What Price For Farm Products in Canada?

By G. L. Burton

THERE is probably no aspect of government policy in Canada today which is as controversial as that of pricing farm products. Nor are the products of any industry, other than public utilities, so closely subject to government control as are those of agriculture. Canada has fallen in with the world-wide trend away from an economy in which the prices of farm products are determined directly by the forces of demand and supply in an open market in favor of an economy in which the prices of some major farm products at least are controlled by government. As might be expected, this transition is characterized by a good deal of uncertainty and confusion. Farm organizations are not satisfied with the automatic and impersonal determination of prices for their products in an open market and, as yet, the policy makers have not developed or accepted any well thought-out and consistent philosophy of control over farm prices.

Origin and Methods of Price Control

Although the present structure of agricultural prices has grown directly out of that prevailing during the war, the control of agricultural prices in Canada did not begin with World War II. Earlier governmental controls over the prices of farm products were limited to two commodities — wheat and fluid milk. The final price of wheat to the farmer was first fixed by the Board of Grain Supervisors for the crops of 1917 and 1918. Minimum prices to the producer were subsequently set by the first Canadian Wheat Board of 1919 and by the second Canadian Wheat Board in the years following 1935. The price of fluid milk has been fixed by provincial milk control boards since early in the decade of the thirties. Notwithstanding these earlier experiments in fixing the prices of wheat and milk, most of the present methods of agricultural price control were developed during World War II.

The principal techniques which have been used in controlling farm product prices in Canada are fourfold: (a) Direct ceilings and floors—as applied to oats and barley in December, 1941 (b) Export embargoes on livestock, meats, grains and dairy products, coupled with an export licensing system for coarse grains (c) Forward export contracts with the United Kingdom at specified prices—as applied to bacon, beef, cheese and eggs (d) Fixed minimum or final prices paid to producers by a government purchasing monopoly such as the Canadian Wheat Board—as applied to wheat and flaxseed. In addition subsidies were paid by the Government in order to reduce the price of foodstuffs to consumers and to encourage a greater production of meat and dairy products. Nearly all direct ceilings and floors have now been abandoned; but the prices of the major farm products are still effectively controlled through the control of exports and by inter-governmental contracts between this country and the United Kingdom.

War Price Regulations

Prior to 1943 a minimum price for wheat was guaranteed to the farmer primarily as a means of changing the distribution of income in his favor. The Wheat Board guaranteed to the farmer in the Prairie Provinces a minimum price simply by offering to buy his wheat at this price whenever the market price was lower. Wheat acquired by the

EDITOR'S NOTE: G. L. Burton is Professor of Economics at Macdonald College, Que.

Board was offered for sale at "reasonable" prices and any deficits incurred were met out of the dominion treasury. This marketing machinery provided a method of transferring income from taxpayers to those farmers selling wheat. Incidentally the operations of the Board also provided an inconspicuous means of subsidizing the export of wheat in those years in which wheat was sold for export at prices below those paid to the domestic producer. Each crop was handled as a separate account and any surplus arising from the disposal of such a crop was prorated back as payments on participation certificates to those farmers delivering the grain. The Board was essentially a government sponsored "pool" in which the producer was guaranteed a minimum price with any deficits met by the taxpayer. This minimum price was usually fixed at or near the market price.

During the early war years price ceilings were placed on farm products, as on practically every other commodity, as a means of holding prices to consumers. At the same time farmers were encouraged to produce more dairy and meat products by either raising the price of the final product or lowering the price of goods used to produce these final products. Subsidies were paid on milk and hogs marketed, while drawbacks were allowed on the price of oats, barley and wheat purchased by farmers for livestock feed. Despite the fact that these subsidy payments were handled by the Department of Agriculture they were, in large measure, passed on from the farmer to the consumer. Consumers in Canada and the United Kingdom benefitted since they were enabled to buy larger quantities of the subsidized products than would otherwise have been available at the prices which they paid.

