WHERE IN THE WORLD IS OUR FOOD TO COME FROM

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There are two facts of which we are all keenly aware. The land resources of the world are fixed and the population of the world is expanding at an alarming rate. The population of the world has doubled in the past 100 years and it will double again in the next 33 years. From the time of Christ it took about 1200 years for the world's population to double. Following this trend one can predict all sorts of dire consequences for mankind, failing to recognize that food production has always conditioned population growth -- that population growth is far more a result than a cause of our agricultural capability. Let me paint the picture another way. The acres of land devoted to crop production and the number of people in the world are now about equal. One acre per person must produce about 2 percent more food with each passing year to maintain present consumption levels. Shortly after the year 2000 a mere half acre must provide the food needs of each person. That is about the level of agricultural resource currently available to half the people in the world who now live, or perhaps I should say exist, in China, India, Pakistan and Indonesia. It is in this region of the world where population is most dense, where population growth is the greatest, where agricultural capabilities are fully exploited. In sharp contrast the peoples of the North American continent have food production capabilities far in excess of requirements.

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There is now a growing realization about the world that if the world's people are to be adequately fed the full agricultural resources of the world increasingly must be made available to the world through trade. It is the budding emergence of this trade that has pressured domestic markets here at home, that has created much economic uncertainty in our agricultural community, that has brought about a very sudden and dramatic shift in our national food policies both here in Canada and in the United States. There is yet little public awareness of the impact these policy changes have had on our domestic markets.

My observations on the food market are conditioned by familiarity with both economic and political developments in the United States. Because I have limited knowledge of the Canadian market I can only assume that the Canadian and U. S. food markets are influenced by very similar forces.

Last year the United States had record harvests of many food crops and prices were at record high levels. This year even higher production records are anticipated as are new records for many prices. Nearly three of every four bushels of wheat produced will be exported. Half our soybeans and one of every four bushels of feed grains will be shipped abroad as will a third of our cotton and tobacco, half our hides and two-thirds of our rice. In contrast with former years we will neither be giving these products away nor will we be subsidizing their export. They will move into world trade at world prices. The agricultural community through exports will provide some 20 billion dollars worth of foreign purchasing power. This is a condition more novel to the U. S. than to Canada and it has created a major disturbance of our food markets.

This year we will see not only record agricultural production, record prices and record exports but also a growing public concern about the changing nature of our food market. This concern will be fueled by both rising and highly volatile domestic prices. During the past year we saw the prices of many commodities vary more from day to day than they used to vary from year to year. The coming year promises even more unstable prices, making both the management of businesses and household budgets more difficult. At times there will be many unhappy people -- both producers and consumers. They will be looking for scapegoats. Lacking understanding we will mandate political actions of various sorts which keep food markets in turmoil and defeat their very purpose.

The changing of our agricultural policy from one of scarcity to one of abundance is not the reason for the sudden emergence of a strong export market any more than it is a guarantee for sustenance of such a market. The policy change was involuntary. It was mandated by world markets. It was a result not a cause. We do not sell to others because we want to sell. We sell to others only because they want and are able to buy from us. The world has had hungry people throughout all the history of mankind. The new factor is that much greater numbers than in past years now have the purchasing power to make their wants meaningful in the marketplace. But a very great uncertainty is associated with this surge in demand. No one really knows how great a backlog exists, how much it will build up, how long it will last.

Never before have the agricultural economies of North America been so subjected to the vagaries -- to the uncertainties of worldwide currents of food demands and supplies. Traditionally we have produced for a domestic market -- a market that has been comparatively stable. And by virtue of our fortunate location in a temperate zone with vast land and water resources there has been little problem in meeting our food needs.

But much of the world is not like this. There are huge regions of land in Russia and Red China but they do not enjoy our climate. Their agricultural production is much less dependable. There are large regions in Australia but little water. There are undeveloped areas in both South America and Africa but the soils are badly leached. Western Europe is productive but it suffers a far greater population pressure. Thus our sudden involvement in world trade exposes our traditionally stable agricultural economy to the far greater uncertainties of worldwide food production.

