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Contemporary Problems in the Economics of Agriculture

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Discussion focused on price formation and price effects at the national level, but also on international implications of national price policies.

A major question was: Does the existence and combined emergence of surpluses of farm products indicate that prices are too high in the countries producing these surpluses? This led to the further questions: When is a price said to be too high? and what is the effect of changes in producer prices on supply and on efficiency of production?

The following points were considered relevant:

1. Conflicts arise in objectives of price policy between achieving (*a*) maximum efficiency and (*b*) desired levels of equity and welfare as expressed in minimum income and consumption standards for all or specified sectors of communities.

2. Farmers desire not only sufficiently high prices but also stable prices and assured markets. Thus there are cases for preventing undue fluctuations in price and for income support. These objectives should not be confused when considering national or international price policies. Each has its own relationship to problems of surplus.

3. A price may be said to be high when it is appreciably above the price needed to bring forth sufficient supplies to meet effective demand on world markets. If a world price is identifiable and the price mechanism is functioning freely, then a price is high if it is above the world price. There may be justification for high prices in some cir-

cumstances, notably where the balance-of-payments situation makes it undesirable to buy from abroad, or where it is desired to maintain certain income levels for farmers through the mechanism of price. This leads to a second definition of a high price, i.e. one in relation to desired income levels and rates of technical change.

4. No firm conclusion was reached on the role of prices in stimulating innovation and general efficiency of production, though there was general agreement that the extent to which high prices can be held down without depressing net farm income depends on the rate at which a movement of the supply curve to the right can be induced.

5. High agricultural prices have resulted sometimes in high rates of investment in equipment not always justified in the light of subsequent price falls and low returns on the investment. In other circumstances, 'hard times' in agriculture induced 'hard thinking', and forced farmers to adopt improved practices, often requiring little capital investment. In some economies, chronic depression of farm incomes caused movement out of agriculture, which in turn brought improved labour-saving methods.

6. A connexion was noted between the effect of higher prices on productive investment and the marginal propensity to consume shown by the producers in question. Measures to make cheaper certain farm materials, such as fertilizers, could then be effective alternatives to raising product prices. However, many innovations involve not only increased expenditure but also a risk that the benefit may be lost through unfavourable conditions outside the farmers' control. Even cheap fertilizers might not be bought if margins for investment were low and the risk of loss too great.

7. More study was needed of the short- and long-term agricultural supply curves and of the factors determining shifts of the curves and the rates of shift, especially in subsistence or mainly subsistence production. Prices were certainly not the only factor.

8. The conflict of interest between agricultural producer and food consumer was noted, particularly in economies which are predominantly non-agricultural. Price policy must then provide the right incentives to farmers without making food unduly expensive and without discouraging a reduction of relatively unproductive labour in agriculture.

9. Some members expressed the view that the price mechanism should be allowed to operate freely so as to do its job of optimum

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resource allocation, and that action to achieve certain welfare or investment goals should be superimposed on this mechanism, e.g. through taxation and transfers. The allocation of resources and the distribution of income are separate functions and the price mechanism is not equally suitable for both, though in practice it is pressed into service. For optimum rate of growth the allocation of resources may have to be other than that which free play would bring about.

Turning to international measures to regulate supplies and prices, the group agreed that more research was needed into methods of distributing food surpluses internationally without upsetting prices. Restriction of production in surplus-producing countries meant incurring costs which might well be more than the real costs of allowing the surpluses to emerge and disposing of them freely or at less than cost. International commodity agreements had made a contribution to the stabilization of prices. Multilateral agreements involving all the major exporting and importing countries were regarded as preferable to agreements among groups of exporters to share the market. Commodity agreements to stabilize prices were regarded as palliatives, not remedies for disequilibrium of supply and demand. The real need is for international measures for income redistribution, even if political opinion is not yet sufficiently advanced for it. At present some government policies result in more or less disguised forms of income transfer, generally from richer to poorer countries; less disguised forms would be more economically desirable, but in their absence some existing arrangements were approved. The extent to which certain nations may take steps in future to reduce production was seen to be related to their willingness to transfer income to importing countries and their evaluation of alternative ways of making such transfers.

The machinery for international consultation and confrontation of policies, as provided by F.A.O. and other bodies was approved by the group as the instrument for future progress in this field.