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COMPARATIVE EFFECT OF PRICE AND SUBSIDIES ON FOOD PRODUCTION

REMARKS BY SAM H. GREENE, SECY-MGR.
CALIFORNIA DAIRY COUNCIL

I really am not qualified to appear on this program. I am not an economist and never went to college. About all I can do is to offer some observations on the operation of the laws of supply and demand and the play and inter-play of human desires and satisfactions, accumulated over a moderately long period of adult life.

Let me say, to begin with, that I do not consider high prices and inflation to be synonymous terms. I doubt if high prices cause real inflation. I suspect that installment buying involving lengthy payment periods and easy, plentiful credit do contribute to inflation. My understanding of the word credit is that it is a fancy name for debt. I am confident that large purchase of government bonds by banks also materially contribute to inflation. It has not been my experience that price operates in a similar way.

As I understand it, price operates in much the same way as the old fashioned steelyard. Demand and supply get out of balance when either one exceeds the other. Price is the force which restores that balance. If supply exceeds demand, less price is required to maintain the balance, and vice versa. Price, to my mind, implies quid pro quo. I am unable to see any inflation in that.

The inflation and deflation which unhappily followed the other war did not result from the exchange of goods and services at high prices where the payments were made immediately or within the limits of short term credit. To be sure, farmers going into long term debt to buy land at high prices certainly contributed to inflation. As long as people use money as a medium of exchange to equalize desires and satisfactions, price will be the most effective stimulant to such equalization.

Things were fairly well in balance after this country recovered from the depression and until we began to feel the pressure of the present war. There were inequalities to be sure, but by and large, the country's economy was on a pretty even keel. Then, the onset of the war brought about a tremendous increase in demand for war materiel, goods, and services, labor and food. The federal government recognized the soundness of price as a production stimulant in obtaining ships, planes, trucks, tanks and other war materiel. Additional labor was obtained in the same way. Surprisingly, though, when the problem of increasing the production of food approached, government attempted to solve it by the exact opposite method. Farmers were asked to produce more but the processors and distributors of their produce were prohibited from assisting farmers by paying higher prices.

It seems to me that there is too little recognition on the part of government of the fact that production, processing and distribution are a three-horse team and that any change which is brought about in any one of these functions promptly produces effects good or bad upon the others.

Farmers were expected to meet the competition of war industry plants in the labor market, to get along with what machinery and equipment they had, and in

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the case of livestock growers, to pay increasingly high prices for feed, and at the same time to be satisfied with the prices they were receiving before things got out of balance. It is true that many items of food went up in price but that was because government imposed ceilings on only a few. Yet, with a very, very few exceptions prices of items which constitute the so-called cost of living did not advance at the same rate nor to as high a level as did wages.

My interest is in dairying and I feel sure that these remarks accurately reflect the attitude of the dairy industry and I feel rather confident they represent the attitude of all agriculture. The United States has not produced for many, many years any more milk and dairy products than would supply the domestic demand. In fact, in recent years, we have been slightly on the import side. This is also true as to the over-all food supply. The United States has had to supplement its own production with importations of certain items from other countries. The surpluses which accumulated in this country during the depression were not the result of over-production but of the lack of the wherewithal for maintaining consumption.

The requirements of our armed forces call for much greater quantities of dairy products per capita than the men customarily consume in peacetime. In addition, we have been supplying the allies with quantities of certain dairy products and will have to supply more.

To meet this situation, the civilian population has had to curtail its consumption of butter, cheese and powdered milk. The Secretary of Agriculture a year ago stated that if all requirements were to be met, milk production would have to reach 140 billion pounds. But in the same breath, he said he could not count upon a greater production than 122 billion pounds. So then the OPA said that the price of butter to the consumer should be reduced 5¢ per pound in order to check the rising cost of living. Since the civilian population cannot hope to obtain more than 12 pounds of butter per capita per year, this means a grand saving of 60¢ per year. This, of course, is not a saving anyway because the government is paying out through the creameries to the dairy farmer this 5¢ per pound from the tax payer's money. And this is not all, the administration of this operation is costly and so somebody is going to have to pay the 5¢ per pound plus the cost of administering the program. The government tries to make it appear that this is a subsidy to the farmer but since the farmer does not get a penny more for his butterfat than he got before the program was put into operation, I fail to see where he, the farmer, has been subsidized.

Subsidies are a tool of politics, a method employed by governments for many hundreds of years. It may be that financial contributions by government to an industry or the like in the public interest must be employed, but if and when that is done, it should be handled with more intelligence than is being displayed in the subsidy on butter. Farmers would not need to receive high prices if government would come to their aid in the field of wages and a very few other items. Additional price is required only when nothing is done in these other ways to assist the producer.

