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9. ABSTRACT

General inflation has been with us for some time but recent developments have been dramatic. The inflation rate in consumer prices averaged about 2 percent per year through most of the decade of the 1960s. This rate had accelerated to 4-5 percent by the time the Economic Stabilization Program was introduced in August 1971. Prices and wages were held in check through Phase II with a few exceptions. one of which was food prices (Table 1). The energy crisis emerged on top of the world food situation in Phases III and IV and the control program became discredited.

During Phases III and IV, consumer prices increased at an annual rate of about 8 percent and wholesale prices at a rate of 18 percent. About 45 percent of the increase in wholesale prices is directly attributed to "farm products and processed foods and feeds" and "fuels and related products and power" (Table 2). In the three months after the controls ended in April 1974, consumer prices and wages increased at an annual rate of about 12 percent and the wholesale price index rose at a 24 percent rate. Farm and food prices leveled off but marked increases were noted in other sectors of the economy. Consumer prices on non-food commodities increased at an annual rate of 17 percent and services at a rate of 13 percent. Wholesale prices of industrial commodities increased at an annual rate of 36 percent! Farmers are feeling this pinch (Table 3). The urgency of the inflation issue is apparent and agriculture and food figure prominently in finding solutions.

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INFLATION: CAUSES, IMPACTS ON AGRICULTURE, FARMING AND FOOD, SUGGESTED POLICIES

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The increasing productivity of agriculture has, over time, helped to hold down the rate of inflation in the general economy. In some years, however, rises in farm and food prices have been prominent, as in 1973. Such increases seldom continue and farmers eventually again find themselves in a proverbial squeeze between prices received and prices paid.

General inflation has been with us for some time but recent developments have been dramatic. The inflation rate in consumer prices averaged about 2 percent per year through most of the decade of the 1960s. This rate had accelerated to 4-5 percent by the time the Economic Stabilization Program was introduced in August 1971. Prices and wages were held in check through Phase II with a few exceptions, one of which was food prices (Table 1). The energy crisis emerged on top of the world food situation in Phases III and IV and the control program became discredited.

During Phases III and IV, consumer prices increased at an annual rate of about 8 percent and wholesale prices at a rate of 18 percent. About 45 percent of the increase in wholesale prices is directly attributed to "farm

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[1/] Prepared by a group of staff members of the Department of Agricultural Economics of Michigan State University.

products and processed foods and feeds" and "fuels and related products and power" (Table 2). In the three months after the controls ended in April 1974, consumer prices and wages increased at an annual rate of about 12 percent and the wholesale price index rose at a 24 percent rate. Farm and food prices leveled off but marked increases were noted in other sectors of the economy. Consumer prices on non-food commodities increased at an annual rate of 17 percent and services at a rate of 13 percent. Wholesale prices of industrial commodities increased at an annual rate of 36 percent! Farmers are feeling this pinch (Table 3). The urgency of the inflation issue is apparent and agriculture and food figure prominently in finding solutions.

1. Main Causes of Inflation

No single factor has caused the double digit inflation--instead we have witnessed the convergence of manifold forces. These forces can be classified as monetary, fiscal, resource and market power.

Monetary: In recent years the international monetary system has undergone substantial adjustment. A fixed rate exchange system has been replaced by floating rates, albeit with some interference. Gold has been officially revalued, and free market prices for gold have increased markedly. The dollar has been devalued with the effect of lowering prices on U.S. goods to foreign customers and raising prices of foreign goods to the U.S. Higher prices on imported commodities permit raising prices on the same goods produced domestically, thereby fostering industry-wide price increases.

Since the U. S. is an integral part of the world economy it is important to note that inflation is a world wide phenomenon. Inflation during 1974 at above the U. S. rate is forecast for such countries as Japan, France, Italy and Britain with West Germany expected to observe a lower rate.

Shifting to a floating rate exchange system has significantly reduced the need for reserves on the part of Central Banks. Furthermore, the increased price of gold, and the shifting of gold into a free market good has increased the value of reserves held in the form of gold. This growth in actual and potential international monetary reserves looms in the background of any domestic economic policy decisions. Large international monetary reserves imply large potential inflation in a floating exchange monetary system.

Meanwhile, here in the U.S., the money supply has been expanding with time deposits increasing more rapidly than demand deposits. Accompanying the increased money supply has been a rapid increase in bank loans as business firms expand their plant and equipment in order to improve productivity and meet expanded demand. . . before construction costs inflate further.

