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EXPERIENCES WITH RECENT PRICE STABILIZATION PROGRAMS FOR AGRICULTURE

Leo V. Mayer

The stabilization of farm prices and incomes has been a goal of all farm legislation dating back to the establishment of the Farm Board in 1929. After the Farm Board concept failed in the wake of the great crash of 1929, price stabilization turned more and more toward price supports with prices set above market equilibrium. To absorb the differential quantities that arose, loan and storage programs were established for major commodities. Stocks of accumulated grain were used in times of war or world grain production shortfalls to even out the flow of food to consumers.

Much of the smoothing out of food supplies occurred in affluent countries. Adequate grain supplies were maintained for the production of livestock despite grain shortages for human consumption in other areas of the world. While not generally recognized as a major accomplishment of stock programs, the ability of the American livestock producer to provide increasing supplies to consumers even during periods of world grain shortages has been due largely to the stocks of grain stored during periods of excess production.

The importance of this relationship has become clearer in recent months as our grain stocks have disappeared, prices have risen and livestock production has been cut back. The concept of price stabilization and even price support largely disappeared in the traumatic rise of world grain prices. With a new farm program in 1974, and given the impact of dollar devaluation on world prices of grain, it is likely that the traditional concept of price stabilization may have largely disappeared for the next four years – the time period covered by the new legislation. Price support levels in the new farm act are raised 10 percent above former minimums, but the inflationary impact on market prices coupled with the impact of devaluation on world grain prices is surely much greater. Thus, the new support levels, $1.10 for corn and $1.38 for wheat, will not serve to stabilize commodity prices to the same degree as in the past.

The opportunity continues under the new legislation for placing commodities under price support loan. It is likely however, that producers with grain under loan will aim to sell as market prices rise seasonally, rather than hold from one season to the next. This new strategy can serve to stabilize prices of grain – and even livestock production and prices to some degree, but it will represent quite a different degree of stabilization than in the past.

PAST EXPERIENCE WITH STABILIZATION PROGRAMS

This short introduction provides a stepping off point to a review of past experiences with price stabilization programs. The key issue is not, however, how successful or unsuccessful past programs have been. Rather, the important point is how well these long-established programs fit the present needs for economic stabilization. The best evaluation of how stabilization programs work is our experience with them during periods of changing economic conditions. Economic programs that work well under one set of conditions, say the conditions of cost-push inflation of the late 1950's, may not work well during a period when a different set of general economic conditions prevail, say the demand-pull conditions of the last 18 months. Or farm price stabilization programs that depend on grain stocks may work differently during conditions of excess resources in agriculture than during conditions of resource

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scarcity and intrepreneurial uncertainty.

During the period from 1930 to 1970, the stabilization of farm and food prices was conditioned by an excess of crop production capacity. This capacity almost continuously pressed output against potential demand and hence worked to hold prices against minimum support levels. The programs that were developed to manage this overabundance always presumed the existence of unutilized cropping capacity. Only during two major periods – World War II and the past 18 months – was the supply response inadequate to dampen the gyrations of highly responsive farm commodity prices. There were other periods, notably the post-World War II period, the Korean Conflict, and the Asian shortfalls of the mid-1960's, when stabilization efforts temporarily were ineffective. These instances did not, however, test production capacity of American agriculture to the degree that both World War II and the last 18 months have done.

One measure of the degree to which production capacity was tested during these two periods was the actions taken toward price stabilization. In both instances, upward pressures on farm and food prices became so intense that an unusual shift occurred in food policy: from supporting farm prices to stabilize farm income, policy turned to controlling farm prices to stabilize food costs. The similarity of experiences of World War II and the past two years is worth reviewing.

PRICE STABILIZATION PROGRAMS COMPARED

The conditions that led to emergency price controls in 1942 have some similarities to the conditions leading to the Economic Stabilization Program of 1971 and more especially to the 1973 stabilization programs: Phase III Freeze II, and finally Phase IV. A primary objective of World War II controls was to stabilize food markets that were experiencing excess demand due to rising employment and incomes. Once stocks of grain disappeared in the months after Pearl Harbor, farm prices began to rise sharply. By October 1942, the President was given the power "to issue a general order stabilizing prices, wages, and salaries, affecting the cost of living..." The effect was predictable. With prices held below equilibrium and consumer incomes rising rapidly, the public attempted to purchase larger quantities of food than generally were available.

