Federal Reserve Bank of Chicago ---
March 19, 1954

Agricultural Letter

Number 240

TOMORROW'S MARKETS for farm products at home and abroad was the theme of the 8th Annual Farm Forum held at Minneapolis last week under Chamber of Commerce sponsorship.

Farm policy discussions held the stage during the first day of the session. Economic advisors of former Secretary of Agriculture Brannan and the present Secretary of Agriculture Benson provided the lead-off statements. Possibly the most interesting feature of their discussions was their ability as students of economic problems in agriculture to agree on "facts." Not until the discussion moved into the arena of appropriate methods for achieving desired goals did sharp differences of view come to light.

One view holds that parity prices are a desirable goal and that they are an effective and appropriate method of maintaining an acceptable level of farm income. It is recognized that the achievement of parity prices would require a large degree of direct intervention by Government in the production, marketing, and pricing of farm products, but it is argued that this is justified in the interest of achieving the price goal. The role of market prices as guides to producers, distributors, and consumers of farm products is de-emphasized in this approach to the problems of agriculture. It contemplates also full Government responsibility for exports and imports of farm commodities, since under this program our important export crops would be priced out of world markets much of the time. The major role of prices would be to allocate to farmers the income which resulted from the sale of the allotted quantity of each commodity at its parity price.

A different view, while recognizing that market prices are less than perfect as guides to producers, distributors, and consumers and that their results as allocators of income are not always acceptable to all people, holds that prices do a reasonably good job of guiding the economic activities of men and that policies should be designed to "remedy the defects of market prices" but not to abolish the price system.

The proposal for flexible price supports was described as a move in the direction of permitting prices to have some degree of freedom in doing the jobs which they normally perform in a free enterprise economy. The proposal that all commodities use the "modernized" parity is of the same nature.

Thus, the conflict in agricultural policy hinges primarily on the role that prices are to play in our economy and the degree of Government responsibility for determining prices and hence for determining production decisions of farmers and the decisions of businessmen with respect to the storing and distribution of commodities both in domestic and foreign markets.

If market prices are to function as guides, they must be allowed a large degree of freedom to change. On the other hand, if prices are goals in and of themselves, the decisions of farmers, businessmen, and consumers must be influenced by direct Government intervention in the production and marketing processes, and the degree of such intervention will be determined largely by the degree to which the price goal differs from prices which would prevail in relatively free markets.

The major uncertainty which gives rise to this important conflict in agricultural policy is the degree to which farm income will differ under the two policies. This question cannot be answered with precision, hence the debate. Many of those who support flexible prices as the more desirable farm policy believe that per capita income in agriculture will be as large or larger over the longer term under that policy than under a policy which accepts prices as goals. This view, of course, is not accepted by those who favor "rigid high level" supports, either as to the short term or the long run.

EXPORT MARKETS were considered at the Forum with respect to (1) the effects of farm programs on foreign agricultural markets, (2) the role of Government in developing markets abroad, and (3) population growth. Speakers pointed out that programs which set domestic prices without due consideration of world prices force the United States to rely heavily on import restrictions and export subsidies of types which we have been encouraging other nations to abandon.

The role of Government in developing markets abroad for U.S. farm products necessarily becomes more important if domestic prices are set independently of world price levels. This situation leads in turn to international trade being conducted largely by governments and minimizes the role of market prices and the decisions of individual exporters and importers.

Population growth is expected to continue at a high level both in the United States and in the world. Thus, the basic market for farm products will expand. But there was little inclination to accept this outlook as either an immediate or longer-term solution to farm surpluses, since there will continue to be an important problem of achieving a high level of productivity and consequently of income for the growing population of the world. A strong market for agricultural commodities must necessarily rest heavily on this latter development.

Ernest T. Baughman -- Assistant Vice President