A fundamental change was made in the rules of the game in the fall of 1943. In September of that year the open market for cash wheat and features was closed and thereafter wheat was bought and sold by a government board with monopoly powers at prices determined by order-in-council. The farmer received, as before, an initial price together with a participation certificate. The difference was that the producer no longer had the option of selling his wheat on the open market. If he wished to deliver to a commercial elevator he must sell on the government's terms. Similarly the miller, exporter and feeder must pay the government's selling price. The most important single issue which this method of state trading raises is the method by which these buying and selling prices are to be determined. Government no longer had the benefit of an open market in Canada to provide a benchmark for price setting.

Effects on Exports

Although the market for farm products, other than wheat and flaxseed, was allowed to function, export contracts with the United Kingdom in effect fix a minimum and usually the actual price on the Canadian market. The domestic price approximates the export price since any amount of the commodity which the domestic market fails to take at the contract price is exported. Thus the contract price of wiltshire sides has determined the domestic price of pork products. If on the other hand the supply of the commodity available is not adequate to meet the domestic demand at the contract price the domestic price will exceed the export price and exports will be temporarily stopped. This occasionally happens with beef during periods of seasonally short supply. Indirectly, then, the floor and usually the actual prices of pork, beef, eggs and cheese are determined by government action.

An essential condition for the successful operation of these indirect methods of controlling prices on an open market in Canada has been the insulation of the Canadian agricultural economy from the substantially higher prices prevailing for livestock, meat, grains and dairy products in the United States. This insulation has

been achieved by placing export embargoes against these products. At such times as exports of oats and barley have been permitted to the higher priced American market they have gone out under export permits and the exporter required to pay an equalization fee equal to the approximate difference between the export and domestic price. These equalization fees have in turn been pooled and pro-rated back to those farmers in Canada delivering oats and barley. By controlling the exports of coarse grains, and also the prices of the meats and dairy products into which coarse grains are converted, the government, but none the less surely, controls the prices of oats and barley in Canada.

Other Effects of Price Control

The most obvious effect of agricultural price control in Canada is the influence which it has upon the distribution of income. Farm leaders, in an effort to support the philosophy and practice of political pricing and state trading, have been inclined to minimize the extent to which farm income has been diminished by the wheat contract with the United Kingdom.[1] Since the prices in this agreement have certainly been below the equilibrium price which would have prevailed in an open market, farmers' cash receipts from wheat sales have so far been lower than they would have been in the absence of such an agreement. Thus while pre-war measures of price control diverted income from taxpayers to farmers, post-war controls have diverted income from farmers to consumers and on a more substantial scale.

While overall price controls were in effect it was argued that, since farmers as consumers were receiving the benefit of ceilings on the goods which they bought, they could in all fairness be expected to accept ceilings on products which they themselves had for sale. Since controls on industrial products have now been removed this argument no longer stands. Canadian farmers are paying at least as high prices for the goods and services, other than land and labour, used in production as are American farmers.[2] Canadian farmers have not done as well relatively to other groups in the economy as have American farmers, or as well as they would have done had the same principles of price control been applied to the products of agriculture as to those of other industries.

The Canadian Government, not knowing at the time of negotiating the contract with the United Kingdom in 1946 whether wheat prices were likely to move up or down, "protected" growers by contracting to make future deliveries of large quantities of wheat at prices above a specified floor. The price for the first two years of the agreement was fixed at $1.55 per bushel for No. 3 Northern, in store Fort William. The price of comparable wheat at Minneapolis averaged about $2.35 and $2.80 per bushel, respectively, during these crop years.[3] Prices for the two subsequent crop years were to be negotiated and in determining them "regard is to be given to the extent to which the agreed price for the first two years falls below the world price for that period." No one in a position to know has, to the writer's knowledge, explained the intent of this clause. The $2.00 price fixed for the third year of the

1. Mr. H. H. Hannam in his presidential address to the 12th Annual Convention of the Canadian Federation of Agriculture meeting at Brockville, Ontario in January 1948 made the following statement: "Some spokesmen for interests who stand to gain if all negotiated marketing is discredited and discontinued have been contending that prairie wheat farmers have lost so many millions of dollars because of the Canada—U.K. wheat agreement. They naively, it seems, subtract the price per bushel paid by the Wheat Board from the world wheat price and multiply by the output of wheat from the prairies. It is a tribute to the intelligence and good judgment of the prairie farmer that he does not fall for such a bait."

