CHANGING INTERNATIONAL MARKETS - A CHALLENGE TO AGRICULTURE

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The new food policy of the United States, yet in its infancy, promises to bring forth major adjustments in agriculture. Implementation will present both new problems and new opportunities. It will result in a material expansion of our agricultural plant. It promises to bring a new prosperity to agriculture as well as a revitalized public respect for the unique capabilities of the American farmer. The new policy is predicated on the assumption of an expanding free trade in world food markets. Implicit in this assumption is the growing realization of the interdependence of world economies....the realization that if the world's people are to be adequately fed the agricultural resources of the world must increasingly be made available to all peoples through international trade.

The emerging policy has been stated very simply in terms of four goals: To produce abundantly and efficiently for our own people. To produce for an expanded, economically and politically liberalized world market. To maintain our dependability as a major world supplier of food. To continue providing for humanitarian needs at home and abroad. Programs implementing these goals will materially alter the character and structure of our markets which in turn will necessitate changes in the way we go about making production decisions. Already we are seeing how changes in domestic supplies no longer have the degree of impact they once had on domestic market prices. Worldwide demands, increasingly dominating our markets, are less stable and predictable than traditional domestic demands.

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International political policies increasingly will become a major consideration in enterprise selection, capital investment and production decision making.

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 many new records for prices. Some 30 million acres of new cropland are required to provide the increase in export trade this year. 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 commerce at world prices. The agricultural community through exports will provide some 20 billion dollars worth of foreign purchasing power. In turn this expanded food market serves to stimulate the economies of other nations and maintain the purchasing power of their citizens by providing a market here at home for whatever productive capabilities of relative advantage they may have.

The changing of our national agricultural policy from one of scarcity to one of abundance is an abrupt reversal of past policies directed at price maintenance through restricted production. The policy change was not an arbitrary decision. It was a change mandated by the very sudden emergence of a worldwide demand for the products of American agriculture implemented by a worldwide affluence. The world has had hungry people throughout all the history of mankind. The new factor is that much greater numbers than in past years suddenly found themselves with the purchasing power to make their wants meaningful in the marketplace. Thus our policy change is little more than a response to new market opportunities of a yet unknown dimension.

By virtue of its sudden emergence and by virtue of its conspicuousness, the export market for agricultural products promises to come under increasing attack. High domestic food prices increasingly will be identified with the fact that 20 percent of our total agricultural production is shipped abroad. Failing to recognize how our export trade stimulates increased production and failing to recognize how it serves to provide needed imports at reasonable prices, export restrictions on food offer a simplistic, though spurious solution to the high cost of living. In recent weeks we have witnessed the appeal of the American Bakers Association to have export restrictions placed on wheat. If bakers or anyone else for that matter really believe the charge that bread would otherwise go to a dolllar a loaf, they are passing up a golden opportunity of making a killing in the futures market. In the years ahead we are destined to witness many pressures to restrict trade by special interest groups long accustomed to buying agricultural commodities at bargain prices.

Even now the storm clouds appear to be forming for yet another round of food price increases. In recent months the prices of fats and oils have exploded. Prices are running three to four times what they were a year ago. If they advance much more, we face the unique prospect of seeing margarine priced over butter in retail stores. 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. Last summer we saw soybeans rise suddenly to over $12 and then settle down to half that figure. Here in New York this fall we saw processing apple prices open at better than double historic highs....at prices double those that would have been expected from traditional supply and demand relationships. And today with potato futures being what they are one need not make a trip to Las Vegas. These constantly occurring isolated price explosions and spot shortages result from individual commodities readjusting their normal market relationships in a rapidly rising price market. When they bunch up a public reaction sets in, the search for scapegoats becomes intense and political action is sought. But eventually the new price alignment is accepted.

