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What to Consider in a Price Policy for Agriculture

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Popular songs seem to go through a cycle of being forgotten for many years and then sung again. Recently I heard a song that reminds me of one I knew many years ago. It was "Johnny One-Note". Johnny had a melodic voice but was capable of singing only a single note.

In many nations farmers seem to be restricted to a single note. They want a higher price for their products. This is the refrain they sing constantly.

It would indeed be splendid if all the complex issues in agricultural policy could be capsuled into the single integer, a higher price.

Farmers are mistaken. Our Secretary Hardin has tried to convince our farmers that they should be more interested in their net incomes than in prices. He is correct. They ought to be interested in many subjects, and not price alone.

It is not my intention to minimize the importance of price -- importance not only to farmers but to persons and firms in the marketing system, and to consumers. Furthermore, the idea of price and the several functions it can perform is a marvelous one. It seems almost magic that market trading can result in a price that will serve the multiple purposes of guiding production, consumption, processing, transportation, storage and foreign trade -- and stimulate progressiveness and development as well.

Manifestly, we show concern for a price policy for agriculture because the instrument of price does not always perform all those functions to our satisfaction. First we overload it with tasks. Then we complain that some are not done well.

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Furthermore, frequently we do not provide the best environment -- the best institutional framework -- in which price can function.

I want to list several reasons why we may want to devise and apply a price policy for agriculture. These fall into two broad categories.

The first category of reasons relates to the price discovery process itself. By this language I mean the circumstances in which private persons negotiate in buying and selling and arrive at a price that can be widely relied on. The price discovery process may be deficient in the following respects:

1. There are not enough buyers and sellers interacting with each other. Either the market will be unstable, or some buyers or sellers will hold monopoly power.
2. Communication is poor among buyers and sellers, and also among markets. Information services and a standardized nomenclature may be lacking.
3. It lacks a strong code of rules of trading. Any good market system requires "trade practice rules." They should be chosen well, and enforced.

These deficiencies are usually classified as a part of marketing. The policies for correcting them include anti-trust policies to prevent monopoly; market information services; market standardization and grading services; building of physical market facilities and improving roads for reaching them; adoption of a code of trade practice rules; and giving farmers authority to form co-operatives for the purpose of improving their power in negotiating prices.

These topics relate to our subject for April 14 and will not be discussed further herein.

As a second category, a nation may want to develop a price policy for agriculture because the existing situation reveals one or more of the following deficiencies:

1. Prices to farmers are so low as to be inequitable. The result is to reduce farmers' standard of living. The rationale is that farmers are at a disadvantage in earning a satisfactory income and it should be national policy to help them get higher prices and therefore more equitable incomes and a better living.

   In economic language, this is price policy to redistribute national income.

2. Prices to farmers are too low to stimulate expanded production. Proposals to increase price by means of government action are often defended in this language. The Question/may be raised as to why more production should be encouraged if the market will not pay a higher price. The answer usually is either that more production is needed at once in order to improve diets of consumers, or/that more will be needed in the future as the economy expands.

   The increase in price will be paid either from the tax revenues of the government, or by consumers in the form of higher price of food.

   The economic term for this policy is reallocation of resources.

3. Prices are too high to permit consumers to have good diets. This can lead to a price policy of cheap food. In some nations the national policy is to keep the price of food and farm products fairly low so as to make it possible for consumers to buy more food, or to resist demands for higher wages for industrial workers.

   Some farmers say we have a policy of cheap food in the United States. Consumers do not agree!

4. Prices do not make it possible for the nation to earn a maximum amount of foreign exchange.

5. The pricing system does not encourage order and efficiency in production and marketing. One meaning is that farmers find it necessary to sell most of their crops soon after harvest, when the price is exceptionally low. If marketing were orderly, farmers would space their marketings over more of the year. Prices would not fluctuate so much and farmers would receive higher average prices.