2. The comparatively higher prices for farm land and labour in the United States reflect the higher dollar productivity of these factors in the American economy. The higher levels of land prices and farm wage rates are largely a result, rather than a cause, of the higher level of prices for farm products in the United States.

3. Average monthly price of No. 1 Heavy Dark Northern spring wheat at Minneapolis, August-July 1946-47 and August-March 1947-48.

contract will not prove high enough to offset any substantial part of the loss incurred during the first two years.

The development of a world shortage of wheat in relation to an unprecedented demand has enabled those exporting countries selling on a day to day basis, to secure prices much higher than those at which the Wheat Board has been selling to the United Kingdom. In effect our government in negotiating a contract in 1946 elected to accept for the Canadian farmer a more certain price for his wheat in preference to a less certain price which might have been either lower or higher than the contract price. As it has turned out the farmer would have received a substantially higher price had he been permitted to assume the risk. Given the benefit of hindsight we can now see that the government "hedged" too strongly on behalf of the wheat producer.

The point is frequently pressed that farmers are alone bearing the cost of a program which, although commendable, should be paid for by the people of Canada, i. e. the taxpayers as a whole. This argument is based upon the premise that the "fair price" to any group of producers is the equilibrium price in an open market. If this premise be granted the conclusion follows: Farmers have been receiving lower prices for their products than these products would have sold for had the present direct and indirect controls been removed. The direct beneficiaries of the controls on farm prices have been consumers in Canada and in the United Kingdom.

Implications of Price Stabilization

The agricultural industry has always proved extremely vulnerable to cyclical fluctuations in the level of prices and employment. During depressions farmers produce as much as ever while consumers' buying power is drastically reduced. As a result the prices of farm products fall to low levels. The prices of the industrial products which farmers buy are, by contrast, much more inflexible; industrial firms find their profits larger or their losses smaller if they produce and sell less at a higher price than if they attempt to maintain sales by drastically reducing prices. During periods of unemployment the real income of farm people drops even further than their money incomes because of this practice.

Skeptical of the ability of governments to overcome business cycles, farm organizations support administered price schemes in an effort to escape these cyclical fluctuations in price. Unable by itself to follow industry's lead of output restriction and price maintenance, agriculture tends to seek the help of government in levelling out the price of their products over the business cycle. Since government marketing monopolies, long term export contracts and international commodity agreements offer a means of lessening fluctuations in the prices of agricultural products, these devices have the enthusiastic support of most farmers.

Price stabilization implies the acceptance of lower than market prices when the latter are high in return for higher than market prices when the latter are low. The fact that Canadian farmers have accepted, with a minimum of complaint, substantially lower prices than they might have had indicates their willingness to subscribe to a measure of price stabilization.

The key decision under any scheme of price stabilization is the method by which prices are to be determined and maintained. So long as an open market exists the commodity may be permitted to move through commercial channels at the market price. The price to the farmer and hence his income may be raised by means of compensatory payments or direct subsidies tied to this market price. Such a means of price support permits the market to determine price. It does not, of course, determine the total amount of money to be paid to farmers or how this total shall be

allocated among the producers of different farm products.

Supporting farm prices is an indirect method of supporting farmers' income. Such a method of supporting farm income is open to criticism on the grounds that the farmers who receive the lion's share of such support payments are the large commercial farmers who often need them least. Direct payments based on the individual farmer's income escape this criticism but are apt to be regarded as "handouts" by farmers themselves.

