Approach F

DIRECT RESTRAINTS ON FARM MARKETINGS

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OBJECTIVES OF MARKETING RESTRAINTS

The general objective is to limit aggregate supply of farm products to effective market demand at prices which will provide equitable returns to agricultural resources.

The more specific objectives are: (1) to effectively limit the quantities of various agricultural commodities placed on the market; (2) to raise farm prices and incomes; (3) to reduce the Treasury cost of price and income support programs for agriculture; and (4) to avoid undue restrictions on area or farm specialization, least-cost production combinations, and resource mobility.

OUTLINE OF A PROGRAM FOR DIRECT RESTRAINTS ON MARKETINGS

A program to effectively control marketings must be comprehensive enough to prevent input substitution and product substitution from circumventing the program objectives.

The essential elements of the program are: (1) definition of fair or parity prices for farm products; (2) determination of national marketing quotas, (3) imposition of marketing quotas on all farm commodities, (4) allocation of marketing quotas to individual producers, (5) absolute restriction of marketings to quotas, (6) negotiability of marketing quota certificates, and (7) correlative activities of supply stabilization and export sales.

ESTABLISHMENT OF FAIR OR PARITY PRICES. This would be the responsibility of Congress. Prices could be so set that they would be fair to both producers and consumers.

ESTABLISHMENT OF NATIONAL MARKETING QUOTAS. The U. S. Department of Agriculture would set national sales quotas annually for each agricultural commodity in amounts which it estimates would clear the market at the predetermined fair or parity prices. Sales quotas, by

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commodities, would be announced sufficiently in advance of the production period to facilitate production planning.

IMPOSITION OF MARKETING QUOTAS ON ALL FARM COMMODITIES. In practice, quotas may not be needed for each individual commodity. Some commodities may be grouped into a common class—feed grains, for example—with a single national quota for the entire group of commodities. A farmer might then sell any one or combinations of these commodities in quantities equivalent to his quota of a base commodity within that group.

ALLOCATION OF MARKETING QUOTAS TO INDIVIDUAL FIRMS. Each farmer would receive his pro rata share of the national sales quota for each commodity, based on his historical record of production. Each farmer's share might be received in marketing certificates of small denominational units sufficiently early to enable him to develop his production plans in accordance with his quota.

ABSOLUTE RESTRICTION OF SALES TO QUOTAS. Once such a program were in operation, a farmer could not legally market any commodity having a national quota unless he had marketing certificates to cover the quantities involved. Each year each farmer could market an announced percentage of the face value of each of his certificates.

NEGOTIABILITY OF QUOTA CERTIFICATES. Farmers could buy or sell marketing certificates. The individual farm operator would be free to expand or contract production. The value of operating in an agriculture where product supplies are limited and prices relatively certain would, of course, get capitalized into these marketing certificates.

CORRELATIVE ACTIVITIES. Since commercial agriculture does not operate in an economic or social vacuum, at least two other programs should be linked with the above supply control program. They would deal with: (1) production for export and (2) supply stabilization. Our purpose here is merely to recognize them as necessary adjuncts to supply control.

To illustrate, some commodities have a large stake in international markets where the market price may differ greatly from the defined fair price. To assure fair prices to producers of such commodities and to permit them to compete in world markets, export subsidies or compensatory payments on domestic portions of quotas, etc., might be used. At the same time, steps would need to be taken to prevent foreign producers of farm products from taking advantage of higher prices in our domestic market.

In another direction, both producers and consumers might benefit if the U. S. Department of Agriculture would operate a purchase, storage, and disposal program in connection with the general control program. In years of below-average yields government-held stocks would be put on the market to hold prices at the defined parity level, and in years of above-average yields marketing quotas would be increased a few percentage points and the excess supply purchased and stored. This type of bona fide storage program would stabilize marketable supplies and ease the production problems of farmers arising from weather uncertainty.

ILLUSTRATIVE SIMILAR PROGRAMS

Several piece-meal attempts have been made to control supplies of agricultural commodities. Such programs have undoubtedly held supplies of controlled commodities below the levels that would have been obtained in the absence of restrictive programs.

SUGAR CONTROL PROGRAM. The basic elements of the sugar control program include: (1) determination each year of the quantity of sugar needed to supply the nation's requirements at prices reasonable to consumers and fair to producers; (2) division of the U. S. sugar market among the domestic and foreign supplying areas by the use of quotas; (3) allotment of these quotas among the various processors in each area; (4) adjustment of production in each area to the established quotas; (5) payments to producers out of Treasury funds to compensate for production adjustments and to augment their income; and (6) equitable division of sugar returns among beet and cane processors, growers, and farm workers.

TOBACCO CONTROL PROGRAM. Approximately one-third of annual tobacco output enters the international market. Three characteristics of this commodity, however, are worth noting and possibly prophetic of results from aggregate agricultural supply control: (1) tobacco does not have a close substitute; (2) the acreage planted to tobacco is a negligible proportion (less than .5 percent) of total crop acreage of the U. S., and (3) it is easily storable.

Tobacco prices are supported at 90 percent of parity. Production is limited through acreage allotments, and severe penalties (75 percent of the preceding season's average market price) are imposed on output from non-allotment acres.

The costs of tobacco programs have not been high. In fact, Commodity Credit Corporation operations for the period 1933 through June 20, 1956, showed a realized net cost of only $300,000. Benedict

and Stine, in their evaluation of the total program, say "On the whole, the tobacco program, if its general objectives are accepted, has been one of the most manageable and successful of the farm programs."

Despite "rigid support" of prices at 90 percent of parity, tobacco consumption has increased sharply. Per capita consumption of all tobacco products is now approximately 50 percent greater than in 1929. In fact, per capita usage in the form of cigarettes almost tripled during this period.

