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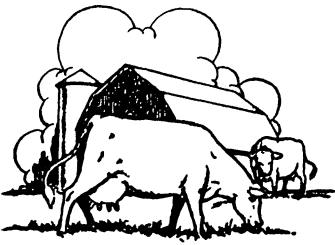
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MINNESOTA farm business NOTES



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Can Increased Food Consumption Decrease Surpluses?

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and
Willard W. Cochrane

With the re-emergence of farm surpluses since 1951, numerous courses of action have been tried for coping with these surpluses. But one area remains relatively untried—increasing the consumption of food by people in the United States.¹ What are the potentials of this approach?

Suggested programs for expanding food consumption in the United States include two key ideas. First, there are many needy people in the United States who, because of their low incomes, cannot afford a good and adequate diet. Hence, the government could subsidize food for these people—this is the income approach.

And second, many families do not consume enough of the right kinds of food to achieve nutritionally adequate diets. Hence, the government could help these persons obtain an adequate diet—this is the nutrition approach.

The Food Stamp Plan is the best example of an action program under the income approach. The Stamp Plan operated between 1939 and 1943 in several large cities and was well received by merchants and participants alike.

Under the Stamp Plan families on relief purchased a minimum amount of food stamps each week and received free additional food stamps from the government. Participants could then use these free stamps to purchase more and better food.

If a modern food stamp program were to include all persons living in families with incomes of \$1,000 or less, some 9 percent of the population would be involved. But to include as much as 19 percent of the population the program

Table 1. Percentage Changes in the Total Quantity of Food Purchased with Income Subsidies*

Food groups	Income groups raised from†		
	Under \$1,000 to 1,999	Under \$2,000 to 2,999	Under \$3,000 to 3,999
Dairy products	1.7	6.8	12.1
Bakery products	1.6	4.7	10.2
Fruits and vegetables	1.6	4.9	7.6
Meat, poultry, fish, and eggs	1.8	5.2	7.4
Fats and oils .....	.3	.9	1.6
Sugar and sweets .....	.2	-1.5	-2.4
Flour and cereals	-3.5	-9.3	-19.1
Index of per capita food consumption	1.3	4.0	5.7

Source: Calculated from *Food Consumption of Households in the United States*, Report No. 1, Household Food Consumption Survey, 1955, USDA.

* Households of 2 or more persons.

† Incomes after taxes.

would have to cover all families with incomes running up to \$2,000.²

Data from the 1955 Household Food Consumption Survey of the U. S. Department of Agriculture suggest the nature of food consumption changes under an income subsidy. Data from table 1 show the percent change in quantity of food purchased by important categories if the low income families receive enough income subsidies to bring their food purchases to the level of the next higher income groups.

For example, if all families with under \$1,000 income were to have their food purchases changed to the level of the \$1,000 to \$1,999 group, table 1 shows that all families would purchase 1.7 percent more dairy products and 1.6 percent more bakery products, and the index of per capita food consumption would increase 1.3 percent.

² Source: Bureau of the Census, *Current Population Reports*, Series P-60, No. 24, April 1957.

If all families with under \$2,000 were to receive subsidies, only two food groups would show a decline—sugar and sweets, and flour and cereal products. The most important increases take place in dairy products, bakery products, fresh fruits and vegetables, and meat, poultry, fish, and eggs.

Since meat and animal products and fruits and vegetables utilize larger amounts of farm resources per pound of food purchased than do such commodities as cereals, the index of per capita food consumption increases with the consumption changes indicated in table 1.

This index measures only changes in physical qualities, however, and does not give any indication of the changes in quality within each food category. If quality changes were taken into account the increase would undoubtedly be greater.

An important thing to note here however, is how little the index of food consumption increases under the income approach. To increase the index by 4.0 percent, it would be necessary to subsidize the food consumption of all families under \$2,000 income (that is, include one out of every five people in the United States). Of course, subsidizing families to higher levels, \$3,000 or \$4,000 would result in a greater increase in food consumption, but such subsidies hardly seem realistic.

The nutrition approach is derived from the supposed deficiencies in average American diets. Table 2 describes the percentage of households in the United States with shortages in their diets when compared with the recommended dietary allowances of the National Research Council.

The shortages range from 20 percent of all households for calcium to 7 percent for niacin. While shortages are most common in the low income groups, a large number of people in the higher

(Continued on page 3)

¹ This report grows out of research conducted under a subproject of Interregional Marketing Project No. 1 at the University of Minnesota.

THE FARMER AND FOREIGN RELATIONS

MINNESOTA

farm business

NOTES

Sherwood O. Berg

Today's American farmer has more influence in the conduct of our foreign affairs than at any other time in history.

For the most part, his enlarged role in world affairs was thrust upon him when he joined with his government in special programs to dispose of mounting U. S. surplus farm products abroad.

