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# DISCUSSION: AGRICULTURAL PRICES IN THE 1970'S: HOW WILL VALUE BE ESTABLISHED?

D. H. Carley

Olan Forker is to be commended for bringing into focus some ideas regarding the mechanisms and organizational structure that may be used in the future to bring together buyers and sellers and thus to establish a value for the exchange of agricultural goods. My discussion will evolve around some specific situations that may fit into some of the ideas that were expressed in the paper.

In a preliminary draft of his paper, Dr. Forker stated that we don't know if the prices that evolve are the result of "economic forces, industry structure, or the processes used." This is an interesting observation. Almost all of us in our academic training have had classes in price theory; in our research we have been faced with explaining theoretical and practical aspects of price discovery; many studies of commodity pricing have been published; yet, as the last quarter of the 20th century approaches, we are still asking the question, "How are agricultural prices established?"

Price discovery is not new in economic literature. In 1776 Adam Smith included three chapters regarding prices [1]. The explanation was rather simple, that "the value of any commodity . . .is equal to the quantity of labour which it enables him to purchase or command." Furthermore, it was stated, "But value is not commonly estimated by labour, because labour is difficult to measure. It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market. . .". Adam Smith made establishment of value sound fairly simple. It is interesting that, even today, we use the income from an hour of labor to measure against the price of a particular good to determine if we are better or worse off than in former periods.

As Forker outlines in his paper, the many trends and issues keep us perplexed regarding processes and mechanisms that should be used in price determination. How many economists predicted in late 1972 the price changes that occurred in 1973? The processes and mechanisms didn't perform too satisfactorily. Cotton farmers found the forward contract disastrous; dairy farmers discovered that administered and negotiated pricing didn't move prices satisfactorily; many grain farmers in early 1973 were disappointed that the jump in prices for 1972 grains occurred after they had sold; beef producers were in the price freeze with less than expected price increases following; peanut farmers are concerned that the support price will be lowered, and the housewife is aghast as she returns from the supermarket.

Forker listed several factors that have resulted in changes in the pricing system; I am assuming he meant changes from what was nearer to the free or competitive market system. From this point of identification he then discusses possibilities for the future. He implies that we will be moving toward an even more organized system.

The paper is really concerned with mechanisms and processes that will be used to bring together the buyer and the seller with both having adequate information regarding supply of, and demand for, agricultural commodities. Within the organization and structure used, some sort of price equilibrium should be the desirable result. In considering these methods, I would like to summarize only disadvantages listed in types of organized processes discussed. They are:

1. Since for many products the buyer and the seller will be spatially separated, these products will need to be gradeable or definable, maybe more so than we have now.

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2. Evidence supports the necessity of large volumes to make some systems self-supporting.
3. To make some methods work, the system must be used by a majority; its use must be made mandatory.
4. Who enforces the rules of the game, and who pays the cost?
5. Rather than improved communication about quantities, quality, terms of trade, etc., there may be less information available.
6. The consequences of bilateral agreements between a few buyers and a few sellers are not known.
7. Equity and performance among all participants remain serious problems.
8. Windfall gains or losses may become more commonplace under some processes.
9. There is danger in the power of a few and how those few are chosen.
10. Will more government intervention aid or become a detriment?

In the beginning of the paper, Forker questions whether economic forces, industry structure, or the processes used are responsible for establishment of prices. I submit that in the final analysis we need to give the nod to economic forces. Producers won't produce a product for very long at a loss, and buyers won't continue to buy a product very long if its price is out of line with substitutes. Economic forces will prevail in price determination. However, institutional forces and processes will no doubt continue to alter prices from the level they would reach under a relatively free competitive market atmosphere, and, furthermore, such processes may provide price stability. An overall plan or process that will once and for all automatically determine price does not appear on the horizon; forces in the market place, rather than highly planned or organized systems, will continue to prevail.

Several mechanisms and processes that may become dominant in establishing agricultural prices are defined at the outset of Forker's paper, along with the advantages and disadvantages of each. My additional comment is that primary research emphasis must continue on the economic forces as well as on the processes and mechanisms for price establishment.

## REFERENCES

[1] Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations.* Book I, Ch. 5-7, New York: Random House, Inc., 1937.