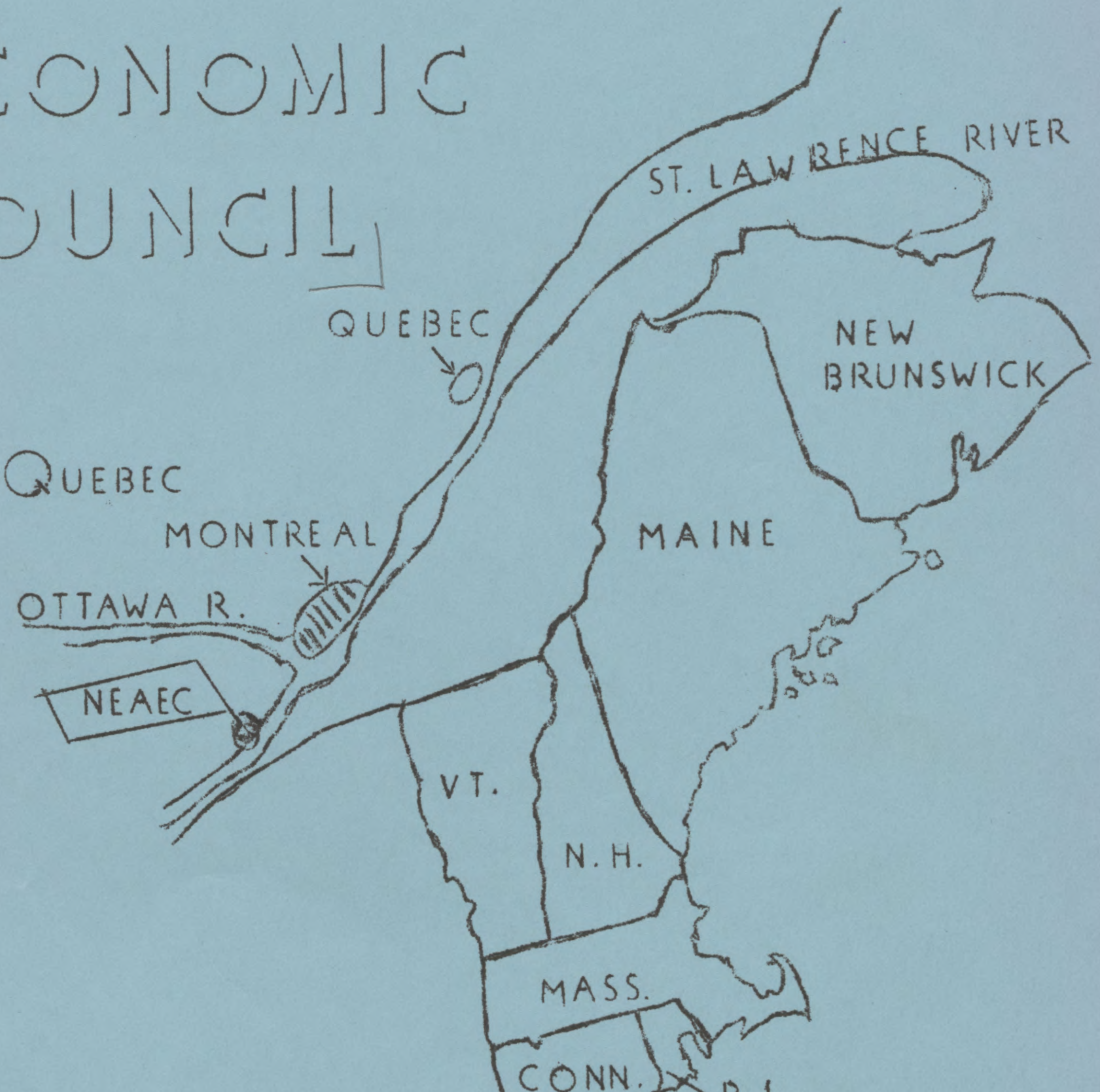
NEW ENGLAND AGRICULTURAL ECONOMIC COUNCIL