Since 1954, the energetic efforts to regain and expand old markets; to tap new export outlets; and to use farm surpluses for economic development abroad, educational exchange, and various U. S. expenditures overseas has cast the shadow of the farmer and his problem over many areas of the world.

But how important are export markets to U. S. farmers? Do farmers have interests other than markets in foreign countries? What are some of the reactions abroad to our foreign agricultural trade policies?

Foreign Countries as Outlets

U. S. agricultural exports totaled \$4.7 billion in the period July 1, 1956 to June 30, 1957 (table 1). This was a record high of exports in the postwar period and was substantially above the postwar low of \$2.8 billion in fiscal 1952.

During the past year, the equivalent of 19 percent of the total acreage harvested went into foreign trade. Exports affected various crops differently. For example, in 1956-57 the equivalent share of harvested acreage of cotton, wheat, soybeans, and grain sorghums going into exports was 57, 55, 38, and 14 percent, respectively.

By and large, the domestic market is the mainstay of our farm economy. Exports are, however, a "safety valve," for they help to maintain price levels and provide an outlet for government held surpluses.

Normal commercial sales continue to be the primary means of moving our farm products into international trade. In the past two years, exports not under government programs accounted for 60 percent of the total movements. In 1956-57, such exports totaled approximately \$2,800 million—up 34 percent from the previous year.

However, exports under government programs have become important in recent years, particularly since the passage of Public Law 480. Government-to-government agreements have been signed with 31 countries. Sales for for-

Table 1. U. S. Agricultural Exports, Government and Nongovernment Transactions—July 1-June 30, 1955 and 1956

Type of transaction	1955	1956
millions of dollars		
Government Programs		
Foreign currency sales.....	806	1,275
Barter	298	350
Grants and donations.....	270	250
Credit sales	60	70
Total Government	1,434	1,945
Commercial (nongovernment sales)		
.....	2,060	2,779
Total agricultural exports.....	3,494	4,724

Source: FAS, USDA.

eign currency have totaled about \$3.0 billion at CCC cost and about \$1.9 billion at market value. These totals include \$230 million in ocean transportation costs which are being financed by the CCC.

The difference of \$1.1 million between CCC cost and market value is a direct loss to the CCC. This loss, in the final analysis, must be covered by the American taxpayer. To the extent that foreign currencies are not converted into dollars directly or into goods and services they become outright gifts or grants, and further losses to the CCC and the American public will have been incurred.

Foreign Countries as Agricultural Producers

While the United States is the world's leading exporter of agricultural products, our country is also one of the top importers. Over one-third of all our imports for consumption consist of farm products. Our imports have averaged about \$3,960 million in the last three years. Only Great Britain exceeds us as an importer of food and fiber.

For some commodities—such as coffee, tea, tropical fruits, and spices—our households are almost completely dependent upon foreign sources. As consumers, we are interested in maintaining a constant flow of high quality, competitive-priced goods to our shores.

On the other hand, the American agricultural producers are concerned with the competition from foreign production. For many commodities, competition on foreign markets has increased in recent years. Many countries have regained and surpassed their pre-war farm production levels.

Some nations in the so-called lesser developed areas of the world have stepped up their farm output in an

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effort to obtain the capital needed for industrial expansion and further economic growth. Under these circumstances the U. S. farmer is often faced with declining markets in importing countries and with greater competition from exporting countries.

Impact on Foreign Relations

In some respects, our foreign agricultural trade policy is much like Janus, the two-headed god of Roman mythology. Our policies, also, appear to face forward and backward simultaneously. On the one hand, we profess our adherence to the principle of free trade, private enterprise, and freedom from governmental intervention. On the other, we are engaging in a wide range of programs, including sale for foreign currencies, subsidized exports, barter, and disposal through donations and gifts, which are clearly forms of state trading.

These apparent inconsistencies in our policy are a source of irritation in our relations with many of our foreign neighbors. In a world caught in the tensions between East and West these irritations frequently place undue strains on our bonds of friendship and good will with our partners in the Western World.

Title I of Public Law 480 contains certain "safeguards" which are designed to minimize injury to our Allies. Among these are: precautions that such sales will not disrupt world prices of agricultural commodities or replace usual U. S. marketings; emphasis that disposal will take place in under-developed and new market areas; and prohibitions upon re-exportation of commodities except with specific approval.

Fairly judicious care has been exercised in sales under Public Law 480. However, the U. S. government has, on occasion, drawn sharp criticism from a number of other countries for encroaching on traditional markets, engaging in unfair competition, and exceeding our fair share of the market. Con-

tinued caution must be exercised in order that other nations are not deprived of their markets.

