LONG RUN OUTLOOK FOR FARM PRODUCTS AND FOOD

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The nation's food situation has been a leading topic of economic discussion during the past year. Food is a basic commodity consumed in all households, and since mid-1972 we have probably experienced the sharpest food price increases in the nation's peacetime history. In view of this sharp increase, many are asking: "What does the future hold with respect to food and agriculture in general? Is there some truth in the dire predictions of Thomas Malthus that since population tends to exceed growth in food production, the mass of the people are destined to remain near the starvation level?"

In contrast to an outlook for mass poverty, it is my view that the sharp increase in farm prices in late 1972 and this year was a random occurrence which will not likely be repeated. Farm prices have already turned down and food prices have leveled off.

Most of the Recent Price Increasing Factors Were of the Short-Run Type

Many of the factors which caused the sharp food price increases of this year were of short-run duration. Rising prices provide the incentive for increased farm production just as they do in other sectors of the economy. The larger crops harvested this fall in response to the higher prices, already have had a downward impact on most crop prices. Peruvian fish meal production has revived somewhat from its 1972 low. Foreign production of food and feed grains has returned to more normal levels indicating somewhat lower export demand for these commodities than a year ago. Domestic livestock inventories are generally rising, indicating producer willingness to increase production at current prices. Thus, it is my view that in the next year or two, farm commodity and food prices will decline somewhat further relative to other consumer prices as the short-run forces, which caused the sharp increases in late 1972 and early this year, are dissipated. However, there are some long-run forces which will tend to maintain farm product prices at higher levels relative to nonfarm prices than during the past several decades. Such forces include both demand and supply factors.

But Long-Run Supply and Demand Forces Will Prevent Major Price Declines

First, there has probably been an increase in the trend rate of growth in foreign demand for U.S. farm products. The export demand for farm products over the long-run should rise from both the realignment of currencies and rising real incomes abroad. From the mid-1950s until last year, the U.S. was losing foreign exchange, indicating that under the existing fixed exchange rates our currency was valued artificially high relative to the currencies of other commercial nations. This tended to inhibit exports by increasing the price of U.S. products relative to foreign prices. The currencies have now been realigned and exports of commodities in which we have a relative production advantage should rise. We assuredly have a relative advantage over most other nations in the production of those farm products which are adapted to our climate. In addition, the rapid growth in real incomes abroad has resulted in improved diets in many foreign countries. Such diets which include more animal products will contribute to a higher export demand for U.S. farm products.

On the domestic front, demand for farm products and food will continue to expand with population and personal income growth. Population growth has slowed somewhat in recent years. However, personal income growth in current dollars has been sharply upward during the past decade, averaging about eight percent per year. This high rate largely reflected excessive monetary growth. Personal income in constant dollars grew only about 4 percent per year, or about the trend rate for the past two decades. These factors point to a continued rise in food and farm product demand but, with the slower population growth, the rise may be somewhat less than during the past decades unless the rate of inflation accelerates.

The supply side of the domestic farm product and food situation may not be as favorable to consumers in the future as during the past two decades. Heretofore, the growth of technology in agriculture has been sufficient to provide food to the American population at a constantly declining percentage of personal income. Since 1950, the percentage of personal income spent on food has declined from 22 percent to 16 percent. During this period the quality of diets have been increased substantially. Average meat consumption per capita rose from 177 pounds to 253 pounds. This downtrend in the percent of personal income spent on food may not be as steep henceforth as since 1950 for the following reasons:

> First, the price of energy, a major cost item in agriculture, may be higher. Higher priced energy will cause the supply schedule for farm products to shift to the left, meaning that a smaller quantity will be produced at each price level. Hence, in order to provide incentive for increased production processors and consumers must bid prices up. Rising power costs will be reflected in farm product and food prices both directly through on-the-farm power costs and indirectly through machinery purchases, etc.
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> Second, while growth in the knowledge of farm production is extremely difficult to forecast, it

is unlikely that technology will be applied in agriculture as rapidly henceforth as since World War II. For a decade or more following the war, agriculture was probably in a catch-up phase relative to applied technology. Agriculture as well as other industries had been through a severe depression prior to the war and many farmers were unwilling to take the risks for cost-reducing investments. After the war, several years were required for industry and agriculture to get tooled up for maximum efficiency. Hence we had sharp increases in farm productivity during the late 1940's and the 1950's. But some slowdown in productivity has occurred since 1960. Crop yields per acre rose at an average annual rate of 2.5 percent from 1950 to 1960. The rate of gain in crop yields slowed to 2.2 percent per year from 1960 to 1972. In addition to a slowing in crop yield growth, total farm output per unit of input has likewise tended to level off in recent years. The rate of increase declined from 2.5 percent in the 1950 decade to 1.3 percent since 1960.

Third, throughout most of this nation's history, we have had available additional ariable land which could be brought into production at a relatively low marginal cost. Additional acres can still be brought into production but the marginal cost for improvements such as irrigation facilities or drainage has risen substantially. It is true that some additional acreage can be released under the government crop control programs, but such acreage is also marginal. Hence, its potential impact on total farm output has probably been overemphasized by the policy makers and the public.

Fourth, money labor costs in agriculture may equal that of similar labor in the nonfarm sector in future years. Heretofore, about

20 percent of farm labor wages were paid with perquisites, love of a rural atmosphere etc. Large numbers of farm boys have grown up on the farms and many have preferred such a life despite the somewhat lower money wages. This may not be the case hereafter. With the increased mechanization in recent years, there are fewer farm jobs that farm children can perform. Hence the returns from a farm child's labor has declined relative to its rearing costs and the rural birth rate has declined. The lumber and pulpwood industries are already experiencing difficulty in obtaining low cost farm labor to work in timber. A number of farmers currently report that they must pay nonfarm money wages to obtain help. Thus, money wage returns to farm labor are rapidly approaching the money wages to labor elsewhere.

Fifth, in recent years the nation has become more concerned with consumer safety, air pollution, and general ecological considerations. Our officials have decided that we should pay the price in reduced goods output for gains that can be achieved through greater consumer protection, reduced air pollution and improved ecological practices. The changes are especially notable in agriculture. Safety regulations regarding animal feeds have reduced output per unit of feed. A number of insect and disease control chemicals have been banned. Restrictions are increasingly severe on animal feedlots and other potential sources of pollution. All of these protective devices must be paid for in reduced farm output and higher priced food.

Concluding Summary

In summation, I view the sharp increases in farm and food prices since mid-1972 as largely a short-run phenomenon. Most farm commodity prices have already declined somewhat and food prices will follow the downward movement. We cannot expect much decline in livestock products, however, until mid- or late 1974.

Furthermore, consumer food prices may remain fairly stable since retail prices, which lag wholesale prices, will move toward more normal marketing margins. The money supply has increased sharply for several years and inflationary forces remain strong. Thus a leveling out in 1974 is the most that can be expected in this area.

Over the longer run, it appears unlikely that we will again see the major decline in food prices relative to other prices as in the 1950's and early 1960's. A greater export demand, higher energy and labor costs, higher marginal costs of acreage available for crops, the possibility of a slower rate of technology growth, and air pollution and ecological considerations all point to less decline in farm product and food prices relative to other prices. Over the longer-term farm prices may thus rise at about the same rate as prices in the nonfarm sector. This indicates that the percent of consumer incomes spent on food hereafter may not decline as much as during the past two decades. However, I would not expect a significant rise in such expenditures from the current 16 percent.