Fiscal: A traditional cause of inflation is deficit spending by government. Usually the attention has focused exclusively on the Federal Government even though state and local government expenditures are now over 2/3s as large as those of the Federal government. State and local governments have had surpluses in 1972 and 1973. From 1967 through 1973 the Federal deficit was $60 billion--resulting in a net government deficit for the period of over $30 billion. This Viet Nam induced deficit has helped heat the economy by increasing excess demand.

Resource Constraints: Over one hundred years ago Malthus raised the spectre of starvation as population growth outstripped food supply. Now, faced with the inevitability of a world population of seven billion persons, rising expectations of all people as incomes increase, the elimination of long-standing stockpiles (reserves) of food and basic metals and the increased concern about environmental degradation have led to real concerns about the

availability of basic resources--especially those that are non-renewable. Owners of basic resources anticipate rising prices as demand outstrips new supplies. On the cost side they are faced with increased costs of meeting environmental protection rules and regulations.

Thus, wholesale prices of crude materials, using 1967 = 100, were above 100 in 1947-48 and fell during the early 1960s to a low of 94.5 in 1964. By 1969 these prices were at 108.4, in 1971 they were 115, in 1972 - 127.6, 1973 - 174 and July 1974 - 229.

On the other hand, wholesale prices of finished goods rose from 74 in 1947 to 100 in 1967 to 113.5 in 1971, 117.2 in 1972, 129.5 in 1973, and 141.5 in July 1974. Clearly crude materials--both food and non-food have experienced rapid wholesale price increases after several decades of relatively stable prices.

The rapid shift in price behavior for basic resources has resulted in a redistribution of income in the direction of resource owners. Included in this group of resource owners are those who own farm land and especially those who have purchased assets on credit.

Market Power: Power in the market place can cause inflation or exacerbate inflation that arises from other sources. The most flagrant example in recent years of the use of market power was the decision by oil exporting countries to unilaterally and arbitrarily agree to constrain pumping in order to maintain a high price. And there are many other industries where the market structure allows big business and/or big labor to translate their concerns for income gains into higher prices at the expense of economic efficiency or general welfare. Higher costs are passed on to consumers. In part, market power has risen because there are efficiencies in some large organizations.

But that market power is inflationary because it is used to improve the position of either business or labor or both. Furthermore, there is, because of distortion in prices, an inefficiency in resource allocation that negatively affects overall productivity and, therefore, total real income.

There are other sectors of the economy which exercise a degree of market power and are not markedly affected by usual monetary and fiscal policies. The medical and health sector appears to be an example.

World Food Situation: Unfavorable weather in 1972 and coinciding livestock cycles in 1973 were major causes of the increase in food prices in the past two years. While these events would not be listed as insidious causes of inflation, they will, in combination with forces described above, contribute substantially to longer run price increases. Higher food prices that resulted are filtering into other parts of the economy, establishing a new plateau. While rising food prices create pressure for an upward adjustment in wages and other prices, a decline in food prices does not have a corresponding effect on wages and prices on the downside, because of the structure of labor and industrial markets.

Expectations: The effect of the world food situation and the oil embargo may have had an unwarranted effect on expectations. These events were shocks to the system and not likely to continue to place the same pressure on the economy as in 1973 and 1974. However, a year of double digit inflation begins to be built into expectations, which in turn, result in actions which prolong that rate of inflation. Inflationary psychology affects decision making in relation to private and corporate debt. This coupled with high tax rates encourages indebtedness even at high interest rates.

Dynamics of Inflation: It is critical to understand the dynamics of the inflationary process. The inflation feeds upon itself. Some examples:

(1) The expectation of future inflation causes lenders to require higher interest rates for money. Higher interest rates are built into the cost structure leading to higher prices, etc. (2) In order to protect themselves from future inflation all groups attempt to build inflation hedges into their contracts--labor agreements have price index escalators, delivery contracts include escape clauses, even insurance contracts are being written with inflation adjustments. All of these build inflation into the system. (3) People who expect inflation borrow to purchase real assets; this leads to higher prices for raw materials, hoarding of materials and goods, and an increase in the velocity of money turnover.

While these dynamic relationships have been minor up to 1973 the experience of the past several months suggests that they may become major and even critical in the near future unless a significant effort is made to deal with the potential of hyper-inflation.

