



MARVIN L. McLAIN, DIRECTOR, GRAIN DIVISION,
COMMODITY STABILIZATION SERVICE

Marvin L. McLain, head of the grain branch, Commodity Stabilization Service, was first speaker at the Friday afternoon session. Mr. McLain has had wide experience in agriculture as a farm owner, businessman and government administrator. During the past year he has travelled extensively throughout grain producing areas, discussing industry problems with numerous business and educational leaders. He is one of the nation's best informed men on matters pertaining to grain marketing.

THE EFFECT OF GOVERNMENT FARM PRICE SUPPORT
PROGRAMS ON COMMODITY MARKETING

I deeply appreciate the invitation to speak before this 7th Annual Symposium on Commodity Marketing and the Public Interest. The subject assigned to me for discussion is "The Effect of Government Price Support Programs on Commodity Marketing".

The subject is a difficult one to discuss from the standpoint of Government, particularly at a time when economic controversies about the place and function of Government programs for agriculture have become political issues in the development of new legislation. The problem of agricultural price supports with all its implications upon producers, handlers, processors, and the consuming public, has become one of the most important issues confronting us today, and probably one of the least understood.

It would not only be difficult, but inconclusive to review and appraise the effects of agricultural support programs unrelated to their objectives, in the light of which the accomplishments of these programs must be judged.

Although we have had more than 20 years of experience with agricultural price programs, I know of no comprehensive study that has been made of the effects of these programs upon farm prices, farm income, marketing agencies, consumers, and other groups. The studies that have been made largely deal with the impact of these programs upon acreage, production, and supplies. Since the objectives of these programs have not always been the same, their effects would have to be determined and measured in terms of the objectives sought at the time of their operation.

In view of these difficulties, I shall confine my statements primarily to a brief review of the historical development of Government price programs for agriculture and their accomplishments, with some conclusions on their impact upon marketing, so we may better understand how we got where we are now. Before reviewing these programs and their accomplishments, perhaps it is appropriate to give some attention first to the reasons for having Government farm price programs at all.

Although few people advocate a policy of complete "laissez faire" in which the Government would take no responsibility for economic matters, the idea of leaving agricultural prices completely to free price competition has some proponents among business leaders as well as economists. Only free market prices, it is argued, continually adjust consumption and production to each other. And since free market prices vary inversely with production, they assure fairly stable income to farmers insofar as variations in production are concerned. This group takes the position that any attempts to set prices at some level other than they would seek if they were left alone, is bound to misdirect, impede, or accelerate production, the flow to market, and consumption in uneconomic directions. Prices should, it is argued, be at levels that bring forth the supplies that the markets will absorb.

There is apparently but little evidence in the realities of agricultural price and production characteristics to establish the general validity of these arguments. The mere fact that reliance on free market prices has in the past proved disastrous to farmers has been responsible for the development of measures designed to protect farmers against the operation of entirely free, competitive markets in an economy where the wages of labor and the prices of the goods farmers

buy, have become progressively less responsive to supply and demand changes.

Agricultural production possesses certain distinct characteristics which set it off from industrial production. The most obvious difference between agriculture and industry is the dependence of agriculture upon the whims of nature. The yield of crops varies considerably from year to year due to uncontrollable factors, such as weather, insects, and disease. Variations in the size of our annual crops depend far more on the yield per acre than on the amount of acreage planted. This leads to conditions of great variability and uncertainty of output. Since demand for most agricultural products is relatively inelastic, the appearance of a small surplus has a disproportionately depressing effect on prices received by producers. Thus, farm income may drop sharply even under conditions of stable demand because of factors of production over which farmers have no control.

Agricultural prices, also, possess distinct characteristics which set agriculture off from industry. In periods of general price declines, prices received by farmers decline faster and farther than the prices of goods farmers buy. This unequal liquidation of prices, in turn, affects the non-agricultural segments of our economy, since farmers are unable to make their usual purchases of manufactured goods. As a result, non-agricultural markets contract further.

Industry quickly adjusts itself to declining prices by reducing production. This eliminates a large part of the expenses, such as labor, power, and raw materials. The burden of supporting the unemployed labor is shifted to society. In agriculture it is not only more difficult to adjust production to prices, but also less advantageous than in industry. In the great majority of agricultural products, the costs which vary directly with the volume of production are smaller than the

costs which are independent of the volume of production. In periods of declining prices it may, therefore, be more profitable to maintain the volume of production than to reduce it.

In 1929, the volume of industrial production was higher than in any previous year of record. But industrial production in the following three years of declining prices was reduced at a rapid rate, so that production in 1932 was only about one-half as large as in 1929. In sharp contrast to the decline in production of factory goods was the relatively constant output of farm products. Total farm production in 1932 was only 3 per cent less than in 1929. These differences in production behavior between industry and agriculture were associated with contrary differences in price behavior. Between 1929 and 1932 wholesale prices of farm products were reduced by more than one-half, while the decline in industrial prices was less than one-fourth.

