been discussed may be presented by outlining the setting, the objectives, and the means in parallel vertical columns on blackboard or flannel graph, or it may be presented verbally. The approach—of presenting various data on the agricultural situation and relating the objectives of policy to these—serves rather well on occasion as a basis for discussing the impact of alternative programs on farm income and resource use.

FARM PRICE AND INCOME PROBLEM

A Critical Evaluation

By L. J. Norton

I consider the production of *Turning the Searchlight on Farm Policy* a remarkable feat. The committee who worked on it was not asked to draw up a bill of particulars for a program or a revision of any program, but to set down basic principles in this field. We have been criticized here today for not analyzing the Brannan Plan. We did not analyze the Brannan Plan in particular nor any of the many plans that have been discussed over the years in this country or abroad. We attempted to stick to broad principles, and there was general agreement on these among the 13 committee members except for a few reservations noted in footnotes.

These principles are illustrated on page 32. To quote:

> As economists we accept the goal of equality for agriculture (and all other industries at the same time) as a condition in which the real returns to labor, management, and capital employed in agriculture (and each of its parts) is equivalent to what the persons or the units of capital could get in any other location or use. Approach to such equality requires the highest possible degree of business flexibility and personal freedom.
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> (2) The term "parity" and the arithmetic formulas in which it has been computed do not well express this goal of equality for agriculture. The ratio of prices received by the farmer for his commodities and prices paid by him for farm and home supplies during the five-year period 1909-14 bears no clear or significant relationship to the economist's idea of equilibrium returns to labor, management, and capital in various farm and nonfarm uses. The attempt to freeze past relationships into the economic structure for the future impairs the flexibility and individual freedem which are needed for continuously better economic adjustments.

Two assumptions, perhaps unstated, underlie the recommendations of this committee.

(1) American farmers would earn satisfactory economic returns in a free, unsupported, uncontrolled market.

(2) It will be possible by generalized economic policy to maintain over time a reasonably stable general economy within which relatively free agricultural markets can satisfactorily function.

This report will stand or fall in the future depending upon whether these assumptions prove to be true or false.

The great bulk of American agriculture enjoys such prosperity as it now has because the first assumption is correct. In talking of price-support programs, we are talking of a minority interest; the majority of American agriculture is outside of the price-support program. The principal commodities benefiting from price supports or other direct programs as of today are wheat, tobacco, cottonseed, peanuts, wool, and sugar crops. In 1950 these represented 11.7 percent of cash sales. Potentially eligible, but currently above support level, are dairy products, cotton, corn, soybeans, rice, flaxseed, dried beans and peas. At 1950 values, this group represented 31 percent of sales.

Fifty-seven percent (by value) of our commodities are outside of the programs. This includes such items as cattle, hogs, fruits, vegetables, poultry, and eggs. In terms of values, the tail tries to wag the dog when it is argued that price supports are a major factor in effecting the present markets for farm products. If free markets do not yield satisfactory incomes, then the bulk of agriculture is now depressed. Some economists strain so hard to believe what the politicians say in this area. As economists they should look at the facts.

The committee argues for extending the area in which such free markets operate. The trend since the war has been in this direction. Potatoes and eggs (7 percent of total) have been freed from price supports.

There would likely be some question about the second general assumption. Admittedly history argues against its validity. Our present price-support structure is the reaction to unfavorable experiences in the twenties and thirties and the fear of a return to similar conditions. The views of the committee on this point are stated on page 49. To quote:

> Reinforcing this tendency toward economic expansion, there is a world-wide movement toward positive programs to safeguard national economies and the world economy against tragic and unnecessary depressions which have been experienced in the past. This was marked in the United States by the passage of the Employment Act of 1946. Similar policies are being undertaken in other countries, and attempts are being made to link these efforts with a view of promoting stability internationally.
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> The measure of success to be attained in this direction is perhaps less predictable than the trend of population growth. But it is our belief that a rational farm policy should be predicated on the attainability of such high-level and progressive stabilization. Furthermore, the most constructive policies with reference to agriculture would be designed not merely to take advantage of such favorable developments but would also undertake to make agriculture a positive contributor towards its accomplishment. This means a policy of ample production at moderate prices flexibly determined in the market, not restrictionist policies at rigidly high price levels.

