

Hardship In The Thirties

The hardships suffered by agriculture after the Wall Street crash were blamed by farmers on their marketing arrangements. Although this diagnosis was almost certainly wrong their leaders decided that the solution lay in monopoly control of agricultural marketing.

The Answer—Legal Monopoly

1931 and 1933 saw the passing of the Agricultural Marketing Acts. The whole trouble was that the more farmers produced, the lower prices fell. The answer was the Agricultural Marketing Boards for a number of products, including potatoes. After a majority of producers had voted in favour of the Board, registration became compulsory for all who grew more than an acre of potatoes. Presumably in order to discourage enterprising newcomers, all those who took up potato growing after 1934 were fined £5 per acre.

How the Potato Marketing Board Works

The Potato Marketing Board has prospered noticeably since then. The basic aim of the Board is to regulate production in the interests of high prices, and so high incomes for its members. This, of course, has always been the traditional technique used by monopolies and monopolistic trade associations. Why it should be wrong for trade associations to indulge in such practices, but right for the Potato Marketing Board is a point hard to grasp. Basically, the Marketing Board claims that it operates in the public interest (as defined by the producers of potatoes).

The Guaranteed Price

Every year the farmers' representatives and the Ministry of Agriculture meet to decide the guaranteed level of prices to farmers for potatoes in the coming season. There are a number of possible methods of implementing this policy.

Deficiency Payments

If all else fails, the Government pays to the Marketing Board a sum representing the difference between the guaranteed price and the actual market price, but this gives the impression that taxpayers' money is being used to subsidise the farmers, so a number of other methods are preferred.

Keeping Out Imports

A necessary prop for the scheme is a method of ensuring that foreigners can not sell potatoes in Britain at prices lower than the British farmers wish. Imports are, therefore, subject to a duty which varies from £1 to £9 6s. 8d. per ton, depending upon the season of the year. Imports of potatoes are usually small. New potatoes may be freely imported on payment of the duty, provided they comply with plant health regulations. Main crop potatoes are imported only under licences when the home crop is insufficient to meet the needs of the market.

THE REFORM GROUP LOOKS AT THE POTATO MARKETING BOARD

Plough Them Under

J. ALLAN STEWART and DOUGLAS C. MASON

"No competitive market has ever charged tax payers several million pounds for depriving them of 1,712,000 tons of its products."

The Channel Islands

Farmers in the financially independent Channel Islands are not registered with the Board. Unfortunately for the Board the Islanders can import potatoes free into Britain at prices cheaper than the Board wishes. The Board has attempted to stop this undermining of its control of the market, so far unsuccessfully.

Acreage Restrictions

Apart from that irritating exception, the Board's control is complete. The acreage which farmers may devote to potatoes is determined by the Board. Farmers pay £3 per acre to the Board annually (likely to rise soon to £5). The control is of little value since fluctuations in supply are principally due to fluctuations in yield and not in acreage.

Punishing The Zealous

Farmers who attempt to furnish the housewife with more potatoes than the Board wishes are naturally subject to heavy penalties. For every acre used in excess of their allotted total, they must pay £10 to the Board. With the guaranteed price to the grower currently at £15 5s. per ton, this is obviously penal. The Board has disciplinary powers over the farmers who contravene its regulations. In 1964/65, twenty-three producers were fined £652 (apart from their additional acreage contributions of £1,739 5s.).

Quotas

The Board may vary the percentage of the allotted acreage which farmers may in fact use. The Board is currently anxious to make more use of this ingenious restrictive device, but official circles do not seem persuaded by the reasons.

Varying Riddle Sizes

To be sold for domestic consumption, potatoes must be able to stand on a riddle of a size prescribed by the Board. The Board may change the size of the riddle at any time. When it increases the size of the riddle more potatoes naturally fall through, and the amount available for the market is consequently reduced.

Market Intervention

All these methods aim to raise prices by lowering the supply. Also the Board may enter the market directly to jack up prices by buying potatoes itself.

The Board pays £1,000,000 every year into its Market Support Fund for this purpose. The Government contributes two-thirds of the cost of buying operations of which it approves. The Board uses discriminatory pricing to try to sell the potatoes acquired for stock for food or export. The rest are simply wasted.

Prices In Excess Of Guaranteed Prices

It might be thought that when prices rise above the guaranteed level as a result of its activities the Board would pay the full cost of the buying operations. Not a bit of it. The Board pays only one-third of the cost so long as the average market price does not exceed the guaranteed price by more than 5s. per ton. At higher prices, the Board pays the full cost of a varying basetonnage. Above this limit it pays only one-third of the cost of the surplus.