Few would deny that the Government acted in the general public interest to come to the assistance of farmers in these circumstances. The deepening of the agricultural depression and its final development into a major factor in the general economic collapse, resulted in the Agricultural Adjustment Act of 1933, the first legislation aimed at raising the prices of basic farm commodities by reducing their output. The price objective was to establish the same ratio between the prices farmers received and the prices they paid as had obtained in the 1909-14 period. This ratio was called "parity".

The basis of the programs operated under this legislation from 1933 through 1935 was a voluntary contract between the Government and each cooperating producer to regulate acreage or production so as to provide for domestic needs, adequate reserves, and any likely export demands. There was widespread producer

participation in these programs. In the case of wheat, in 1933 about 51 million acres, or 78 per cent, of the total wheat acreage of the 1930-32 base period were brought under controls. Growers received payments equal to the difference between the farm price and the parity price on the domestically consumed portion of their crops, and these payments and the administrative expenses of the programs were paid out of funds collected in processing taxes.

Although the effectiveness of these programs in bringing about needed readjustments cannot be questioned, their effects on production, prices, and producer incomes are difficult to separate from the effects of the 1934 drought and the general improvement in business conditions which developed in this three-year period. In the case of wheat, cash income to producers, including adjustment payments, more than doubled between 1932 and 1936. Though the need for Government action to come to the rescue of the farm commodity markets was widely recognized in the midst of the depression, there was considerable criticism of the adjustment programs carried out under the Act of 1933. This criticism, however, was largely directed towards the more drastic price-raising measures employed in the first year of operation, which included the actual destruction of growing crops and young livestock.

On January 6, 1936, the Supreme Court declared the processing-tax-financed production control activities carried on under the Act of 1933 as unconstitutional. This decision led to immediate action by the Congress to protect farmers against a sudden stoppage of adjustment programs. The provisions of the Act of 1933 which were declared unconstitutional were replaced by an amendment to the Soil Conservation and Domestic Allotment Act, enacted on February 26, 1936.

Under this Act, for which funds were appropriated out of general revenue, emphasis was still placed on increasing agricultural income, but the increase was sought primarily through payments for the adoption of land uses and farm practices which would conserve and build up soil fertility, instead of production or marketing adjustments. This meant that producers could earn payments out of general United States Treasury funds for shifting from such soil-depleting crops as cotton, corn, wheat, tobacco, and rice to such soil-conserving crops as grassland and legumes, and for carrying out other positive measures of soil conservation, such as strip cropping and terracing.

As under the early adjustment programs, farmers received cash payments for voluntarily adjusting the acreage of basic soil-depleting crops, but the conservation program permitted producers greater latitude in determining the crops and the manner of adjustment. This made the program more flexible in its adaptation to individual farm conditions but, at the same time, it made the program incapable of affecting needed adjustments in the total output of any particular crop. The fact that wheat was considered a soil-depleting crop along with such crops as barley, oats, and grain sorghums, while special classifications were made and allotments set for cotton, tobacco, peanuts, sugar, rice, flaxseed, and, in 1937, for corn in the commercial corn-producing area, caused many farmers who were in position to do so to decrease their plantings of those crops and increase their plantings of wheat. As a result, undesired production shifts developed, and in 1937 and 1938 wheat acreage had increased to the largest in history; and with favorable growing seasons in both 1937 and 1938, supplies of wheat accumulated to excessive proportions, demonstrating the ineffectiveness of the program. In August 1938, wheat prices received by farmers dropped to 51 cents a bushel.

On February 16, 1938, the Agricultural Adjustment Act of 1938 was enacted, combining the production adjustment features of the Act of 1933 with the soil conservation features of the Act of 1936. The development and enactment of this legislation was based on the recognition that the adjustment value of the emergency programs initiated in 1933 was obscured by the great droughts of 1934 and 1936, which in themselves affected acreage and marketings of crops more than planned under the programs. On the other hand, the unusually favorable growing conditions in 1937 and 1938 revealed the inadequacy of the conservation approach alone. A broader program based on the maintenance of larger reserve supplies than farmers and the trade found necessary or advantageous to carry, seemed advisable if the problem of both surpluses and droughts were to be met. The idea of an ever-normal granary clearly served as the starting point for the 1938 legislation, the first comprehensive statute dealing with agricultural price supports as a permanent policy.