The unprecedented worldwide demand for cereal and feed grains not only depleted our surplus stocks but also so enhanced prices that plantings have been greatly expanded. There is nothing like high prices to cure high prices....at least not in agriculture. In my home State of New York many a field that has produced nothing but Goldenrod for years is now planted to corn or wheat. Suddenly world pipelines are filling and grain prices are showing signs of weakening. If the weatherman continues to cooperate, we are going to have grain running out of our ears. In the meantime we can expect severe shortages of crops displaced by high priced grains....canning crops in particular. High priced feed grains also are resulting in huge financial losses in the beef industry with the result that feedlot placements are now alarmingly low. Very briefly the picture I've tried to paint is one of violent disruptions in our normally stable food market -- a picture of both upcoming shortages and surpluses that will result in violent price swings both up and down. Witness if you will what has happened to the prices of fats and oils during the past year. Many are three and four times as high as they were a year ago. A little more increase and butter will become known as the cheap substitute.

Consumers are far more sensitive to suddenly rising prices than to falling prices and it is difficult to tell what their reaction will be in the months ahead. Last summer when retail egg prices reached 80 cents a dozen many people became disturbed and when they got to a dollar some people got mad and quit buying eggs. Then when eggs dropped to 80 cents it wasn't so bad anymore and when they went back to a dollar -- well, they were only thought of as being as high as they were before! This may very well reflect the psychological nature of consumer response to another spurt in food prices. Much will depend on how much and how rapidly prices break into new high ground. Those who expect our new national food policy of abundance to result in cheap food are in for disappointment. The lag in response promises to be very great. Almost anyone knows that it takes about 24 months to produce a two-year-old steer. But aside from biological lags and marketing lags in filling pipelines there is a growing and unsatisfied worldwide demand to be served.

A general concept of this demand can be gained in the realization that total food consumption in the world during the past ten years has increased 24 percent. About half this increase feeds more mouths and half provides more food per mouth. Look at the worldwide trend in grain consumption alone which in ten years has increased from 656 to 942 million metric tons. Grains are the basic ingredient of our food supply. Subsistent populations consume grain directly, while the more affluent populations consume an ever increasing part of the grain available to them in the form of animal proteins. Thus the 44 percent increase in grain consumption reflects not only population increases but also an upgrading in the quality of worldwide diets as well as improvement in quantities. While there is justifiable concern over the longer term sustenance of the present strong demand for our grain exports it is well to remember that once people get a taste of something better they are willing to forego many alternative expenditures in the maintenance of newly acquired habits and tastes. It is also well to remember that any such efforts to maintain improved diets extend beyond economic considerations. In history it has led to the mass migrations of people...to disatrous riots and armed conflict. Thus we are not likely to see a sudden downturn in the growth of the food market. Accordingly, domestic food prices will continue to be influenced very much by worldwide currents of supply and demand.

The sudden emergence of this worldwide demand is the result of a complex combination of many circumstances which need to be put in perspective if we are to have an appreciation of the present food market as well as what the future holds. Consequently, it is well to take a chronolcgical look at the various forces that have brought us where we are today.

Years ago political leaders throughout the world found more "Brownie points" to be gained than lost by the simple tactic of pumping more currency, than their constituents pumped goods, into the marketplace. The tactic of politically inspired inflation served to maintain employment, contributed to productivity, artificially enhanced the value of investments, kept incomes on the rise, financed popular forms of social welfare, serviced the rising cost of public debt and contributed to the easy liquidation of private debt. The cost in terms of rising prices and devalued savings made inflation a political bargain - a political necessity for those who sought to stay in office. The average citizen has a unique, self-oriented way of looking at inflation. You see, the increased dollars I got last year for doing my job were deserved and earned. It's only the increased dollars you got that contribute so much to inflation!

