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FARM PRICES AND THE OUTLOOK IN THE UNITED STATES

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IN the United States price readjustments are under way. The termination of price controls released inflationary pressures and prices moved upwards sharply in response to accumulated deferred demands greatly in excess of current production. As usual, the process of working out of inflationary conditions is being distributed throughout the national economy over a period of time. As usual, the prices of farm products and of other raw materials have responded fast to changing conditions. To some extent they have anticipated changing market conditions, whereas the adjustments of the prices of most processed products being administratively controlled were postponed, to be made only in response to consumer pressures. These generalizations should be qualified to recognize also differences in the volume of deferred demands, the time required to provide the supplies needed to meet them, and the elasticity of demand for the several products. These differences have a tendency to spread out the period of price adjustments.

The turn in the prices of agricultural products would mark the beginning of 1948 as the peak of the inflationary rise in prices in the United States. The market for agricultural products in 1947 was greatly influenced by European needs and the programme of the United States to supply those needs. As usual, the prices of many agricultural products were pushed up by market speculation generated largely by rising prices and uncertainty as to the adequacy of supplies to meet the demands in both domestic and foreign markets. The prices of farm products in January 1948 reached a high point, 307 per cent. of the 1910–14 base. The fall from this peak was sharp and rapid for a short period. There was some recovery, but the harvesting of large crops in 1948 held prices for many products at approximately the support levels for the remainder of the year. Early in 1949 there was another sharp break, resulting largely from the pressure of large supplies. The decline was checked early in the year and remained firm for some months. Some further adjustments are expected in the remainder of 1949 and in 1950, but there is not now in prospect any such depression as occurred following the First World War. The

Commodity Prices: Decline in Selected Indexes and Commodities, United States, post-war peak to May, 1949

Item	Unit	Price or index level: Post-war peak	Date of peak	May 1949	Decline from peak to May 1949
		$		$	Per cent.
Wholesale prices (1910–14 = 100)					
All commodities		248·0	Aug. 17, 1948 / Sept. 14, 1948	226·0[1]	8·9
Farm products		285·1	Jan. 13, 1948	239·4[1]	16·0
Food		296·1	July 20, 1948 / Aug. 17, 1948	254·0[1]	14·2
Consumers' price index (1935–9 = 100)					
All commodities		174·5	Aug.–Sept. 1948	169·7[2]	2·8
Foods		216·8	July 1948	202·8[2]	6·5
Prices received by farmers (1910–14 = 100)		307	Jan. 1948	256	16·6
Parity index (1910–14 = 100)		251	Jan., June–Aug. 1948	245	2·4
Price received by farmers	*Unit*				
Flax-seed	bus.	8·16	Mar. 1947	3·68	54·9
Corn	,,	2·46	Jan. 1948	1·22	50·4
Cotton-seed	ton	96·00	July 1948	50·40	47·5
Soybeans	bus.	4·11	Jan. 1948	2·18	47·0
Hogs	cwt.	27·40	Sept. 1948	17·90	34·7
Butter-fat	lb.	0·900	Oct. 1946	0·606	32·7
Milk, wholesale	cwt.	5·21	Nov. 1946	3·60	30·9
Wbeat	bus.	2·81	Jan. 1948	2·00	28·8
Eggs	doz.	0·587	Dec. 1947	0·434	26·1
Cotton	lb.	0·3769	Oct. 1946	0·2997	20·5
Beef-cattle	cwt.	25·20	July 1948	20·90	17·1
Potatoes	bus.	2·07	Apr. 1948	1·81	12·6
Peanuts	lb.	0·106	Nov. 1948, Apr. 1949, May 1949	0·106	—

[1] Week of June 14, 1949. [2] April 1949.

average of all prices received by farmers is now (July, 1949) about 250 per cent., and the prices farmers pay average about 244 per cent. of the 1910–14 base price. The prices received by producers have declined about 18 per cent., while the prices paid have declined only about 3 per cent. from their highest point in post-war inflation.