The declared policy of the Act of 1938 was to assist farmers, insofar as practicable, to obtain parity prices and parity incomes for the basic agricultural commodities through the encouragement of soil-building and soil-conserving crops and practices, and through storage of reserve supplies, loans, and marketing quotas. The specific methods provided to effectuate this policy were (1) acreage allotments and marketing quotas; (2) crop loans to cooperating producers, ranging from not less than 52 per cent to not more than 75 per cent of parity, depending upon the total supply in relation to requirements; (3) conservation payments; and (4) crop insurance. Price supports for the basic agricultural commodities were, for the first time, made mandatory.

The year 1939 marked the first full year of program operations under this legislation. Although price supports to producers were conditioned on compliance

with acreage allotments and, when necessary, marketing quotas were imposed to enforce compliance, supplies of wheat and other basic crops continued substantially in excess of domestic and export requirements, largely because of the attainment of ever-increasing yields resulting from producers' efforts towards intensifying production on the reduced acreage. In 1940, our carryover stocks of corn had increased to nearly 700 million bushels, and stocks of wheat increased to relatively still larger proportions. With the Government coming into possession and ownership of nearly three-fourths of the carryover stocks, the impact of agricultural adjustment programs upon marketings asserted itself in measurable terms.

Although we entered World War II with abundant supplies of grain, it soon became apparent that the requirements of war demanded not only a larger volume but a different pattern of agricultural production. In January, 1941, the support prices for the basic commodities were raised to a mandatory 85 per cent of parity, and in July of the same year the so-called "Steagall Amendment" to the Act of 1938 was passed, extending price support at not less than 85 per cent of parity to commodities other than basic for which increased production was requested by the Secretary. In October, 1942, mandatory price supports for the basic commodities were raised to 90 per cent of parity (92 1/2 per cent for cotton), and price supports for the "Steagall" commodities were increased to not less than 90 per cent of parity.

Farmers were urged to increase plantings of such crops as flaxseed, dry edible beans, soybeans, and dry field peas, and a flexible pattern of support rates, ranging from the legal minimum of 90 per cent of parity to as high as 180 per cent of parity or higher were made available, depending on the urgency of requirements

to be met by increased production. During the period of price controls, subsidy payments were extensively used in preference to higher price supports when increased production incentives were desired and it was a policy to hold prices under the OPA ceilings. The Steagall Amendment, which was scheduled to expire two years after the war had been declared ended, was clearly designed to encourage a large output of the farm products needed in the war effort and to protect producers against sharp drops in prices following the termination of hostilities.

Although the high-level price supports were, with few exceptions, not called into play to support prices during the war, (which generally were maintained well above the loan rates by the strength of market demands), the level and pattern of price supports and incentive payments proved to be highly effective under those wartime conditions in inducing farmers to use the resources of production so as to obtain maximum output of the commodities most urgently needed. Farmers readily responded with crop shifts within a virtually constant acreage to adjust their output to the changed pattern of needs.

Despite the fact that overseas demand for most farm commodities continued at high levels and, in the case of wheat increased to unprecedented proportions in the postwar period, it soon became apparent that the greatly expanded production of some commodities had extended itself into a period of shrinking market outlets. Repeated extension of the wartime price supports and retention of the unrealistic parity concept based on price relationships which existed some 40 years ago, postponed the reconversion of agriculture to normal markets and resulted in progressive maladjustments between production, supplies, and requirements. High-level unrestrained production was encouraged in the face of dwindling exports, and the surpluses produced for non-existent markets were

unloaded upon Government at wartime price supports.

This brings us up to the present time when we are confronted with the largest surplus accumulation of farm commodities in our nation's history. Although stringent acreage and marketing controls have been imposed, and conditions of drought have materially reduced this year's production prospects below earlier estimates, surpluses continue to accumulate.

The basic legislation under which present production adjustment and price support programs are operated is still the Agricultural Adjustment Act of 1938, as amended by the Agricultural Act of 1949 which superseded the price support provisions of previous legislation and extended mandatory 90 per cent of parity price supports to the 1954 crops of the basic commodities.

Last month, the Agricultural Act of 1954 was enacted. Under this legislation the mandatory price supports at 90 per cent of parity now in effect for the six basic commodities will be allowed to expire with the 1954 crops, and flexible price supports, ranging from 90 per cent to 82 1/2 per cent of parity -- the percentage depending upon the supply -- will go into effect for the 1955 crops of the basic commodities. The Act, in effect, provides for a transition from the rigid 90 per cent of parity price supports now in effect to the 90 to 75 per cent range of flexible price supports provided in the Agricultural Act of 1949 which were scheduled to become effective next year. It also allows the modernized parity formula to go into effect on a gradual basis in 1956.