2. Main Consequences of Inflation on Agriculture, Farming and Food

Agriculture: Farmers will be facing much more uncertainty in not knowing how much their input prices will rise, or whether some inputs will be available (fertilizer, L. P. gas, machinery, transport services). Farmers will face uncertainty about regulations pertaining to labor safety, environmental standards and food quality. They will also be uneasy about what action the government may take to control inflation. Reversals in farm commodity prices will be especially painful when costs are rising rapidly. Erratic price movements will make planning and cash flow projections very difficult. Producers will tend to hold back on expansion if input and product prices remain highly uncertain.

Pressures to buy land will offset the uncertainty element and will drive real estate prices up sharply. Land will be a good hedge against inflation and income will be further redistributed toward land owners. Capital gains in real estate will make it easier to finance expansion. If inflation gets much worse, long term land contracts will not be available and transfers will be for cash only. Wealthy people will place a higher share of their assets in good farm land. More new non-farm operators and capital will be attracted into land ownership and farm operation.

Farmers credit needs will increase substantially. Higher interest will make borrowing more costly and will be a deterrent. If cash receipts decline, farmers would be in a difficult position. Even now a high proportion of cash receipts are used for debt retirement.

There will be increased pressure for cost efficiency, larger scale operations, and a concentration of commercial farming in the hands of competent operators.

Estate planning will become even more important and transfers will be more costly unless the estate and gift tax exemptions are raised. Retired farmers will be seriously hurt, especially if they have sold their farms and are living on fixed payments.

An international dimension also must be added to the potential effect that inflation will have on American agriculture. Even prior to the recent increase in exports of agricultural products, nearly 40 percent of farm cash income from crops was derived from sales in overseas markets. Throughout the post-World War II period, adjustments in American agriculture have resulted in an increase in labor productivity of nearly 6 percent per year, well beyond that of industry in general, and sufficient to offset the effect of inflation

on the farm operating costs. American agriculture's competitive position in world markets was preserved and, in some commodities, even improved. Both because the scope for improvement in labor productivity and because of the much higher rates of inflation at the current time, this position has changed. Currently American agriculture's competitive position is being maintained in large part, because other countries, as well as the United States, are experiencing high rates of inflation. For the long run, this offers no comfort, and the danger exists that inflation will begin to erode our competitive position.

Food: General inflation will result in higher food prices. Farm production expenses represent two-thirds to three-fourths of gross farm income with current operating expenses about 70 percent of total expenses (Table 4) For this reason farmers quickly feel the inflation in prices on items they purchase regularly and they respond accordingly. Inflation in land values may not cause farm production to decline and farm prices to rise in the short run, but pressures will grow in later years for higher price supports and/ or production adjustments to achieve higher prices. Higher prices on grain and soybeans will in turn be reflected in higher livestock prices. Concentrate feeds represent from 1/3 (dairy) to 80 percent (poultry and eggs) of the farm value of the product.

About half of the cost of marketing food is for labor (Table 6). If wage rates accelerate, this will widen the marketing margin and consequently push up on retail prices.

Low income consumers and the unemployed are severely disadvantaged by inflation and especially by increases in food prices. Some of the "low cost foods" have experienced particularly large price increases as consumers in general have economized on food. The low income consumer has fewer alternatives to economize than has the moderate or high income consumer.

The possibility of tight food supplies poses a greater threat to less developed nations than to developed nations such as the U.S. The developed world is in a position to bid food supplies and the necessary inputs (fertilizer, fuel) away from poor countries. Humanitarian concerns will compel the developed world to assist these nations.

3. Government Policies and Actions to Control Inflation

A. Emphasis has to be put on improving information on the food and resource situation not only at home but throughout the world. More complete, accurate and timely information is needed on production, consumption, stocks of commodities and where they are located. At one time, the volume of CCC stocks in this country made this unimportant. Today it is different. We must be able to spot potential shortages and problems before they overwhelm us.

Information systems for long-term and short-term planning and policy implementation should encompass improved processes for data gathering, an awareness of data needs for decisions with varying time horizons, and increased attention to providing adequate and timely analysis needed to interpret and make data useable both to public and private decision makers.

