FARM AND RANCH BULLETIN

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WHY MARKETING COSTS STAY HIGH

In a recent report entitled *Farm-Retail Spreads for Food Products,* the Agricultural Marketing Service throws some light on such perennial questions as:

★ Why do farmers receive a comparatively small part of the dollar consumers pay for many food products?

★ Why do retail prices often stay up when prices received by farmers decline?

The difference, or spread, between the retail price of a product and the payment the farmer receives goes to a large number of people who move the product from the farmer to the consumer, including local assemblers, food processors, wholesalers, and retailers.

The resources used by these marketing agencies—labor, processing plants, transportation, and equipment—sometimes are more costly than the resources used by the farmers in the production of the crop. This is particularly true of commodities that require extensive processing. Even an unprocessed product, such as lettuce, often incurs major expenses, resulting from long transportation hauls, refrigeration, etc.; consequently, its marketing cost exceeds the farm production cost.

In 1957 the Nation's farmers received an average of 40 percent of the retail price of food products—that is, 40 percent of the dollar the consumer spent for food. Marketing agencies received 60 percent.

The percentages vary widely with the food product group. The farmer's share generally is higher for meat and animal products than for foods derived from crops. For example, in 1957 the farmer's share for eggs was 67 percent but was only 17 percent for bread. More expense is involved in producing a dozen eggs than in raising wheat for a pound-loaf of bread. On the other hand, marketing agencies perform an expensive two-stage manufacturing process—milling and baking—to convert the wheat into bread, but they have no such problem in selling eggs at the retail grocery.

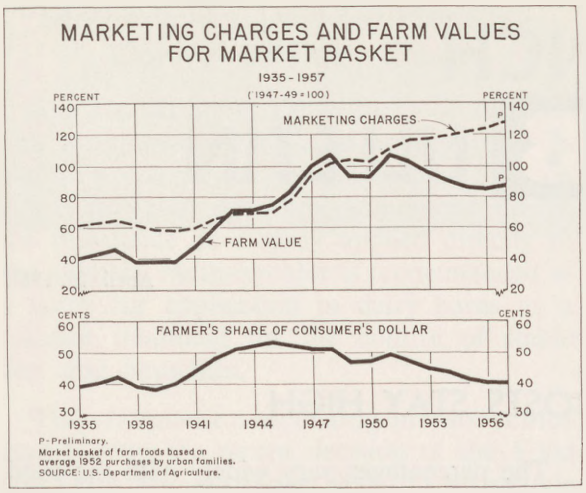
This does not mean that the income (net return) of the farmer who produces eggs is necessarily larger than that of the farmer who grows wheat, since the poultryman's production costs also may be higher.

The farmer's share of the consumer's food dollar has declined since 1950, when he received 47 cents. In 1957 the farmer received 7 percent less for food products than in 1950, while marketing charges (the farm-retail spread) rose approximately 25 percent. The smaller share of the consumer's dollar spent for food which the farmer receives as compared with earlier years is partly the result of farmers' shifting some of the marketing functions previously performed by them to marketing agencies.

Marketing costs are largely independent of the supply and demand factors which influence prices received by farmers. For this reason, retail prices may continue high, even

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS



when the farmer is receiving less for his products. Many marketing costs—such as wages, leases, freight rates, and public utility rates—are relatively inflexible, since they are fixed over a period of time by contracts or by regulatory agencies.

During inflation periods, many marketing costs do not rise as quickly as do farm prices; but they also decline very slowly. There probably are more rigidities in marketing costs today than ever before. For example, depreciation charges are higher, and, in a few cases, a guaranteed annual wage has to be considered.

Labor costs comprise about half of the farm-retail spread. In 1957, these costs were 19 percent higher per unit than they were in 1950. Hourly wages were up about 40 percent, but because of increased productivity, the rise in cost per unit of output was only half as great.

Transportation costs (which make up about an eighth of the farm-retail spread) were up approximately a fourth. Costs of fuel and electric power, containers and supplies, buildings, machinery, and equipment rose an average of 30 percent. Rents, taxes, and advertising were among other costs which were substantially higher.

