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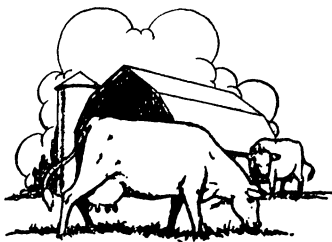
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MINNESOTA farm business NOTES



World Trade—Answer to Our Surplus Problem?

O. B. Jesness and Philip M. Raup

Sizable stocks of various farm products have accumulated as a result of war-expanded production, incentives of farm price supports, and changes in demand. A large share of these stocks is owned by the government or is held under price-support loans.

Wheat presents the greatest problem. However, cotton, corn, butter, cheese, dried milk, and cottonseed oil also create difficult problems.

WHEAT. The carry-over of 903 million bushels of wheat is sufficient to meet the usual domestic needs of about 700 million bushels for food, feed, seed, and industrial uses for an entire year, with an ample amount left for exports. Even with curtailed acreage under the market quota program and drought in some areas, the wheat crop of 1954 appears adequate for domestic and export markets.

Prior to 1944 the United States produced only one billion-bushel wheat crop—in 1915 during World War I. In contrast, during the decade 1944-53, only one crop was below a billion. This expansion followed that of the United States' wheat and flour exports. These exports were relatively minor from 1935 to 1944, exceeding 100 million bushels only in 1937 and 1938. But from 1945 through 1952, they ranged from 314 to 505 million bushels.

The larger exports during the latter period were made possible by our foreign aid programs during a time when world agriculture was recovering from the disruption of war. United States exports since then have shrunk decidedly as world production has recovered and larger supplies have become available from Canada, Australia, and Argentina.

DAIRY PRODUCTS. Imports and exports of butter have been very minor in the dairy markets of this country.

Moderate quantities of cheese, particularly of foreign types, were imported

before the war. During the war, however, cheese production was expanded for export to help relieve food shortages in some European countries. Since the war, recovery of dairying in Europe has curtailed exports from and increased imports to the United States.

The output of dried milk was expanded greatly during the war for lend-lease shipments and other uses. This is a newer product for which both domestic and export markets are still largely to be developed and there will probably be competition from other dairy countries.

Can Exports Solve Surplus Problems?

Shortages of food in various parts of the world lead some to assume that exports can easily absorb the storage accumulations. No one questions the desirability of putting the results of production to use, but there are some difficult problems to be met.

For one thing, the United States is not the sole source of supply for consuming nations. Canada, for instance, like the United States has large stocks of wheat for sale. Australia and Argentina are exporters of wheat. New Zealand, Denmark, Holland, Belgium, and other countries are seeking export outlets for dairy products. The United States hence cannot be unmindful of the stake other countries have in available markets.

The objective of the price support program is to raise or maintain the price levels of certain farm products. One result is to raise some prices above world levels. This complicates the export problem.

Another consideration is that while the foreign exchange situation has been eased, dollar exchange still is none too plentiful for other countries. Consequently, these countries continue to conserve it for needed goods not available from other sources.

Two-Price System Has Limitations

Proposals that the United States overcome its price disadvantage in export trade by expanding its use of some form of a two-price system have received considerable attention. Such plans contemplate maintaining higher price levels, or their equivalent, in the domestic market while selling abroad at lower prices.

The fact that such a program has been employed to a limited extent does not warrant the optimistic conclusion that it is the key to the problem of disposing of surpluses. There are some difficulties and limitations which need to be recognized.

One of these is that domestic consumers are likely to have reservations about any general sales which give overseas buyers price advantages not available at home.

Even more serious are the repercussions in other countries. Sales abroad at prices below those maintained in the domestic markets of the exporting countries constitute dumping as defined in international trade. Countries including the United States generally have means of dealing with such situations when they regard them as contrary to their own interests.

To some it may seem strange for the receiving country to object to "bargains" of this nature. However, domestic producers tend to regard dumping as a form of unfair competition against which they demand protection. Competing exporting countries may interpret such a program as an endeavor to invade markets they regard as theirs and retaliate in self protection.

Another difficulty arises from the fact that the world market does not have unlimited capacity. The products in burdensome surplus here are in ample supply elsewhere in relation to the markets available. The United States is not alone in having overabundant supplies

CAN WE EAT OUR WAY OUT OF THE SURPLUS PROBLEM?

Willard W. Cochrane

A persuasive argument is often made that we should expand food consumption domestically and in that way reduce or eliminate agricultural surpluses. This argument in its double barreled form runs somewhat as follows:

(1) We have needy families that are not eating enough food, and if ways could be found to expand the food consumption of these folks, surplus food stocks would be reduced or eliminated.