To resolve the differences between supply and demand, the government fell back on nonprice mechanisms to allocate available supplies. Rationing became common for many types of foodstuffs including one that caused a considerable problem in 1973: meat. During World War II, limits were placed on how much meat a consumer could buy. This created considerable public irritation, and the cutback in demand caused a decline in cattle and hog prices that caused further unhappiness on farms across the country. The problems that arose from this set of circumstances finally led one noted agricultural economist to characterize the initial two years of price controls as "Hell" and "Hell Continued."[1] This is not very different from the description some businessmen and analysts would place on the various phases of the 1973 Economic Stabilization Program.

The more recent programs of price stabilization have had some similarities to and some differences from those of earlier programs. For most of the period after the establishment of the Economic Stabilization Program in August 1971, controls on food prices had little effect on farm prices. Controls were levied as marketing margin controls with food processors and retailers limited in terms of the amount of markup that could be passed on to consumers. But no effective controls were placed on the price of primary farm products. If farm prices rose, the added cost could be passed along. Under some phases of the stabilization program, the markup was an absolute dollar-for-dollar pass-through, and under other phases, the markup was a percentage increase in margins. All programs had a profit criterion that placed an individual limitation on price increases by individual firms.

The effect on agricultural prices was minimal under the stabilization programs with only margin controls. Prices could still perform their functions of regulating production and consumption. It was not until the spring of 1973 when rises in farm and food prices began to exceed public acceptability, that indirect but effective controls were placed on farm prices. Then, after livestock prices at the farm jumped 7.1 percent in January, 9.0 percent in February and 9.3 percent in March, or 27.6 percent in three months, the control program was amended. By executive order, ceilings were placed in effect on red meat prices at the point of final sale. On March 29, 1973, the nation's livestock producers were first subjected to price ceilings that impinged on profits in livestock production.

The change in control programs was an initial try at establishing indirect control over farm meat prices.

[1] In describing price controls in this manner, E. J. Working added that the titles were not original with him. See: E. J. Working, "Price Control and the Wartime Pricing of Farm Product." *Journal of Farm Economics*, 26:110-120, Feb. 1944.

While the rationing program during World War II had limited effective demand and lowered prices accordingly, no direct controls had been established for farm level prices. In fact, no controls were placed on farm level prices in 1973, but since retail and wholesale prices were subject to ceilings, there was no way that farm prices could rise except by a reduction in marketing margins.

Since marketing margins had already been under control for almost two years, there was little "give" from this source. Just restraining margins as labor and other nonproduct costs rose was a considerable accomplishment. As retail prices pressed against ceilings in 1973, the share of the meat dollar going to middlemen dropped sharply from a year earlier for both beef and pork (Table 1). Marketing margins later returned to more normal relationships in the fourth quarter of 1973 after the Phase IV system of margin controls was implemented.

Table 1. MARKETING SHARE OF RETAIL BEEF AND PORK PRICES* (PERCENT)

	Beef		Pork	
Period	1972	1973	1972	1973
1st quarter	35.6	32.4	44.6	35.1
2nd quarter	34.5	31.6	44.7	37.1
3rd quarter	36.9	30.2	40.1	29.2
4th quarter	38.1	40.1	41.0	37.9

*Source: U.S. Dept. of Agriculture.

EFFECTS OF RECENT FARM PRICE CONTROLS

Had the full magnitude of domestic and foreign demand for feed commodities been evident in the early summer months of 1973, it is quite possible that the temporary ceiling placed on red meat prices would have been even more temporary. What was readily evident to all analysts was that ceilings on meat prices were feasible only if feed costs did not rise. The prospect for stable feed prices had seemed reasonable in the early spring months. Prices of feedstuffs had not increased between December 1972 and March 1973. The survey of farmers' intentions of expected plantings had shown sharp increases in spring crops, a move that was expected to place downward pressure on grain prices.