Large feed supplies and increasing livestock production are pressing prices towards lower levels. However, government-support

Prices received by Farmers for May 1949, *Estimated Prices for July and December* 1949 *and June* 1950, *and Index Numbers* (*Aug.* 1909–*July* 1914 = 100)

Commodity	*Unit*	*May 1949 price*	*Estimated price* July 1949	*Estimated price* Dec. 1949	*Estimated price* July 1950
		$	$	$	$
Wheat	bus.	2·00	1·70	1·90	1·50
Corn	,,	1·22	1·25	1·15	1·10
Oats	,,	0·660	0·60	0·65	0·55
Cotton	lb.	0·2997	0·2900	0·2925	0·2900
Tobacco	,,	0·464	0·465	0·432	0·427
Apples	bus.	3·14	2·75	1·90	2·10
Oranges	box	3·30	3·25	1·40	2·00
Potatoes	bus.	1·81	1·35	1·00	1·20
Cotton-seed	ton	50·40	50·00	45·00	45·00
Soybeans	bus.	2·18	2·10	2·00	2·00
Peanuts	lb.	0·1060	0·1050	0·1040	0·092
Flax-seed	bus.	3·68	3·50	3·50	3·14
Beef-cattle	cwt.	20·90	22·25	17·50	17·50
Lambs	,,	25·30	24·00	20·00	19·50
Hogs	,,	17·90	20·75	16·00	17·50
Milk, wholesale	,,	3·60	3·65	4·25	3·00
Butter-fat	lb.	0·606	0·605	0·640	0·520
Chickens	,,	0·282	0·267	0·260	0·250
Eggs	doz.	0·434	0·458	0·540	0·420
Index (Aug. 1909–July 1914 = 100)		256	255	236	219

measures are checking the sharp declines and contributing materially towards stabilizing prices.

Furthermore, the national demand for agricultural products is being sustained by high levels of employment and of consumer purchasing power. There is some concern about increased unemployment, but the percentage of the labour force seeking work and not finding a job is low. The earnings of the employed are at a high level and there is a large volume of savings available to many consumers. The purchasing power of the unemployed is being supported by insurance payments. Under these conditions the domestic market remains strong.

The costs of farm production and of living have been reduced, but only moderately. The scarcity of labour and the high wages paid in industry resulted in high farm wage rates during the war period. The return of ex-soldiers to the farm and the recent slack in industrial employment have resulted in an increase in the farm labour supply and more recently a slight decline in farm wage rates. Supplies of materials, machinery, and other equipment used on the farm have increased also, and the prices of some have declined moderately.

The relation of farm prices received to prices paid has been quite favourable to farmers since 1941. However, the average of the prices received may fall below the average prices paid in relation to the 1910–14 averages within the next twelve months. This less favourable balance is likely to continue, but Government measures are likely to prevent such extreme depressions as occurred in 1921 and 1932.

Now I presume you are asking how much the government-support programme affects prices. First, note that the prices of most fruits and vegetables and of meats are not supported. The supports of dairy and poultry products apply mostly to seasonally heavy production and do not have much effect upon the annual price averages. The prices of sugar, wheat, and potatoes are higher than they would be without supports. However, the effect on the food cost of living in the United States is probably less than five per cent.

The price of cotton is being maintained, whereas it would otherwise be greatly depressed by large supplies. But I am told in Europe that American cotton is even now the cheapest cotton in the world. The price of tobacco is not far from what it would be without supports as long as the current export volume is maintained. Feed grains are being supported, but the market prices of these grains are considerably below the support level. For all, excluding cotton, a free market would probably result in average prices for exports not more than 10 per cent. below present levels.

To farmers the price-support measures make significant contributions towards stabilizing prices and incomes in harvesting seasons, months of heavy seasonal production, and in readjustments in demand from war conditions to more normal requirements. However, the pre-war surplus problems are reappearing. The production for the domestic market of some foods has increased so much that even with the very high levels of purchasing power prices have been depressed below parity and, in some cases, to the low pre-war level. Large feed grain crops are so much in excess of feed requirements as to begin the accumulation of stocks. Cotton production is in excess of requirements and will begin again this year to build a large stock-pile. Fats and oil supplies are so large as to depress prices to low levels. Recovery of production abroad and trade restrictions are reducing the foreign requirements of products from the United States. Eventually other countries will have similar surplus problems.