The Act further provides for the setting aside of 2 1/2 billion dollars of commodities acquired by the Commodity Credit Corporation so as to first give farmers an opportunity to start operating without the handicap of the large accumulated surpluses. For wheat, a set-aside of from 400 to 500 million bushels is

provided to be excluded from the computation of carryover for the purpose of determining the level of price support. However, the setting aside of as much as 500 million bushels would still be ineffective in raising the level of price support for next year's crop of wheat above the minimum of 82 1/2 per cent of parity. This is in marked contrast with corn for which present indications point to the probability of price support for the 1955 crop at or close to the maximum of 90 per cent of parity provided by legislation, despite the fact that no set-aside is provided for corn.

The Agricultural Act of 1954 introduces into legislation for the first time the concept of a commercial wheat-producing area comparable to the legislative provisions in effect for corn. States having a wheat acreage allotment of 25,000 acres or less may be designated by the Secretary of Agriculture as outside the commercial wheat-producing area. In such States wheat farmers would receive price support at 75 per cent of the level of support in effect in the commercial area, without having to comply with acreage or marketing controls.

With an ever-increasing proportion of our major farm commodities placed under price support and the surpluses from one crop being piled on top of another, and carryover stocks largely carried under Government ownership, the programs operated under the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 have had far-reaching effects on handling, storing, and merchandising of grain. Large-scale Government storage operations have come to be accepted as a necessary concomitant of price supports, and the liberal availability of non-recourse crop loans has, in effect, relieved farmers of the necessity of being alert for sales possibilities and marketing their crops through normal competitive channels. The proportion of grain available to the private trade which historically has distributed

and utilized our grain crops, has been progressively reduced and the Government has become subjected to increasing criticism for interfering or competing with the private business.

I wish to emphasize that our present Administration is determined to utilize the normal and customary channels, facilities, and arrangements of private trade to the maximum extent practicable, in the operation of farm price support programs. The policies and programs recently initiated in disposing of out-of-condition Government-owned stocks of grain are but the first step in the direction of making possible increased participation of the private trade in the operation of Government price support programs. However, we must not take the position that the problems and difficulties attending the operation of the price support programs carried on under present legislation can be resolved merely by attempting to correct undesirable interference with private trade. Even if the methods and mechanics of price support programs could be changed so as to get the Government entirely out of the business of handling, storing, and merchandising farm commodities, the economic soundness of present programs would be far from established.

A considerable amount of serious thinking has been and continues to be directed towards the development of sound agricultural programs that involve a minimum of controls and call for a maximum display of initiative of enterprise on the part of producers. While there appears to be agreement on the broad aims of agricultural policy, much disagreement remains concerning the best methods of achievement.

In general, Government policy cannot be content alone with supporting farm prices by use of public funds. We have been concentrating too much on

price at the expense of maintaining adequate, stable outlets for the products of our soil at home and abroad. Price support programs can serve an important purpose in protecting farmers against the impacts of uncontrollable variations in production and short-term fluctuations in the general price level. But, they cannot indefinitely protect agriculture against the necessity of adjusting itself to the long-time forces of supply and demand.

The first essential of any sound program for agriculture must be the maintenance of adequate outlets for a high level of production. Success in maintaining high levels of employment in all sections of the economy will go a long way towards achieving this. However, a high level of industrial activity alone will not solve all of agriculture's major problems. Nor are there compelling reasons for the conclusion that there will be no more depressions.

Even under conditions of full employment, burdensome surpluses of some commodities will develop in the face of unsatisfied needs for others -- and these surpluses will likely be in food grains, the commodities for which domestic demand cannot be significantly increased through lower prices or other consumption incentives. Neither producers nor the consuming public will long tolerate programs that encourage the raising of surpluses which will have to be diverted into wasteful uses in the face of unsatisfied demands for other farm products which could be produced instead. The incentives to produce must reflect the demands of the markets in order to provide for the socially useful employment of our productive resources.

The second essential of a sound price support program for agriculture, therefore, is to provide farmers with incentives towards the balancing of production and consumption. Production goals have been used by previous administrations

to guide producers by providing them with a forward-working base of operation. This approach, however, has proved to be ineffective for a number of reasons, principally because of the inconsistency of the goals with the assured levels of price support and the small-scale, individualistic nature of agricultural production.

Production goal programs, in fact, frequently resulted in producer actions quite different from those desired. For instance, a forecast for lower prices for a given commodity and the recommendation to reduce production encouraged individual producers to increase production in the anticipation that other producers would act in conformity with the goals program and thus bring about favorable market conditions. With the individual farmers attempting to do the opposite of what they believe the other producers are planning, goal programs, like marketing agreement and acreage allotment programs which are not enforced by orders or marketing quotas, respectively, may defeat their purpose. And the stringent controls necessary to make these programs effective -- though unavoidable under conditions of extreme unbalance -- run counter to the deep-seated feelings of our country and farmers themselves.

