Stabilization of Farm Prices

doubtful whether permanent workable plan can be evolved to eliminate fluctuations

H. R. Wellman

This country is now experiencing a major inflationary boom and there is no general agreement on measures to curb it.

Everybody seems willing to restrict the other fellow's inflation but not his own.

Labor advocates resumption of price ceilings on consumption goods, but objects to control of wages.

Business believes that labor should forego further increases in wages, but resists any curtailment of profits.

Farmers object to price ceilings on agricultural products, but not to price supports.

No one seems to be in favor of increasing taxes or of reducing government expenses except in the abstract.

The basic difficulty with curbing inflation is that the effective measures are not palatable and the palatable measures are not effective.

Just as booms cause prices of agricultural products to rise rapidly, depressions cause them to fall rapidly. During the past 47 years this country has experienced two major depressions following booms.

Production Curtailment

General curtailment of agricultural production does not solve the problems of a depression, even from the standpoint of farmers. It would not boost net farm income to satisfactory levels in any event, and even modest gains would involve drastic and complicated controls over individual farming operations.

General curtailment of agricultural production or stockpiling mountainous quantities of farm products for the purpose of raising current prices necessarily involves hidden, if not outright, government subsidies, and tends to retard rather than advance recovery.

More effective devices from the standpoint of both farmers and the nation are subsidized food consumption programs and direct payments to farmers.

These measures are not appropriate for extensive use in periods of high-level industrial production and employment, but in a severe depression they are, on balance, more suitable than other alternatives.

In considering this topic of "stabilization of farm prices," it is well to recognize that not only prices but also that price changes perform highly useful functions.

Flexible prices serve the useful purpose of keeping current consumption adjusted to existing supplies. This is a highly important function.

In years of large output, movement through trade channels into consumption needs to be stepped up appreciably in order to avoid waste of perishable products and burdensome carryovers of nonperishable ones.

In years of small crops, consumption obviously has to be restricted.

By permitting prices to decline in periods of large supplies and to rise in periods of short supplies, a reasonably good balance is automatically maintained between current consumption and current production.

If price changes are to be prohibited, some other means will have to be found to induce consumers to expand their purchases when supplies are large and to compel consumers to contract their purchases when supplies are short.

Consumption and Production

In addition to balancing consumption of individual products with existing supplies, price changes also direct future production.

In a dynamic economy, agricultural industries are continually faced with the necessity of adjusting their scale of operations to changes in basic demand and cost conditions. And in a free society the economic incentive is perhaps the most effective device for bringing about the needed adjustments.

Through the effects of changes in relative prices and costs upon net returns, a powerful incentive is provided farmers for shifting from the production of those products whose costs have increased or whose demand has decreased. In fact there is a double incentive for shifting: One, to avoid loss from continuation of production of the lower-priced products; and the other, to obtain a profit from the production of the higher priced ones.

Stabilizing prices in the face of changes in basic cost and demand conditions would prevent needed production adjustments within agriculture, and would lead to shortages of some commodities and surpluses of others. The problem instead of being eased would be aggravated.

Effective Plan Doubtful

It seems impossible to devise a plan for the complete stabilization of farm prices which is economically sound, administratively practicable, legally enforceable and politically acceptable.

Unless a program meets these four conditions of economy, practicability, enforceability and acceptability, it is not likely to last very long. But any program which does meet them is not likely to eliminate all fluctuations in farm prices.

Even if it were possible to hold farm prices steady, it probably would not be desirable to do so.

Price changes play an important role in an economic system which permits freedom of choice in consumption and freedom of enterprise in production. That role is to keep current consumption adjusted to existing supplies and to keep production adjusted to changes in basic cost and demand conditions.

Not all price changes, however, contribute to these ends. Those that do not might well be reduced in both frequency and amount.

An appropriate goal of agricultural price policy may well be the lessening of the instability in farm prices but not the elimination of all price changes.

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