PROCEEDINGS, JUNE 1960

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CANADIAN PRICE SUPPORT POLICY

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Farm Policy in Canada is developed and administered by both the Provincial and the Federal Governments. Provincial farm policies have been characteristically in the field of Agricultural Extension and to a limited extent in farm credit. About one-half of Canada's ten provinces administer a provincial credit scheme. Price policies have become one of the more important parts of overall farm policy in Canada. In the year 1959 major attention was focused on the changes in price support policies and their effect on Canadian agriculture. During the past two years there have been several changes in the various Canadian Agricultural Policies, particularly in price support measures.

The focus on Canadian Agricultural Policy has characteristically changed since pre-war when a great deal of emphasis was placed on farm settlement. During the period of 1947-1957 little change was made in the basis of overall policies. Price support measures were affected through the former Price Support Act. The National farm credit scheme was administered by a Crown Corporation known as the Canadian Farm Loan Board. Provincial extension policies were, for the most part, production orientated. Throughout the period there was accent on major land reclamation projects when Maritime Marshlands were reclaimed from the sea and reclamation work of the Prairie Provinces was started under the Prairie Farm Rehabilitation Act.

During this period and the earlier wartime period, Canadian agricultural output about doubled with a 40 percent reduction in the farm labor force. While the Nation's population during the same period about doubled, production in many lines overshot market demand and has created troublesome surpluses. Wheat surplus has been one of the major problem areas. Cyclical surpluses have also occurred in poultry, eggs, hogs and in some dairy products.

The trend of farm incomes has not been encouraging. McFarlane and Haver1/ show that during the past ten years the index of farm prices has declined slightly while farm costs have increased 30 percent. As a result, real net farm incomes have declined 30 percent while current income has declined 10 percent.

Farm policy measures in various forms have attempted to keep agriculture adjusting to the changing conditions created by the radical developments in farm technology and changes in both domestic and foreign demand. Major changes have been affected in several of the Canadian farm policies during the past two years. The Federal credit policies have been expanded and loan limits increased to meet the needs of a commercial agriculture. Provincial governments, on the other hand, have recently started looking toward more realistic extension policies with emphasis on farm business management and marketing extension work. Similarly, as noted earlier, changes have occurred in Canadian price support policy.

In 1958 the Government of Canada enacted the Agricultural Price Stabilization Act which replaced the former Price Support Act. Price support levels under the

1/The Canadian Farm Situation 1959 and Outlook, 1960 - David L. MacFarlane and Cecil B. Haver, Macdonald College, January, 1960.

Act are determined for nine commodities using a ten year moving average price period. The Act provides that a mandatory support price, based on 80% of the previous ten year average for a specific product, will be in effect for those commodities listed in the Act. The key commodities named are hogs, cattle, sheep, butter, cheese, eggs and wheat, oats and barley produced outside the Prairie Provinces. The guarantees which are established (by Order-in-Council) need not be on all of a product or necessarily on prices to producers. Prices may be stabilized by one of three methods.

1. Purchasing commodities at prescribed prices.

2. Paying to producers the difference between the prescribed price and the average price actually received by producers in the market.

3. Making payments for the benefit of producers for price stabilization purposes.

The Act states that action shall be taken "in relation to such grade, quality, variety, class, type or form thereof and with reference to such place or places as the board considers appropriate."

The administration of the Act is carried on by a Price Stabilization Board and an advisory committee of 10 representatives of Canadian farm organizations. Commenting on the new Act in December, 1957, the Minister of Agriculture made these comments:[2]

"The purposes of the moving average formula method of determining the base price are to assure stability of income to farmers by protecting them against a drastic decline in prices; to provide for gradual adjustment through prices due to changes in consumption habits, losses of export outlets and radical technological advances; and to provide flexibility so that prompt and desirable adjustments may be made as conditions warrant. This legislation provides that a base price for any agricultural commodity - and I would like to stress the word "any" - will be established by calculating the average price for that commodity at representative markets during the ten years immediately preceding the year in which the base price is established.