The inevitability of continued inflation is given credence when you consider that the more affluent nations of the world are politically unable and economically unwilling to balance their national budgets. Talk of controlling inflation with taxation may make economic sense, but not political sense, because governments with windfall tax dollars at hand are far more indiscriminate spenders than are taxpayers. Wealth in the hands of governments flows far more freely into the marketplace than wealth in the hands of individuals. Inflation is indeed a great whipping boy. While we disdain it we like and continue to demand the things that go with it.

Inflation, however, has been but one factor on the scene. I'm unfamiliar with your situation here in Canada but for many years the United States accumulated an unfavorable balance of foreign exchange. In bolstering the economies of other nations we gave many dollars away. On top of this we imported more goods than we exported, leaving dollars with others. In other words the cheap imports we consumed in past years were partially bought on credit -- with promises to eventually exchange goods in the future for dollars outstanding. The credit line was good. The dollar remained strong throughout the build-up of an 80 billion dollar I.O.U. About half of that has accumulated in the past five years.

Both inflation and the accumulation of unfavorable trade balances did much to stimulate economic growth throughout the world. Never before had so many people had so much wealth, particularly in the industrialized nations. In the ten years prior to 1972 industrial wages, which reflect the purchasing power of the masses, increased 63% in the U. S. and 91% in Canada while in Japan they increased 278%, in Holland-217%, in Italy-203%, in Sweden-168% and in West Germany-155%. In practically all nations industrial wages rose faster than here in America and newly affluent consumers began bidding up the price of whatever goods they could get their hands on and food was high on the priority list of people who could and who wanted very much to upgrade their diets.

In the face of an unprecedented worldwide demand for food, the weatherman put on a black hat in the Summer of 1972. It was cold and wet in the Western hemisphere; hot and dry in the Eastern. At no time in this century had growing conditions the world over been so bad. Even the anchovies off the coast of Peru took a vacation. The Russian wheat crop was 20 million tons short. Confronting these short supplies was a demand that had never been so great. A worldwide food-price crisis was in the making.

Along with the short crop harvests of 1972, confidence in the U. S. dollar began to deteriorate with each passing day as gold was bid up and the dollar down. There was a growing doubt that the United States could meet its dollar commitments.

We had large stocks of cereal and feed grains held under government loan, a burden eased by a national policy of subsidizing export sales. The stage was set for the "Great Russian Grain Robbery". The Russians badly needed grain. They had had poor harvests before, but previous lessons had taught them the dear costs of liquidating livestock herds. They did not have many cheap dollars, but they did have high-priced gold. The U. S. had grain, and by virtue of our export-subsidy policy, held over from our long years of "excess" supplies, it was cheap grain available at a firm price. It was a good deal for any buyer. You know the story. In the biggest food purchase in history conducted in Agent 007 style, the Russians proceeded to give us a first-class lesson in capitalism. They bought cheap grain with cheap dollars, high-priced gold, and a low interest rate loan. Lacking trading boards like you have here in Canada we were neophytes in international trade. As the scope of the deal became known, prices on the commodity exchanges surged upward, and this in turn stimulated speculation. The government was out of the grain business and stocks held in private hands, unlike government stocks had no price tag creating an uncertainty which led to speculative increases in price.

In the meantime the value of the dollar continued to take a beating in world money markets. Late in 1972 the dollar was formally devalued. It dropped further and was devalued by 10 percent a second time in February, 1973. Devaluation along with the removal of certain excise taxes meant that buyers in other nations suddenly could buy 20 to 35 percent more of our goods at no increase in cost. Almost overnight we found ourselves in the export business.