(2) Most consumers would like to eat more animal products, and if ways could be found to increase consumption of these products, more resources would be needed to produce them, and the surplus problem would be solved.

These are the arguments; now let us explore their potentialities and limitations.

Low-Income Families Lack Nutrients

The 1948 food consumption surveys provide some useful information with respect to the dietary needs of urban consumers. About 25 per cent of the low-income families (those with incomes of \$2,000 or less) had diets lacking in calories. Some 50 per cent of these low-income families had diets lacking in calcium, and 20 to 30 per cent had diets lacking in protein.

Further, dietary deficiencies are not always associated with lack of income. Some families in each income class had diets lacking in calories, calcium, and other nutrients.

But this is only a part of the story. While some low-income families in 1948 did receive insufficient calories, the average consumer in the low-income brackets was overeating. The average consumer had an intake of 3,830 calories, as compared with the measure of nutritional adequacy of 3,000.

And the calory intake of the average urban consumer for all income classes was 3,800. So, many people in the United States were either stuffing themselves or wasting food in 1948.

This question of food needs, then, cuts two ways. We know that some low-income families need more calories—more pounds of food. And we know that families at various levels of income have diets deficient in one or more nutrients—due often to improper diets rather than an inadequate total intake.

We know also that many families are overeating or wasting food. But no thorough study balancing overconsumption against underconsumption on a national basis has been made. Thus we do not know whether a good diet for all would mean more food production or less—or whether it would alleviate or accentuate the present surplus problem.

Income Level Influences Diets

But what of the argument for increasing the consumption of animal products? There can be no question about consumers generally wanting to increase their meat consumption and doing so when they can. The following data from the 1948 study show how meat consumption increases with rising incomes.

Money income class (after federal income taxes)	Pounds of meat consumed per person per week
Under 1,000	1.94
1,000-1,999	2.06
2,000-2,999	2.23
3,000-3,999	2.49
4,000-4,999	2.54
5,000-7,499	2.62
7,500 and over	2.65

We should not get the idea that the increases in meat consumption noted above represent net additions to food consumption. They do not. As incomes rise the typical consumer purchases increased quantities of expensive, high-resource-using foods, such as animal products, and purchases reduced quantities of cheap, low-resource-using foods.

With rising incomes the typical consumer uses (eats or wastes) more of the following products—beef, ham, poultry, lamb, citrus and other fresh fruits, fresh vegetables, fluid milk, and butter. At the same time he uses less of the following products—oatmeal, wheat flour, rice, cornmeal, dry beans, and lard. In the highest income brackets the use of potatoes, sugars, and shortening also declines.

What really happens, then, is that the composition of the diet changes as the level of income changes. As incomes rise, consumers substitute animal products and fresh fruits and vegetables for grain products and other inexpensive foods. This is the way that the demand for food (per capita food consumption) increases in the United States.

Food Consumption Very Stable

In this brief analysis we need also to take a look at what has happened to food consumption over the years. The annual per capita consumption of food measured in pounds stood at 1,542 in 1930, fell to 1,494 in 1934, rose to 1,674 in 1945, and slipped back to 1,530 in 1952. This is a remarkably stable pattern considering the dramatic economic changes that took place over this period.

The index of per capita food consumption, which takes into account shifts in the composition of food consumption, indicates more variation: the index stood at 91 in 1930, fell to 87 in 1935, rose to 104 in 1946, and stands at 103 in 1954.

All things considered, this too is a stable pattern. And by comparison it is a very stable pattern; for example, the index of per capita food consumption rose some 12 per cent between 1935-39 and 1950 while durable goods consumption rose 150 per cent.

Rise in Income May Help

Now what can we say about the possibilities of increasing the consumption of animal products as a way of eliminating the surplus problem in agriculture? If by some miracle the incomes of all consumers in the United States were raised overnight to the average level of those in the highest bracket, here is what would happen: food consumption would increase enormously as consumers felt free to substitute animal products and fresh fruits and vegetables for less expensive products.

In this context, current surpluses would soon melt away. But we know that this will not happen. The best that we can hope for is a rise in real income in the next 10 years comparable to that of the last. Even this may make little difference, for during the 10 years since 1944, the index of per capita consumption increased by only 1 to 2 per cent.

Advertising Best for Selling "Service"

What about increasing the consumption of animal products through advertising? It works for consumer durables—why not use this approach to increase the consumption of animal products? At this point it is important to remember that the average consumer in the United States is getting

more calories than he requires; he is filling his stomach regularly with a reasonably tasty diet.