Attempts to maintain prices of crops produced in excess of available markets at uneconomic levels for extended periods through withholding the surpluses which cannot be moved into consumption at the support levels not only are, as our experience with the programs of the last 20 years illustrates, unworkable, but in diametric opposition to a national policy of full and efficient use of our resources of production. Although the soundness of programs aimed solely at the attainment of fixed price objectives must be seriously questioned, there is a good deal to be said in favor of programs designed to stabilize supplies against variations in crop yields, if it is found that the reserve supplies which farmers and

the trade are willing to carry over from one crop to the next are inadequate to perform this function.

The idea of an ever-normal granary is based on the theory that the economically sound operation of price supports could be insured by the Government's absorbing the yearly surpluses with the view to releasing them in years of short crops. Unfortunately, an ever-normal granary program cannot be consistently operated in this manner. Nature has a habit of producing large crops over successive years, and intermittent crop failures, rarely occurring in succession, cannot be depended upon to restore a balance; and incidents of war cannot be expected to continue to provide us with the unusual markets needed from time to time to absorb the accumulating surpluses.

The proponents of high-level, rigid price supports maintain that needed production adjustments can be effected by reducing acreage only when producers feel confident that they will obtain higher prices because of the reduction in acreage. It is obvious, however, that high price supports maintained at the expense of volume of production, with controls extended to the acreage taken out of production, provide no improvement in producers' income. The fact that wheat producers have again voted to accept marketing quotas on the 1955 crop does not signify farmers' preference of high-unit returns at the expense of volume of production over high-level production at the expense of unit-returns. Marketing quotas are accepted by producers merely to escape the alternative of a reduction in the price support to 50 per cent of parity, as the means of adjusting supplies to markets.

Under the legislation now in effect, producers have no choice of production and price policies. Acreage allotments, unless dispensed with because of conditions of national emergency, are an integral and inseparable part of price

supports, and the producer has no alternative other than to receive high-level price support at the expense of volume of production or receive no price protection whatsoever in the event that he elects to ignore his individual acreage allotment. Since under these alternatives the operations of non-cooperating producers tend to be expanded as long as windfall benefits can be derived from non-cooperation, the more coercive device of marketing quotas must be resorted to, to prevent the price support programs from collapsing under their progressive ineffectiveness in maintaining market prices at or close to the levels of support.

In defending high-level, rigid price supports coupled with stringent acreage and marketing controls, attention has been called to the production, consumption, and price characteristics of wheat. Lowering of price supports to 85, 80, or 75 per cent of parity, it is argued, would not result in any increase in domestic consumption of wheat for food; it would not significantly increase the feeding of wheat nor bring about larger exports; and it would not induce producers to reduce acreage. Assuming that these contentions are essentially correct, they would still be far from justifying making the same level of price support available regardless of volume of production. It is difficult to see how the same unit-returns can be expected from a crop which, because of the materialization of high yields, turned out to be larger than anticipated on the basis of normal yields. Even if price supports were to be lowered by the same percentage as the increase in yield had increased production -- which would be greater support price flexibility than suggested in any legislative proposal -- the total income of producers will still be the same.

In the case of corn, where lower prices are a great stimulant to increased consumption, rigid price supports unrelated to supply directly hinder rather than help the adjustments needed to maintain a balance. In the case of dairy products,

price is the only controllable factor regulating production and consumption, and the basic requirement to a workable system of price support is that it be geared to quickly reflect fluctuations in supply and demand. Rigid price supports have had a direct part in expanding dairy cattle in areas producing milk for butter manufacture at the time when surplus stocks of butter have been accumulating under Government ownership.

It is extremely important to the successful operation of Government price programs for agriculture that the fundamental role of prices remains a functional one. Instead of saying to farmers, "You must not produce more than the quantity for which 90 per cent of parity can be made available, else forfeit all rights to price support", the Government should be saying, "This is the level of production which can be supported at 90 per cent of parity. If production and market conditions are such that you find it profitable to produce more than this quantity, you are free to do so at prices sufficiently lower to move, within the limits of potential demand, the larger supplies into consumption". Changing prices are necessary if farmers are to produce the commodities which people want and are willing to pay for, and if these commodities are to be brought to the right places, at the right time, and are to be sold at prices that clear the market and make way for renewed production.

In an expanding economy, advancing technology, rising consumer incomes, population growth, and shifts in consumer preference continually modify the conditions affecting supply and demand. To guide production so as to encourage adjustments needed to maintain an efficient agriculture in such a progressing economy, prices received by farmers must be sufficiently flexible to respond to long-time changes in supply and demand. And changing prices will be accepted

by farmers, as they are accepted by every other group of producers in our economy, as the criterion by which they may know what their country wants them to produce.

