

*Grain Prices*

The third effect hits them in the price of herbicides and pesticides, the bulk of which come from the petrochemical industry. As the price of petrochemicals goes up, so does the price of herbicides and pesticides. Consequently, production costs of Canadian grain farms have far outstripped costs experienced by other people in the country. Instead of a 10 per cent to 12 per cent inflation rate, agriculture has been facing a 15 to 20 per cent inflation rate in the last couple of years.

The hon. member for Welland (Mr. Parent) and the hon. member for Qu'Appelle-Moose Mountain correctly pointed out that some attempts have been made to look into the question of stabilization but they did not point out that the formulae used for triggering a payout under the old legislation are based on a percentage of the three or five previous years. They are not at all useful to the farmer who is faced with a 15 per cent or 20 per cent annual increase. The average of the five previous years' production comes to about half the actual cost of production today.

Any legislation that will deal with the stabilization programs will have to deal directly with today's production costs, or at least the production cost of the previous year. There are two reasons for this. The first is the whole question of fairness. It is the only fair way to handle the situation in times of inflation, and second, we are aware that we could be faced with deflation. We are hovering on the edge of a massive depression in the world's economy, and this could trigger enormous price declines. In those situations the old kinds of stabilization programs could be unfair to the extent that they would pay more than production costs with the formulae which are in existence. In a period of sudden depression or sudden deflation, payments would be considerably larger than actual costs if prices go down and could drain the treasuries of countries in an unexpected way. The fairest way, both for the farmer and for the taxpayer, is to move to a more direct, more immediate cost of production formula.

The question, then, is what kind of cost of production formula would be used. It is not as difficult to work that out as is sometimes believed. There are basic points that almost everyone can agree upon. From a review of proposals that have been placed before us we can get some ideas of what participants in negotiations mean by a cost of production formula. Does it mean all costs? Or does it mean that the farmer will be paid a wage comparable to that of the average factory worker, plus a return on his investment comparable to what other investors receive? Does it mean he will get all his cash costs? I think everyone agrees that he would get all his cash costs, but none of the programs in place now pay much attention to the cost of his labour and his investment costs.

One philosophy of the cost of production is to move to a parity concept. We picked that one up in the United States,

and it has been around ever since I can remember and probably for a good many years before that. That concept began with a base rate in the period 1914-17; it was then changed to the 1930 period, then it was switched to 1951. At no time was there ever complete parity, except during one war when there was an attempt to increase production. Usually a percentage of parity was used. I think the parity principle works into the concept of cost of production. In this country the two are almost interchangeable.

Some marketing boards, such as the Canadian Dairy Commission and the Canadian Egg Marketing Agency, have worked out cost of production formulae that provide a wage, although it is not equivalent to the average factory wage. They also provide some return for the farmer's investment. Usually it is assumed that the equipment the farmer uses is seven years old and that it has been depreciated. Basically they are talking about 50 per cent or 55 per cent of the farmer's investment going into the price of the commodity.

There are other kinds of costs of production formulae outside agriculture, and I only mention them for comparison. There is the cost of production formula worked out by Snavely who determined the cost of production of railways for the Government of Canada. That is a very healthy kind of cost of production formula and one that most farm groups would certainly accept if it were applied to them. They object somewhat to its application to railways, and I think with good reason. That formula provides that the return on the investment should be 25 per cent and that not only should the railway be guaranteed 25 per cent on its total investment but it should be guaranteed 25 per cent on the money that the people of Canada provided, gratis, as part of that investment. In contrast, farmers are receiving about four per cent return on their investment. The question then becomes whether the production of goods is as important as the transportation of goods. It only makes economic sense to come down on the side of the producer. Without basic production there would be no economy left. Using the Snavely formula, the average wheat farmer in Saskatchewan would be paid \$12.94 per bushel of wheat. Even the most grasping farm leader in the country would say that was more than the production cost. That is not the case from the railways point of view; they are quite willing to accept that kind of analysis. I think once we have discussed production costs, we have to also be cognizant of the fact that we can probably extract full production costs, or very close to it, for those goods produced for vital consumption within our economy. But we must remember the reality of the situation in the grain business is that about 80 per cent of the production is sold outside of the country.