Maybe

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Introduction

In view of the very limited time available for preparation of this paper and for its presentation, my comments are restricted to the proposal to extend the Two Price Wheat Policy by substantially increasing the price of wheat for domestic human consumption. This limitation on scope must not be interpreted as a lack of concern or a lack of awareness on my part for other aspects of grain pricing, or of problems in processing, baking and distribution of cereal products in this country. In fact, a review of my work experience, research, publications, and general professional efforts would illustrate very clearly that I am concerned about many aspects of the market organization between farmers and consumers. In this regard, if this Committee or any other agency is interested in investigating these "other" areas I am certainly prepared and available to assist in such analysis. However, these areas are not the subject matter of this presentation.

This presentation includes the following five points on the proposal to increase the domestic price of wheat for human consumption:

1) the debate on domestic wheat pricing, including these Hearings, deflect scarce time, effort and resources away from efforts to resolve the real problems of grain farmers in Canada.
2) the proposal is ill-timed and makes a mockery of federal initiatives to achieve freer trade with the U.S.
3) increasing domestic wheat prices opens the door to allegations of dumping another Canadian product, and to retaliation.
4) the proposal is an inefficient form of taxation for transfering income to wheat farmers, and it is too selective.
5) increasing the domestic price of wheat is another form of regressive taxation applied to food.

My conclusion is that if wheat (grain?) farmers are to receive additional public support then:

1) that support ought to be provided out of general revenues; and
2) debate and effort must be redirected to returning international grain markets to more normal economic relationships.

This conclusion includes the need for Canadians to view the U.S. as one of the few nations with which we might cooperate to restore some semblance of order to the grain market rather than viewing our southern neighbours as the cause of the current problems.

The Basic Problem of Grain Prices.

The primary reason that Canadian (U.S. and Australian) grain farmers are in trouble today is the growth in subsidization and protectionism in major producing and consuming nations around the world. As a result of subsidies, market distortions, production incentives, trade barriers and levy systems world consumption is held down while production is encouraged -- all at extremely high cost to consumers and treasuries. As an aside, it is the centrally planned economies that are extracting most of the (consuming) benefits of the wasteful policies in the free world. That Canadians, with their overwhelming economic interest in reducing these wasteful mechanisms, would even consider implementing them here is very difficult to comprehend. This situation is even more difficult to comprehend when the amount of benefit generated is dwarfed by the financial problems which will be faced by Prairie farmers if conditions do not change.

It is my firm view that this proposal does not come to grips with the real problem of grain farmers. This situation is serious enough but there is a much more important side issue -- we are wasting limited and valuable time, energy and resources on a non solution when our limited resources should be used to develop a more sensible solution.

This Committee does not need to be reminded that the time and energy available to politicians and bureaucrats for resolving our economic problems is extremely scarce; farm organizations and other lobby groups face the same problems; indeed, even consulting economists have only so much time and energy to devote to particular problems.

This proposal is not an solution; it is, at best, another bandaid effort applied to another important farm problem -- a bandaid which has

a number of undesirable features. Most importantly, the process of considering the proposal gives the image that something is being done when, in fact, it would accomplish very little, and the process is wasting valuable time and effort which could much better be used in getting on with the task of resolving the basic problem. All of us, whatever side of the domestic pricing question we are on, must recogize this point because it affects us all in the same way -- we all have a common interest in the health and well-being of a basic and important Canadian industry.

Two Price Wheat and Free Trade.

If the domestic wheat price is raised significantly we will be faced by two options: increase trade barriers to prevent imports, especially from the U.S.; or, see domestic milling and baking decline substantially (including employment in these industries). The latter option would destroy the purpose for the price increase so, effectively, there is no alternative to increasing trade barriers as was done in the supply managed commodities. Some of these barriers already exist in cereal products but it appears that they are not strictly applied. Imports could not be overlooked under conditions of significant price increases in Canada at a time when U.S. prices are falling. The incentives to bring bread, buns, other bakery products, and pasta products in from the U.S. and elsewhere would increase. At the same time, exports would decline and probably disappear.

The Government of Canada claims to be pursuing an economic initiative of free trade with the U.S. The proposal is clearly and totally contrary to freer trade relations with the U.S. because it would

require increased trade barriers, surveillance and policing action. To implement the proposal at this time would surely raise serious doubts - among Canadians and Americans alike- regarding the integrity of the free trade initiative.

Two Price Wheat and Dumping.

Canada has experienced a number of cases of dumping allegations and retaliation in recent years. Trade relations in this context is a big, complex issue that will require time and policy change to resolve. There are no easy solutions.