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 now that they are back to a dollar -- well, they are only as high as before! This may very well reflect the psychological nature of consumer response to another spurt in food prices, but 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. Even Secretary Butz 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 by looking at the worldwide trend in grain consumption 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 forgo 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 riots and armed conflict. Thus we are not likely to see a sudden down turn in the growth of the food market, but rather domestic food price gyrations created and 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. Accordingly, it is well to take a chronological 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. This 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_ received last year were deserved and earned. It's only the increased dollars _you_ got that cause inflation!

The inevitability of continued inflation is given credibility when you consider that the most affluent nation the world has ever known is politically unable and economically unwilling to balance its budget. 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.

Inflation, however, has been but one factor on the scene. 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 for dollars outstanding. The credit line was good. The dollar remained strong throughout the build-up of an 82 billion dollar I.O.U., about half of which has accumulated in the past five years.

America's plan to rehabilitate the economies of the world seemed to work. Productivity along with inflation about the world was in an upsurge. West Germany and Japan following the destruction of war were models of economic growth. In the past ten years industrial wages, which reflect the purchasing power of the masses, have increased much more rapidly in the major industrial nations of the world than in the U. S. and newly affluent consumers began bidding up the price of whatever goods they could get their hands on. High on the priority list was food and nowhere in the world could food be produced so abundantly as in the United States.

In the face of an unprecedented worldwide demand for food, the weatherman put on a black hat in the summer of 1972. At no time in this century had growing conditions the world over been so bad. 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 dollar deteriorated. Gold was bid up and the dollar down. There was a growing doubt that the United States could meet its dollar commitments. 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 U. S. goods at no increase in cost. Almost overnight Uncle Sam found himself in the export business.

In the midst of all this the Russians proceeded to give us a good lesson in capitalism. They bought cheap grain with cheap dollars, high-priced gold, and a low interest rate loan. 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 response to all this 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. 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 expediency.

In prelude to a look forward I have tried to bring together, 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, expanded use of food stamps - almost defies rational description. Even so we are not so much concerned with the past as we are with what the future holds.

About the safest and most certain economic prediction one can make today is that inflation will continue to be with us for some years to come. If we project in a straight line the rate of inflation that existed in the final quarter of 1973, the dollar will have the purchasing power of today's quarter in a little less than 20 years. It is my guess that this is conservative...that inflationary rates in the long run will be greater than this. If this is true, the current price of money - interest rates - fall among the the best bargains of the day. This, of course, depends much on how debt financing is used in a market of rising prices and costs. We look with both horror and sympathy, but without understanding, at countries such as Uruguay where during the past five years the cost of living has increased 1,013 percent. Over the past ten years consumer prices in Argentina have risen 1,214 percent; in Chile, 3,778 percent; and in Indonesia, an incredible 97,840 percent.

While we don't like inflation, we are not yet enough concerned to sacrifice many of our programs of social reform which escalate costs and restrict our productive capacity...programs made possible by an affluence which itself is now subject to being destroyed by the programs it has spawned. Up until 1973 personal incomes 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 placed 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 will break loose on us this year. Even in the unlikely event we were to follow a more conservative fiscal policy in the years ahead it is well to recognize that many inflationary forces already are built into our economy. Personal savings are at record levels; Social Security mandates are established. There is a political commitment to full employment and a growing public debt to be serviced. On top of this the costs of many new consumer protection laws, occupational health and safety regulations and environmental programs have yet to be built into our price structure.

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. In making production decisions they think of next year's prices and last year's costs. During the past year cereal and feed grain production has responded to both price and more favorable growing conditions -- and in

1974, despite scarce fuel and fertilizer and with the blessings of the weatherman, grain production will expand much further.

To date the increased production in other nations appears not to have dampened the demand for U. S. grain. Indeed massive increases in grain production are required to provide for the growing worldwide demand for animal proteins. Thus the world market will be hungry for grain at least for a number of years to come and much of it will be supplied by the remarkably efficient agricultural industry of the United States. The high animal protein diet of the United States, which much of the world seeks to emulate, was made possible by the vast natural agricultural resources of the United States. There are few regions of the world capable of matching the natural productive capacity of the U. S. The vast regions of Russia and China are restricted by an unfavorable climate. The vast regions of Australia suffer from lack of water. The vast regions of South America and Africa suffer leached soils. If the world is to materially improve its animal protein diets, it must increasingly turn to the United States. The present worldwide demand for feed grains can in time be expected to shift to a demand for meat as technical developments and taste preferences for processed meats make worldwide meat distribution more feasible.

