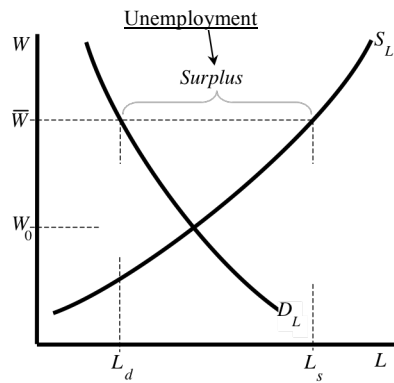


Examples of Price Floors

1) Canadian Trucking Industry (1950's-late 1980's)

2) Minimum Wage Laws

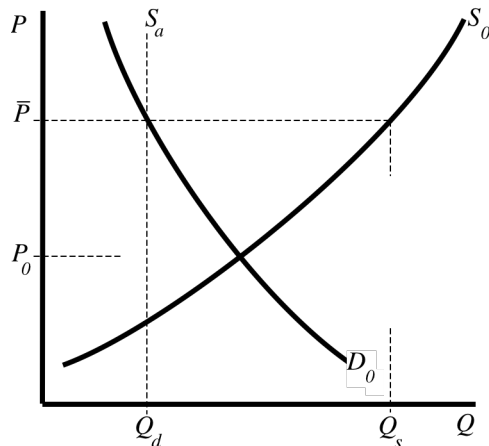


3) Agricultural Price Controls

AGRICULTURE and Marketing Boards

When there are no controls, the low price of agricultural goods means low profits or even persistent losses for farmers. In addition, there will be great fluctuations in the price of agricultural products, total revenue and profit—i.e. great UNCERTAINTY for farmers.

Two ways to control an agricultural market.



The Functions of Marketing Boards

- Main functions:
- 1) stabilize the price of the agricultural product
 - 2) raise the average price to increase profitability of farming
 - enforcing a quota system is a crucial part of this function

Other functions: advertising, lobbying, provide information to farmers and consumers

The B.C. Milk Marketing Board

The Real Costs of the B.C. Milk Marketing Board, (1977) Grubel and Schwindt

B.C. Milk Marketing Board—Lower Fraser Valley—formed in late 1950's

In 1975–1000 dairy farms

—typical farm: 50 milking cows

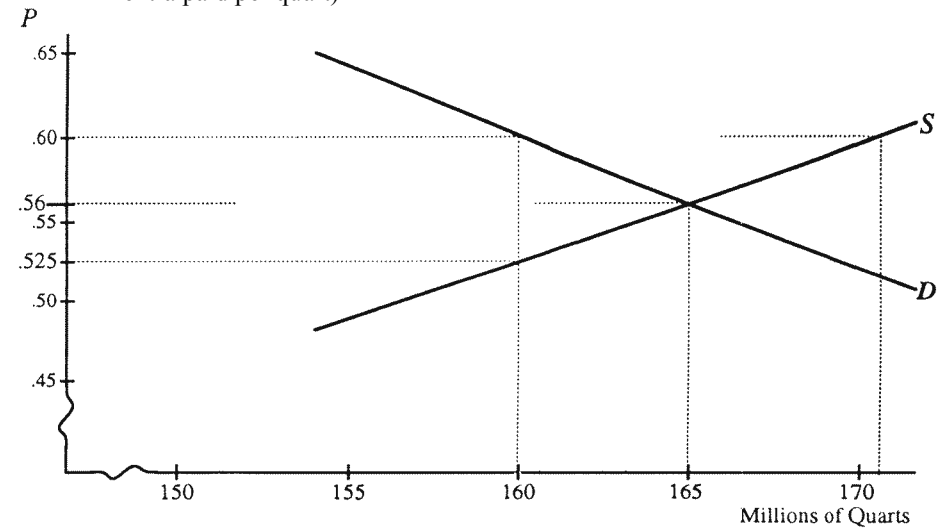
produced approximately 160,000 quarts per year

paid \$3000 membership fee per year for operation of board

Grubel and Schwindt: Estimated the approximate supply and demand curves shown below which were used for conclusions below.

Effects of Milk board's actions:

- 1) price kept .04 above equilibrium (equilibrium price approximately .56)
- 2) price kept .075 above lowest price acceptable to farmers for the actual quantity bought and sold (160 million)
- 3) quantity 5 million less than equilibrium quantity (165 million)
- 4) excess supply approximately 10.5 million
- 5) on average, added \$12,000 to profit per farm per year (.075 x 160,000)
- 6) on average, added \$50 to typical B.C. family's milk expenditures (at .075 extra paid per quart)



What can be done to aid farmers as an alternative to marketing boards?

Any farmer-specific assistance (e.g. reduced interest rates, guaranteed loans, reduced taxes, direct subsidies, annual cash grants) will increase supply, reduce price and profit and therefore be largely ineffective. Some economists prefer economy-wide minimum income scheme. The problem is that such a plan would be difficult to get approved in Parliament because most Canadians would be uneasy about the specific effects on them individually.