Thus the advertising problem is that of convincing the average consumer that he should, *with his present income*, substitute animal products for less expensive food products and thereby increase his total food bill. Maybe the average consumer can be induced to do this, but it seems doubtful.

What advertising can do is sell more of that modern product—*food service*. The housewife is ever ready to buy more processing, packaging, and convenience when it enables her to escape from drudgery in the kitchen.

And of course processors and food distributors like this, for it means selling more of the products that they supply. But selling more food services does not expand the demand for food as such and thereby whittle down farm surpluses.

Short-Run Program Is Promising

If we want to increase food consumption in the *short run*, the income restriction among low-income families must somehow be lifted. One promising program for accomplishing this purpose exists in the Food Allotment Program. It is designed to increase the total expenditure of low-income families for food through a special subsidy feature.

There is, however, no sleight of hand involved in this approach; the total food expenditures of low-income families can increase under this type of program only to the extent that the rest of us are willing to foot the bill. And to date we have not indicated through our representatives in the Congress that we are willing to do this on any large scale.

Desirable as the school lunch program may be for maintaining demand and teaching good nutrition through good practices, it has limitations for further expanding per capita food consumption. First, the program is already widely adopted. Second, much of the food consumption under the program represents merely a substitution for lunches brought from home or purchased from a store. Finally, the stomachs of our children have their limits too.

The question thus confronting those people who say that we can and should eat our way out of present surpluses is this—are we ready to cover the costs of a realistic program designed to increase the consumption of food among low-income families? And there is also the question for these folks to ponder—what will happen to this approach if the nutritionists convince the one-half of our population that is overeating that they should cut down on their food intake?

WORLD TRADE—ANSWER TO OUR SURPLUSES?

(Continued from page 1)

of wheat, butter, and dried milk. Other countries, too, are eager to expand their exports.

Still another problem is that two-price plans do not solve the problem of limited dollar exchange. The lower prices these plans provide are counter-balanced by the larger amounts which they are expected to move. Any program of maintaining prices within a country above world levels inevitably leads to demands for restrictions on imports of the commodities involved. Such restrictions reduce dollar exchange.

Stop-Gap Measures Not Final Solution

A program authorized on a limited scale is that of accepting payment for some farm exports in currencies of the receiving countries. This is intended to help tide these countries over until exchange convertibility is restored and

to facilitate the export of some surplus commodities.

Such sales raise the question of what use is to be made of the local currencies. They may buy goods or pay for services we want. But that may be accomplished through usual trading. The foreign currency may be turned over to the importing nation for specified uses. But when that is done, the transaction becomes in effect a gift.

The currencies may also be used for certain defense activities within the country involved such as building defense bases or paying for military supplies, travel, and other local expenses of governmental representatives. It may be noted, however, that unless these represent operations beyond those we otherwise would engage in, they replace other dollar exchanges rather than overcome exchange shortages.

Use of surpluses to acquire strategic materials for our stock piles may be

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farm business

NOTES

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desirable where possible. Again, this represents a replacement rather than an increase in dollar exchange. Moreover, countries shipping us such materials prefer dollar payments because that leaves them free to decide what they will buy with those dollars.

Proposals for accepting foreign currencies generally restrict operations to those which will add to exports rather than replace other sales. This is essential to keep these operations from defeating the intended purpose. But it also limits the volume decidedly.

A popular contention is that there can be no real food surplus as long as people are going hungry or are actually starving. But need and effective demand are not the same. Need becomes effective demand in the market only when coupled with means of payment.

If surpluses are to be given to those short of food, someone must foot the bill. To carry out such aid in the proportions required to move present surpluses abroad not only would involve significant costs to taxpayers but also some difficult problems of reaching those in most dire need without interference with the regular markets of our own or of other countries.

In short, while every effort should be made to find real markets for surpluses, miracles should not be expected. The most promising opportunity for maintaining and enlarging export markets lies in an expansion of international trade generally.

This country cannot expect to have markets for its agricultural and other products abroad unless it accepts imports as payments for its exports. Policies and programs, including farm price supports, which interfere with this objective need careful reappraisal.

This is in line with the conclusions reached earlier this year by the Randall Commission on Foreign Economic Policy and by the Agricultural Trade Missions which recently visited 35 countries to explore the possibilities of increasing exports of agricultural products.