In addition to the flexible guaranteed prices which may be applied to any agricultural commodity and which will be the ones in general use, the legislation provides for the sense of security which farmers have asked for and which we believe they are entitled to by providing assured floor prices for certain key commodities. This is done by writing into the legislation a provision that these commodities must be supported under any circumstances at 80 percent of the base price. It is not expected that these will be at the guaranteed prices in effect. The guaranteed prices will be higher in most cases, but this provision is written into the legislation so the farmer will be absolutely assured that no matter how prices may slide he will, at the very least, receive 80 percent of the base price."

In 1959 there were some twenty commodities supported under the new Stabilization Act. All three methods of supporting prices were used. Until 1958 government purchases was the only general method in use. In addition to government purchase deficiency payments are presently in effect for eight commodities, namely wool, eggs, hogs, sugar beets, honey, soyabeans, sunflower seed and Ontario wheat. Flat payments have been used for British Columbia apples and milk for manufacturing.

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[2]Reported by National Farm Radio Forum News Release, January, 1958.

In May of 1959 troublesome surpluses developed in dry skim milk powder, which was being produced at about twice the rate it was being consumed. The support price was reduced and on September 30 no further purchases were made. In line of purchases a flat payment of 25 cents per cwt. was provided for all manufactured milk with the objective to divert some of this milk to cheese processing.

A similiar type of surplus problem developed with the purchases of hogs and eggs. It became apparent during 1959 that both of these products were being produced far in excess of market demand. Government purchase of eggs thus ceased on September 30 and the deficiency payment method went into effect. A similiar deficiency payment scheme for hogs was instituted on January 11, 1960.

When the deficiency payment method was adopted, limits were established on both the number of hogs and eggs which would qualify for payment from any one farm. In the case of eggs thelimit per farm was established at 4,000 dozen (A large or Extra large) and 100 hogs (Grade A and B). The Minister of Agriculture, when announcing these limits, expressed considerable concern over the widespread development of commercial non-farm companies in the production of both hogs and eggs. He referred to the unwarranted growth of vertical integration in both of these industries and indicated if production was too high these "larger" producers should cut down on their production programs. Thus the overall price support policy was revised to accomplish this objective.

To compute the amount of deficiency payment a National average weighed price is established. Every producer of eggs or hogs who has registered with the Board will receive the same amount of payment per hog or dozen eggs. In general only farmers marketing through registered grading stations can qualify to receive deficiency payments. However, in the case of egg producers it is possible for farmers who are marketing direct to retail outlets to receive a payment by submitting sales slips from the purchaser. Initially it was announced that a yearly payment would be made on eggs. However, because of the very low prices prevalent throughout the last quarter of 1959, a quarterly payment was made. There is no indication that this procedure will be followed in the future.

As of November, 1959, 60,296 egg producers had registered to receive deficiency payments. An analysis of those producers in terms of size of flock maintained is presented below. 3/

	% of producers	% of hens
Less than 500	85.9	42.5
500 - 1,000	8.4	16.0
1,000 - 10,000	5.6	38.0
10,000 and over	.01	3.5

Based on these statistics about 86% of the egg producers in Canada who have registered for deficiency payments will receive payments on their entire production. (Assume 500 hens will lay 4,000 dozen eggs.) These farmers, however, maintain less than 50% of the Nations total hen flock. About 5.7% of the producers who own 41.5% of the hens are not able to obtain any type of support price on the greater volume of their production.