Because of the different characteristics of the different farm products with respect to production, market outlets, storability, consumption, and prices, no simple and single program can be applied uniformly to the whole farm industry. While flexible price supports appear to be the most promising method of supporting prices of commodities for which domestic demand is relatively elastic, free market prices with a two-price system of marketing are considered by some to be more effective in dealing with price supports for wheat, rice, and other export commodities for which domestic demand is highly inelastic. It may well be found that acreage and marketing controls cannot be dispensed with for some commodities, while their use should be rejected for others. The concept of a commercial producing area, as embodied in present corn legislation, may perhaps be adaptable to other commodities. And marketing agreement programs may be considered as a promising approach to the problems of orderly marketing and of making price supports effective for commodities other than those to which marketing agreement legislation is now confined.

In the development of any such programs, farmers will still be forced to choose between two competing policies: Either to maintain high prices through restricting production or to maintain production through stimulating consumption at the expense of unit-returns. It is reasonably assured that farmers and the country as a whole, if the alternatives are clearly put, will choose the latter course. However, the fundamental approach to the adjustment problems cannot be detached from the inter-group conflict in which labor, capital, agriculture, and the other producing groups of our economy each are struggling for limitation of competition.

The philosophy of democracy demands that the interests of no one group shall be allowed to transcend the interests of the whole public. Agriculture can justly claim no vested interest in any special position in our economic system, but it must have full representation of its side of the economic issues of which it is a part.

Farmers are not only too numerous, but too individualistic to establish production and price policies. Each of the six million farmers in the United States exerts such an infinitesimal influence on market conditions for his crops that the maintenance of a production policy is virtually impossible without Government assistance. Whether the individual farmer produces a little more or a little less is inconsequential as far as price is concerned, but highly important to him individually. The individual farmer has nothing to do with the prices of the products he sells, nor can he tell in advance what his costs are going to be. What other producers in our economy would stay in business if their costs and selling prices and the quantity and quality of their products were determined entirely by factors over which they had no control?

The most effective means of protecting farm prices against the disproportionately severe effects of a decline in the general price level is the maintenance of adequate market outlets for a high level of farm production as a whole. Success in maintaining high levels of non-agricultural production and employment and a flourishing export trade will go a long way towards that end. No Government program can be as effective in improving the terms at which farmers exchange the products of their labor against the products and services of the other groups in our economy. It not only provides agricultural producers with an increasing volume of goods and services which can be absorbed in a rising standard

of economic life, but offers employment opportunities for surplus farm workers. Agriculture, therefore, has a direct and vital interest in national policies and programs that aim at maintaining high levels of industrial production and employment. Agriculture cannot create its own prosperity.

The fact remains that during business recessions, agricultural prices decline faster and farther than do prices in industry. Being thus penalized without their fault, farmers are entitled to governmental assistance. Such assistance should be in the form of programs which provide a measure of protection against the relatively greater instability of agricultural prices and incomes and thus give farmers assurance of economic security and opportunity comparable to those now enjoyed by other economic groups. The problem is how to develop such a program without abridging the farmers' right to produce, without piling up excessive supplies, without pricing products out of markets, and without a heavy and continuing drain on public funds.

I have covered a good deal of ground in these remarks, and have probably gone beyond my specific topic. This whole review, however, is an integral part of the background against which we must appraise price programs and their effect upon marketing. It is a complicated subject and one which invites widely differing -- and perfectly honest -- points of view and opinion. And it is apparent that a great deal more study and hard thinking about the economic inter-relationships of price support will be needed before we can be sure that the best possible programs are in effect.

We are making progress. The experience of the last 25 years or so has given us a great deal of valuable background information. We know much more now than we did a generation ago about what will or will not work out constructively.

Building on this knowledge, all friends of agriculture must go forward in the constant search for sound answers to our problems.

In summary, here are some general conclusions which may help guide further discussion:

Price support programs have inevitable impacts on marketing as well as production and consumption of agricultural products. They interfere with the normal functioning of price levels in relation to supply and demand. They hold varying percentages of a commodity out of the free channels of trade and commerce. Under certain circumstances, and if not handled wisely, they can encourage overproduction, cut marketing both at home and abroad, and actually add to the problems they are designed to help solve. And, of course, they can result in tremendous public cost.

On the other hand, I think we can all agree, that there is a definite place for price support and related farm programs. Millions of individual farmers cannot be expected to carry out certain adjustment and stabilization operations without governmental help. The past record of agricultural depressions, and their serious impact upon the rest of our national economy, provides ample evidence that programs of stabilizing farm income against the disproportionately severe effects of general price declines are in the national public interest.

