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Agricultural Letter

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U.S. DEPARTMENT OF AGRICULTURE

"NEW MARKETS AND NEW TECHNIQUES" was the theme of the National Farm Institute at Des Moines last week. A central question—What are the possibilities of expanding markets to solve the problem of overproduction in agriculture? The general conclusion—The possibilities appear very limited. But much ground was plowed again in the searching discussions which occupied the two-day forum.

Our capacity to produce: Tremendous strides in technology have enabled U. S. farmers since 1910 to double total output, utilizing one-third less manpower and with only a modest change in number of acres under cultivation. Output per man-hour of farm labor tripled in this period.

Not only has the technological revolution in agriculture continued, but, according to one speaker, it is going on at an accelerated rate. Since 1940, output per man has increased 83 per cent on farms, a far greater increase than in the rest of the economy.

The speaker's concluding note was that agriculture's capacity to produce will likely remain above consumption for some decades to come.

Expanding our domestic market for farm products: The discussion centered on three points made by one of the speakers.

First, the market for farm products expands through population growth and upgrading of the diet as the income level rises. However, the production potential has expanded more rapidly than the market.

Second, food consumption can be increased but at substantial reductions in prices. "Such drastic price reductions are necessary that the total gross income from the higher consumption-lower price situation is actually less than before." The real question is, "Can we get people to allocate a larger share of their incomes for agricultural products?"

Third, expanding the market for agricultural products is not the same thing as expanding consumer food expenditures because the later include costs of services and processing as well as the agricultural raw materials.

Two broad approaches can be used in efforts to increase consumer allocation of money for food—pay them to do it (food consumption subsidies), and persuade them to do it (advertising and promotion).

Food consumption subsidies could be used to increase the food consumption of low income groups and to provide more nutritious diets. Subsidies to families with incomes under $2,000 might increase the index of food consumption 4 per cent. Correcting nutritional deficiencies might increase per capita food consumption 5 per cent but if diets were corrected for excess calories, the nutrition approach would call for a decrease in total consumption rather than an increase.

Food promotion has been and is being used so this approach implies additional efforts by each producer group: eggs, beef, milk, cranberries and so on. However, the task of persuading consumers to put extra money into agricultural commodities, over-all, is extremely difficult. There are no close substitutes for food in the consumers' budget, and expansion of the market for one food commodity is likely to come at the expense of other food commodities. This route "seems to offer very limited possibilities—if in fact, any at all."

The point of "no return" of promotion in agriculture possibly has been reached. At this point, promotional expenditures are made by groups "as a defensive measure against other groups." Promotional outlays "then become one of the necessary costs of staying in business."

New uses for agricultural products have an unknown potential for creating additional markets. But, "any real substantial break-through in new knowledge always involves the possibility of long, slow, tedious work" and "only rapid and extremely fortuitous developments . . . could add measurably to the agricultural market in the next several years."

Expanding foreign markets and increasing surplus disposal abroad: Speakers agreed that the level of exports achieved by Government subsidy under Public Law 480 is about as high as can be expected without damaging U. S. relations with other exporting countries and disrupting normal world trade. Further, in spite of exports of $1.5 billion under special Government programs in 1957-58, out of a total of $4.0 billion, the stock of surpluses in Government hands continues to increase.

The conclusion of the discussion was not an optimistic one in terms of the outlook for farm income. So long as agricultural programs continue to provide incentives for rapid adoption of new technology, the expansion of output will likely outpace any forseeable increases in demand. The result would be a perpetuation of surpluses.

Research Department

FARM BUSINESS CONDITIONS

January 1959, with comparisons

ITEMS	1959	1958	
	January	December	January
PRICES:			
Received by farmers (1947 - 49 = 100)	90	90	89
Paid by farmers (1947 - 49 = 100)	119	118	116
Parity price ratio (1910 - 14 =100)	82	83	83
Wholesale, all commodities (1947 - 49 = 100)	120	119	119
Paid by consumers (1947 - 49 = 100)	124	124	122
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.98	1.96	2.22
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.19	1.19	1.15
Oats, No. 2 white, Chicago (dol. per bu.)	.70	.69	.73
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.20	2.18	2.26
Hogs, barrows and gilts, Chicago (dol. per cwt.)	16.66	18.15	19.11
Beef steers, choice grade, Chicago (dol. per cwt.)	28.13	27.19	26.82
Milk, wholesale, U.S. (dol. per cwt.)	4.33	4.45	4.41
Butterfat, local markets, U.S. (dol. per lb.)	.59	.59	.59
Chickens, local markets, U.S. (dol. per lb.)	.17	.15	.19
Eggs, local markets, U.S. (dol. per doz.)	.36	.36	.39
Milk cows, U.S. (dol. per head)	227	225	185
Farm labor, U.S. (dol. per week without board)	45.00	--	41.00
Factory labor, U.S. (dol. earned per week)	87.38	88.26	81.66
PRODUCTION:			
Industrial, physical volume (1947 - 49 =100)	143	142	133
Farm marketings, physical volume (1947 - 49 =100)	--	139	126
INCOME PAYMENTS:			
Total personal income, U.S. (annual rate, bil. of dol.)	362	360	349
Cash farm income, U.S. [1] (annual rate, bil. of dol.)	--	34	33
EMPLOYMENT:			
Farm (millions)	4.7	4.9	5.0
Nonagricultural (millions)	58.0	59.1	57.2
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1955 monthly average = 100)	112.6	112.8	102.3
Nonagricultural banks (1955 monthly average =100)	105.8	108.7	103.3
Time deposits:			
Agricultural banks (1955 monthly average = 100)	128.8	128.3	114.8
Nonagricultural banks (1955 monthly average =100)	122.6	122.9	113.4

[1] *Based on estimated monthly income.*

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago