

## AGRIBUSINESS GROWTH - A BROADENED VIEWPOINT

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It is good to have this opportunity to discuss with you some critical issues concerning agricultural industries in Missouri and the nation.

In the early decades of our nation most of the supply and processing functions relative to producing and preparing farm products for the consumer were performed in the farm household by the farm family. In that period the successful farmer required numerous skills as carpenter, wheelright, harness maker, blacksmith, butcher, etc. His wife displayed equal versatility, as nearly every item of clothing and food for the family went from raw condition to finished product in her hands. These functions relative to producing, processing, and marketing farm products constitute our agribusiness industries.

With the invention of more sophisticated equipment during the industrial revolution of the 1800's, there was a sharp increase in farming efficiency and a reduction in the functions performed on the farm. Division of labor and job

specialization began on a wider scale, and it became more efficient to perform many here-to-fore functions in an off-the-farm setting.

The manufacture of plowing, cultivating, and harvesting machinery was an early development in the supply sector of agribusiness. Farm power equipment, chemical fertilizers, and more efficient lines of machinery soon followed. More recently, off-farm controls for weeds, insects, and diseases have received major emphasis. But more significantly, we continue to remove large chunks of normally farm functions away from the farm setting. Examples of such tendencies are the factory-like broiler operations, dairy parlors, commercial cattle feeding operations, and hybrid seed production.

Off-farm development of processing and marketing has accompanied the growth and innovations in the farm supply sector. Mechanization in the clothing, shoe, textile, and flour milling industries has tended to reduce the functions formerly performed in the farm home. More recently, we have had further food processing operations which have relieved both the farm and urban wife of many food preparation chores. New products found on grocery counters include: frozen juice concentrates, frozen desserts from vegetable oils, numerous baking mixes, and other foods requiring a minimum of

preparation. The freeze-drying process, continuous mix bread baking, improved warehousing, controlled atmospheric storage, and computer controlled inventories are examples of new handling methods.<sup>1/</sup> High speed highways have improved the efficiency of trucking foods. Larger freight cars have increased the efficiency of hauling feed and grain, and air transportation has become increasingly feasible for some food items. These developments have reduced the isolation of many smaller communities and altered the location of food producing and processing areas.

These industries which are active in producing farm supplies, farming, and processing and marketing farm products are a vital and growing sector in the nation. They account for about \$150 billion or one-fifth of national product. Agriculture is relatively more important in Missouri than in the rest of the nation. The entire agribusiness sector will likewise be more important here, because a large portion of the farm supply and farm commodity processing activity tends to be located near farm production areas.

Agribusiness growth in recent years has approached the growth rate of gross national product. From 1955 to 1967, value added in agribusiness grew about 4.3 per cent per year, while gross national product grew at the rate of 5.9 per cent.<sup>2/</sup>

1/ Report of National Commission on Food Marketing, Food From Farmer to Consumer, GPO, Washington, p. 8.

2/ Clifton B. Luttrell, "Agribusiness - A Growth Analysis," Business and Government Review, November-December 1969, p. 36

Growth among the three sectors of agribusiness has been quite uneven, with the off-farm sectors rising substantially faster than the farm sector. For example, during the 1955-67 period, value added per year in processing and marketing rose 5.0 per cent, in farm supplies 3.7 per cent, and at the farm only 2.1 per cent.

Growth in any sector of agribusiness, like growth elsewhere, depends upon supply and demand conditions. Demand for farm supplies is a derived demand. It depends upon the cost and productivity of those products. Farmers, like other businessmen, are maximizers. They will purchase additional supplies for production as long as additional profits are anticipated from such purchases. Suppliers thus have great incentive to create products which enhance the efficiency of farm production. With this incentive we can expect farm technology growth to continue and to have similar impacts on the agribusiness sectors as in the past.

As a result of both the transfer of farm functions to other sectors and the greater efficiencies in performing those remaining functions, farm labor has been released to other sectors. For example, only 35 years ago over 10 million workers, or 24 per cent of the nation's total, were employed in agriculture. This year only 3.6 million were employed in agriculture or less than 5 per cent of total national employment. Although the downtrend of farm labor continues, the rate of decrease may be somewhat slower in the future than in the

past decade. Farm labor declined 4 per cent per year in the last five years from the peak rate of 4.4 per cent in the previous five years. The 1950-55 and 1955-60 rates of decline were 2.1 and 3.3 per cent respectively. The gap between returns to farm and nonfarm workers is closing. Thus the incentive to leave farm employment is not as great as formerly.