Once the open market is closed, as it now is for wheat, the government must decide at what price wheat shall be bought and sold. Price must then be determined in the first instance by political decision rather than by the impersonal forces of supply and demand. Since the incomes of producers and consumers are very directly affected by price and since there is a conflict of interest not only between producer and consumer but among producers themselves the determination of price by political decision raises a very fundamental issue.[4]

This issue was brought to the fore in the recent exchange of correspondence begging the Honorable Mr. Howe and Premier Garson in connection with Bill 135 to amend the Canadian Board Act.[5] This amendment gave the Wheat Board the power to act as a monopoly marketing agency for oats and barley as well as wheat but is thought to require complementary provincial legislation to make it intra vires of the B.N.A. Act. In reply to Premier Garson's inquiry as to the basis upon which the government proposed to fix prices for these grains Mr. Howe replied "I might say that we look to the Canadian Federation of Agriculture to recommend prices for oats and barley,satisfactory to both producers and feeders."[6] This is surely explicit admission that the Wheat Board is intended to operate primarily in the interest of the farmer. Such a position seems untenable; it is equivalent to asking the Canadian Association of Manufacturers to recommend a price for steel which would be satisfactory to the producers and processors of steel.

The price system performs an essential function by informing producers of what products consumers want and are willing to buy. In this way prices serve to channel materials and services into the making or growing of these wanted products. Prices also serve to distribute incomes among the people who provide the materials and services necessary to the production of these commodities. If government steps in and fixes prices with a view to increasing the income of farmers or any other group it may distort the structure of prices in such a way as to encourage the production of more of some products than consumers want and less of others. Restriction of production then becomes necessary to prevent the accumulation of excessive stocks of the overpriced commodity. Such wasteful practices have no place in a hungry world.

Conclusion

The real choice which we must make is not between control or no control, as some critics of our agricultural policy would have us believe. The issue centers rather around the kind and degree of control which will benefit not only agriculture but the economy as a whole. The right kind of control will permit our agricultural industry to function more smoothly and hence more productively.

4. This conflict of interest among producers stems from the fact that some farmers "process" the final products of other farmers. Feeders in Eastern Canada in some years "import" 100 million bushels of feed grain from the Prairie Provinces. Eastern farmers like to buy as cheaply as possible; western farmers to sell as advantageously as possible. A "fair price", is likely to have a somewhat different meaning to each of these two groups of producers and the members of both groups vote!

5. Manitoba's Position on Oats and Barley Marketing Kings Printer for Manitoba, 1948.

6. Hon. C. D. Howe's reply to Premier Carson, ibid. p.8.

The prices of farm products often fluctuate greatly from year to year and sometimes from month to month. Such erratic variations cause farmers a great deal of uncertainty, since they cannot accurately anticipate the price for which their products will sell at the time they decide what to produce. Too frequently they produce too much of some products and too little of others. Government could do much to reduce this uncertainty by announcing an expected market price prior to breeding or planting time and guaranteeing to the farmer a floor price equal to a high percentage of this expected price. Forward prices present difficulties but these are not insurmountable. Moreover they do not require closed markets and government marketing monopolies.

Some fluctuations in prices arise from variations in supply attributable in turn to variations in yield. We can't control the weather but we can even out supply through storage operations. The most effective way of accomplishing this objective is probably for the government to buy at market prices and store a part of an above average crop and in years of short crops to make up the deficit by selling a part of the difference between the actual crop and an average crop. A compromise must be struck between complete stabilization of effective yield and costs of storage, but the market may be left to determine price.

Forward prices and storage programs will improve the efficiency of our grain and livestock farms by permitting greater price certainty and reducing one important cause of price fluctuations. Such devices will not eliminate business cycles. There is no substitute for a high level of employment with its accompanying strong demand for farm products. The achievement of this objective remains the best hope for farmers as for all other producers in our economy.

If we are not able to maintain full employment in Canada or if the export demand for our products falls to low levels it may well be necessary to support the income of farm people. Direct payments have many advantages; if they are not acceptable, compensatory payments to producers which are tied to price are a second choice. In any case the products should be permitted to move through market channels to consumers at equilibrium prices. The open market provides a function for which there is no known substitute—it directs productive resources to the making of those goods and services which consumers are willing to buy.

Controls then should be designed to improve the functioning of an open market rather than to replace it.

If the Canadian Wheat Board becomes the sole marketing agency for oats and barley, government must fix a price acceptable both to the producers of course grains and to the feeders of these grains. Since the interests of these two groups are divergent, the responsibility for fixing price becomes an unenviable one. The lack of any objective guides in determining price, once the market is closed, may in future cause our policy makers to be more willing to supplement rather than supplant the open market.