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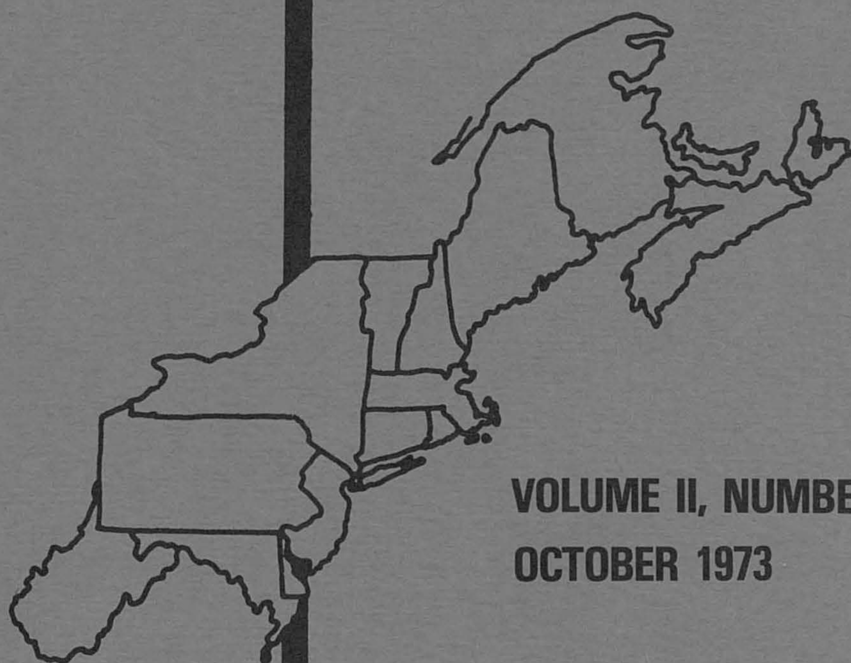

VOLUME II, NUMBER 2
OCTOBER 1973

HAS ANYTHING CHANGED?

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Recently there has been considerable controversy surrounding agriculture in general, and especially the recent rise in food prices. Demands are being made on American agriculture to adjust to supposedly new conditions and opportunities. What I would like to do today is to take a brief look at some of the problems facing agriculture and see if they have really changed.

For more than 40 years, economists have been claiming that the farm economy has been out of adjustment - we have been producing too much. The farmer, being a price taker, is constantly on the lookout for ways to reduce his cost per unit of output. He readily adapts new technology - the technology that research workers in Land Grant Colleges of Agriculture have helped to develop and that we in Farm Credit have helped to finance. Too often, the incremental cost of producing additional units of output is less than the average unit cost, providing additional incentive for the farmer to increase his production. The net result is, except for brief periods since 1930, that we have had total farm production increasing at a rate faster than the rate of domestic population growth and demand. At any one time, individual commodities may be in excess or deficite supply, but the aggregate supply of all commodities in this country has been a burdensome problem to the farmer and the government.

This basic problem of over production is compounded by the fact that both the aggregate demand and the aggregate supply of food is price inelastic. Economic theory tells us that these elasticities lead to chronic excess production resulting in depressed farm prices and farm income. The main benefactor has been the consumer in the form of relatively low food prices.

None of the above observations contain any new insight. The information is well known to all of you. Neither is it new to you that Federal and State governments have been intervening in the agricultural sector of the economy with a variety of complex programs. The main objective of most of these programs is to improve farmer's income through limiting production. Since the demand is price inelastic, a small decrease in production would produce a larger percentage increase in the price, resulting in an increase in total income.

For a variety of reasons, most of the Federal and State programs have not always achieved the desired results. Excess production has continued

and in terms of disposable income, the average income of farmers still lags 17% behind the average income of non-farm people. As another measure of this disparity, the return on farmers investment was only 3.9% for the most recent 10 year period.

Consumers have continued to have low food prices. Expressed as a percent of disposable income, the cost of food has decreased from 23% in 1952 to 15.7% in 1972. The preliminary estimate for the first quarter of 1973 was 15.6%, which was higher than the last quarter of 1972, but not as high as I would have expected from all the recent publicity regarding food prices.

The consumer has become accustomed to having her total food cost increase at a slower rate than the cost of other items in her budget. The consumer has been spending more and more of her food dollar for food away from home. In addition, she has been buying more convenience foods. Measure and mix has been replaced by heat and serve. If these phenomena were not occurring, the decrease in the percent of disposable income used for food would be even more dramatic.