B. As a part of improved information efforts (and these in the context of promoting more orderly markets), we must organize some defenses against state trading and international cartels. Government may need to take the lead to integrate and coordinate the private sector in this effort to protect ourselves from these outside forces which play havoc with our markets and prices. The private sector will need to recognize the importance of these efforts and to help in providing data so that this can be done.

C. Monitoring of prices, wages and profits; use of wage and price guidelines, and the administration of selective controls on prices and wages in the general economy will probably be necessary to break the expectation pattern emerging from the present situation. Care must be taken not to discourage production. Most attention would be directed at industries with significant market power. Competitive and innovative industries could be excluded from direct regulations or given special considerations. Though not likely, the twin possibilities of hyper-inflation and drastic declines in production due to loss of confidence in the economy must be considered. Evidence of hyper-inflation must be dealt with by strong government action. Traditional monetary and fiscal policies may be inadequate. While direct control programs have many problems, they may be essential to the survival of the economy and the nation-state.

D. American agriculture probably has capacity to expand output adequately to meet normal growth in domestic and international market demand at least through the 1970s[1/]. How far into the 1980s this will be true is another question and presents another kind of policy challenge. Increased output and productivity in American agriculture during the postwar period has been based on a backlog of technology that farmers have used in increasing quantities during the 1950s and 1960s. While additional flexibility exists we probably are moving closer to the limit of gains that can be achieved by better use of available technology. Given the time required for developing new technology, a reemphasis on agricultural and food research is needed to

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[1/] In making this assumption, we reject the 20 year drought cycle theory and the anticipation by some meteorologists of a climate shift in critical agricultural areas of the world. If they are correct, world food supplies will remain tight through this decade.

help assure adequate food supplies beyond the mid 1980s. Recent levels of appropriations for public research do not reflect this concern.

E. We should be studying alternative programs for world food security in order to have a workable plan when production will permit stock accumulation. Some form of world food reserves would help promote orderly markets and remove some of the highly inflationary pressures of uncertain food supplies. Major importing and exporting nations in the developed world should share in this endeavor.

F. A major policy question concerns actions needed to provide flexibility for farmers to adjust to long-term market changes and to create incentives for needed output expansion. Some aspects of this policy may be out of date. The Agriculture and Consumer Protection Act of 1973 establishes target prices for corn at $1.38 per bushel, wheat at $2.05 per bushel, and cotton at 38 cents per bushel for the 1974-75 crop year with escalation in target prices for 1976 and 1977. These support levels are well under current prices and probably are already out of date when compared to recent cost changes.

G. Import policy should be devised with a view toward its effect on constraining price rises and stimulating innovation and cost reduction in American industry. Protectionism as a general policy is clearly inflationary. Protection even on a selective basis, unless clearly justified by national interest, also should be avoided.

H. Export embargoes or restrictions on agricultural commodities have been suggested as a first line defense against inflation. Domestic consumers would thereby be protected in the event of tight food supplies. We reject this argument as being shortsighted and even detrimental to the longer run

efforts to control inflation. U. S. agriculture needs expanding export outlets and the U.S. economy needs the export earnings agriculture generates. Also, other nations need our food products. Only in very special circumstances, such as in dealing with state trading and international cartels or in the event of extensive price controls, should export restrictions be employed and then only in such a way as to retain our reputation as a dependable supplier.

I. Special programs designed to protect low income consumers are especially important if our economic system is to maintain credibility. Programs such as food stamps, school lunches and public employment should be geared to these requirements.

J. Of primary importance might be government policies and actions which would alleviate or minimize some of the uncertainties presently faced by farm producers. Actions could be taken to inform farmers well in advance of any likely forthcoming regulations pertaining to such items as labor safety, food quality, and environmental quality. Still another government action which would conceivably help agriculture is in the area of transportation. Moving inputs such as fertilizer and LP gas is crucial during certain key time periods each year. Bottlenecks in transportation can result in severe problems for some farming areas.

The U. S. rail system is under severe financial pressure and actions likely to further reduce rail service are underway, including the Rail Reorganization Act, ICC abandonments, and bankruptcy proceedings. High interest rates, regulated changes, high labor costs and shortages of critical inputs have reduced investment in rail facilities. The reduced service in rural areas increases costs of producing and distributing food.