The use of export subsidies, another scheme for surplus disposal, which has been employed for such commodities as wheat, cotton, dried skim milk, and dressed poultry, has been labeled plain "dumping" by many of our friends. By selling abroad at prices below those maintained in this country, we are engaging in dumping according to our own definition of the term. Smaller nations, in particular, complain that they cannot compete with the direct subsidies from U. S. treasury. This practice also frequently draws retaliatory action from both importing and competing countries in the form of embargoes and other quantitative controls.

Agricultural commodities moving into international trade by barter have not, in general, met the criterion of creating net additions to the normal volume of exports. They have tended to displace regular U. S. commercial sales and perhaps, to a small degree, sales

of other exporting countries. In the handling of donations and grants, there is the problem of keeping these confined to emergency relief and poverty-stricken areas.

Thus some of the difficulties in our foreign relations created by our surplus disposal programs are evident. These conflicts are largely the reflections of deep-seated national self-interests. However, the opportunities for constructive use of U. S. excess farm production, particularly for economic development and in meeting the challenge of food and nutritional deficits in many regions of the world are also apparent. Programs and activities designed to build and strengthen the economies of lesser developed nations can be an important arm in the foreign policy of the United States.

Summary

In our surplus disposal activities, we have condoned some policies and programs which run counter to some of our over-all foreign policy objectives. At times considerable uncertainty over

our agricultural trade policy has existed among friendly trading nations. This comes about in part because our government, in a sense, is seeking means to run a bargain sale without actually cheating. Because of our position as the world's leading trading nation we cannot be blind to the reactions to our programs.

We have a vital stake in farm exports. We have a greater stake in the broadening and the liberalization of trade. We have a stake in seeing that our surpluses are used to meet the humanitarian needs in the lesser developed countries of the world and that they are not disposed of in such a way as to injure our trading partners.

With our vast surpluses still upon us and with little likelihood of a satisfactory adjustment of farm production to effective demand in the immediate future, a high degree of statesmanship in our conduct of agricultural trade policy will be needed if the nation is to play a constructive role in world leadership.

CONSUMPTION—

(Continued from page 1)

income groups also have dietary shortages. For example, 17 percent of the households with incomes of \$10,000 and over per year had shortages in calcium, 15 percent had shortages in thiamine, and 13 percent had shortages in riboflavin.

Table 2 also shows the percentage increase in total consumption of each nutrient required to correct these dietary shortages. These percentages are much lower than the percentage of families that have shortages because: 1) households with shortages consume some of the nutrient, and 2) other householders consume more than recommended amounts of the nutrient.

Still, important shortages do exist in calcium where an increase of over 6 percent in the total consumption is needed to correct that shortage and in ascorbic acid where an increase of more than 5 percent is needed.

Measured in terms of the index of per capita food consumption, it would take an increase of at least 5 percent to correct these nutritional shortages. If all families below \$2,000 income received food subsidies some of those shortages would be alleviated, but sub-

stantial shortages would remain in calcium, thiamin, riboflavin, and Vitamin A.

The upper limits of an expansion in food purchases, where all families below \$2,000 receive food subsidies, is about 4 percent. And the expansion of food purchases under the nutrition approach is about 5 percent. Since some dietary shortages—those of the low income groups—would be corrected by the income approach, the combined potential of these two approaches is in the neighborhood of a 7 to 8 percent increase in total food purchases.

However, this is the maximum potential and it should be recognized that not all low income people or people with dietary shortages would partici-

pate in consumption adjustment programs. In addition the recommended dietary allowance contains a safety margin above minimum nutritional needs so that the actual amount of deficiencies may be less than the shortages indicated above.

Further, to this point no allowance has been made for decreasing the consumption of food to correct for excess calories. And overeating, in terms of calories, is probably as great a problem as most of the nutritional shortages mentioned above. The correction to this problem calls for a reduction in food consumption—not an increase in it.

Summing up, the income approach, within realistic limits, yields only modest increases in food purchases and entails large out-of-pocket costs.

The nutrition approach is, on the other hand, a two-edged sword calling for decreases in food consumption to reduce the total average caloric intake, while calling for increases in food consumption to correct certain dietary shortages.

Thus, and although certain food consumption adjustments are badly needed on nutritional grounds, the potentialities for expanding food purchases as means of dealing with the farm surplus problem seem modest indeed.

Table 2. Consumption Shortages in Eight Nutrients

	Percent of all households with shortages	Percent of total consumption
Protein	8	1.1
Calcium	29	6.2
Iron	10	1.7
Vitamin A	16	2.8
Thiamine	17	3.0
Riboflavin	19	3.9
Niacin	7	1.0
Ascorbic acid	25	5.1

Source: Calculated from *Dietary Levels of Households in the United States*, Report No. 6, Household Food Consumption Survey, 1955, USDA.