It is in this area that our best economic thought should be concentrated. If we run into stormy economic weather, preoccupation with individual commodity programs will lead to false hopes and wasted energy and resources. The Federal Farm Board faced an impossible job because it tried to hold up farm prices by storage operations in a period of generalized price decline. The AAA had modest success in improving farm income until wartime inflation set in. From personal business experience, I know that most farmers had no real confidence in the economic outlook in 1940 and by then the AAA had been in operation for seven years.

What are the possibilities for the second assumption being correct? Since 1945, policies aimed at full employment have been increasingly stressed. The policies of a number of countries have been directed to this end; our Employment Act of 1946 set up a high level of employment as a national goal. The basic problem that full employment policies and measures have had to deal with has been inflation. Unless inflation can be limited, we will build up for a big smash.

There was some difference of opinion among the committee members as to the causes of our inflation. Some of these differences are revealed in footnotes. In the last eighteen months, more and more emphasis has been placed on inflation control by monetary and credit methods. Generally speaking, the use of fiscal policies has proved ineffective in limiting inflation since the war ended.

Discussion of the ways and means of accomplishing stability was beyond our report. On the top side, when inflationary conditions prevail, responsible policy makers have finally realized that fiscal or direct methods are not effective and have turned to use of generalized credit control. In the United States, beginning in March 1951, the Federal Reserve acted in withdrawing support of government bonds at par. I believe that it is possible to stop inflation by monetary and credit measures. On the theoretical side this position is held by such eminent living economists as President Einaudi of Italy and Professor John Williams of Harvard University. While economists have argued, administrators have acted in the United States, England, Canada, Denmark, Holland, and India and other places to use appropriate credit methods.

On the bottom side—deflation—management of credit may not be so effective. Do direct price supports have a place? Some able people argue that they do. If they are correct, then the committee is wrong in its general position. Within the framework of general stability, the committee recommended payments to farmers in case of sharp declines. There is room for discussion as to whether price supports can be fitted into defense against deflation but this is quite a different matter from high-level supports at all times.

I think, in general, Ratchford was not talking about "support prices" but about "particular prices." For example, he assumed that with a low support price the actual price would be low. This would be true only if he was talking about particular prices, such as in England. A price is fixed on a commodity and that is the price. This system would be wholly unacceptable to the American farmer. Our farmers want no upper limits set, and experience shows that actual prices can be above supports. I think the effect of low support prices on agricultural production can be greatly exaggerated for many products. Where cash inputs are high relative to probable prices, belief in or fear of a low price will cut output, but this is not the case of most of our major crops.

I understand that the committee's report has been criticized for not attaching enough importance to monopoly. This subject was discussed at length. Views were expressed that over time the evil effects of potential monopoly on agriculture may be greatly exaggerated. I personally think that economists have been misled by the narrow definition of competition now used in certain technical economic analysis. This departs from the historical ideas as to what constitutes monopoly and competition. The older concepts seem much more useful to me in considering questions of policy than is the very narrow definition developed for a very specific and rather narrow type of economic analysis. In any event the committee registered its opposition to monopoly. To quote:

> (5) We accept the general doctrine, traditional in America, that effective competition should be maintained, and the people safeguarded against monopolistic restrictions and related special advantages wherever they arise. We regard as unfortunate any tendency for economic activities, farm or nonfarm, to seek or drift into monopolistic forms or practices.

Regarding Malone's comment that the people in England are not much concerned about the agricultural support program there, I would agree. They are worried about assurance as to food supplies, and they feel that these agricultural programs will help to make more food available. Moreover, so far as their programs have made food higher than it would otherwise be (and this is highly debatable), the public has been sheltered by liberal food subsidies which have reduced the cost of their food.

This summer I taught 28 MSA students from seven foreign countries, all mature men and some leaders in their fields. On their last day I asked them their impressions of agriculture in the United States. One of the Frenchmen said that in this country agriculture is a business operated for profit. In France it is a public utility. Such a situation is outside the spirit of our price-support legislation, which has never set limits as to how high prices can go. It, however, does quite accurately describe the British program.