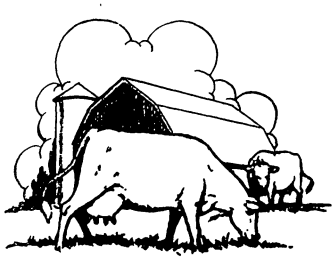

MINNESOTA farm business NOTES

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Supports Help Change Potato Industry Pattern

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Nine years of price supports have produced big changes in the potato industry. And one of the most interesting of these changes has been in the locational pattern of the industry.

The nine years were those from 1942 through 1950 when price supports from 60 to 90 per cent of parity were in effect on potatoes. (From 1943 through 1948 the Steagall Amendment provided for support at not less than 90 per cent of parity.)

Supports for Potatoes Studied

In a regional research project centered at the University of Minnesota an attempt has been made to learn how the price support program affected the potato industry. And since the locational pattern reflects the over-all production and distribution pattern of the industry, the effect of supports on the locational pattern was studied in particular.

Potato production has never settled down into a well-defined pattern. Potatoes can be grown on almost any type of soil, hence soil differences have not determined a fixed locational pattern.

Furthermore, potatoes have never been processed to any important extent—they lose no weight and gain no value through processing in moving from the producer to the consumer. Most important of all, potatoes are very bulky in proportion to their value and are therefore relatively costly to transport. They are also easily damaged in transit.

These last two considerations resulted in the early location of potato production near centers of population. The production pattern followed the distribution of the population. But the industry did not settle down into this location pattern. The changes which have taken place can be shown in broad outline by noting adjustments in the industry's locational pattern by states.

It is convenient to break the total development down into three phases to bring out developments which occurred under price supports.

The Period of Expanding Demand

Between 1880 and 1910 the population was growing rapidly and the per capita consumption of potatoes was rising steadily. To the potato grower this meant that there was an expanding market for his crop.

During this period two noteworthy changes occurred in the location of potato production. Maine began producing potatoes for other New England states —especially for Boston, Providence, and other large cities that were fairly close.

The other change occurred in the Middlewest where Minnesota, Wisconsin, and Michigan began producing potatoes for consumption in Iowa, Illinois, and Indiana.

Both of these shifts occurred quite rapidly because growers were encouraged to produce potatoes to meet the increased demand of an expanding market. Moreover, price risk was not so great in this first phase as in the next.

The Period of Declining Consumption

No industry develops rapidly under unfavorable demand conditions and the potato industry was no exception. After 1910 potato consumption declined so rapidly that even a continued growth in population was not enough to sustain the demand for potatoes. It is true that the industry underwent further transition during this period, but it was a gradual and difficult transition.

The shift from the corn belt northward in the 1880-1910 period left Minnesota, Wisconsin, Michigan, Ohio, Pennsylvania, and New York as the major potato-producing area. Production in these states (called the lake states) continued to rise after 1910.

But production in another group of states already was rising faster and was to continue its rise long after production in the lake states started downward. The new group of growers may be termed the outlying specialists, which are found in such states as Maine, North Dakota, Colorado, Nebraska, Idaho, Washington, Oregon, and California.

One thing is immediately obvious when we consider the location of these specialist states—transportation costs put them at a strong disadvantage relative to the lake states. One way or another this disadvantage would have to be overcome before the transition could be completed.

Had there been an expanding market for potatoes during the period after 1910, and had prices been more stable from year to year, growers in the specialist states might have been able to expand rapidly in accordance with their production advantage. (This advantage was created by the nature of cropping systems in some of these areas, the production of a preferred type of potato in others, and the increased use of irrigation.)

But there was no expanding market, and the year-to-year price risk was great. Potatoes, moreover, were generally a sideline cash crop for the producers in the lake states—hence price risk was not important to them. Nor were there other intensive, high-labor, high-return crops which were fully adaptable to the cash crop role which potatoes had been assigned in these states. As a result, the entire period from 1910 to 1942 finds this transition occurring only very gradually in spite of the production advantages possessed by the specialist states.

The Price Support Period

The transition described above gained some impetus from the development of irrigation in western states during the

Wanted: General Economic Health—Not Depression Fears

O. B. Jesness

What is ahead for farm price supports? The question is uppermost in the minds of American farmers, who seem to be concerned over the possibility of a depression. A look at the background of the price support system may shed some light on the subject.

The Agricultural Marketing Act of 1929, providing for the Federal Farm Board, marked the beginning of the present government program to support farm prices. This was replaced by the Agricultural Adjustment Act of 1933 which created the Agricultural Adjustment Administration (now Production and Marketing Administration).