However, the proposal to increase domestic wheat prices at this time would increase the probability of retaliation in yet another commodity -- wheat. The case would be based on the following two considerations:

1) we would be selling wheat in export at prices much lower than those in Canada; and

2) we would be selling wheat in export at prices well below the cost of production.

There can be no doubt that grain price prospects in 1986 and beyond are well below any reasonable estimates of production costs, irrespective of technical arguments about how to calculate these costs.

It appears undesirable to present another candidate for dumping action when the candidate is as important as wheat is to this country, and when alternatives exist for achieving the same objective.

Income Transfer: Inefficient and Regressive.

The question of income transfer to grain producers at this time does not seem to be at issue. Perhaps we ought to question, however,

whether a selective transfer to wheat producers is desirable or equitable when all grain producers are faced by unfavourable markets. The important issue, and that to which my presentation is directed, is how the transfer is to be effected, and who will pay the bill. Increasing the domestic wheat price, accomplished by the administrative and policing requirements to keep out imports, transfers the bulk of the costs to consumers of wheat products -- mostly consumers of bread and flour products.

Consider first the benefits and costs of the proposal. Depending on leakages, and on consumption and export reductions, a $3 / bus increase in wheat price should generate between $100m and $200m for farmers. On the cost side, because of reduced import competition in an already concentrated market, lower volumes, and percentage mark-ups throughout the system the consumer cost will be much greater than the farmer benefits. Until shown otherwise, I will forecast that the consumer cost will be in the order of $300m to $500m. In other words, the benefit-cost ratio will be around 0.5 and consumers will pay at least twice what is received by farmers. I doubt that even the Diefenbaker Dam would have been constructed in Saskatchewan with a benefit-cost ratio forecast to be that low.

This proposal represents an unacceptably inefficient form of taxation for which a much more cost effective alternative exists. General revenues used to subsidize grain or wheat producers should generate about $1 of farm benefits for $1 of tax cost.

And there is another important taxation consideration. Taxpayers and consumers are not one-and-the-same people when it comes to

expenditure. This is particularly important in food generally, and for cereal products in particular. There can be little doubt that the relatively large users of bread, flour and cereals products are the lower income families, larger families, and the "lunch box" households. Transfer of income through cereal product expenditures from these households to farmers results in a higher proportion of the burden being borne by lower income consumers -- a regressive tax. If the same transfer were taken from general revenues it would fall more heavily on higher income Canadians and would be more consistent with the Canadian philosophy of progressive taxation.

Canadian consumers are already transferring some of their income through food expenditure to selected farm producers (all dairy products, poultry meats and eggs) through the regressive tax system otherwise known as supply management. The simple fact is that there are many more low income, unemployed, and old age pensioner consumers in Canada who are having difficulty making ends meet than there are wheat farmers in trouble. Further burdening these people with higher cereals prices when alternatives exist is unacceptable. Applying an inefficient, regressive tax system to assist wheat farmers therefore appears to have no economic justification, and I have difficulty finding the moral justification. I would prefer being more positive on the proposal but it's only justification appears to be on grounds of pure, stark political expediency -- it is a taxation measure borne by those least able or least prepared to present their views.

Consider this as an alternative . If the proposal is a serious one, take it one step further and go for the big bucks. Apply it on domestic feed grain sales. Doubling feed prices would solve most grain producers

problems. You probably suggest that this solution is unrealistic; I would likely agree. However, I would urge you to place that conclusion into the context of the question of raising the price of wheat used by humans in Canada.

Conclusion.

-- Significantly increasing the domestic price of wheat as a means to aiding wheat producers makes no sense for several important reasons.
-- If it is perceived that an additional $100m or $200m allocation to wheat or grain farmers is desirable, it should be done through the regular taxation system. This approach is both more efficient and less punitive to low income consumers.
-- It is time for Canadians to allocate far greater effort and commitment to restoring more economic production and trade conditions in the world grain market. These are the conditions under which Canadian grain producers could compete and prosper in the longer term; they are also the conditions which would allow farmers to enjoy the imported vehicles, electronics, textiles, food products (and overseas vacations) which this country allows relatively freely even though farmers' products are treated differently. The terms of trade facing Prairie grain farmers are badly out of balance.
-- Finally, Canadians have to realize that the U.S. along with Australia, share our interests in restoring more economic conditions to the grain markets. This implies that we have to cooperate

with the commercial exporters to restore order. Blaming the U.S. for present conditions manifests a patently shallow interpretation of the problems and, in my view, aggravates an already serious problem. The proposal to increase the domestic price of wheat, in my view, has much the same result.