K. Farmers and agribusiness men need better tools to cope with inflation and the uncertainty that has developed. The activities of the Commodity

Exchange Authority of the U. S. Department of Agriculture should be expanded and their research base enlarged. Futures markets can and should play a more important role in pricing farm products and inputs. Changes, however, are needed to make futures markets more useful for hedging and to attract speculator interest. Questions relating to delivery conditions, price fluctuation limits, cash markets, CEA regulatory and monitoring activities, and USDA grades and standards need investigating.

L. The role of the National Commission on Productivity should be encouraged. From the work of the task force on food, conclusions emerged that "There is a wide variety of opportunities for productivity improvement in the food industry. But in general, there appears to be few opportunities which lie wholly within one sector of the industry . ... Most of the opportunities for dramatic productivity improvement require concerted action among sections of the industry, frequently with one or more different levels of government."[1/]

Such an office could help private industry and labor work together effectively to remove some of the hurdles in the way of a more efficient food industry. This agency could facilitate and coordinate the steps needed to clear projects with the federal government.

M. Support should be given to state and federal land use planning legislation. To the extent that such legislation can slow down the exodus of farm land to urban uses, agricultural production can be enhanced.

N. Appropriate fiscal and monetary policies should be followed in concert with other measures. One goal might be to reduce government spending (local, state and federal) and run a budget surplus for several years. Some

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[1/] National Commission on Productivity, Productivity in the Food Industry, U. S. Government Printing Office, 1973.

long term investment type projects could be postponed, particularly those with high capital and material requirements relative to labor. Some type of semi-compulsory savings plan might cool off the current spending rate, increase the amount of capital available through government or otherwise and provide a backlog of spending that could renew good growth when the inflation heat has cooled down.

Care should be taken, however, to assure deserving farmers and others access to capital markets and reasonable rates of interest. Otherwise, raising interest rates to halt inflation could be counter-productive in agriculture.

4. Actions in the Private Sector of Agriculture and Food to Control Inflation

A. Agriculture

(1) Some selectivity may be warranted in lending to farmers. Borrowing should be limited to essential needs and for purposes which have promise of either expanding production or lowering unit costs. Preferences should be given to efficient commercial farmers.

(2) Farmers should give more careful attention to the implication of changing product-price relationships on the combination of inputs they use. Following feed formulation and soil testing recommendations are two practices which could help conserve feed and fertilizer.

B. Food industry

(1) The key to lowering costs is increasing labor efficiency. Efforts should be directed toward such innovations as central meat cutting, palletized shelving and electronic checkout.

(2) Much improvement is possible in transportation, making more efficient use of rail cars, capitalizing on back-hauls, etc.

(3) The food industry should be especially sensitive to consumer demands which could change substantially during periods of sharply rising food prices. Consumers will place more emphasis on stretching their food dollar and may be willing to sacrifice convenience, packaging and other services. Some restructuring of grades and standards (such as on Choice beef) may also be appropriate.

(4) In the past, returns on investment in the food industry have been comparable with other industries if not below. A higher level of profit may be necessary to finance some of the needed innovations. However, the very abrupt increase (25%) in the farm to retail spread in the U.S.D.A.'s Market Basket of Farm Food between the second quarter of 1973 and the second quarter of 1974 does seem extreme (Table 5). Even considering increasing costs and the need to recoup on low profits, the current margin levels do not appear warranted. Retail prices have not adjusted readily to declines in farm prices. The food industry might well consider a more flexible pricing policy.

(5) The food industry should support government efforts to obtain more complete and accurate information about food production, marketing and prices. A major gap is current information on retail food prices.

(6) A careful examination of advertising and promotion budgets is in order.

5. <u>Policies and Practices in the Private Non-Agriculture and Food Economic Sector to Control Inflation</u>

   A. Consumers, businessmen and labor should recognize the need for restraint in sensitive periods such as now being experienced. A spirit of cooperation is needed to dampen the psychological effect of double digit inflation.

   B. All sectors of the economy should be willing to assist the government in developing needed programs to contain inflation. This would involve not only making recommendations but in furnishing information needed to carry out these programs.