The Act of 1933 authorized production "adjustment" to raise prices. Parity prices representing a ratio between prices received and paid by farmers, with a base period (usually 1910-14) as 100, were established.

After the Supreme Court held the act unconstitutional in January 1936, Congress amended the Soil Conservation Act to authorize payments to farmers to shift from surplus "soil-depleting crops" to "soil-conserving crops." Payments for employing "agricultural conservation practices" also were authorized.

The Agricultural Adjustment Act of 1938 required price supports ranging from 52 to 75 per cent of parity for specified commodities under given conditions. Acreage allotments and marketing quotas were provided. Parity income as well as parity price was defined and parity payments were authorized.

The Commodity Credit Corporation was created in 1933 to make loans on stored commodities. These loans have been used extensively to establish price floors and to regulate supplies on the market. These operations led to the accumulation of sizable stocks of wheat, corn, and cotton during the 1930's at more moderate support levels than those of the present. Had not World War II intervened, indications are that the program in time would have had to be changed, either to lower support levels or to enforce stricter controls.

War shifted concern about price-depressing surpluses to concern about meeting enlarged demand for many farm products. Higher price supports

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'30's, but not until the early '40's did a rapid acceleration occur.

The form which the transition took beginning with 1943 suggests that it was influenced by the price-support program. This was the first year in which the Secretary of Agriculture called for increased production and invoked the Steagall Amendment provision for support at 90 per cent of parity.

Producers in the outlying specialist states responded by increasing planting by 33 per cent; whereas producers in the lake states increased their planting by only 19 per cent. Moreover, the lake state producers quickly reverted to their downward trend in succeeding years, while producers in the specialist states maintained their high acreage levels.

Assured Market Favors Specialists

The government was now providing an assured market which resulted in year-to-year price stability, the absence of which had held back the expansion in the specialist states over an extended period. There was no longer uncertainty in the mind of the grower as to how low prices could go, since the government stood ready to remove any surpluses from the market at a specified price. If the grower felt reasonably certain that he could make a profit on potatoes at this price, he could proceed under the virtual certainty that the price would be no lower. These two aspects of the price support program made conditions more favorable than had ever existed for the expansion of production in more specialized areas.

Moreover, the greater price certainty provided by the price support program appears to have been more effective in inducing the use of more fertilizer, more spray, and generally better production practices in the specialist areas compared to the lake state producing areas. This resulted in increased yields in the very areas that were expanding their acreage. Where uncertainty was eliminated with respect to prices, the specialists became more specialized and more productive through greater uses of capital.

The other side of this transition—the rapid decline of production in the lake states—was probably not directly attributable to the price support program. It appears to have been due instead to the wartime high prices for the other things which these farmers could produce (notably livestock), labor shortages affecting potato production, and perhaps an inability to keep pace with new potato production methods on their small acreages. The price support program then appears to have speeded up an adjustment which had been in progress for a long time.

Producers Affected Differently

In trying to answer the question, what has been the impact of the price support program on the potato industry? the conclusion is that it has altered the pattern of industry development by affecting different producers differently and especially by affecting producers in different areas differently.

These points support this view:

1. In the Red River Valley 27 per cent of the growers interviewed increased their acreage during the early years of the program, compared to 20 per cent in Wisconsin and the Lower Peninsula of Michigan and 12 per cent in Nebraska.

2. In the Red River Valley, 35 per cent relate their wartime acreage and yield changes to the program, compared with 16 per cent in the other areas.

3. In the Red River Valley, 52 per cent liked the program, compared to 29 per cent in the other areas.

4. In the Red River Valley, 53 per cent considered the program worth while in 1950, compared with 20 per cent in the other areas.

Minnesota On Both Sides

This brief account necessarily oversimplifies the analysis of the impact of the price support program on the potato industry. Minnesota, for example, has really been on both sides of the shift. The Red River Valley is in the category of a specialized producing area remote from the market and has expanded production under the support program. Elsewhere in Minnesota potatoes have declined in importance.

Other states also contain areas of specialization in addition to the cash crop production on small acreages and therefore have had internal shifts. Nevertheless, the shift in location among states gives an over-all impression of what has happened to the potato industry under price supports.

were used to encourage expansion of output. An act of Congress in early 1941 raised supports to 85 per cent of parity for wheat, corn, cotton, rice, and tobacco. Peanuts subsequently became the sixth "basic" crop. In 1942 the Steagall Amendment raised supports to 90 per cent of parity on "basic" crops and on products for which the Secretary of Agriculture formally requested increases in production to meet war needs. These supports were extended for two years beyond the end of the war, presumably to give farmers a chance to adapt production to an expected smaller postwar market.