Domestic prices exploded and economic controls were imposed, not at all in economic wisdom, but rather in response to public opinion. There was no political alternative. The controls did little more than encourage the consumption of scarce goods and discourage their production. And with world prices rising in relation to domestic markets, export markets became more attractive. Fortunately price controls were short-lived. They were defeating their purpose and the political objective of imposing the controls had been realized. Price controls were removed in time to be saved from a general public condemnation. Thus the device was put back in the cooler to be saved for use at some future date dictated by reemergence of political expendiency.

There are other members of this weird can of worms. With the build up of inflation political pressures mount for enlarged welfare programs such as expanded food stamp programs for low income families and increased

Social Security benefits and these have their greatest impact on food prices.

I have tried to bring together somewhat in chronological order the complex circumstances conditioning today's food market. The whole bundle of circumstances -- inflation, devaluation, grain deals, worldwide affluence, bad weather, economic controls, speculation in gold and commodities, food stamps -- almost defies rational description.

So far inflation has not treatedus so badly. While we don't like it, we are not yet enough concerned to sacrifice many of our endless programs of social reform which escalate costs and restrict our productive capacity... programs made possible by an affluence which is, itself, now subject to being destroyed by these very programs. Even so up until 1973 personal incomes in the U. S. rose more rapidly than prices, but during late 1973 we got the red light -- prices increased more than personal incomes with the result that real purchasing power diminished. This might be an indication that we have taken on more programs than we can afford or it may be nothing more than a temporary result of the economic freeze we have had on prices, wages, profits, and margins.

I rather expect what has happened is that continued controls on wages, profits, and margins have been effective only in delaying their response; that during 1973 we did little more than build up a backlog of pressure - delayed inflation - that is just now beginning to break loose on us. Should prices swing suddenly upward the food retailer will be in for a bit of trouble not because of the blame he bears but only because the consumer's food dollar lands first in his cash register. While the food retailer owes no apology he will always be expected to have ready apology for rising wages and costs, for the scarcity of fuel, for the blunders of political leaders;

yes, even for the bad behavior of the weatherman. In times of rising prices it is not the destiny of money collectors to be popular.

Both increased wage and energy costs will materially increase distribution costs in the coming years, and these will be quickly reflected in higher prices. Wages are by far the largest component of distribution costs -- which in turn account for better than half of retail food prices. In addition wages and energy costs will have some dampening effect on food production response to price. Even so, increased food production can be expected. Farmers always give greater heed to prices than costs. Their production decisions are based on anticipated prices which are commonly higher than realized prices and on last years costs which are lower than materialized costs.

The new U. S. food policy has been described by our Department of Agriculture as having four simple goals: 1. To produce abundantly for the domestic market. 2. To produce for an economic and politically liberated world food market. 3. To maintain our dependability as a world supplier of food. 4. To continue to provide for humanitarian food needs both at home and abroad. These are little more than idealisms based on the assumption that we will continue to have a growing world market for food. There is no guarantee of a strong and growing export market. To date we have done no more than serve with our surpluses what may well be little more than a temporary void in world food needs. Remember we do not sell to others because we want to sell. A product, regardless of its cost, is worth no more than its market. In other words, our so-called new food policy amounts to little more than a statement of condition -- a statement of buyers' convenience. It is a unilateral policy predicated on the assumption that there will be a continuing shortage of food in the world with a continuing international demand for the products of American farms. It is a typically agriculturally oriented policy of producing without prior commitment of a market. While we have always done this domestically, we need recognize that there is a vast difference between the stability of domestic demand and the reliability of export demands. With the increased agricultural production this past year alone it is a rather sobering thought to consider what would happen to our domestic market in the State if 20 billion dollars worth of agricultural products now in export had to find a market at home. While there is good reason to believe this will not happen this year, the point is that the more we expand our export market the more violent movement we can expect in domestic prices and the most violent of all will be in the basic commodities.