   A second meaning relates to the precision with which prices act as a signal system controlling production. In the U.S. we think that our prices for milk have caused us to produce milk having too much butterfat and too little protein. Our grade standards for beef have encouraged our cattlemen to produce short fat steers instead of tall leaner ones.

6. Prices are not equitable among all classes of farmers. Usually the smaller farmers, or those distant from markets, are injured most.

7. Prices are too vulnerable to natural and economic hazards. This weakness refers to instability caused by variable weather as it affects the size of harvests, or by sudden changes in demand.

Actual conditions vary widely among countries, and even among commodities within a country.

Likewise, price policies that have been adopted are of many kinds. The following are a few examples:

* Prices regulated by government. These may be higher than they would otherwise be, so as to help farmers, or lower, so as to help consumers.

* Price supports or floors. These are guaranteed minimum prices. They may serve several purposes: to lift the general average level; to protect farmers against an episode of very low prices;

to help farmers avoid selling their products for low prices at harvest time.

* Special prices, or special foreign exchange rates, for commodities sold into export.
* Some commodities may be made available to consumers at less than the prevailing price. This is two-pricing, or multiple-pricing.
* Farmers may be granted authority to establish large cooperatives or marketing boards, by which they can influence prices to some degree. In the U.S. we have a special kind of enforced cooperation, called a "marketing order."
* A price bonus may be offered for production in excess of a target or quota. The USSR uses this technique. The U.S. did so for some commodities during World War II.

Several other policies are closely related although not usually called price policies. Among these are crop insurance, in which a farmer is reimbursed if he loses a crop because of drought, insects or flood and direct payments from the federal government, in lieu of higher prices (we use these in the U.S.). Moreover, tariff policy is a kind of price policy. A national food reserve policy is closely related to a price policy for agriculture, and the two may be administered together.

We should not be overimpressed by the official titles placed upon price policies. We can often learn most about a nation's price policy by examining its details. For example, in Guatemala I suggested that if a price floor for corn were to be administered in such a manner that a farmer would be required to bring his corn to Guatemala City, it would be a floor with more holes than boards. I suggested that the government should make it possible for all farmers to receive the minimum prices, even the Indian farmers on the volcanic slopes.

In the U.S. we have had price supports on several commodities for a number of years. At first, a major purpose was to help farmers retain their crops after harvest, so as to avoid selling on the depressed markets at the time. This was the principle of orderly marketing. During a number of years after the war, price supports were high. They were made high in order to improve farmers' incomes. But when too many surpluses accumulated, supports were lowered. The loss to income was offset by means of direct payments from the U.S. Treasury. Now, Secretary Hardin is emphasizing, as his predecessors did many years ago, the purpose of helping farmers to hold their crops after harvest and market them in an orderly manner.

Thus do price policies, like popular songs, go through long cycles.

"Forward Pricing", and Multiple Prices. Now I want to consider two special kinds of price policy. The first is called forward pricing. It relates to a policy of promising farmers a favorable (minimum) price as an incentive for them to increase production. Unquestionably, any nation can increase its output of a particular crop, cotton or oranges for example, if its government will increase the price. Most governments cannot afford to pay farmers large sums of money in this way. Especially are governments of developing nations unable to do so. Only wealthy industrial nations can spend billions of dollars to subsidize their farmers.

On the other hand, most governments can adopt a modest version of forward prices. These are a price guarantee, or a price floor, that is promised to continue for some time in the future. The announced price cannot be reduced at the whim of a legislature or a minister. The principle involved is that farmers will increase production even if they cannot be sure they will receive a high price, provided they are protected against the possibility of receiving a very low price. Forward pricing that can be trusted will have an expansionary effect even if the prices that are guaranteed are not very high.

Multiple pricing is a term which means simply that a commodity may be sold at a different price in different markets, or to different buyers. Where there are only two different prices it is called "two pricing." When surplus products are sold abroad at sharply reduced prices it is called "dumping". The latter term is not in good repute.