First Postwar Act Passed

The Agricultural Act of 1948 was the first price support measure after the war. It represented a compromise between indefinite continuance of 90 per cent supports and a sliding scale support. Title I of the Act continued with some changes the supports of the war period through 1949. Title II authorized flexible supports, ranging from 60 to 90 per cent of parity, effective in 1950. This act also revised the parity formula, retaining the base period of 1910-14 for the ratio of the general index of prices received and prices paid and providing a 10-year moving average for determining parity prices for individual commodities. The revision which was to to go into effect in 1950 would have raised parity prices on some products such as livestock items while lowering those of others such as crops.

But before Title II came into effect, the Act of 1949 was passed. The latter postponed the application of the flexible principle and reduced somewhat the range of flexibility. It also extended permission to use the old parity formula where this yielded higher prices. Congress in 1952 extended the period of 90 per cent support through 1954 and the dual parity formula through 1955.

Marketing agreements and orders are used in arriving at prices for some perishable products and influencing their market supplies.

Purchase programs to divert supplies from regular market channels are used to ease some supply situations, particularly in the case of perishable commodities. Turkeys are an example this fall. School lunches, relief food distribution, and foreign aid programs have aided in disposing of some of these supplies. But in some instances where outlets have not been available, spoilage or destruction has resulted.

The wording of the act of 1933 indicated that it was designed for the depression emergency. It placed emphasis on price recovery. Subsequent legislation turned to long-run goals. Then World War II increased demand for many farm products and concern shifted from price raising to inflation controls, including price ceilings. Price supports in this period served mainly as an incentive to increased production by providing stop-loss protection. Demand was adequate to keep the market above support levels in most instances.

Fear of a return of serious depression conditions has colored the farm program during this period.

Indications are that present price programs will continue for the period now authorized. The candidates of the two major parties in the recent campaign gave support to this view.

Economic conditions in the years ahead will help shape the farm program. If employment and activity remain high and sizeable exports continue, the resulting strength in the market will lessen the need for supports. However, surplus conditions may develop for individual commodities even if conditions remain favorable.

More Supports May Be Urged

If 90 per cent price supports for basic commodities are continued, pressure for similar aid for a wider range of products may be expected, especially if the market sags. Satisfactory ways of supporting perishables have not been evolved. Resort to payments instead of price supports might become necessary for some perishables.

Farmers are alert to price relationships in planning their operations. If price supports on some commodities take them out of line with others, farmers will shift production.

If surplus situations develop and supplies accumulate, a choice among several alternatives may become necessary. Conceivably all programs could be discontinued, but that appears improbable.

Another alternative would be that of lowering support levels to the point where farmers would be induced to curtail production. This presumably would not be welcomed by those who believe in high price supports.

Still another alternative would be to impose effective production controls on farmers. Present indications are that neither farmers nor marketing agencies would be enthusiastic about controls. Also, controls involve difficult administrative decisions—including the allocation among farmers of the rights to produce. And carried to its logical end a program of general production curtailment may require restriction of entry into farming.

One point appears clear. The public is intolerant of destruction or wastage of products as part of a public program. There was widespread reaction against the slaughter of little pigs and plowing under of cotton in 1933. A more recent case is that of potatoes.

The possibility of diverting farm products into new or different uses merits continued attention. However, expectations may be exaggerated. It is not easy to funnel products into consumption without encroaching on regular outlets. New uses should represent good economy, not a disguised subsidy.

Export dumping of surplus is expensive, interferes with normal trading, and invites retaliation. The possibilities of disposing of surpluses in this manner appear more limited than some advocates seem to realize. Some distribution to underprivileged nations may be possible but is neither simple nor costless.

Prospects are that some aid to farmers will be kept available for use if serious depression strikes. Aid also may be provided individual lines which encounter difficulties in unusual seasons. As agriculture becomes more commercial it becomes increasingly dependent on stability in the rest of the economy. Attacks on instability, however, need to be broader than programs of farm price support.

At present an undue proportion of concern over farm problems centers in price supports and in fear of depression. Farmers need to be concerned about maintaining a healthy economy and a strong market by continued productive employment and a high level of activity in nonagricultural lines.

To this end, they may do well to take a more active interest in fiscal, monetary, and other policies of government, labor, industry, business, and finance which may affect economic health and activity generally.

The last word has not been said on farm and other programs. Minds should be kept open so that changes needed to serve the common good will be made.