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I consider subsidies to be unfair and deceptive. I feel they contribute to evasion and law breaking. Price adjustments may not be always fair but at least they are open and above-board. I realize that in times like these, there must be some control of price but it seems to me it would be far more simple to exercise that control at the consumer level and set the limit high enough to enable the three-horse team to put forth its maximum effort to produce, process and distribute the increased quantities of food which the government program requires. If the consumer's money is not divided fairly enough among the three, the one who gets too much can't retain it anyhow. It will show on the income tax blank and Mr. Morgenthau can take it away. I doubt if there would be any greater amount of deception and law evasion than is going on right now and I feel sure the method could be policed with much greater success and less expense.

All these ideas are matters for you experts and if what I have said is of any value, it is that you have been given an insight into the way in which an ordinary dairyman looks upon the problem.

Berkeley, California June 24, 1943

PRICES VS. SUBSIDIES AS INCENTIVES TO PRODUCTION OF ESSENTIAL
PRODUCTS IN THE WAR EFFORT UNDER AN ANTI-INFLATION POLICY

A discussion of papers by Drs. G.W.Barr and R.B.Heflebower
by

Cruz Vonstrom

Dr. Heflebower's thesis in favor of subsidies as a major means of redirecting production during war, appears to stem in large part from his feeling that direct price decisions by government will always be upward and the result of such one-way price movements must contribute to upward price spiraling. At the moment I am not fully in accord with the basis for this conclusion -- that government cannot say "no".

To effectively wage a long war and make some plans for transition to peace, statesmanship must emerge that can on occasion say both "yes" and "no" which can lower prices as well as raise them.

The present agricultural price structure, which is not giving the best allocation of agricultural production, is out of line, in part by reason of government decision. For example, the several feed-livestock-dairy relationships. Will a government which does not make consistent decisions in the use of the price mechanism, do so with subsidies? Possibly -- but I feel that the dynamics of war, even with a constant price level, will bring tensions beyond the facilities of subsidy administration. If so, then direct price adjustments should not be relegated to a minor role.

Now regarding subsidies, expenditure by government to attain given objectives is an old device. There appears no reason why subsidies should not be used in the present situation, presumably with advances in objectives and techniques drawn from past experience. Particularly in getting more rapid production increases in some of the more staple food crops, a subsidy for the acreage increases, would give large savings to the consumer.

The California and Arizona people present will appreciate that no subsidy was needed to stimulate carrot production. Onion production, though exposed to the same general conditions, went down. Certainly there is a price which would stimulate onion production, but I suspect that a well directed subsidy would be both satisfactory to the farmers and be of a saving to consumers. Undoubtedly the agricultural price structure has a number of places where well directed subsidies can be easily administered to achieve the desired production shift.

Turning now to Dr. Barr's paper, I would agree with him to this extent, that much more direction should be given to production by price. Dr. Barr suggests maximum and minimum regulation of prices but the issues become specific only when we know the agricultural price level which is favored and its relation to the present cost of living indexes. Dr. Heflebower would hold the line on the agricultural price level and Dr. Barr,

I suspect, would give the current agricultural price level some more leeway. Both speakers apparently feel that additional income is necessary to agriculture. But neither one objectively analyzes the current agricultural income situation.

Dr. Heflebower mentions land value increases. A recent Department release tells of rapid land value increases which will bear watching in relation to agricultural prices. In the interval between World War I and II, this group spent a good share of its time on problems which arose in large part from too rapid a rise in the agricultural price level. We should bring all that experience to bear on current policy.

Farmers generally have very vexatious production problems along the line of machinery, repairs, supplies and labor. Higher prices would not solve some of these matters and in some ways would aggravate the labor situation.

If we could apply objective income measures, I suspect we would find a pretty general satisfaction with the total agricultural income in the last year. On some commodities the prices of last year are now too low -- on others, the prices are still at very favorable levels.

I suspect that a total agricultural income continuing at essentially the same level would turn out quite satisfactory provided the inequities between commodities were adjusted and considerable improvement comes in the external relationships to which farmers must adjust. This assumes, of course, that the "price line" will hold on the other segments of the economy.

Dr. Barr presumably feels that if agricultural prices were given some more leeway, agricultural production would soon catch up with demand. With carrots, yes. But the present fruit price structure illustrates the extreme example where production cannot react to prices within the possible time limits necessary for inflation control.

Both papers suggest social-political aspects in connection with the significance of holding the present food price level. We are -- and rightfully so -- dealing with policy in the process of formation, and economists must recognize these other aspects and be prepared to advise on compromise positions.

In summary they, the issues are not black vs. white -- prices vs. subsidies but rather, in what specific instances are direct price changes best -- in what specific instances are subsidies best.