The organization of hog production is somewhat the same. In 1956, 96.5% of hog producers had between 48 and 62 hogs or less under six months of age. It is

3/ Submitted in a speech by the Minister of Agriculture on November 23, 1959.

estimated that about 95% of Canadian hog producers market less than 100 A and B hogs per year. These facts related by the Minister of Agriculture last November substantiate the view that there is definite interest in providing price supports to a large number of small pruducers. Such a policy eliminates from price support a large part of Canada's egg production but a smaller share of the nations hog production.

In 1957 it was evident that the support price for eggs had become an incentive price. Egg prices, in spite of price supports, had been falling since 1951 at an average of 1.6¢ per dozen per year. During this time the market price remained above the support price. By 1957, however, production had expanded greatly and exceeded market demand. The Government began on a program of purchasing eggs.

Under the new Stabilization Act of 1958 the price support was increased to 44¢ for A large eggs. This was necessary to maintain the egg support price at 80% of the mandatory base price. Egg production continued to increase and consequently prices remained low until August, 1959. Overall prices in 1959 declined about 3¢ from the 1958 levels. The deficiency payment program for eggs was instituted on September 30th. Evidence would indicate that export markets for stored eggs was fast disappearing and total production had to be cut. The 1959 fall chick orders declined 36.5% from 1958. No doubt this action was a result of the announced program. Experience and limited evidence would indicate that many of the food companies curtailed food credits very drastically in the fall of 1959, as a result of the 4,000 dozen limit.

About 94.5% of the registered producers have flocks less than 1,000 hens and maintain only 58.5% of the total number of hens. Thus a relatively few large producers market a very large proportion of the total eggs. I would submit that the <u>absence</u> of any support measures for this segment of Canada's poultry industry will affect future adjustments in poultry production rather than the <u>presence</u> of any price support program.

Larger egg producers face, for the most part, a market free of supports and must develop and adjust their programs free of any market price protection. It may be argued that if such a program directly encourages more smaller producers, deficiency payments could "harm" those larger commercial producers. It is probably safe to assume that in the past adjustment in egg production has come from all types of producers. In the future, however, with present price policy, the larger producer (5-6% of Canada's poultrymen) is primarily faced with this job. What about future egg production in Canada? MacFarlane and Black[4/] estimate that by 1960 we will require about 563 million dozen eggs in Canada which is about a 46% increase over the 1955 production. Who will produce these eggs - small or large egg producers?

In the future, smaller producers will probably continue to face the problems of new technology. While they are partially protected through deficiency payments, there is no reason to believe that the effects of technology, in the long run, will not result in lower overall market prices. In the long run this will lower the base price and hence the support price. In the short run the bulk of Canada's poultrymen will have a chance to adjust to new technology. I would submit that if deficiency payments are made on an annual basis smaller producers will tend to adjust their flock sizes upward, seek a retail market, or leave the industry.

Turning to hogs, relative high prices prevailed throughout most of 1958. In 1958 Grade A hogs (dressed weight, basis Toronto) averaged $30.60 per cwt. The past ten year average has been $29.65. In 1958 the support price was increased by $2.00

4/ Development of Canadian Agriculture to 1970, D. MacFarlane & John Black, Macdonald College, 1958.

to what was generally regarded as a high support price of $25.00. This proved to be an incentive price and marketings increased from a monthly average in 1958 of about 477,000 hogs to over 654,000 hogs in 1959. The sow herd began to build up in 1958 and continued throughout 1959. During 1958 average prices remained close to the support level in effect. Storage stocks of port increased from 12 million pounds in January to a high of 93 million pounds by May, 1959. These storage stocks have since declined to about 40 million pounds.

It is quite possible that deficiency payments will have a pronounced effect on Canadian hog prices. As stated earlier about 95% of Canada's hog producers market less than 100 A and B hogs yearly. From January, to April of this year average monthly hog prices in Toronto declined about $2.00 per cwt.