It is well to recognize that the U. S. food export market does not depend alone on an upgrading of diets. In the unlikely event that increased prices should absorb all the increased incomes there will continue to be a growing export market for U. S. food simply because population growth is greatest where natural agricultural resources are most limited. In other words the ratio of food production capability to people in the U. S. is increasing while the reverse is true in much of the world. The choice between trade and hunger will do much to keep our export market channels open...to soften the eternal pressure for national self-sufficiency. While most foreign nations will continue to seek protection for their agriculture the degree of that protection will be limited by internal public pressures for more and better food. Most of the political danger lies in our own willingness to accept goods in trade for here the choice is not so much between hunger and trade.

With all the pressures there are for rising food prices we face the very real possibility that public opinion will once again force the imposition of price controls. Many of the thoughts expressed in this talk were motivated by the results of a survey of what the public thinks of food and agriculture. This past fall a representative cross-section of some 2,000 Americans were asked what should be done to assure reasonable food prices. Of these, 82% said we should cut government spending to control inflation, 69% said we should restrict the export of food, 69% advocated controls on corporate profits, 61% said we should put price ceilings on all food, 81% opposed any form of food rationing, 80% opposed any increase in taxes, 66% opposed any restriction on wage increases, 64% opposed having meatless days in stores and restaurants. This is but a microcosm of the economic incongruities in the public mind...the incongruities of public opinion which shape and direct those political actions which promise to deliver the impossible -- that promise low prices and abundant goods; that promise low taxes and expanded government services; that promise high wages and low costs; that promise high productivity and early retirement along with shorter working hours. The list is without end. There lies a spurious political promise within almost every economic truism. Political action and promise has done little more than establish an economic mythology in the minds of people, and such established myths perpetuate political exploitation.

The myth that price ceilings can solve a pricing problem has persisted almost as long as man has used money to facilitate the exchange of goods. There is a recorded history covering some 46 centuries of man's repeated efforts to control prices without altering production or consumption. Invariably the result has been failure. In spite of man's desire to make it otherwise production, consumption, and price are inseparable. If price is not allowed to respond to consumption and production, then consumption and production have no alternative but to respond to price. If we want scarce food, hold the price down. If we want scarce gasoline, hold the price down. There is only one solution to high prices and that is high prices and what is high or low is not at all to be determined by a historical comparison of price but rather within the current context of relative costs and values.

The beef industry is still suffering the economic shock waves created by price controls last summer. In anticipation that beef prices would rise when controls were removed last September, producers held back fat stock, increased feeder placements, bid up the price of both feed and feeder stock. Controls were removed but prices did not rise; they fell. They fell just as they had done on three previous occasions when we decontrolled beef prices on February 6, 1953, October 14, 1946, and on June 30, 1946. While the decline in producer prices was severe it was expected to be short-lived. Feeder stock remained high. So did feed. But there was little price recovery. Feedlots were full of fat cattle produced from costly feeders and feed. As operators took severe losses, they cut back placements and feeder prices dropped. That is where we are today - six months after the removal of price controls - but that is not the end of the shock wave effects. What will come next? Will there be an abundance or scarcity of fed beef on the market this summer? The experts aren't saying. Will the price of feed grains continue to rise or will they decline in response to fewer cattle being placed on feed? The experts aren't saying. Will consumers have more or less beef to eat this year? The experts aren't saying. About the only thing we know with reasonable certainty is that for no sustained period of time can we have high priced feed and low priced meat. Eventually prices will find an equalibrium provided public opinion does not force political action setting up a new set of shock waves.