Offsetting the optimism for stable grain prices was the public attention focused on rising meat prices. The issue affected the expectations of consumers day after day. If public opinion polls were to be believed, their irritation with it exceeded any other public issue. The prospect looked promising on March 29 for relieving this public anxiety by placing controls on meat prices without any substantive impact on livestock production.

That optimism was quickly diminished by events in the ensuing months. The favorable outlook for feed prices was jolted when feed and hay prices rose 11 percent between April and May. And that was only the beginning. In June feed prices rose another 15 percent; in July the rate slowed to only 3 percent, but in August, the market exploded with a 26 percent increase in one month. At that point, feed costs for livestock were 67 percent above levels when ceilings had been imposed on livestock prices.

The reaction of livestock producers was predictable. Producers began to slow the replacement of animals on feed. Poultry producers often found it less costly to close down operations than to raise birds that had to be sold for prices set under the general price freeze of June 11. Poultry and egg producers were caught between processors with prices frozen at June 1-8 levels and feed prices that continued upward. The resulting profit squeeze caused livestock and poultry operations to reduce production.

The really substantial impact of price ceilings came in marketings of red meat animals. The March 29 ceilings on red meats were continued under the general price freeze of June 11. With retail meat prices frozen and prices of slaughter animals rising, processors found it unprofitable to buy slaughter animals. Some plants closed and many cut back production to minimize their losses.

The ramifications of interfering with market prices quickly began to spread. Retail food chains extensively examined the Economic Stabilization Program regulations for ways of offsetting the reduced supply of red meat. Two potential loopholes were found. By custom slaughtering of animals retail stores could pay livestock producers the going market prices for their animals. This procedure gave stores access to more meat, although the cost often resulted in sharply depressed margins.

A second loophole uncovered involved imported meats. Under the regulations, retailers could pay the higher prices necessary to compete with foreign buyers for supplies of imported meat. In quick order, American entrepreneurial ingenuity discovered that meat slaughtered in Canada could qualify as imported meat, even though the slaughtered animals came from the United States. Whether this process was widely

used or not is unclear.[2] What is clear is that businesses whose competitive positions were affected were both critical and vocal. This was especially true of slaughtering plants who could not afford to pay farmers as much as could either buyers for custom slaughter plants or buyers shipping animals to Canada. The inequality in competitive position imposed hardships on meat processing plants and affected the efficiency of their operation.

Distortions were also experienced in other food commodities. Grain millers suffered under the June 11 price freeze when their selling prices for flour were set at June 1-8 levels. Many had contracted sales of final products some months earlier and rising grain prices had already imposed tighter profit margins. As grain prices continued upward, losses began to occur. Nor were these losses unusual. The freeze on June 11 also set retail milk prices and effectively prevented any rise in farm milk prices to cover higher feed costs. Growers of vegetables saw their prices backed off to levels at the end of the 1972 growing season, a position where rising labor costs made harvesting of some vegetables unprofitable. In total, the price stabilization programs of 1973 caused serious distortions in the food industry.[3]

PRICE SUPPORTS AND PRICE CONTROLS

The United States has now had practical experience with two types of price stabilization programs for food and agriculture. Over a 40-year period, we have had stabilization programs that assisted farmers in maintaining their incomes and investments and that protected the nation against large fluctuations in the cost of food. In the majority of years after 1933, these programs were the only type of programs in effect. On only limited occasions has the upward pressure on farm and food prices become so intense that controls on food prices were placed in effect. All these occasions, World War II, the Korean Conflict, and the post-Vietnam war period, have caused substantial public reaction and some economic dislocations.

It is useful to recall, however, that public reaction (and economic dislocation) also occurred during periods when farm prices were resting on support levels. There were considerable public discussions and displeasure over the high cost of accumulating grain stocks in the 1950's. National news magazines decried the million dollars-a-day cost of storing grain. Later the substantial cost of paying farmers for letting land and other resources lay idle also was critically reviewed. The past year has been an "eye opener" in terms of potential costs for controlling excess agricultural capacity or for tight food supplies. The cost of taking land out of production was reduced in 1973 by about $1.4 billion as total set-aside acres declined sharply. The cost of operating storage programs also was reduced as total government stocks of grain were nearly eliminated. The cost of consumer food bills, however, went up sharply, rising $14 billion in a single year. This rise came despite government efforts to increase food supplies through the release of almost all government set-aside acres, the suspension of restrictions on red meat imports, the sharp enlargement of import quotas for dairy products, and the elimination of all subsidy programs for the export of farm products.