Minnesota Farm Prices Sept. and Oct. 1957

Prepared by R. A. Andrews

Average Farm Prices for Minnesota September 1957, October 1955, 1956, 1957*

	Sept. 1957	Oct. 1957	Oct. 1956	Oct. 1955
Wheat	\$ 2.01	\$ 2.06	\$ 2.03	\$ 2.15
Corn	1.01	.95	1.12	1.03
Oats .....	.53	.54	.63	.54
Barley .....	.83	.88	.88	.89
Rye .....	.99	.99	1.16	.84
Flax	3.10	3.10	2.98	2.81
Potatoes	1.05	.90	.66	.80
Hay	14.70	15.30	16.50	14.50
Soybeans†	2.07	1.97	2.01	1.99
Hogs	19.10	16.60	15.30	14.20
Cattle	16.90	17.10	13.80	14.60
Calves	18.70	18.20	16.40	16.30
Sheep-lambs	19.84	18.38	17.00	16.37
Chickens .....	.114	.105	.100	.163
Eggs .....	.320	.370	.330	.370
Butterfat .....	.640	.640	.640	.620
Milk	3.40	3.40	3.40	3.30
Wool† .....	.51	.49	.42	.36

* Average prices reported by the USDA.

† Not included in Minnesota farm price indexes.

The price of corn in October 1957 was below one dollar for the third time since June 1945. During the post-war period, corn prices were at this low level only in October and November of 1949.

Comparison of September and October Prices

Commodity class	Average October prices as a per- centage of average September prices
Crops	100
Livestock	93
Livestock products	101
All commodities	97

Indexes for Minnesota Agriculture*

	Average Oct. 1935-39	Oct. 1957	Oct. 1956	Oct. 1955
U. S. farm price index.....	100	226.0	220.3	216.6
Minnesota farm price index.....	100	202.0	189.2	188.4
Minnesota crop price index.....	100	197.5	198.9	195.4
Minnesota livestock price index.....	100	217.9	191.8	187.6
Minnesota livestock products price index	100	179.7	176.8	183.8
Purchasing power of farm products				
United States	100	95.3	95.8	96.5
Minnesota	100	85.2	82.3	84.0
U. S. hog-corn ratio	14.1	15.9	13.0	12.7
Minnesota hog-corn ratio.....	17.8	17.5	13.7	13.8
Minnesota beef-corn ratio.....	14.7	18.0	12.3	14.2
Minnesota egg-grain ratio.....	20.9	15.4	12.9	14.7
Minnesota butterfat-farm-grain ratio.....	36.4	37.1	32.9	35.1

* Minnesota index weights are the average of sales of the five corresponding months of 1935-1939. U. S. index weights are the average sales for 60 months of 1935-1939.

The Outlook Corner—General Business

Business activity was maintained at near record levels through most of the past year but recent indications are that a leveling out period has begun.

After a slow rise during the first half of 1957, wholesale prices declined slightly in September and October. There also was a small increase in unemployment.

Consumer prices, however, have continued to rise. The consumer price index rose 2.3 percent from January to August, 1957. This was the largest rise since 1951. In August of this year, consumer prices were at an all time high.

Disposable personal income, in dollars, rose in 1957 (see table). However, this was more than offset by the rise in consumer prices, so the purchasing power of this income actually declined.

The table shows why inflation has been a major issue during the past year. Farmers are concerned since inflation tends to increase prices of goods and services farmers buy without increasing the prices they receive.

Farmers are also interested in a high level of activity in the whole economy. The substantial increase in disposable income of consumers since 1951 has resulted in a strong demand for farm products. Declines in farm prices and incomes would have been more severe if demand had declined together with surplus production.

Increases in the investment by business in new plants and equipment have been an important factor creating growth in the economy in recent years. Such investment reached a high in 1957, but will decline in 1958.

Disposable Personal Income in the United States, 1939 and 1948-1957

Year	Per capita disposable income (dollars)		Population (millions)
	Current prices	1956 prices	
1939	538	1,053	131
1948	1,279	1,445	147
1949	1,261	1,439	149
1950	1,359	1,536	152
1951	1,465	1,534	154
1952	1,512	1,548	157
1953	1,568	1,592	160
1954	1,567	1,586	162
1955	1,635	1,660	165
1956	1,708	1,708	168
1957			
1st quarter	1,737	1,701	170
2nd quarter	1,755	1,704	171
3rd quarter	1,765	1,695	172

Source: Economic Indicators, page 6, October 1957, U. S. Government Printing Office.

Consumption expenditures will probably continue to expand next year, but at a slower rate than in previous years. Government purchases of goods and services will also continue at about their 1957 rate.

It all adds up to a leveling out in the rate of growth during 1958 and a slowing up in the rate of increase in the demand for farm products.

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