Recently there has been what seems to be a dramatic increase in the price of food. It seems to me, the increases in the last 9 months demonstrate what would have happened if all of our farm programs had been more effective in the past. Don't misunderstand me, I am not saying that our farm programs have been effective, but the results may be the same as if they had been. Many factors have been cited as contributing to the increase in food prices; rising domestic and world demand, lower production stemming from earlier depressed prices, and of course, the weather, perhaps the best and worst farm program we have. Regardless of the causes, the results have been what we have been trying to achieve for 40 years. Prices have increased on almost all farm commodities whether or not they were under commodity programs.

Prices for all farm products in the first quarter of 1973 averaged 25% above a year ago. Looking at individual groups:

1. The value of meat averaged 25% above a year ago,

2. Poultry 38%

3. Eggs 62%

4. Dairy 4%

5. Fresh fruit 33%

6. Fresh vegetables 33%

Gross farm income in the first quarter of 1973 was 18% above the corresponding period last year. However, production expenses in the first quarter of 1973 increased at nearly the same percentage rate. The high priced output from the grain farmer has become the high priced input for

the poultry and dairy farmer in the Northeast. This has, to a large extent, offset the recent increases in the prices received for milk, eggs, and broilers. From a net income point of view, it may be that our Northeastern dairy farmers are actually worse off now than they were in 1972. The last line on the income statement depends not only on income, but also on expenses. But the realization that high prices do not guarantee high profits or that low prices do not always produce low profits is not a new concept.

When the major input of one farm is not the major output of another farm, these high prices represent a unique opportunity for our Northeastern farmer. As an example, last year potato farmers had the opportunity to reap the benefits of the highest potato prices in 8 years. But, before this particularly strong year pricewise, many potato farmers were facing serious financial problems. Too many still are. Farmers learned long ago that one good year mixed in with several lean years does not necessarily equal things out.

Now that we have achieved, at least in terms of prices, what we have been trying to do for 40 years, what has been the reaction. Simply it might be said that everybody is upset. The housewife is upset, Congress is upset, the President is upset, Secretary Butz's job was not made easier, and the farmer is either confused and angered by the public clamor or is upset by the associated rise in the cost of his inputs. Newspapers and television have headlined the constant increases in food prices. Food prices have been blamed for most of the recent inflation and its effect on the retired and poor. In her column, "Your Money", Sylvia Porter wrote, "For the lower income families of the United States, the cost of food squeeze is far worse than even the dreadful price reports indicate - and one reason is that some of the steepest price increases are being posted on food traditionally included in the 'poor man's market basket' and always counted on as acceptable substitutes and alternatives for expensive food". In essence she was commenting on the fact that all commodities have been included in the recent wave of price increases. She went on to point out that the small affluent household spends much less than 15.7% of their disposable income for food, but the large, low-income household may spend double the 15.7% or even more. The U.S.D.A. pointed out the same statistic. A study showed that families with annual incomes of $15,000 and over spent in the neighborhood of 12% of their after-tax income for food, while families with incomes below $3,000 could spend more than 50% of the after-tax incomes.

The rise in prices also produced the meat boycott, or perhaps a better term - the beef boycott. Everybody jumped on the bandwagon. It became the "in thing"; shoppers almost felt unpatriotic buying beef. Unfortunately for the consumer, the people who normally bought beef switched to broilers, pork and fish. As a partial result of this switch, the fisherman on our east coast are having a fine year. The boycott also contributed to the substitution problem Sylvia Porter wrote about.

I am concerned that the people connected with agriculture, including ourselves, have not been very successful in educating the populace to the

fact that with essentially fixed supplies of all types of meat, in the short run, the total consumption of meat, poultry, and fish had to decline in order for their prices to be lowered by the boycott. People seemed more upset when the boycott did not work and prices continued to rise, than they were before it started. Perhaps we need to do a better job with education in the future, and that future may be in the next few months.

The uproar over high food prices has placed our farm programs under more fire than at any time in recent history. People are now discussing the need for price ceilings more than they are the need for trying to maintain price floors.

"Business Week" in its April 28, 1973 issue, referred to American agriculture as the biggest growth industry in the United States. Other articles view agriculture as having a bright new era ahead, if only it can rid itself of its restrictions and allow the normal market forces of supply and demand to work. They overlook the fact that approximately 50% of our farm products are presently not under any form of restriction.

Agricultural products are seen as the most likely candidate to help offset our balance of payments problems. Proponents claim the American farmer must be free to produce the additional quantities required for the expanding export market and to keep prices low for the domestic market.