The task immediately ahead is to continue to select and improve the best of past programs, adjusting and adapting them to changing conditions.

At the same time, we must profit by the mistakes of the past and move forward in the development of farm programs which will approximate as closely as possible the ideal objectives I have outlined. It will take continuous study and planning by our best minds, but I for one am optimistic enough to think that this country has the wisdom to find the right answers and the courage to take the right actions.

QUESTIONS-AND-ANSWERS SESSION

Professor S. F. Otteson, Presiding

CHAIRMAN OTTESON: Well, we are all set for our first question.

MR. HOLBROOK WORKING, Associate Director, Food Research Institute, Stanford University: I would like to start with a question that perhaps should not be addressed to Mr. McLain since I think it was interpolated out of his paper, but I was very much interested in his conclusion that the support program had not been responsible for the large increase in production and the large surpluses.

Now I would go along entirely with his argument that the high prices were largely the result of inflation in the case of some commodities, notably wheat. There was also a world shortage of wheat. I would agree that the decline in prices is going to be blamed, more or less improperly, on the drop in the support level; and yet I question whether one can conclude that the support program was not in a large degree responsible for the big increase in production. For this reason: The studies of so-called "elasticity of supply" -- statistical studies that relate price in one year to production acreage the next year show in general, prior to the support program, relatively little relation, quite a little in cotton, very little in wheat. Farmers actually did not take a high price in one year as a very clear indication that the price was going to be high the next year.

One may suspect then that if the price had been high because of shortage of wheat, for example, after the War, because of inflation, if the support level program had not been there as a sort of guarantee which in fact I think the farmers to some extent trusted more than it proved worthy of trust, they might not have expanded nearly so much as they did. Would you talk about that?

MR. McLAIN: I didn't mean to create the impression that they had no effect. What I am fearful of (and I probably overemphasized this), as I look down the road ahead, is that any move that we make to get away from high, rigid supports by lowering them or by getting flexibility in them, is going to be directly to blame for a declining level of actual prices for farmers. And the reason they are going to do that, is that they put too much into their thinking that price supports at ninety per cent of parity caused those high prices. I operate quite a lot of land myself, and I know that (maybe I am misled a little by my own thinking and my own operation) but I know that it was not high price supports that determined what I did and I am certain that lots of farmers will tell you the same thing.

Of course, you couldn't have a floor where we put it without having some effect, but I don't think it had the effect that a lot of people have been led to believe that it did and will be led to believe by the politicians as we move down the road ahead.

CHAIRMAN OTTESON: Thank you. Where is our next question from?

MR. EDMUND B. O'LEARY, Professor of Economics and Business, University of Dayton: Mr. McLain, isn't there a pattern in the agricultural industry now that is comparable to that in the industrial industry where the great bulk of the key products come from a limited number of areas or a limited number of producers? In other words, the agricultural industry is no longer an industry of a great number of small producers but the support -- the effort -- the emphasis comes from a limited number of producers? Consequently they are the ones that influence the Government in its policy?

MR. McLAIN: I wish I could tell you what does influence what happens. I had a little humorous thing happen on this present legislation that just the last Congress passed -- as you gentlemen well know, the House Committee and the

Senate Committee too went to great lengths to study this whole problem; and I think they did a good job. They even, as a lot of them pointed out, went to the "grass roots" to get their information and made a thorough study of it. And then they threw something affecting the "non-commercial wheat area" into the program at the last minute with very little study and with very little thought as to what effect it might have on the milling industry and other affected groups. Now if I and a few others had not been able to head it off, I think it might have gotten a lot further than it did and could have had a lot of repercussions. So I sometimes wonder where the influence for what we do, does come from. It is kind of hard to figure out sometimes.

Of course it is true, as you pointed out and the Census figures will confirm it again this time, I think, that our individual farm units are increasing in size and that fewer people are operating farms.

Personally, I am not objecting to that. I think that is progress. I think that after we have no place for them on farms, we will have to find a place for them elsewhere. But I think there are other places they could be put, probably, that would be a lot more to the advantage of everybody in this country rather than keeping them as inefficient farm operators.

I'm not one of those who worries -- although I think the family-sized farm is what we ought to continue to have -- but family-sized farms today are quite different than in the past, with our tractors and other things, quite different than it was a good many years ago, as you know. I think it is just progress when we are moving that way. Certainly we are not critical of industry when they do that.

MR. W. S. FARRIS, Extension Economist in Marketing, Purdue University:

Several times in your talk you mentioned "parity price" and "parity income" together.

I just wondered if you considered that if farmers got the parity price that they will by the same token achieve parity income?

