Federal Reserve Bank of Chicago - - Agricultural Letter

August 25, 1958

Number 470

"INSURANCE against disaster, not production incentives." Is this the new and proper role for farm price supports? The idea has been proposed off and on ever since the Government assumed important responsibility for the pricing of farm commodities. The Congress has recently taken a halting but significant step in that direction.

Of course, this is not the first time such action has been taken. In the Agricultural Act of 1948, for example, Congress provided for a gradual reduction of price supports in future years. But, usually, such authorizations have been revised upward before price support levels were affected very much.

The Agricultural Act adopted by the Congress and sent to the President this week includes the now familiar proposal authorizing the Secretary of Agriculture to provide price support for certain agricultural commodities at lower levels in future years. Specifically, lower price support floors are provided for corn, cotton and rice. Will these lower supports be utilized or will they, too, be revised upward before they become effective?

Corn growers have a choice, under the new Act, to be determined by referendum in December. One alternative is to continue acreage controls with price supports provided at a level not lower than 75 per cent of parity. The other would abolish acreage allotments altogether. In the latter case, price support would be available for all corn, at a level 10 per cent below the market average price for the preceding three years, but not below 65 per cent of parity. This would have provided support at $1.27 a bushel for the entire crop if the program were in effect this year.

By way of comparison, corn prices for the 1958 crop will be supported at $1.36 per bushel (77 per cent of parity) for corn grown in compliance with acreage allotments. Although the law now in effect does not require the Secretary of Agriculture to support "noncompliance corn," (grown on farms where the planted acreage exceeds the farm's allotment), it is expected that support will again be provided this year, possibly around $1.10 a bushel.

Cotton price support under the new Act is scheduled at 80 per cent of parity for the 1959 crop. It is at 81 per cent for the 1958 crop. The support floor would then drop 5 parity points a year to a minimum of 65 per cent of parity in 1962 and succeeding years. Also, the Act permits any farmer to plant up to 40 per cent more than his allotted acres without penalty and provides price support 15 parity points below the level set for those complying with allotments.

Over the years, cotton has lost ground to synthetic fibers and to producing areas outside the U. S. The new program is designed to help domestic producers compete more effectively for available markets.

Rice is scheduled for support cuts from the current 75 per cent of parity floor to 70 per cent in 1961 and 65 per cent in 1962 and thereafter.

The so-called "escalator clause" which requires price supports to be raised when surpluses are reduced is scrapped as a part of the move toward the objective of providing insurance against price collapse while minimizing the production incentive of price supports.

FOREIGN TRADE constitutes an especially knotty problem for price support schemes. Due in part to the support of domestic prices, about 40 per cent of U. S. agricultural exports in recent years have been under Government subsidy programs. In the case of bread grains, the proportion is about 70 per cent.

World market prices for a number of U. S. commodities continue well below domestic prices. It is estimated that in recent years export prices for cotton were a fifth lower than the domestic level; wheat, a fourth lower; butter and dry milk, over a third lower. If commodities are to flow into export, and it is highly important to many farmers that they do, domestic prices must be comparable with world market prices or the gap must be bridged with subsidies. However, a widespread use of export subsidies is viewed with disfavor by other countries and is costly to the U. S. Treasury.

THE GROWING EVIDENCE that reduced acreage does not necessarily reduce production and bring satisfactory prices is primarily responsible for Congress' reconsideration of price support levels. Other factors include the rising cost of disposing of agricultural surpluses and the possible resentment of consumer interests.

During the current session of Congress, a bill to freeze price props at the 1957 levels was vetoed by the President. This was followed by a so-called "omnibus bill" which eventually was rejected by the House. At that point, the National Grange commented editorially, and with a note of concern, "the vote may have marked . . . a turning point . . ." in farm policy. Depending upon the final outcome of the scheduled reductions of price supports for cotton, corn and rice, this may prove to have been a prophetic observation.

Research Department