Table 1

CONSUMER PRICE CHANGES

(ANNUAL RATES IN %)

					Economic Stabilization Program				
					Phase I	Phase II	Phase III	Phase IV	
	1960 -1968	12/68 -12/69	12/69 -12/70	12/70 -8/71	8/71 -11/71	11/71 -1/73	1/73 -8/73	8/73 -4/74	4/74 -7/74
All Items	2.0	6.1	5.5	3.8	2.0	3.6	7.8	10.0	11.7
Food	2.1	7.2	2.2	4.8	1.7	6.5	19.1	8.7	3.3
Commodities Less Food	1.4	4.5	4.8	2.9	0.3	2.4	5.0	11.4	16.9
Services	2.9	7.4	8.2	4.5	3.1	3.5	4.0	10.0	13.0

CHANGES IN HOURLY EARNINGS OF PRODUCTION WORKERS

(ANNUAL RATES IN %)

Current Dollars	3.9	6.4	6.8	7.5	2.7	6.8	6.2	6.2	12.7
Constant Dollars	1.9	0.3	1.2	3.6	0.7	3.0	-3.6	-3.7	N/C

Source: Bureau of Labor Statistics

Table 2

WHOLESALE PRICE INDEX

	Relative Importance Dec. 1971 (%)	Annual Rates of Change (%)						
		1960 -1968	12/68 -12/69	12/69 -12/70	12/70 -8/71	E.S.P. Phase I & II 8/71 -1/73	E.S.P. Phase III & IV 1/73 -4/74	4/74 -7/74
Wholesale price index, total	100.0	2.3	4.9	2.2	5.0	6.2	18.2	24.1
Farm products and processed foods and feeds	26.8	1.1	7.5	-1.3	6.5	14.0	18.2	NC
Industrial commodities	73.2	0.9	3.9	3.6	4.5	2.4	18.2	35.7
Textile products and apparel	6.8	.5	1.5	0.0	3.8	4.9	15.4	14.0
Hides, skins, leather and related products	1.3	1.6	3.8	0.5	4.9	18.2	1.0	3.6
Fuels and related products and power	7.2	.4	4.1	11.1	0.9	4.9	47.6	58.3
Chemical and allied products	5.7	.3	1.1	2.7	1.3	NC	20.0	58.3
Rubber and plastic products	2.3	NC	3.0	1.6	0.6	NC	14.0	34.5
Lumber and wood products	2.9	2.2	-8.1	-4.4	29.3	8.7	25.3	-25.3
Pulp, paper and allied products	4.7	.4	4.3	2.8	2.3	3.7	19.5	26.8
Metals and metal products	13.4	1.3	10.0	2.7	6.0	2.4	22.4	56.4
Machinery and equipment	12.3	1.5	4.5	4.3	3.2	1.2	8.7	32.9
Furniture and household durables	3.4	.5	2.2	2.5	2.2	1.2	7.4	18.2
Nonmetallic mineral products	3.3	.8	4.3	5.7	11.1	2.4	11.4	29.8
Transportation equipment (NSA)	7.4	.6	2.9	5.5	2.6	2.4	3.7	21.0
Miscellaneous products (NSA)	2.5	1.1	3.9	4.2	1.9	1.8	8.7	23.9

NSA - Not seasonally adjusted
NC - No change

Source: Bureau of Labor Statistics

Table 3. PRICES RECEIVED AND PRICES PAID BY FARMERS, U.S.

Item	Relative Importance (June 1972)	Index (1967=100) 1960	1971	Mid[1/] 1973	Mid[1/] 1974	Annual Rates of Change (%) 1960 -1971	1971 -Mid 1973	Mid 1973 -Mid 1974
Prices received by farmers		94	112	208	181	1.6	36.4	-13.0
All crops		99	107	196	214	0.7	35.3	9.2
Livestock and products		91	116	218	160	2.2	37.1	-26.6
Prices Paid by Farmers	100.0	88	120	151	173	2.9	12.2	14.6
Family living items	37.4	90	119	141	164	2.6	8.9	16.3
Production items	45.0	92	115	157	178	1.3	16.6	13.4
Feed	8.7	92	106	195	208	1.3	35.6	6.7
Feeder livestock	5.4	96	125	224	138	2.4	33.8	-38.4
Motor supplies	6.8	96	112	122	167	1.4	4.4	36.9
Motor vehicles	5.0	84	122	135	151	3.4	5.2	11.8
Farm machinery	6.6	82	124	145	167	3.8	8.1	15.2
Building and fencing materials	5.1	97	124	155	191	2.3	11.8	23.2
Fertilizer	2.6	100	101	112	178	0.1	5.3	58.9
Farm supplies	2.8	96	111	120	154	1.3	3.9	28.3
Seed	2.1	89	122	156	232	2.9	13.1	48.7
Interest	3.2	46	138	165	204	10.5	9.4	23.6
Taxes	4.4	66	143	161	164	7.3	6.1	1.9
Wage Rates	10.0	74	134	157	173	5.5	8.3	10.2
Parity Ratio		107	93	138	105	---	---	---

[1/] August, except for motor supplies, motor vehicles, farm machinery, building and fencing materials, fertilizer, farm supplies and seed which are for June.

