UNITED STATES DEPARTMENT OF AGRICULTURE

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MARKETING SITUATIONS AS THEY AFFECT THE OUTLOOK

Address by Frederick V. Waugh, Assistant Administrator,
Agricultural Marketing Administration, at the
20th Annual Agricultural Outlook Conference,
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The outlook for farm products is always affected by the marketing situation. Prices of farm products and the income received by farmers depend not only on the volume of production and on the size and distribution of the national income, but also upon methods of processing, transporting, and distributing farm products. Ordinarily we do not give very much special attention to these problems in the annual outlook meetings. This is simply because the marketing system ordinarily changes little from year to year. Although there have been important basic changes in marketing methods and in market organization since the outlook meetings began in the early 20's, most of these changes have been gradual trends. Their effects on agricultural prices and upon farm income have often been hidden by the effect of other factors.

In time of war we are forced to make drastic changes in marketing. Some of these changes have already been made or are clearly indicated, but as the war progresses we are likely to have to take much more drastic steps than we have so far. This will greatly affect the agricultural outlook, and although we cannot forecast all these changes, it is well for us at this meeting to review very briefly some of the principal marketing factors which are likely to affect the agricultural outlook. I shall mention seven of these factors and discuss each very briefly.

1. The expanded market for farm products. You all know that an increasing proportion of our food supplies are going to our military forces and to Lend-Lease. The AMA is now buying food at the rate of five million dollars a day, largely for lend-lease purposes. This rate needs to be stepped up. Most of our Allies in this war will need more foods than we have shipped them in the past, and supplies for our own military forces must be increased very substantially. This will become increasingly important as we send more men to distant countries overseas. We must also be prepared to feed large civilian populations in countries which we hope will be occupied by the United Nations. This means that we must build up contingency reserves and stockpiles. To do this our rate of Government purchases must be stepped up substantially. It is also clear that our own domestic consumers would be in the market for more food if we are willing to let them have it. Without question domestic consumers will face rationing on many foods, even if we do our utmost to maintain agricultural production.

2. Our capacity to market and distribute agricultural commodities. We face many important difficulties in marketing. Perhaps the most difficult is the job of transportation. Motor trucks are becoming scarce and the outlook is that the trucking situation will be much tighter for next year at least and probably for many years to come. The railroads have done a remarkable job in handling increased volume. However, the efficiency of railroad transportation probably cannot be increased much more without fairly drastic

regulations to prevent cross-hauling. Perhaps we will also need to have priorities to prevent the shipment of non-essential commodities, including some kinds of food. Ocean shipping is the worst bottleneck of all. We will need all we can possibly get. However, the rate of launching new ships now evidently is greater than the rate of sinkings.

The over-all national situation, both on dry storage and on cold storage, seems fairly good; that is, we will have enough space to store the current production and make some allowance for contingency reserves. However, in certain localities cold storage space will be limited and some steps may be needed at these points to use cold storage only for the most essential goods. The current storage situation continues very tight and will be difficult again next year.

The most difficult problems in connection with processing plants are to get adequate drying capacity for meats, dairy products, eggs, and vegetables, and to use our slaughtering plants to best advantage in handling a record volume of livestock. The dehydration program is progressing fairly well and it appears likely that the goals will be met for dehydrated pork, eggs, roller process milk and most vegetables. Our capacity for spray process dry milk and for dried cabbage is still too small.

The packaging of farm products involves many difficulties due largely to the shortage of such essential materials as tin cans and burlap. We will have to get along with less packaging and with substitute packages for many commodities.