Looking at agricultural prospects internationally it is evident that in the process of readjustments after the Second World War, as after the other Great War, farmers face problems associated with declining price levels, unbalanced exchanges, cyclical fluctuations in production and buying power, and chronic surpluses. If prices follow the usual course after great wars, farmers have a hard road ahead for many years.

I, for one, do not assume that prices generally and farm prices in particular must follow the historical pattern of former post-war periods. I think they will unless effective measures are taken to solve or avoid many of the problems arising in readjusting from war conditions to a healthy international economy.

In relation to this point I offer a few observations and suggestions as to conditions and measures that might improve the price and income outlook for farmers.

Farmers can help by keeping themselves informed as to changing market conditions and prospects, and making adjustments in costs and in production in view of market requirements and price prospects. However, the problems and the appropriate solutions extend beyond the farm and beyond the power of the individual farmer. National governments have responsibility and power to aid and protect farmers to some extent in these matters, but many problems extend beyond national boundaries. Effective remedies require international co-operation.

Perhaps we have reason to hope that co-operating nations will undertake effective measures to:

1. Broaden markets by reducing trade barriers of all sorts.
2. Encourage efficiency in the use of agricultural resources.
3. Facilitate shifts in labour from relatively unproductive areas to the more productive areas, and from agricultural to non-agricultural production.
4. Stabilize currencies and exchanges.
5. Stabilize the supplies and prices of storable agricultural products by providing storage for surplus supplies in seasons of high yields to carry into low seasons, and aid for moving supplies from surplus to deficit areas.

Co-operative action along these lines could encourage and aid farmers in adjusting production to demand, developing more efficient use of resources, providing an expanding market for agricultural products, and contributing materially towards the stabilizing of prices and incomes to farmers throughout the co-operating States.

In answer to questions, Dr. Stine *said*:

Professor Skovgaard has asked what the prospects are for the new U.S. policy advocated by the Secretary for Agriculture, whereby prices would be free, but the Government would sustain farm incomes. The Congressional reception of this proposal has not been favourable! The fear is of the great cost that would be involved if that programme were extended to all meats and vegetables. It is possible that a trial will be made, but the prospect is not very good for even a partial trial.

Professor Ashby has asked three questions: (*a*) how the suggested commodity corporation would be established and operated; (*b*) whether a stock-pile—admitting its necessity for carrying consumers' supply from one harvest to the next, and its desirability to carry the consumers' supply for the worst harvest—does not in fact exercise a more depressing influence on prices than any other factor on the market, so that a commodity price never recovers from depression while a stock-pile lasts; and (*c*) if the commercial community has ever shown confidence in statements of public policy about the stock-pile.

These are a large order. I will make a brief statement on what I consider to be basic considerations in the formation and development of such a corporation.

In the first place, I think it should be financed so that it will be free from the direct controls of national governments, except in the overall general policy, in approximately the same measure or extent in which the international bank is supervised or directed through national governments. The objective should be to establish an institution which will operate economically, will buy products, store when the crops generally are good and supplies are abundant, and carry them over longer periods than the market will carry them, to be fed back into the market when supplies are short. I do not think that individual commodity agreements will succeed. I think it is essential that several commodities traded internationally shall be operated in relation to each other, so that there is in fact an international pool involving the interests of several countries. Some of them, of course, in the case of individual commodities, will want to sell at the highest possible price, and others will want to buy at the lowest possible price. In this pool the considerations would be more on a basis of the relation of one price to another or the relation of the prices of each of the several products to others. Operations should be conducted on the basis of general principles of financing and trading.

I do not agree with the implied criticism of the stock-pile. The significance of a stock-pile will depend upon policy with reference to its release. If there is no understood public policy with reference to that release, Mr. Ashby's statement is correct. But if there is an understood policy that in fact sets apart this stock-pile from what is currently available in a season of abundant supplies, there can be a price determined by the supply available for the season.