Source: ERS, U.S.D.A.

Table 4 INCOME AND EXPENSES FROM FARMING, U.S.

ITEM	1960		1972		1973	
	MILLION DOLLARS					
Cash receipts from farm marketings	34,248		60,993		88,590	
Government payments to farmers	702		3,961		2,607	
Realized nonmoney and other farm income	3,547		4,995		5,777	
Realized gross farm income	38,497		69,949		96,974	
Farm production expenses		(%)*		(%)*		(%)*
Current farm operating expenses	19,815	(72.3)	36,761	(69.7)	45,965	(71.0)
Feed purchased	4,552	(16.6)	8,474	(16.1)	13,078	(20.2)
Livestock purchased	2,506	(9.1)	6,668	(12.6)	8,152	(12.6)
Seed purchased	519	(1.9)	1,122	(2.1)	1,638	(2.5)
Fertilizer and lime	1,347	(4.9)	2,683	(5.1)	3,049	(4.7)
Repairs and operation of capital items	3,982	(14.5)	4,740	(9.0)	5,398	(8.3)
Hired labor	3,062	(11.2)	4,617	(8.8)	5,166	(8.0)
Interest on non real estate debt	719	(2.6)	2,265	(4.3)	2,728	(4.2)
Other	3,128	(11.4)	6,192	(11.7)	6,756	(10.4)
Depreciation	4,337	(15.8)	7,881	(14.9)	8,906	(13.8)
Taxes on farm property	1,530	(5.6)	3,189	(6.0)	3,321	(5.1)
Interest on farm mortgage debt	628	(2.3)	2,066	(3.9)	2,402	(3.7)
Net rent to non-operator landlords						
Excluding government payments	1,037	(3.8)	2,020	(3.8)	3,822	(5.9)
Government payments	71	(0.3)	511	(1.0)	330	(0.5)
Total	27,418	(100.0)	52,746	(100.0)	64,746	(100.0)
Farm operators realized net income	10,079		17,521		32,228	

* Percent of farm production expenses

SOURCE: ERS, U.S.D.A.

Table 5

THE MARKET BASKET OF FARM FOOD

	1960	1971	1972	1973				1974		Annual Rate of Change (%)			
				I	II	III	IV	I	II	1960 -1971	1971 -1972	1972 -1973	II 1973 -II 1974
Retail cost ($)	996	1250	1311	1414	1497	1604	1635	1720	1731	2.1	4.9	17.3	15.6
Farm Value ($)	393	480	524	626	674	779	722	771	698	1.8	9.2	33.5	3.4
Farm-retail spread ($)	603	771	787	788	823	825	913	943	1033	2.3	2.1	6.5	25.6
Farmers share (%)	39	38	40	44	45	49	44	45	40	---	---	---	---

SOURCE: ERS, U.S.D.A.

Table 6

SELECTED DATA ON COSTS AND PROFITS

IN MARKETING FARM-FOOD PRODUCTS

	1960	1971	1972	1973
Unit labor costs for marketing				
Farm-food products (1967 = 100)	87	122	131	147
Profits as a percent of sales				
Food manufacturing (%)	2.2	2.4	2.4	2.4
Retail food chains (%)	1.3	.9	.6	.5
Profits as a percent of stock-holder equity				
Food manufacturing (%)	9.2	11.1	11.3	12.8
Retail food chains (%)	13.0	---	6.1	7.6
Cost of marketing farm foods (bil $)	44.6	75.4	78.4	82.3
Labor (bil $)	19.7	34.5	37.6	40.3
Other costs (bil $)	22.8	37.2	37.3	37.4
Corporate profits before taxes (bil $)	2.1	3.7	3.5	4.6
Percent of cost of marketing				
Labor (%)	44.2	45.8	48.0	49.0
Corporate profits (%)	4.7	4.9	4.5	5.6

SOURCE: ERS, U.S.D.A.