3. Marketing costs. The over-all marketing bill for agricultural products as a whole appears to have dropped slightly from 1937 to 1941, and although marketing margins rose somewhat in early 1942 they have not yet gone up enough to fully reflect increased wages. One very important question affecting the outlook for farm products is whether marketing margins will continue to rise or whether such an increase may be held in check by price ceilings and Government price supports. There is already a good deal of complaint among processors and distributors concerning the so-called "squeeze". In some cases at least steps will probably have to be taken to handle this situation. There seem to be several alternatives: one is to allow the ceilings to be broken; another is to subsidize the processors or distributors; and still another is to take whatever steps may be necessary to reduce costs and charges in the marketing system. On paper there seem to be real possibilities in the last alternative. But to accomplish it we need concrete and specific programs for eliminating unnecessary duplication and overlapping in the whole marketing system, and we need to find some practical way of accomplishing these reforms and still maintain desirable forms and degrees of competition in the marketing system. It remains to be seen which of these alternatives will be followed, but it is clear that the farm outlook will be affected considerably by the decisions that are made.

4. Federal and State regulation. Since World War I there has been a remarkable growth of Federal, State and municipal regulations of all kinds dealing with the marketing of foods. Some of these regulations have been classed as trade barriers which have given special advantages to certain producer groups and discriminated against others. Many of these regulations are obstructing trade and interfering with the war effort. We will have to sweep away some of these regulations. A notable example of progress in this

direction is the recent agreement of most of the States to standardize regulations governing the sizes and weights of motor trucks. In addition to getting rid of trade barriers, we probably will have to consider the modification of many food laws. For example it may be desirable to require less fat in cream, ice cream, and milk, and it may be desirable to allow, or even to require, the use of soya and peanut flours in sausage and other prepared meats.

5. Distribution and nutrition programs. The distribution of foods to school children and to low-income families has been emphasized as an important part of the agricultural program in recent years. Food stamps, direct distribution to relief families, school lunches, school milk, 5-cent milk, cotton mattresses, and cotton stamps are among the devices which have been used for the dual purpose of reducing burdensome surpluses and helping needy families. The outlook during the war is that there will be few important farm surpluses; that price ceilings will be more of a problem than price supports; and that most employable people will have jobs. For these reasons many people are beginning to ask whether the Government food distribution programs should be drastically reduced or even discontinued. We should, however, remember two important facts: first, that there are still about 8 million persons in families on relief and that very few of these persons are employable even under present conditions. Second, that the distribution programs still offer a much needed safety valve for distributing such occasional surpluses as those which may arise locally because of lack of transportation and processing facilities, or those which may result from lack of shipping. It seems important, both to agriculture and to low-income families, that these programs be continued and perhaps even strengthened. Greater emphasis should be put on nutrition and on making it possible for low-income families to get their fair share of scarce foods. Obviously less emphasis should be placed on surplus removal operations.

6. Grades and standards. Official Government grades and standards will become increasingly important. It will be impossible to administer good price and marketing regulations without a more comprehensive and more widespread use of official grades. The same thing is true of price supports. This applies not only to ceilings on retail prices, but also to price supports at the farm and wholesale levels.

7. Marketing goals. Since the war we have talked a good deal about agricultural production goals, but have talked too little about marketing goals. It will be worse than useless to increase the production of any commodity in any State unless the increased output can be processed, transported, and marketed. As indicated by some of the discussion above we will have to meet very serious problems in marketing and we need to have specific plans for dealing with them. We will have less labor and less equipment in the marketing system, just as we will on the farms, and we will have to use this labor and equipment more effectively than we have in the past if we are to prevent serious bottlenecks. However, we have known for many years that substantial improvements could be made in the marketing system. There is a great deal of unnecessary overlapping and duplication which should be avoided even in peace, but which becomes a serious menace in time of war. In my opinion we can go only a short distance toward meeting these problems by orders of various kinds from Federal agencies. To solve these problems we must have

serious but quick studies by localities, States, and regions. Someone must come forward with concrete plans for improving the delivery of milk in a particular city, for the assembly of vegetables in the Southeast, or for the more effective use of such processing equipment as may be available in a given community. I would like to urge all the State marketing specialists and economists to pass along to the Department in Washington any ideas on subjects of this kind. We will see to it that they are carefully reviewed and wherever possible we will try to put the best ideas across.