MR. McLAIN: I don't think so necessarily, I think we spend entirely too much time (and I probably did in my paper), talking about parity. In the first place, we get all mixed up as to what parity actually means. Not that we don't understand it, but we try to relate it, as you know, back to a period of 1909-1914, and I think that is one thing we have made a lot of progress in in recent years. I know some of the most severe critics we have in the Midwest area where I know the leadership the best, at least, we have had a terrific change in thinking that we ought to get up and relate our thinking as far as parity is concerned up to something more recent.

And you know in Congress, of course, we have continually put off this change-over primarily because, in my opinion, it meant a reduction in price supports for wheat especially, and for corn, and for one or two other commodities. I think the important thing is that we -- (and this is one thing farm programs are not going to solve and is one from which I get quite a kick in talking to people like Mr. Meyers and others who have a different viewpoint than agriculturalists or government people do), but I think one of the big jobs we have ahead of us is keeping other prices in line. And how do you do that with labor moving away from the farm with increased wages at a time when farm prices are slipping back? That is an argument advanced by the manufacturers of automobiles and tractors and trucks and things that are used on the farm as a means of holding up prices for the things the farmers buy. But we are going to have to take a more serious look at this than we have in the past.

I think one of the worst things that happened in recent months was that the very day that Congress passed this so-called "flexible price support" bill in the last session, the bakers in the Western part of the United States announced a one to two cent price advance on a loaf of bread.

Now in some way I think we have got to keep these other prices in line, and how you do it with labor wanting what they want -- and far be it for me to say that they are getting too much -- but labor's wages go into the makeup of the things the farmers buy. Some farmers say: "Sure, we're willing to have some flexibility in our prices if you will just keep these other things from going up". I think that is one of the problems that all of us ought to be spending some effort on.

One of the reasons that the grocers or bakers give me is that the housewife demands smaller packaging; she wants things wrapped in cellophane; she wants it so she can buy just enough for one meal and of course, smaller packaged units mean higher price for the product. While the consumer still is paying the same price or more, the producer out here gets less. As we look ahead, I think we are going to have to "iron that out a little" or the politicians are going to see to it that we have some other regulations we do not want.

MR. JAMES J. MULLEN, Assistant Professor, Business Organization and Management, University of Nebraska: We have heard a considerable amount of discussion about bringing parity up to a more recent period; and I am wondering how it is possible to do that in view of the fact if we hook parity up to some recent period, that one in turn is linked to, by virtue of its previous parity, to the 1909 - 1914 period.

MR. McLAIN: And linked to some things that are not normal; that is another thing you ought to add to that. I agree with you that we cannot cling to

1909-1914 as a pattern. As you watch what progress has been made in the production of wheat, for instance, it is just stupid, in my opinion, to think that we would relate parity for wheat back to that condition. As far as I am concerned, there is nothing sacred about the present method of using parity. If we can work out a better one, I would be happy to see it, and I would imagine some good economist would be the one who works it out.

CHAIRMAN OTTESON: We have time for one more question.

MR. SOL SINCLAIR, Professor of Agricultural Economics, University of Manitoba: I don't know how I am going to frame this question because I haven't got the matter completely clear in my own mind, but I was just wondering whether this flexible support price program in the United States today is fitting in better or is going to fit in so as to be more compatible with the State Department's attitude towards foreign trade. This idea of "trade not aid", meeting foreign nations on more favorable level of trade to bring about a better feeling and more international commerce, is your price support program more compatible with that program?

MR. McLAIN: Well, of course the little flexibility we have got in this new law is not going to change things very much. The International Wheat Agreement comes under my division and I have spent some time in Canada and a little in London since I have been in the Department, but one of the things that concerns other countries is the fact that we subsidize what we ship abroad. I know as some of you do, that many of these same countries that are critical of what we are doing, are actually subsidizing their producers even to a greater extent than we are, particularly on wheat. The thing most of these other countries are afraid of is that we are going to launch a dumping policy that will disrupt what they are doing.

You must have read President Eisenhower's statement as of this morning about this billion dollar program in the next three years with 700 million of it to be used with other countries using their currency and 300 million of it by other methods. But the President very definitely indicated that there would be no dumping.

But let me tell you people that is a very difficult thing not to do because quite naturally what some countries would like to see done would be for us to hold our supplies and let them "play" with the market the way they want to. And our friendly neighbors on the North favor a holding attitude. They would much prefer to see us just sit here and hold our stuff and not move it. We cannot continue to do that. I don't think other countries ought to expect us to do it.

It is not going to be easy with the large supply of some of these things we have; butter is one and wheat is another. It is not going to be easy to make any progress towards moving these supplies into world markets without some retaliation or repercussions from them because they just would rather that we didn't interfere with what they are doing.

CHAIRMAN OTTESON: Thank you very much, Mr. McLain.