The Recent Record

The Board maintains that its activities procure orderly marketing, with stable prices, and that this benefits the consumer. The Board states that low prices are not in the interests of the consumers. The economic reasoning behind the view that fewer potatoes at higher prices are good for her may escape the housewife who is not blessed with the powers of intellectual ingenuity possessed by the Board. But does the Board with its immense powers, in reality achieve "orderly marketing" and stable prices for producers? The fact speak for themselves.

1960/61

The Board's efforts did not succeed in raising prices to the guaranteed level so the Government made a deficiency payment to the Board of £6,000,000, the equivalent of £1 5s. per ton.

1961/63

In both seasons production fell well short of demand. As a consequence, imports were authorised, but prices to the grower at above £18 per ton generally were still very much higher than the guaranteed price of £13 15s.

1963/64

In order to keep the prices from falling too low, the Board spent £1,000,000 in buying potatoes. It succeeded in driving up prices to an average of £15 per ton compared to a guaranteed price of £13 15s. The Board

in freely to bring prices back to a realistic level. The spur of competition would certainly stimulate growers to produce a higher quality product. At present there is little incentive to do this. Some farmers might produce too much in a year, others too little, but it is unlikely that the sum of their errors would be as costly as the policies of the monolithic Board have been. At least no competitive market has ever charged taxpayers several million pounds for depriving them of 1.7 million tons of its products.

The Beggar Gets His Loan

HENRY MEULEN

THE FINANCIAL TIMES headline 10th September, 1968 read: "Sterling Gets New Line of Defence But At A Price." The article then proceeded to state the price: "(1) To the extent that sterling balances are withdrawn and the standby credit is used, a deposit in London that might not have been called upon at all is exchanged for a debt that will have to be repaid by 1978; (2) The British Government has had to give sterling area countries an exchange guarantee for the bulk of their officially-held balances. This means that if there were another devaluation, those balances would be written up to maintain their dollar value."

Point (2) indicates the depth of our humiliation. No country that has hitherto devalued has felt itself called upon to compensate foreign holders of its currency; the rule was that anybody who holds a foreign currency does so at his own risk. Evidently our credit abroad has sunk so low that the sterling area countries are unwilling to hold pounds unless we guarantee them against loss. We are lucky that they did not demand that we guarantee the gold value of the balances instead of merely the dollar value. If, as seems likely, both the dollar and the pound will depreciate further in relation to gold, we shall be spared the heavy burden of paying compensation for that depreciation.

But how can we bear the humiliation of going cap in hand to small countries like Austria, Belgium, the Netherlands, Norway and Sweden, begging for consideration and for a loan, when the dignified alternative of a floating pound is available. A free and proud man does not go begging when he wants something; he either works harder, or he does without the object. When we have imported more than we have exported a floating rate for the pound would force this decision on all foreign traders. It would make imports dearer, thus compelling economy in consumption here, and our exports would become cheaper for the foreigner, inducing him to buy more from us, thus providing us with the incentive to work harder.

Against these manifest advantages of a floating rate, the only objection that is raised is that under floating rates foreign traders would not know what the future value of their currency would be. It is, of course, an inherent difficulty of a free market that it depends on demand and supply by free men, and under freedom the price ruling in the market represents not only the balancing of current payment demands against current supply of currency, but also a balance between the hopes and fears for the future among the traders in that market. Every price embodies a part of this speculation, and prices will vary according to whether the bulls or bears do the speculating. The values of currencies cannot be shielded from this sort of speculation. A government can fix the value of its currency at home; it cannot fix the value of a country's currency abroad. Nobody can fix the future value of a country's currency abroad. We try to fix the foreign value of the pound and the value of gold. But this compels us to restrict the supply of pounds at home whenever the balance of trade goes against us, and we call this providing the certainty of money.

The objection that floating rates would cause uncertainty would have more weight if the objectors could show that state control of the price of foreign currencies gives us more stability. Fixed exchange rates, however, merely shift the speculation from the money market to the politicians. And the result? For months everybody has wondered whether German politicians would up-value the mark. A few weeks ago the German excess of exports over imports became so great that people here were convinced that the mark would have to be up-valued, and there was a rush to buy marks. But such violent speculation could hardly ever occur under floating rates, where the rate would move daily by very small degrees.

Moreover, our opponents never seem to take into account the fact that when we continue to sell foreign



currency at a fixed rate to importers, there must arise frequent occasions when we run short of foreign currencies, and have to pay in gold. If this drain becomes serious, the government must raise our bank rate, squeezing the money supply to all buyers here, and we have now had a crisis bank rate for the longest period on record. This continued restriction of home credit prevents production here. I have yet to find a single objector to floating rates who faces this argument.