The most opportune time to gain future commitments from foreign nations is when they want to buy, not when we want to sell. If indeed there was a mistake made in the grain trade with Russia, it was in our failure to negotiate future commitments in fair exchange for the impact the deal was to have on our increased productivity. Indeed if we are to serve the world market, if we are to establish any reasonable degree of price stability in our domestic markets, we must establish a food policy protecting our domestic markets from extremes in both shortages and surpluses arising out of our new involvement in international trade. Some modified form of a worldwide futures market may well offer a practical means of minimizing the involvement of governments. While this is not the place to spell out the details of such a plan I submit that the development of such a workable policy is both vital and urgent to the food economies of both the United States and Canada. If the food producing resources of the world are to be used, as they must be, to feed the people of the world, we must through policy formulation develop the mechanism through which the beneficiaries of food production share reasonably in the risks of food production.

Having now climbed the ivory tower to near its peak it is time to return to the realities of the multinational poker game to which we are now very much commited. The bet we have is that the channels of world food trade will be kept open by the pressure of the citizenry of different nations which in recent years has acquired new food tastes and habits, has upgraded diets and has begun to cultivate a taste for high animal protein foods. We are betting that this pressure will do much to outweigh the eternal urge for national self-sufficiency. Even though worldwide affluence at times will dwindle there is good reason to believe that expenditures for these newly acquired food tastes and habits will be among the last to be cut.

Now what does all this mean to the food merchant served by you? In quick summary it means that food prices will continue to be unstable. In general the food price trend will continue to surge upward but at certain times there will be substantial declines for certain products. The forces of demand will increasingly overshadow the forces of supply in price making. Consumers will be increasingly sensitive to price changes. We may never again have the relative stability of food prices we once enjoyed. This means that price specialing will have a greater impact on shoppers and on their choice of stores. It means that there will be more shopper skimming of specials and more multiple-stop shopping. To maintain margins and profits retailers will need to exercise greater care in the selection and pricing of their specials.

Price competition in food retailing will become more genuine. The retailer long has focused his competitive advertising on price, not so much because of its importance but rather because price, as contrasted with other appeals, can be precisely quantified and thus made credible in the consumer mind. Also the price appeal is strong because prices are ever changing and change makes news. This takes on added significance considering that food prices are destined to be more erratic with the passing of time.

Fluctuating prices with an upward-trend characteristic makes it imperative that greater heed be given price management. There is not only the external problem of keeping prices relevant to competition but also the internal problem of keeping prices current and accurate. The importance of this is indicated by a recent study of retail food pricing in which it was found that shelf prices were in error on 10 percent of all items in the store. Because the study was made when prices were generally rising most errors resulted in underpricing. Out of 378 direct delivered items, 18 percent were underpriced. Underpricing of these items was being used to expedite movement and deprive the retailer of his expected margin. Even though labor is costly and difficult to manage preciseness in pricing should not be sacrificed.

Perhaps the most difficult adjustment the retailer has to make is the shedding of preconceived, fixed notions about what the consumer wants. Fixed ideas about psychological prices, multiple pricing, maximum size units and the like are being shattered each day. Food retailing is a new ball game and as one retailer recently said, "Everything I seem to have learned the past ten years is suddenly out the window." The danger now lies in listening too much to what the customer says rather than observing and basing decision on what she does.

Another development not to be ignored is that there seems to be a break in the trend toward eating away from home. As away-from-home eaters return to the kitchen not only will store sales improve but also there will be a material change in the nature of those sales. There promises to be a new surge in demand for convenience foods at the very same time other shoppers are seeking to reduce their food costs by turning away from such foods. Deli operations will increasingly serve to fit into the pattern of serving displaced institutional eaters and those who will do an increasing amount of entertaining at home. Those in the food business who respond appropriately to the growing dichotomy of the new food market should enjoy good earnings and growth.

Success will come to those who are in position to make quick adjustments to rapidly changing conditions, to those who tighten up their management of inventories, to those who appropriately hedge their price risks and control their costs, to those who learn how to live with all the unpredictable forces affecting the growing worldwide demand for food.