THE OBSERVATION POST

Philip H. Groggins

Parity and the Price Support Program

IN THE PRECEDING ISSUE, we presented the views of some officials at the U. S. Department of Agriculture regarding questions raised by consumers with respect to the operation of its price support programs. The information thus obtained did not convince us that existing legislation constitutes an ideal solution to the farmers' economic and production problems. From the viewpoint of most consumers, we are still confronted with the question—what should be done to improve or replace our price support system?

Thus far, the only official response we have to this question is the following policy statement of the Secretary of Agriculture, Ezra T. Benson: "The principles of economic freedom are applicable to farm problems. We seek a minimum of restrictions on farm production and marketing to permit the maximum of dependence on free market prices as the best guides to production and consumption. Farmers should not be placed in a position of working for government bounty rather than producing for a free market."

This is a fine statement of policy. We do not know whether the statement is sufficiently realistic to satisfy the majority of our 25 millions that are dependent on agricultural pursuits. Farmers know the hazards of crop production. Many have felt such "acts of God" as floods, drought, hurricanes, frost, and the invasion of plant and animal diseases and pests. Some also can recall the hazards of producing for an uncertain market at unstable prices. It is well to remember we are dealing with millions of farmers with limited resources. In a free market, the financially weaker producer frequently plays the all-important role of establishing the market price.

Viewed objectively, certain basic principles need to be observed to ensure sensible, but adequate, production and economic distribution of agricultural products.

(1) Our national policy must plan for the adequate production of nutritive foods—now and in the future. Continuing research is needed to develop improved farm practices, better seed and livestock, and more efficient ways of protecting investments in growing crops. This research is an essential precaution to ensure that our future generations will continue to be well fed and hence highly productive.

Incentives, Not Bounties

(2) Our agricultural industry should be provided with incentives (not bounties) to produce. In some countries in Latin America and Eastern Europe where incentives have been removed, there is a dwindling agricultural production. Farmers as well as union workers can go on a strike. Black markets and high prices go hand in hand with scarcities.

(3) We cannot have a prosperous national economy without a sound agricultural economy. The merchants in the market place cannot do a thriving business with impoverished farmers. The producers of fertilizers and agricultural chemicals cannot plan their production with optimism or accuracy if there is to be no planning with respect to crop production. The farm machinery and the food processing industries also have an enormous stake in a stable and sound agriculture. In the absence of sound agricultural policy, industry as well as farmers will be forced to adopt caution as a policy. If farmers must gamble for seasonal rewards, then suppliers of the things he must buy must, perforce, join him at the gambling table.

(4) Because farming is classified as a business and enjoys the privilege of including many indirect charges, such as interest, taxes, etc. in the computation of parity, it is altogether appropriate that farmers should also assume reasonable business risks. Secretary Benson, in his policy statement, expressed his views on this subject as follows: "Price supports should provide insurance against disaster . . . but supports which tend to prevent production shifts toward a balanced supply in terms of demand and which encourage uneconomic production and result in continuing heavy surpluses and subsidies should be avoided." Subsidies should indeed be avoided as a long term policy, particularly when the practice results in pricing a commodity out of its normal markets. The protective economic umbrellas for cotton and butter have made possible the accelerated introduction of synthetic fibers and margarine without the customary competitive risks attending new developments.

(5) Practically all the framers of agricultural legislation during the past 20 years represented agricultural regions. That is not unreasonable. What is disturbing, however, is the fact that the acts were voted by many legislators who have a financial interest in farms, warehouses, cold storage plants, and the like. To our knowledge such interested persons have not, like Charles E. Wilson of General Motors, been asked to dispose of their agricultural properties.

Wage Rates in Determination of Parity

(6) It is appropriate to explore the validity of introducing the item of wage rates (not actual expenditures for labor) in the determination of parity if no correction for diminishing farm labor requirements is made. Certain aspects of the parity formula need also to be reexamined to determine whether farmers as producers are being relieved of certain burdens which they should bear as consumers.

(7) It is extremely doubtful that the legislation underlying the price program of the Department of Agriculture has been sold to our taxpayers. This program was enacted into law at a time when it was deemed essential to emphasize and accelerate financial aid to certain segments—in order to bolster our whole national economy. Most thoughtful people and particularly industry, recognize the need for maintaining a sound agricultural economy. Many would probably support a Federal Price Insurance Corporation whose operations would reduce or eliminate burdensome subsidies. The premiums paid by producers of agricultural commodities should reflect known hazards of production and marketing and particularly the element of competition. Operation of a Federal Price Insurance Corporation could permit lowering of commodity prices to realistic levels and, thus, perhaps decelerate losses of markets. If premiums for price insurance seem too high, it is very likely that voluntary production shifts and new marketing practices will occur.