The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Marketing of farm products

1975

UNIVERSITY OF CALIFORNIA
DAVIS
SEP 23 1975
Agricultural Economics Library

An Economic Appraisal Of Recent Commodity Market Performances

John A. Schnittker

It is no secret that commodity markets in the U.S. and the world have performed poorly in recent years. I trust you will take my word that the evidence is in the data, and the data are all around you. A great deal has already been said or is being said about this, in present and past papers delivered to the Association, and I see little reason to labor the issue.

1. Markets have been giving agricultural producers erratic signals; they have been characterized by extreme uncertainty and instability whereas greater certainty and stability are still preferred by producers and consumers, and would produce a better (more efficient) use of resources and a better (more equitable) distribution of production. So we need improved techniques for stabilization.
2. U.S. and world markets have been at the mercy of state-trading enterprises such as the Soviet Union and China in recent years. Those nations move in and out of our markets more or less at will, often purchasing quantities so large as to severely and adversely affect economic sectors (U.S. food) and nations (India and Bangladesh), which cannot, in any sense, compete on even terms with economic and political giants such as Russia and China.

Presented at AAEA annual meeting, Columbus, Aug. 10-13, 1975.

We need buffers against sporadic incursions into agricultural markets, especially in the U.S.

3. Markets today lack enough information to function effectively in the new political and economic climate of 1972-75. Giant companies increasingly dominate the commodity and food sector, and two large but closed societies have become the principal market factors, either by their presence in, or their absence from world grain markets. The world, however, knows little about what is happening in those societies, or how unknown events there will affect agricultural markets. U.S. officials, and companies or persons with privileged information gained by virtue of function or position, know far more than farmers or consumers do about what is happening and what imminent actions will affect markets. Both officials and large companies are also in a position to present, and often do present, the public with obsolete or intentionally misleading information about conditions inside closed societies or intentions to purchase which will affect markets. Government reports are inherently misleading in a fast-moving situation. We need a policy of full and timely information to improve market performance.

There are many examples of severe adverse impacts of recent instability in U.S. agricultural markets. Cattle feeders were led into a trap in 1973 and since, both by market actions and by inept federal market regulation. Price controls on meats in 1973 encouraged withholding animals. Later meat prices collapsed under the weight of accumulated supplies while grain prices soared. Price controls applied to meat, at a time when price-stabilizing action should have been applied to grains and oilseeds in order to limit meat price increases, played an important role in this, but I am not sure what role. Certainly the malfunctioning of markets cannot be given the entire blame for the roller-coaster behavior of meat prices in recent years - nor can inept regulation.

The sharp increase in meat prices in 1975, resulting from a corn crop failure in 1974 after reserves had been squandered in 1972 and 1973 is another example. The U.S. meat sector made the world's only major adjustment in feeding levels in 1974-75, because market prices performed a rationing function here, while other countries were able to buy nearly all the grain they could afford to buy from the U.S., to maintain comparative stability in their own regulated meat sectors.

The role of large state-trading nations in destabilizing our markets is too obvious for much more comment, as is the ability of such enterprises to enter our markets at bargain prices, leaving the rest of the world to bear the costs of Soviet or Chinese purchases, or EC regulations which prevent the extent of world grain scarcity from being communicated to European feeders even while U.S. feeders are being rationed severely. As Marshall Goldman said in the New York Times recently, in the context of the latest Soviet purchases, "some way must be found to transfer some of this cost to the Soviet Union."

Excess speculative activity fostered by extreme market uncertainty, by lack of information, by misleading and wrong information, and by lack of buffer or reserve stocks, has played an important role in poor market performance. I refer to the series of events that brought us $12 soybeans, $1.00 per pound pork bellies, and 66 cent per pound sugar. Market analysts and regulators, especially the new Commodity Futures Trading Commission, have a fertile field here for study and action for many years.

I said earlier that market action in recent years has squandered our grain reserves. Unregulated market action in the next few years may make it impossible to rebuild those reserves, or may again deplete them, before another crop failure occurs somewhere in the world. The U.S., under the present Administration, will rebuild grain reserves only as an unwanted by-product of large crops; yet grain reserves, as much as a high and responsive agricultural production capacity, are a cornerstone of price stabilization policy both in the farm and non-farm sectors. Further, grain reserves are a cornerstone of our agricultural trade policy, and of our position as a secure world supplier of agricultural products. Grain reserves, not simply pipeline stocks, are in the national interest, Secretary Butz notwithstanding, and we should have them as soon as possible.

What is required to improve market performance is, first, to abandon both the dogma and the rhetoric of a free market agriculture. This is long overdue. Even those who preach it so fervently do not practice it, for events and circumstances will not permit them to do so. Unfortunately, holding out against needed and timely regulation of markets in the hope that the true religion of free and open export markets will yet be vindicated often postpones action until it is too late -- as in the case of soybean export controls in 1973.

To cite another example, when Secretary Butz placed his Department in the way of unlimited grain exports, via the "prior approval" system put in effect late in 1974, the scheme was officially hailed then as the way to avoid the hated system of "export licensing." It was that, and it worked; it stopped the price spiral. Now, when the prior approval system may again be required in 1975 to insure that relatively stable food prices and the rebuilding of our own reserves have precedence over increased meat production in the USSR, it is opposed by its former sponsors in the Government because "it would represent export controls."

In the world we live in, agricultural production, exports and prices are issues of high policy. It is worse than inept to argue that we must let, and that we are letting, our open agricultural markets function; it is false. There is a heavy overlay of policy involved not only in sales to Russia and China, but in our agricultural trade relations with Europe and many other countries, and in the question of reestablishing grain reserves. It would be well to recognize this.

As we talk today, it is almost certain that others are debating the merits of very large additional grain and oilseed exports to the USSR during the next 15 months, or perhaps five years, at a cost of substantially higher food prices and an inevitable further destabilization of the U.S. food sector, and for political benefits which may be large but less tangible. Until these questions are settled, open markets for grain will probably be suspended, although regular customers which have not yet bought normal supplies will be permitted to buy.

It was startling, in the context of events now taking shape in U.S. and world agricultural markets to hear a high U.S. official say in mid-1975, that the U.S. government has no targets with respect to our agricultural exports or agricultural prices, and no danger points for prices or supplies beyond which regulatory actions would be taken. It was as if the U.S. government were only an interested bystander, rather than the principal participant, in these market events. This was either ordinary governmental fabrication, or extreme naivete. I believe it is the former; the government is constantly managing agricultural markets and prices while telling us it is not.

The debate, if there is to be one, on improving the functioning of agricultural markets, is over the degree and the details of regulation, not over free versus regulated markets.

The appropriate kind and degree of market regulation requires, first, an admission that new forms of regulation are not just temporary needs arising out of unusual events, but long-term requirements arising out of changed circumstances affecting agricultural markets.

Specifically:

- We need to set upper limits on agricultural prices in the interest of general economic stability, as well as lower limits in the interest of farmers. Feeding reserves into the market in times of reduced crops is the preferred form of regulation in this case, but when there are no reserves, policies limiting exports should be in effect.
- We need to raise agricultural price support levels very substantially for several years, both to encourage full production and to insure that some reserves are accumulated, as opposed to rapid expansion of grain feeding to animals and poultry at the expense of reserves.
- The possibilities for useful regulation of futures markets to foster market stabilization need to be exploited, as I believe they will be by the new Commodity Futures Trading Commission.
- We need an open information policy; full disclosure can often be a substitute for greater regulation.