My reason for expounding this primitive lesson in economics lies primarily in its relevance to the nature of international food markets which in the years ahead will have major impacts on domestic food prices. The size and shape of our growing export market for food is conditioned very much by political action which in turn is directed by the internal economic conditions of importing countries. The world market is far from being a free market. At its very best it promises to be a market filled with the shock waves of political action producing wide swings in domestic market prices. We have yet to learn how to deal with such a market.

The great challenge in the years ahead lies in developing a working relationship in trade between those countries having a relatively free market, such as ours, and those having centralized, controlled markets such as the Soviet Union or China and also those controlling imports through nationally franchised cartels. How a private enterprise economy such as ours can conduct commercial dealings with state trading nations in an equitable manner is a problem we have yet to solve. How do we avoid another "Great Russian Grain Robbery"? Much of our developing export trade today is with such markets and it is a rather sobering thought to consider what would happen to domestic agricultural prices should 20 billion dollars worth of agricultural exports suddenly have a market to find here at home. Our greatest protection against this unlikely event is that our developing exports are well dispersed among nations having competing political ideologies.

Perhaps the most significant factor to recognize is the change in the character of our markets...markets that are conditioned increasingly by the forces of international trade. We are not accustomed to such markets. Our expertise in trade is not adapted to such markets. We know little of how to read, interpret and respond to such markets. We have grown accustomed to domestic prices and problems in terms of domestic forces ignoring what little international trade existed. Serving a rather static domestic demand, agricultural decision making has been traditionally dominated by domestic supply considerations. When domestic supplies increase compensating price declines are anticipated which in turn do much to influence and establish realized prices. As a result given commodities tend to become locked into a relative price position yielding comparative stability. With the emergence of a strong export demand we are seeing these traditional relationships destroyed and we are bewildered by unfamiliar, new price making forces. Unpredictable demand has increasingly displaced supply considerations in price making with the result that prices will continue to become less certain, more volatile.

While the negative factors are formidable there are favorable forces at play having the capacity to bring us both agricultural prosperity and a food abundance such as this world has never known. It took a worldwide food price crisis to free our own agriculture from a socially absurd national policy of scarcity without significant price benefit. Today agriculture's response to price conditioned by a strong export market is bringing forth a new abundance of food.

With this change in policy there has been, on the international scene, a renewed confidence in the dollar. America's willingness to increase production in response to growing worldwide demands for food not only makes the dollar desirable once again but also provides the foreign exchange for buying those goods more economically produced in other nations. This year our agricultural exports will move into world trade at prices double those last year. In the long run our ability to maintain our foreign markets for food depends very much on the degree of inflation we suffer here at home relative to that of other nations. And this is a very positive note because, as severe as our inflation is, it continues to run well below world levels. Even though energy may limit the production response of agriculture it is well to remember that the United States is in a far more favorable position to solve its energy problem than most of the world. This gives us a competitive advantage in food production...an advantage which in the future promises to become even greater.

These favorable factors offer us reprieve if we will but recognize them and respond appropriately exercising reasonable constraints to keep an escalating inflation within reasonable bounds. Even so inflation will be with us for many years. Food prices will continue to rise. Over and under responses of production will cause disturbingly wide price fluctuations making agricultural production adjustments more critical. But this is essential in reaching a new economic stability -- an economy that provides abundant food not at cheap prices but rather at prices commensurate with value -- an economy which recognizes that America's special sphere of competence in the world lies very much in its agricultural capability.

During the last century it was America's agricultural advantage over the rest of the world that made it possible to develop our industrial might and affluence. Following this there were long years during which agriculture increasingly was put out to pasture. Only now are we beginning to realize that our relative advantage in industry nowhere near approaches our relative advantage in agriculture. With the development of world trade and the declining pressures for self-sufficiency our full agricultural capabilities are once again being brought to life. The coming years, filled with dynamic problems and opportunities, promise to be prosperous years for the American farmer; but should we fail in the maintenance of export markets, the new age of agriculture will quickly fade away.