In my judgment there are many occasions where multiple pricing can be adopted to good purpose. If a product has both a high value market and a low value one, the total income to farmers will be greater if the product is priced higher in one market than another. (Strictly speaking, the high value market must have a more inelastic demand). More important is the possibility of reconciling conflicting purposes in a price policy. For example, the U.S. and many other countries make food available to low income families at a lower price than higher income people pay. This policy reduces the political pressure for lower prices to farmers. It also improves the nutrition of the lower income families.

Although I do not advocate dumping, a judicious two-price policy in export trade can be helpful.

We use two-price policy in still another way, namely, to temper the price-depressing effect of temporary surpluses. Some food is bought at time of surplus and given to low income families without cost to them (this is separate from the sale at reduced cost mentioned above). Under "marketing orders", surpluses of several commodities are diverted into secondary uses. Some nuts are diverted into crushing for oil. Fresh lemons are diverted into crushing for juice. There are other examples.

Stabilizing vs. Increasing Prices. Let me explain an ambiguity of words as they are used in the U.S. When we say we want to stabilize prices we mean that we want to reduce their fluctuations. Many farmers, however, declare that we should stabilize them at a high level. Perhaps we should; but stabilization as a word refers only to reducing the amplitude of fluctuation.

To increase prices is of course a different matter. Often, when we take steps to increase prices to farmers we also stabilize them; but the two objectives are different and should not be confused.

Errors Makeable and Made. Unfortunately, it is easy to make errors in designing a price policy for agriculture.

I would feel almost disloyal to my country if I related all the mistakes we have made during 38 years. (I probably helped make a few). Besides, we do not have enough time to recite them. I suppose the biggest blunder we ever committed was to underappreciate two consequences that follow when we peg our prices at a high level -- the short run consequence of greater production, and the long run consequence of loss of markets. As I said above, during the 1950's we experienced a veritable nightmare as we tried to perpetuate the high prices that existed just after World War II and during the Korean conflict. Our technology was moving ahead fast, and production almost reached to the sky. We spent many years and billions of dollars in reducing the surplus that accumulated when our horn of plenty "ran over."

The specifications of any program have material effects on a nation's agriculture. For several years we paid support prices for wheat that were too high for the poorer (least demanded) grades, and relatively too low for the better grades. Our support prices by state and county affect the geographic distribution of production.

Still another problem we have had concerns the policy for selling products in storage back into the market. In principle, our method of supporting prices is the "ever normal granary." Our government accumulates a commodity when it is in surplus. It is expected to sell that commodity back into the market system whenever the commodity is relatively more scarce and its price rises. Not surprisingly, our farmers are enthusiastically in favor of the government's action in acquiring the commodity. They are vehemently opposed to its selling the commodity later. Our laws specify a minimum resale price formula. The Secretary of Agriculture has some discretion. But usually when food prices are rising the political pressure forces the Secretary to sell grain or other commodities, disregarding farmers' protests.

I know that my remarks emphasize the danger of using price incentive so generously as to increase production too much. Some countries may only wish they had a problem of overproduction. Nevertheless, whenever a price support policy is adopted, a serious question arises as to the level of prices to be chosen. Generally, my suggestion is to resist pressures to make them too high.

I know too that some countries have found that U.S. price policies have affected them directly through P.L. 480 commodities that they have received. I believe that the problems P.L. 480 create, have diminished over the years. In any case, policy as to price in international trade, including the desirability of international commodity agreements, is an important subject that should be discussed separately.

Probably most governments would be happiest if they could avoid the controversy that surrounds price policy for agriculture. They might prefer to have no policy at all. Yet, in spite of all the complications, most nations find it necessary to involve themselves in the prices that farmers receive for what they produce, and what consumers pay for the food they buy. The most that can be said is also the least that must be said, namely, that any price policy must be drawn up with care. Particularly pressures to try to make a price policy accomplish more than it is able to do **should be resisted.**