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NOTES

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Farm Prices for Sept.-Oct., 1952

Prepared by Jerry M. Law

Average Prices for Minnesota, September and October 1952, with Comparisons*

	Sept. 1952	Sept. 1951	Oct. 1952	Oct. 1951
Wheat	$ 2.12	$ 2.08	$ 2.13	$ 2.12
Corn	1.55	1.59	1.37	1.56
Oats	.76	.72	.74	.77
Barley	1.32	1.11	1.30	1.21
Rye	1.65	1.45	1.67	1.50
Flax	3.87	3.43	3.79	3.80
Potatoes	1.95	1.10	2.15	1.15
Hay	15.50	14.90	16.10	14.60
Hogs	18.90	19.60	18.30	19.80
Cattle	23.00	27.90	22.50	26.60
Calves	28.00	33.10	25.50	33.30
Lambs-sheep	23.55	28.24	21.78	28.46
Chickens	.175	.204	.164	.183
Eggs	.43	.50	.46	.49
Butterfat	.80	.74	.80	.76
Milk	4.15	3.75	4.20	3.90
Wool†	.47	.70	.47	.65

* Average prices as reported by the USDA.

† Not included in the price index numbers given below for Minnesota.

The index of Minnesota farm prices represents the average of the increases and decreases in farm product prices in the given month of 1952 over the average of the five corresponding months of the period 1935-39. Weights for the Minnesota indexes are the average sales in the five corresponding months of 1935-39. Weights for the U. S. indexes are the average sales of 60 months in 1935-39.

Prices received by Minnesota farmers averaged lower in October than in September. Most notable declines were for corn, calves, and sheep and lambs. Higher prices were received for potatoes and eggs. Compared with October 1951 all meat animal prices declined significantly.

Indexes and Ratios for Minnesota Agriculture

	Sept. 1952	Average Sept. 1935-39	Oct. 1952	Average Oct. 1935-39
U. S. farm price index	268.6	100	265.5	100
Minnesota farm price index	253.7	100	256.5	100
Minn. crop price index	254.9	100	277.3	100
Minn. livestock price index	262.6	100	262.7	100
Minn. livestock products price index	241.4	100	228.7	100
Purchasing power of farm products				
U. S.	118.0	100	117.5	100
Minn.	111.4	100	113.5	100
Minn. farmers' share of consumers' food dollar	57.8*	48.6	56.7†	47.6
U. S. hog-corn ratio	11.2	12.6	12.2	14.1
Minn. hog-corn ratio	12.2	14.9	13.4	17.8
Minn. beef-corn ratio	14.8	11.9	16.4	14.7
Minn. egg-grain ratio	14.4	17.3	13.2	20.9
Minn. butterfat-farm-grain ratio	31.4	32.4	32.7	36.4

* Figure for August. † Figure for September.

The Outlook Corner — Export Demand

Domestic Exports of Agricultural Products, 1925-51

Year beginning July	All agricultural products	Wheat and flour	Other grains	Pork and lard	Canned meats except pork	Dairy products	Fruits and vegetables	Eggs and egg products	Tobacco	Cotton
	millions of dollars									
1925-29	1,878	246	113	179	3	19	113	7	146	878
1930-34	822	68	23	68	1	8	14	2	106	388
1935-39	762	54	50	32	1	6	85	1	126	324
1940-44	1,475	54	69	279	146	157	86	146	120	126
1945-49	3,357	966	348	109	62	226	107	78	254	624
1950-51	3,411	748	489	115	4	115	182	30	274	942
1951-52	4,043	1,067	504	150	6	97	230	23	327	1,204

Prices received by farmers are influenced by agricultural exports. Both volume and value of exports reached a peak in the fiscal year 1951-52. No small part of the increase resulted from the extension of foreign aid.

The value of exports exceeded four billion dollars or about one-tenth of the value of all farm sales. It also represented almost one-fourth of the value of all exports.

Exports of wheat, flour, other grains, and dairy and pork products are of principal concern to Minnesota producers. About one-third of the wheat sold and one-sixth of lard production goes into export channels. The export of cured pork products and dairy products, however, is small compared to the total output.

The greatly improved wheat supply prospects in Europe and a record Canadian crop point to a decline in wheat exports during the current year. Reduced holdings of gold and dollars in the United Kingdom will restrict pork and lard exports to that area not only this year but also in later years.

The recent downward trend in exports of dairy products and fruits is not expected to reverse itself in the near future.

About one-third of the United States farm sales of cotton and one-fifth of tobacco sales were exported in 1951-52. Increased supplies of cotton and lower prices for foreign competitive types are expected to reduce export demand for U. S. cotton. A decline in cotton exports and lower prices may induce a shift from cotton to dairy and hog production. The Minnesota producer thereby would be faced with increased competition in the domestic market.

In general, the future trend in exports will be governed in large part by supplies available for export, the supply situation in foreign countries, and the purchasing power of these countries. The latter is largely dependent on our acceptance of imports and on our continuance of economic aid. It is likely the peak of economic aid has passed.

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