Professor Ashby asks if the commercial community has ever shown confidence in public statements about stock-pile policy. In the U.S.A. they have been forced to do so. Of course, government policy must establish confidence. I am critical of U.S. Government policies at times, because the public is not told enough about what is being done and about what is planned. However, in the U.S. we have often seen a price of a product being held considerably higher than it would have been had the stock-pile been freely available to the market. Stock-piles do disturb traders, but I think this can be largely remedied by announcements for longer periods of government policy with reference to conditions of release, both as to distribution and prices.

Professor Norton has asked me to give the level of farm wages in the U.S., and to predict what the average farm price level will be in the U.S. in December 1950.

I do not remember the level of wage rates, but Dr. Bean reminds me that the current index of farm wage rates compared with pre-war 1910–14 is about 400. Recently there has been a very moderate decline. May I say in this connexion that the farm wage rates in the U.S. are very sensitive to the amount of industrial unemployment, and to the prices of farm products? There is almost no farm wage fixing.

As to Professor Norton's request for a prediction, we are continually making estimates or 'guesstaments' of prices a year ahead. We assume that in general supply and demand conditions do largely determine the level of prices, and that government intervention only modifies them in the short run and in special cases. The index of prices farmers received for all farm products in July was 249. We estimate the average prices for December 1949 at about 236, and for July 1950 about 220, and that the prices which farmers pay will not decline as much. So that by July 1950 we shall have an unfavourable price relationship.

Professor Nash inquires about the relation between the U.S. Government price-support policy and the export policies for foodstuffs produced in the U.S., and asks me to make predictions as to the likely future of any such policies.

Predictions as to policy on that point would be rather hazardous. Murray Thompson may correct me if he wishes. Something may be said of the plans for wheat. To meet the commitments in the International Wheat Agreement a subsidy will be needed which is approximately the difference between the current market price and the commitments under the Wheat Agreement. Otherwise wheat exports are not subsidized. There is another point to be noticed in that connexion, and that is that purchases by the Commodity Credit Corporation for shipments to occupied areas are charged at the support level rather than at the market-price level.

E. F. Nash

This question is on a different point, and has to do with the International Wheat Agreement, and the answer to it may be that I have not read my document carefully enough; but I shall be glad of the information. My understanding of the International Trade Charter, and of the section in it dealing with the international commodity agreements, was that in order to be able to establish an agreement which purports to control prices or supplies, certain conditions had to be fulfilled; among them the provision that there had to be agreement that the market situation in regard to the commodity concerned had to be one in which a burdensome surplus was shown to exist and/or that there was either in existence or in prospect the development of unemployment or under-employment in connexion with the commodity concerned. Could Mr. Stine just tell me whether I am right or wrong in supposing that those are the conditions; and if I am right, does that mean that there is general agreement that there is now a burdensome surplus of wheat?

O. C. Stine

I do not have in mind clearly the language of the agreement with reference to employment or unemployment conditions. There is no burdensome surplus of wheat now, but one is imminent. We have produced very large crops, and there is another this year. If we cannot export 4–5 hundred million bushels, we begin the accumulation of stocks. We are anticipating that situation this year or next year by suggesting to farmers that they seed less wheat, to bring production more nearly in line with the prospective market, when production has recovered in deficit areas. We were fortunate to be able to market last year's large quantities. We have still to see how the marketing of large quantities this year goes, but we are afraid that the prospect next year will be a reduction.

Dr. Bean reminds me that on the assumptions on which these price forecasts are made we should make the qualification that in the middle of 1949 business prospects are beginning to improve to some extent, so that the prospect does not now appear to be as bad for 1949 and 1950 as it appeared to be a few months ago. My qualification would be that the statement as to the price level for July 1950 is perhaps on the low side if the present prospects carry through into the early part of 1950. Employment may not increase significantly, from the indication of the last few months, although the consumer buying power in the U.S. is now at a high level. However, if the current improvement is carried on into 1950, the prices of many farm products may be somewhat higher than those used in the calculation which gave the figure of 220 compared with about 250 now.