EFFECTS ON PRODUCTION AND THE DISTRIBUTION OF PRODUCTION

The price level defined as "fair" would be the primary indicator of ultimate effects of an aggregate supply control program. Market quotas consistent with higher prices would require short-run reductions in output for many commodities. Much dissatisfaction would probably arise from non-proportionate changes in output and prices.

SHORT-RUN EFFECTS. As compared with present programs or the free market, some agricultural resources would be unemployed or underemployed. The most immobile or fixed resource would be used more extensively. Demand would fall for those resources that can be reduced, e.g., hired labor and certain forms of capital. Greater emphasis would be placed on upgrading products at the farm. Some of the resources previously committed to volume could be redirected toward quality of product.

Some farms and areas producing "excess commodities" would face greater output reduction than others. On the other hand, the output of commodities with more inelastic demand would need to be reduced relatively little to result in substantial price increases.

LONGER-RUN EFFECTS. Areas with comparative advantages in the production of particular commodities will tend to buy quotas from areas less favored competitively. Farmers with superior ability or economies of scale could expand their production by buying marketing certificates. Fewer, but larger, farms would produce the restricted output unless minimum quotas were invoked. Production efficiency could be increased more than under present programs. But farm enlargement, efficiency, and farm and area specialization may not take place as rapidly as under free market conditions. Why? New farmers would have to buy "certificates" as well as the farm's physical resources.

EFFECTS ON DEMAND AND THE DISTRIBUTION OF DEMAND

Program effects on demand are likely to be insignificant if total demand is viewed as a schedule of quantities demanded over the

relevant range of prices. Our limited knowledge of demand schedules (for products sans services) under varying time perspectives prevents accurate evaluation of such a program.

In the short run, a smaller quantity of farm products would be available, and consumers' money expenditures for farm products would be higher. However, the price effect of reduced output would be relatively smaller at retail than at the farm.

Should farm product price relationships be altered, the demand for commodities having the least relative price rise might increase because of product substitution possibilities in consumption.

Limited output and higher prices would make an export sales program mandatory in order to maintain a quantity position in foreign markets equivalent to that of the free market.

In addition, maintenance of prices above free market levels would encourage the development of new products and substitutes.

In the long run, total demand might be reduced to the extent that: (1) substitution (new products) in consumption would be possible; (2) other producers (foreign) could supply a greater portion of the market; and (3) greater "nutrition-cost ratio" consumption habits are formed.

EFFECTS ON INCOME AND THE DISTRIBUTION OF INCOME

SHORT-RUN EFFECTS. The smaller quantity of agricultural products, without a compensatory change in nonagricultural output would lower the level of *real* national income.

Aggregate agricultural income and factor returns would be larger than under free market conditions. However, this would be merely a redistribution of the income that had accrued to non-farmers due to excess supply of farm products.

The larger income in agriculture would be distributed among farmers roughly in proportion to volume of sales. Consequently, those now having the lowest incomes would generally receive the least boost in income.

Lower income consumers would have a porportionately greater reduction in their real income because of higher prices of food products.

LONGER-RUN EFFECTS. These are less obvious. The income benefits to agriculture would accrue to the present generation of farmers. These benefits would ultimately be capitalized into the vehicle of control. Initial holders of certificates who sell them and quit farming will

take the benefits out of agriculture. Through the capitalization process, the program benefits become an imputed production cost.

A continued program limiting output would hold aggregate farm income above free market levels. The program probably would not seriously retard labor transfer out of agriculture in a strong and growing general economy. Nevertheless, resource returns between agriculture and nonagriculture would not necessarily be equalized because of continued advances in nonagricultural incomes.

GENERAL IMPLICATIONS AND PROBLEMS OF THIS APPROACH

"Boom and bust" characteristics of agricultural income could be alleviated by marketing controls. Correlative storage and export programs are necessary adjuncts to supply control.

Treasury cost of production adjustments would be lower than under present programs. However, cost of the stabilization and export adjuncts would partially offset this reduction. Program costs would be borne by consumers through expenditures for farm products, rather than through taxation on the basis of ability to pay.

Quotas would have to be negotiable to restrict "black marketings." Program policing would still be a problem.

Annual fluctuations in production on individual "farms" and in the aggregate would be difficult to handle. Purchase and sale of certificates among farmers would give some annual flexibility, but annual output of non-storables above national quotas and above expectations could present serious problems. Producers of all agricultural commodities probably could not be treated equitably. Physical deterioration or destruction of food products is not socially acceptable.

A smaller volume of farm products would be available for handling. Processing, marketing, and distribution facilities would consequently be underemployed.

SUMMARY

The income of commercial farmers can be raised and, to some degree, stabilized by a program of direct limitations on marketings. To achieve this objective, quotas must be invoked universally on production. Benefits from the program will be capitalized into the controlling device—marketing certificates in this case. The present generation of farmers would be the beneficiaries.

Income would be transferred to agriculture from consumers. In the short run the level of real national income would be reduced. Should

agriculture be permitted to continue enjoying monopoly gains, national income would remain below its potential. Income would not be distributed more equally among producers of farm products or among consumers.

Negotiability of marketing certificates would permit entry and departure of producers of farm commodities. Should conditions warrant shifts in producing areas, farms would become larger and area specialization could take place more rapidly than under present programs.

Quota determinations and allocations for the many farm products present special practical problems. Some producer groups would not welcome output controls.

Farm output and its composition could be made more consistent with demand and its characteristics. In addition, individual farmers would be free to use the least-cost resource mix for the production of their market quota.

A supply control program probably could not stand alone; but, with the necessary adjuncts, it could be made to work *if* society is willing to bear the cost and *if* farmers are willing to accept absolute production controls.

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