Part of the efficiencies achieved in agriculture are the result of increased capitilization. Total value of farm assets rose from \$131.6 billion in 1950 to \$297.9 billion in 1969. Some of the increase was the result of inflation, but the greater portion represents rising capitilization, primarily additional labor-saving machinery. Capital per worker rose from \$18,400 to \$82,600, an increase of 10.9 per cent per year.

Supply conditions in all agribusiness sectors are largely influenced by the streams of technology flowing from research into the industry. This flow will likely continue; however, it would be surprising if the rate of farm efficiency gains of the past half century are equalled in the next half century. In any event, the changes at the farm cannot have the same impact on the rest of the economy as heretofore, since the farm sector is now a much smaller proportion of the total. Efficiency gains in the nonfarm sector of agribusiness have been at a slower rate than in farming but

have probably equalled the average for all nonfarm business and will likely move with the average in future years.

Demand for products of all sectors of agribusiness is heavily weighted by the demand for the final consumer product. Such products range from the relatively unprocessed farm commodities which are exported or still prepared primarily by the nation's households to those which undergo a sizable amount of processing, thereby requiring a minimum of home preparation.

Demand for unprocessed food tends to grow with the population and at a much slower rate than total demand for food. The actual volume of food consumed per capita in the more advanced nations does not increase rapidly. There are minor changes in quality of foods purchased as per capita incomes rise which tends to cause some rise in demand, but the major demand factors for final agribusiness products are domestic population growth, demand for additional processing services, and export demand.

Consumers have a choice of purchasing relatively unprocessed food at lower prices or paying someone else to perform the various stages of preparation. The greater the amount of commercial preparation, the larger is the processing and marketing sector. Consumers in the United States have steadily demanded increased food processing.

The fact that the processing and marketing of food has grown almost as fast as GNP indicates that consumers are willing to pay increasing amounts for leisure time.

Our greatest opportunity for agribusiness growth is in the export market. Export demand for agribusiness products could be increased substantially under free world trade policies. Since the Reciprocal Trade Agreements Act of 1934, we have pursued an announced policy of "freeing" international trade. We have negotiated numerous tariff reductions. Nevertheless, other restrictions are so effective that export trade has not been greatly affected.

While tariffs have traditionally been the chief means of protecting domestic producers from foreign competition, in recent years other protective devices have increasingly been used. Chief among them are import quotas, special clearing agreements, domestic subsidies, bilateral trade agreements, import licensing, and domestic monopolies operating under governmental authority. In some instances the restrictions have involved special legislation. In others, informal agreements have been sufficient to limit trade to arbitrarily determined levels. With the aid of one or more of these measures, nations can maintain tariff duties at relatively moderate levels and still protect producers from foreign competition. This change in method of protection provides an opportunity for great obscurity in discussing trade policies and results

of tariff reduction agreements. A reduction in tariff rates has little meaning since real barriers to trade remain unchanged.

International trade barriers are as unreasonable under competitive production and marketing conditions as are trade barriers between states, cities, or counties. To the extent that they reduce the international volume of goods and services they reduce welfare.

Our country has not been innocent with respect to the use of these protective devices. Even in agriculture, which has such a large stake in free trade, we have established highly protectionist policies. We have sugar import quotas which, based on the New York wholesale price, cost U. S. consumers an additional 22 cents for each five pounds of sugar purchased.<sup>3/</sup> We have subscribed to international trade agreements which set minimum prices on coffee and wheat, thereby limiting trade in these commodities. We have meat import quotas which provide limits on imports of beef. Our cotton export subsidy, designed to offset the trade retarding features of our domestic price support program, is sufficient to permit exports of cotton to Japan and imports of goods made from cotton to the U. S. for sale in competition with our own mills. In order to avoid excessive disruptions from such competition, however, we have a tacit agreement with the Japanese to limit cotton goods exports to the U. S. Such

3/ International Monetary Fund, International Financial Statistics, Sept. 1970, p. 29.



tacit arrangements are apparently preferred to formalized legal actions, but if they are equally effective in reducing trade, they are likewise equally effective in reducing welfare.

Also important in limiting foreign trade are production controls and subsidies. For a number of years the British have subsidized their farm producers, maintaining excessive labor in agriculture which, in effect, limits their imports and our exports of farm products to them. These workers could earn more in nonfarm pursuits, and under free trade conditions the British would export more nonfarm products and import more farm products, thereby enhancing total production and welfare.