Where in past years the substantial budgetary costs of farm payments seemed large, the impact of scarce food supplies on consumer food budgets was found to be much larger in 1973. Clearly a situation was evident in which trade-offs existed between reducing government budget costs, improving the balance-of-payments deficit, and holding down the cost of consumer food budgets. In the short term there was no room for revising the tight food situation that existed. In the longer term, we as a nation may have developed a somewhat greater appreciation of the importance of agricultural abundance and the factors that are its foundation: research and technology, knowledge creation and dispersal, and government policies to encourage private initiative to improve efficiency in all phases of food production, marketing and retailing. It has taken a major crisis in food and energy to cause a reexamination of food transportation policies, of marketing order programs, of regulations on truckers, and of restrictions on imports of food. All crises have an immediate impact which is widely interpreted to represent near disaster and a somewhat longer-term impact that often brings real benefits to the nation. It is too early to evaluate which outcome, the short-term or the long-term, will be the most important aspect of the national food scare of 1973.

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[2] Canada imposed an import surtax on Nov. 3, 1973, of 3 cents per pound on imports of live cattle and 6 cents on processed beef, because large numbers of American cattle which had been held back during the price freeze were entering Canadian markets and driving down prices. The tax was ended on Feb. 10, 1974, as imports returned to normal.

[3] A more detailed outline of distortions in the food industry under price stabilization programs is given in the Cost of Living Council's Economic Stabilization Program Quarterly Reports covering the periods April 1, 1973, through June 30, 1973, and July 1, 1973, through Sept. 30, 1973.

Table 2. COSTS OF FOOD MANAGEMENT PROGRAMS IN THE UNITED STATES (BILLION DOLLARS)*

Year	Direct payments to farmers	Net outlays for other CCC programs[a]	Increase in total consumer food expenditures[b]	Total
1965	$2.5	$-0.3	$ 5.3	$ 7.5
1966	3.3	-0.9	6.2	8.6
1967	3.1	-0.1	1.9	4.9
1968	3.5	1.0	5.8	10.3
1969	3.8	1.0	4.4	9.2
1970	3.7	0.2	8.0	11.9
1971	3.1	0.4	5.4	8.9
1972	4.0	0.6	7.5	12.1
1973[c]	2.6	-0.7	14.0	15.9

*Source: U. S. Dept. of Agriculture

[a]Estimated for calendar year by averaging fiscal year data.
[b]Change in total consumer expenditures on food from previous year.
[c]Preliminary.

CONCLUSIONS

There was a period during 1973 when it seemed that no issue would ever be important enough to push food off the front pages of the nation's newspapers. Fortunately or unfortunately, that turned out not to be true. The energy shortage has at least an equal and immediate impact on consumers as the food shortage. In fact, the two are highly interconnected: If energy supplies continue to be tight, the effect first on fertilizer production and then on food production could quickly bring food scarcity back to the front pages of our national news media.

There is little likelihood that even tight food supplies will bring back controls on food prices of the type imposed during the summer months of 1973. The disruptions that occurred were surely not conducive to larger food production or to orderly marketings. The lesson from that experience received widespread reading, and public appreciation of its unfavorable effects has grown. It is also probable that as a result of those experiences, we view excess food production capacity and carryover stocks in a somewhat different light.

The need now is to reexamine our food policies for both the effects of overproduction and underproduction. The dominance of excess capacity has caused us in the past to disregard the potential for food scarcity. When that situation suddenly appeared, there was little understanding or appreciation of its serious nature and consequences. As the nation's trained corps of food resource analysts, we should have been better prepared to cope with this eventuality. The fact that we were not suggests that much remains to be done in the future. The need for new ideas and thoughts is evident. The question is how to overcome the intellectual barriers and move on to an examination of the increased uncertainty that now faces food and agriculture.