If we look behind these statements, the new era of agriculture depends on 3 basic "ifs" in the dimension of foreign trade:

1. If Russia, China, and Japan buy our excess agricultural commodities on a continuing basis,

2. If the Common Market will agree to reduce their trade barriers to our agricultural products,

3. If other countries, including Canada, Brazil, and New Zealand, do not substantially expand their production and compete vigorously for the foreign markets.

These are big "ifs" for if our farmers expand their output to meet only a temporary or inconsistant export demand, then the farmer will again demonstrate his ability to over produce himself into severe income problems. The farmer would be faced with periods of boom and bust, more so than he is now. These periods would depend on the residual demand of the importing nations and the residual supply of other nations competing for those markets. As a residual supplier of food, we stand the most to lose with unstable demand conditions. But, is this really new? Have the elasticities associated with agriculture really changed? I do not think so. If the elasticitities have not changed, then we need a carefully constructed and stable export market before we orient our public policies to unharnessing the productive capacity of American agriculture.

What are the effects of these conditions on the Northeast farmer? Certainly, the effects would be mixed. I see minimal effect on the vegetable and fruit farmer. Their biggest influence will continue to be the weather, and the demand for fresh and processed products, both here in the Northeast and in the other crop growing areas. However, current prices should allow the marginal vegetable and fruit farmers to improve their financial position and should also encourage some expansion. With current prices, the farmer who can get his crop to market early this year, stands to make a substantial profit, but to a large extent, this has always been true.

The big question for the Northeast revolves around the dairymen, the egg producer, and the broiler grower. As the increase in exports is likely to come mainly from increases in grains and derived products, our Northeast dairy and poultry farmers will not benefit directly from an increase in foreign demand. Since the effect will come mainly from the cost of inputs, our dairy and poultry farmers may suffer from an increase in foreign demand. During periods of high foreign demand and limited supplies, the cost of feed for these producers would tend to increase and put them under a severe cost-price squeeze; much like the conditions of today. Excess grain production should reduce the cost of feed to these producers. Other things being equal, our dairymen and poultrymen would tend to be out of phase with the grain farmers; boom when they bust, and bust when they boom. Reciprocal trade agreements could increase the supply of dairy and poultry products in the Northeast which would tend to lower the price received by our farmers or prevent them from rising.

Our farmers in the Northeast enjoy several production advantages, but perhaps their main advantage is their closeness to large centers of population, and hence markets. I am not sure if the gasoline shortage is as serious as the oil companies claim it is, but if it is, this advantage should become more important in the future. The deterioration of the railroads in the Northeast may offset this advantage to some extent. The changes in transportation costs and/or form may be the biggest change affecting our farmers, not the current high prices.

In Farm Credit we are convinced that there will continue to be a viable agricultural industry in the Northeast. Pressures on the industry will not remain static, but the agressive farmer will continue to adjust, as needed, to changing conditions just as he has had to change in the past twenty years.

Farm Credit has been challenged by Congress to play a constructive role by meeting the increasingly complex financial needs of farmers engaged in our changing agriculture. In meeting this challenge, we will not have the luxury of dealing with averages. We must deal with the individual farmer and, in doing so, may hold the key to his success or failure. We must try and avoid making two mistakes:

1. Providing credit to the wrong man and merely postponing his exodus from agriculture.

2. Failing to provide needed credit to the right man and precluding him from entering or remaining in agriculture.

Both mistakes are serious, but we view the latter as having the most detrimental effect on agriculture in the Northeast.

In summary, the recent rise in farm prices and high current demand for exports has raised a clamor for the American farmer to be free of production restrictions. The farm problem is now viewed not as one of burdensome surplus, but one of potential shortages which will limit our ability to improve our balance of payments, and maintain relatively low domestic food prices. Agriculture is viewed as the new opportunity, but with this opportunity comes an equal amount of risk - the risk of over-producing a price inelastic product for a residual market. Both the opportunity and the risk are not new for the American farmer. It seems to me the farmers in the Northeast will continue to face the same problems they have had in the past - weather, changing feed prices, and with the poultrymen and crop farmer rapidly changing product prices as well. As in the past, high product prices will not always guarantee a profit to the farmer. The farmer already knows this, but we must do a better job of conveying that fact to the consumer. The days ahead are going to be exciting times in agriculture. The problem for all of us may be to change fast enough to keep up with the farmer. We, in Farm Credit, will be looking to you to help us find new ways to meet our commitment, now and in the future, to provide constructive credit to the farmer in the Northeast.

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