

National Farm Price Policy

government price control on agricultural products, price floors, price ceilings and methods to be employed

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National farm price policy involves many different issues.

Antagonists of direct price controls over individual agricultural products argue that:

1. Indirect devices such as fiscal and monetary measures are more effective, both in restoring prosperity and in curbing inflation.

2. Direct price controls impair economic freedom, and in the long run restrict the level of living.

3. It is difficult to get rid of price controls once they are instituted.

Protagonists claim that direct price controls are justified in periods of great national emergencies, such as severe depressions and full-scale wars, but only in such periods.

While admitting the validity of the argument that direct controls impair economic freedom, it is claimed that such impairment would not be serious if direct controls were confined to the period of the emergency.

A third group favors a permanent system of price floors on individual agricultural products with price ceilings instituted whenever inflation threatens.

The proponents of this plan maintain that: continuous price floors—at high levels—are needed to help prevent depressions and to help assure farmers their share of the national income.

They argue also that price floors—at high levels—are necessary in periods of high-level industrial production and employment to encourage needed agricultural production, and to prevent prices of some commodities from falling to low levels; for example, 1951 crop grapes for crushing.

The argument for the imposition of price ceilings on food whenever inflation threatens runs about as follows: If the cost of living rises, wages also increase. Higher wages help pull prices up by adding to spendable incomes, and they help push prices up by adding to costs. Price ceilings on agricultural products help curtail the incomes of farmers, and thereby help keep the nation's aggregate spendable income in line with the aggregate volume of consumer goods and services available for purchase.

The people who favor price floors on individual agricultural products are not

agreed on the level at which they should be fixed.

The advocates of high-price floors include some of those who also favor continuous price floors in good times as well as in bad.

Not all persons, however, who favor a permanent system of price floors advocate high-price floors. A considerable group believes that while there should be a permanent system of price floors, the floors should be set at moderate rather than at high levels. This group fears that high-price floors would be accompanied by considerable impairment of the freedom of individual farmers and that the tight restrictions would result in inefficient production.

It may be added that high-price floors also may lead to shrinkage of markets, creation of surpluses, growth of subsidies, and neglect of more promising means of improving the welfare of the farm population.

Many agricultural economists would set price floors at genuine stop-loss levels, believing that such price floors would afford a modest protection to farmers without causing adverse results.

Prices realized by farmers may be raised through manipulation of market prices, or by direct payment to farmers of the difference between the announced support level and the free market price.

Acreage allotments are designed to enhance market prices by limiting supply at its source. They have not proven to be very effective in reducing production, except in the short run. Over a period of years, farmers, by more intensive cultivation, have appreciably increased yield per acre on the allotted acreage.

Nonrecourse loans are an effective device for enhancing market prices of storable commodities so long as the accumulated stocks do not become too large. There is no guarantee that they can be sold later in regular commercial channels without depressing market prices and thereby defeating price-support operations. Nor is there any certainty that they can be sold outside regular commercial channels without substantial loss.

Government purchases or payments for diversion from regular commercial channels are also effective devices for enhancing market prices. These devices, however,

may entail either conversion of food to low-value nonfood uses or outright destruction of food. Also they involve direct government subsidy.

Direct payments to farmers of the difference between the announced support level and the free market price were used rather extensively between 1935 and 1943.

In 1935 price adjustment payments were made directly to cotton growers. Beginning in 1936 and continuing through 1943, direct payments of specified amounts per unit on the normal yields of the farmers' acreage allotments were made to producers of cotton, corn, wheat, and rice. These payments totaled 3.5 billion dollars.

An analysis of these issues indicates:

1. Direct price controls should be limited mainly to periods of acute national emergencies.

2. Farm price supports should be set at genuine stop-loss levels.

3. In carrying out price supports at genuine stop-loss levels in periods of severe depressions, main reliance should be placed on direct payments to farmers.

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