Our own domestic farm programs inhibit world trade. Despite our conscious policy of free trade since 1934 as measured by tariff rates, our domestic farm policies pursued since then have probably offset the advantages gained from the reduced tariff levies. We initiated farm production control and price support programs in the mid-1930's which contributed to higher farm production cost and higher prices both here and abroad. Our farm products became less competitive in the world market and worse, from a long range view, was the fact that our policy of arbitrary farm product pricing at higher than free market levels led to a loss of confidence in the U.S. as a long run source of farm products. This move from competitive to arbitrary pricing indicated to our customers abroad that hereafter prices of U.S. farm commodities would

be in excess of free market prices. Higher export prices in turn indicated higher food and fiber costs to importing nations. Their costs of imported food thus hinge on the decisions of our price making authorities who are likely to be more influenced by political pressures at home than by living costs elsewhere.

Our tariff reduction policies have not led to more trade relative to total output. In the 1920 to 1934 period, prior to the Reciprocal Trade Agreement Act, U. S. commodity exports averaged 5.1 per cent and imports 4.1 per cent of gross national product. In contrast, since the announced liberal trade policies in the mid-1930's, total exports have averaged only 4.1 per cent and imports only 2.9 per cent of GNP. The proportion of foreign trade in farm products declined even more sharply than the total. Exports declined from 17.4 per cent of farm output in the 1920-34 period to 8.6 per cent since 1934 and imports from 19.9 to 10.9 per cent. In the five years 1965-69 commercial farm exports totaled 12 per cent of cash farm receipts, somewhat above the 1935-69 average but well below the per cent exported prior to the so-called change to more liberal trade policies. Furthermore, export subsidies such as government credits and guarantees, government commodity sales at less than market prices, and export payments in cash were responsible for a large portion of

recent exports. We view such practices as dumping when other countries export products to us under similar conditions.

Thus, despite our announced freer trade policies, our new barriers to international trade have offset our trade freeing actions. The trade barriers are usually imposed in such a way as to inhibit trade growth rather than have a strong immediate impact, thus becoming successively more restrictive over time.

It is my conclusion that the predominant political forces in most nations today do not really want large increases in foreign trade. Large gains in trade upset markets and cause changes in resource use. Some hardships occur in the short run in the relatively less efficient industries. Gains occur immediately, however, in the relatively more efficient industries and among all consumer groups. In the longer run all groups gain from the greater efficiency of international specialization. But, neither this nation nor other nations have to date indicated a willingness to adopt policies that will assure these major gains at the expense of minor adjustments among some producer groups.

Let's take agriculture as an example and consider the impact of greater exports of American farm products to Western Europe. Such exports will first cause a reduction in prices to European farmers and a reduction in food costs

to their consumers. Incomes to their farmers will decline, providing incentive for farm workers seeking higher paying jobs in the nonfarm sector. The larger nonfarm labor force which is relatively more efficient will achieve greater output of nonfarm goods and services, and exports of these products to the U.S will increase. Greater efficiencies will occur in both their farm and nonfarm sectors and a larger volume of products will be available at lower prices, enhancing real incomes and welfare. On the American scene, the larger volume of farm exports will increase domestic farm prices and incomes. This would attract new resources into agriculture from other sectors or more likely reduce the outflow of resources from agriculture. The larger imports of nonfarm products by the U.S. will reduce demand for resources in our nonfarm sector, but, similar to the European case, the increased efficiencies will provide more goods and services to our people.

The argument that imports from low cost factories abroad are unfair to labor is similar to the farm import argument. Import restrictions aid workers in import competing industries in the short run but injure workers in export industries. But once workers have adjusted to the new market forces, greater output is achieved and the benefits of greater production efficiency accrue to all.

Almost all major countries subscribe to the vital industries argument for protection. Certain industries are assumed to be vital for national survival. England, for example, has in the past attempted to maintain domestic food production at about 50 per cent of domestic usage. These policies originated from a lack of confidence in supplies from abroad at critical periods, such as during wartime blockades. Other nations, including our own, prefer to maintain sufficient resources in vital lines of production to provide a minimum level of output in case of loss of supplies from abroad. Oil and sugar quotas here are an example of such protection. Nations are willing to maintain inefficient production of these vital products, despite the fact that such use of resources is a waste of effort. Protection for these industries against competition from abroad maintains stability of employment for a few at the expense of many. Nations are willing to tax more for defense items and pay higher prices for the civilian output of such industries in order to maintain these industries, despite the fact that methods of modern warfare have made such excuses obsolete. Nations now have the power to destroy one another long before supplies of such critical products are depleted. The solution lies in increased confidence that world trade channels will remain open and supply sources unimpaired.

