associated with the range in efficiency.

c. Relationships of capital, farm size, and uncertainty to production efficiency.