An Ontario survey of marketings from October to December, conducted 2 years ago, indicated that about 96% of the producers marketed over 70% of the total number of hogs. In each case they marketed less than 50 hogs each.[5] Thus it would appear that deficiency payments can affect adjustments for a considerable portion of Canada's hog industry.

There is not unanimous support among Canadian farm organizations on present agricultural price policy. The Canadian Federation of Agriculture which is one of the two major farm organizations, has in general not supported the deficiency payment method. Rather this organization has asked that support prices be established according to a known formula. They have proposed what they term fair relationship prices for farm products which would give them the same purchasing power per unit as in the base period 1925-29 and then, as their statement continues, adjust those individual prices so they will have the same relationship to each other as they have had on the average during the most recent ten years.[6] On the other hand, leaders of the Interprovincial Farm Union Council primarily a Western farm organization, have supported the government's move toward the use of a deficiency payment scheme.

Generally speaking, members of the Canadian Federation of Agriculture have strongly opposed the switch from an offers to purchase program to deficiency payment for hogs and eggs where only a limited volume of each farmer's production is supported. This organization has recommended that these two products be removed from the mandatory list as stated in the Act or revert to an offer to purchase program with the support price set at a reasonable level. It would seem that this organization would prefer the method followed under the former Price Support Act. The scheme followed under the terms of this Act was extremely flexible. There was no set formula to follow and support levels could be established at any reasonable level.

While our support price program operated without any set formula, it was relatively easy to adjust the support level as conditions of supply, storage, and demand warranted. Canada, in contrast to the United States has cabinet government which allows much more flexibility in handling price supports. If the level of support is too high, Cabinet can and would propose changes in support levels. This has characteristically been the pattern of operation in Canada since 1945. The system, in the past, has tended to prevent the accumulation of unmanageable surpluses for long periods. The cost of the overall program has been relatively low in Canada in comparison with other countries.

5/ Report by Minister of Agriculture, November, 1959.

6/ Recommendations to Canadian Federation of Agriculture from the Semi-Annual Meeting Board of Directors, July, 1959.

It is interesting to note that in 1956 out of every dollar spent on agriculture by all levels of government in Canada, 24 cents went for research, education and extension. Only 5 cents went for direct price supports. Even if the costs of crop insurance, transporation assistance and similiar grants are added only $3\frac{1}{2}$ cents out of every dollar spent on agriculture in Canada could be attributed to subsidies. In the United States, 6 cents out of every dollar went for research, education and extension and 69 cents went on direct supports, plus 6 cents on school lunch and credit programs.[7]

The present act, where future support prices are based on a previous ten year base period, has the inherent faults of using any formula method. As indicated by Schultz[8] formula as such do not give too much indication of the present value of farm products and less about the relative prices that will be efficient in guiding agricultural production. The agricultural Stabilization Act and the use of deficiency payments, however, contains much flexibility which makes price support in Canada based on a formula less harmful than otherwise might be the case.

There are merits of the deficiency payment scheme which should not be overlooked. The scheme seeks to clear the markets of perishable products which thus affords price benefits to domestic consumers. Experience with egg storage would indicate that it is damaging to overall trade for governments to dump perishables such as eggs on an export market. In one case familiar to the writer such action cut off fresh egg sales for a group of major producers thus damaging their markets and production program.

The present price support scheme on hogs and eggs, however, would appear contra to other Canadian farm policies where efforts are being made to assist the development of larger commercial farm operators. The case for deficiency payments can be supported under the present act where a formula type of support price is being established. It is most difficult to predict the future trend in Canadian support policy. It would appear that widespread use will be made of deficiency payments where the support price tends to create surpluses under a government purchase program. Similarly, it is possible to prevent surpluses by limiting the grade of product which can qualify for support. The Act makes both of these actions possible.

7/ See Developments in Agriculture, No. 4, Ontario Agricultural College, November, 1959.

8/ Schultz, T. W., Production and Welfare of Agriculture, Page 187, McMillan Co., New York, 1950.