From the standpoint of U. S. agriculture we look

abroad at rapid growth of Western European nations and see great opportunities for farm commodity exports, provided these nations will only open their trade doors and invite us in. It is my conclusion that we have not earned the invitation. Trade must be a two-way affair. Our nation must adopt free trade policies if we expect to sell more products abroad. Despite our numerous pronouncements, our policies have not contributed to two-way trade arrangements. We have done little to merit the dependence by Western European nations upon us for an indefinite source of vital products at competitive prices. We have neither consistently followed a free trade policy nor domestic pricing policies that are conducive to free trade.

Although the arguments are overwhelming in favor of more trade between nations, I am quite pessimistic as to its future course. Forces tending to reduce welfare through trade barriers are better financed and more powerful than the forces active in promoting welfare through freeing trade channels. As an indication of the power of protective groups, about 590 import quota proposals were introduced in the recent session of Congress prior to the end of August.<sup>4/</sup> One bill was approved by the House Ways and Means Committee which was

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<sup>4/</sup> International Commerce, Sept. 7, 1970, p. 10

described by the New York Times as the "most protectionist and reactionary trade legislation in forty years."<sup>5/</sup> Signs admonishing us to purchase American goods and protect American jobs can be observed daily. Only the textbooks, however, are available to point out the gains from free trade and few professors are out shouting the story to the general public.

### SUMMATION

In summary, agribusiness growth can be explained through the working of supply and demand forces in a free market setting. Inefficiently performed functions were removed from the farm when more efficient means were discovered for performing them in a factory setting. The supply schedule for farm production inputs and farm products is largely determined by how efficiently they can be produced. Efficiency here as elsewhere leans heavily on capital and technology. Our stock of these factors is likely to continue upward, but the rate of efficiency gain at the farm sector may be somewhat less in the next half century than in the past half century.

Demand for agribusiness products has grown almost at the rate of GNP, but most of the growth has occurred in the processing and marketing sectors rather than in unprocessed farm products. These trends are likely to continue as volume of food consumed per person does not change rapidly and our population growth has slowed in recent years.

Our greatest opportunity for agribusiness growth is through exports. The removal of trade restrictions would be especially beneficial to American agriculture. We have a major relative advantage in the production of farm commodities. Under free world trade policies and free domestic producing conditions, world-wide food prices could be lowered and world diets improved.

The political forces in most nations have not indicated a willingness to pay the small price in economic adjustments at home to achieve these major gains. Proposed liberal policies are often followed by restrictive actions more typical of the medieval and ancient ages. In practice, we still follow the outdated theories of several centuries ago despite the more enlightened instruction in our colleges and universities.

Most of the arguments used against free trade practice are not applicable to modern world conditions. The implied disruptions in local industries are generally overstated and are often excuses for maintaining resources in inefficient lines of production. Current unemployment and labor retraining social programs minimize hardships to the labor force resulting from the change. Little capital loss would likely occur with the high rate of obsolescence due to technological change. The vital industries argument is no longer applicable, since, in case of all-out war under modern conditions, no industry is secure regardless of where it is located.



The United States should take the lead in dropping the trade barriers. Tariffs are not the only item to consider. We should move immediately to build world confidence in us as a supplier and market. Real accomplishments will require more than the rhetoric of recent decades followed by high level conferences which tend to free trade where no potential trade exists. We must be willing to reduce barriers and permit major increases in imports and oppose the power of producer groups who have made their short run interest paramount to the welfare of the nation. We must be willing to dismantle our inefficient production controls in agriculture and assure foreign consumers that our farm products will be available at competitive prices. A move toward free trade is a move toward less government control of prices and production and greater reliance on market forces for resource adjustment.

These moves are counter to our great surge to alleviate all individual hardships through general legislation which temporarily aids the few but reduces national welfare. Their adoption can reverse the trend to isolationism in the current century and greatly enhance the welfare of both our own citizens and those of the rest of the world.

It is growing and changing as a result of developments within banks, supervision, the economy, and competitors. Competition is keen and probably increasing. Costs have been rising steadily and are likely to continue to increase. As a result of these developments, successful banks will need to be guided by capable management. I have confidence that commercial bankers will meet the challenges of the future as they have those of the past.

The structure of banking is in for further change in the 1970's. Pressures for a banking system that provides for greater efficiency contributed to major changes in the 1960's. Such pressures will likely be greater in the 1970's, and the changes will likely accelerate. Most changes in state laws during the past decade have been toward less regulation with respect to bank structure. In addition, it is being increasingly recognized that inefficient financial institutions retard economic growth.

I believe that every community has an equal right to market rates on loans and on savings. We know that some isolated banks fail to provide these services at competitive prices.

The demand for these financial intermediary services will continue to grow. If the current banking system cannot or will not provide them efficiently, the community will demand another type of banking system or other financial institutions. I believe that banks can do the job provided they have freedom to bring all areas into competitive financial markets.