Minnesota Farm Prices, May and August 1954

Prepared by Harlan C. Lampe

Average Farm Prices for Minnesota, May and August 1954*

	May 1954	May 1953	Aug. 1954	Aug. 1953
Wheat	\$ 2.15	\$ 2.18	\$ 2.18	\$ 1.98
Corn	1.36	1.34	1.41	1.34
Oats .....	.72	.68	.60	.66
Barley	1.11	1.21	1.06	1.04
Rye .....	.87	1.31	1.02	1.01
Flax	3.72	3.47	3.12	3.26
Potatoes .....	.70	1.00	1.35	1.30
Hay	15.00	16.20	15.60	14.40
Hogs	24.60	22.60	20.80	23.00
Cattle	16.90	16.60	16.70	17.10
Calves	18.70	21.70	16.50	19.00
Sheep-lambs	20.85	21.23	17.70	19.38
Chickens .....	.140	.235	.134	.198
Eggs .....	.275	.415	.320	.455
Butterfat .....	.62	.71	.62	.71
Milk	2.90	3.30	3.10	3.45
Wool† .....	.50	.50	.50	.48

* Average prices as reported by the USDA.

† Not included in the Minnesota farm price indexes below.

June and July figures appeared last month. To complete the series of prices and indexes, May figures are included in this report.

The Minnesota farm price index pushed up slightly from July to August. However, the August index is considerably lower than the 232.9 of a year ago.

The index of purchasing power of Minnesota farm products rose slightly from July but fell short of last August by about six points.

The ratios followed a normal pattern from July to August. However, all ratios are below those of a year ago.

Indexes and Ratios for Minnesota Agriculture*

	Average,		Average,	
	May 1954	May 1935-39	August 1954	August 1935-39
U. S. farm price index	242.5	100	237.7	100
Minnesota farm price index	227.4	100	219.4	100
Minnesota crop price index	214.9	100	223.6	100
Minnesota livestock price index	272.5	100	235.0	100
Minnesota livestock products price index	196.8	100	197.4	100
Purchasing power of farm products				
United States	107.4	100	105.4	100
Minnesota	100.7	100	98.5	100
Minnesota farmers' share of consumers' food dollar	54.5	46.3	†	48.4
U. S. hog-corn ratio	17.5	10.7	14.1	12.3
Minnesota hog-corn ratio	18.1	14.6	14.7	14.6
Minnesota beef-corn ratio	12.4	12.7	11.8	12.0
Minnesota egg-grain ratio	9.6	14.6	11.3	15.9
Minnesota butterfat-farm-grain ratio	26.8	29.7	29.3	33.5

* Minnesota index weights are the average sales of the five corresponding months of 1935-39. U. S. index weights are the average sales for 60 months of 1935-39.

† Figure for August not available.

The Outlook Corner - - The Egg Situation

Will this summer's low egg prices continue? Accurate forecasts are difficult, but some basic facts will help to size up the future.

Prices in recent months have been low, but for the year to date, prices have been near those of recent years.

	June	6 mo. avg.— Jan.-June
1954	27.0	32.6
1950-53	35.1	33.2
1945-49	36.1	35.4
1940-44	24.0	23.7
1935-39	16.0	16.7

The fact that egg production was 3.3 per cent above that of 1953 for January-June accounts for lower prices. With more chicks of laying breeds hatched last spring, egg production can be expected to remain high and prices below last year.

Egg production has increased greatly in recent years. Number of eggs produced increased 70 per cent from 1935-39 to 1953. Production per capita increased 40 per cent. With this increase it is remarkable that prices are as high as they are. Four factors have been important in holding prices up:

1. Consumers' incomes increased greatly.
2. More consumers are familiar with the nutritive value of eggs.
3. More high-quality eggs are sold.
4. Eggs have been good buys compared with most foods.

Egg production per hen is 42 per cent above 1935-39; number of hens is up only 20 per cent.

Minnesota poultrymen face an uncertain future. In 1925-29 they produced 3.7 per cent of all United States eggs; by 1945-49 this was up to 6.8. By 1953 this dropped to 6.2 per cent. Since 1949 Minnesota maintained production, while other states increased.

Records from farm flocks in southern Minnesota show that hens returned \$181 for each \$100 of feed during the 16 years 1928-43; egg production increased rapidly. The return per \$100 of feed was down to \$150 for the 10 years, 1944-53, and with lower profits production has stayed constant.

Profits have also fallen in other states; many of those farmers, however, do not have as good alternatives for the use of feed and labor as Minnesota farmers have in dairy and hogs.

To hold up profits Minnesota poultrymen must follow these rules:

1. Remember that good management pays. High production, low death loss, and low operating costs determine profit.
2. Look for opportunities to save labor.
3. Produce eggs of high quality and work with marketing agencies to maintain that quality to the consumer's table. Egg consumers are quality conscious.

UNIVERSITY OF MINNESOTA, INSTITUTE OF AGRICULTURE, ST. PAUL 1, MINN.

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