Corporate profits have accounted for 5 to 10 percent of the food marketing bill. Taxes have taken about half of these profits in most post-World War II years.

Another reason why the total bill for marketing farm food products has increased is that marketing agencies are handling more food and performing more services than they did in 1940. The volume of food products marketed from the Nation's farms has increased 50 percent since that year. The population has risen only 30 percent; thus, the amount of food marketed per capita has increased.

The nonfarm population has risen almost 50 percent since 1940, while the number of persons living on farms has decreased one-third. Since farm families usually produce part of their food, ex-farmers who are now nonfarm residents purchase a larger amount of food from marketing sources.

A greater volume of food is being processed and ready prepared than formerly, and more meals are being eaten in restaurants. These factors result from (1) a continued high level of employment and consumer incomes and (2) the employment of more housewives outside the home.

According to the Agricultural Marketing Service, not all extra processing adds to the cost of food. In some instances, processing costs may be offset by a reduction in waste and spoilage and the lower costs of shipping.

Device May Tell When to Irrigate

The use of a simple electrical device, tested recently by the United States Department of Agriculture, someday may help farmers determine when to irrigate their crops. The instrument measures moisture stress—an indicator of a plant's moisture needs.

Two small prongs of the device are stuck into the stem of the plant in order to make a rapid reading of the plant's water requirements. The prongs are two stainless steel electrodes connected to an ohmmeter, which measures the electrical resistance in the plant. (The lumber industry uses a similar instrument to measure moisture in wood.)

In experiments with cotton plants, electrical resistance went down as moisture amounts went up. Within 4 hours after irrigation, a

sharp drop in resistance was observed on the ohmmeter.

Further studies are being conducted by the Agricultural Research Service with the aim of making the electrical device easy to use by irrigation farmers.

Tanning Agent from Corn

Corn, a kingpin in the production of our four-footed domestic animals, has stepped into the picture as a tanning agent to help turn their hides into new and superior types of leather, reports the Texas Agricultural Extension Service.

Dialdehyde starch, a new corn product developed by the United States Department of Agriculture, shows great promise for the production of garment and glove leathers with unique properties. Cooperative work with commercial tanners is under way.

The United States is completely dependent on other countries for tanning agents; therefore, a tanning agent from a domestic crop that is always available, frequently in surplus, would offer definite economic advantages. In addition, it would open up new possibilities for leather use.

Red and Yellow, Kill a Fellow!

Poisonous Snakes in Texas, a leaflet published recently by the Texas Agricultural Extension Service, tells how to identify the more poisonous snakes and what to do when bitten by a snake. Rattlesnakes, copperheads, water moccasins, and coral snakes are the poisonous species in Texas which are considered dangerous.

The coral snake has yellow, red, and black rings encircling the body. The yellow ring always touches the red ring, which is not true of similar nonpoisonous snakes. A good slogan to remember is "Red and yellow, kill a fellow." Moccasins normally are found near water and, contrary to popular belief, can bite under water. If a person is bitten by a poisonous snake, first-aid treatment should be administered immediately.

Leaflet L-354 contains additional descriptions and characteristics of the snakes, as well as instructions on first-aid treatment. Copies may be obtained from offices of local county agricultural agents or from the Agricultural Information Office, College Station, Texas.

New Practices Control Peanut Stem Rot

Stem rot of peanuts has cost growers in the southern states $10 million to $20 million annually, according to the United States Department of Agriculture. Improved cultural practices for controlling the destructive disease—also known as southern blight—recently have been developed through cooperative research by the Department of Agriculture and the State Agricultural Experiment Stations of Georgia and Virginia.

The new control measures consist of:

★ Plowing fields so that all surface debris is covered with clean soil to a depth of 3 to 4 inches.

★ Planting on flat beds or on slightly raised beds.

★ Cultivating so that no soil is thrown against the base of the plants during the growing season.

These soil management practices have substantially decreased the incidence and severity of stem rot diseases. In experiments in Georgia during 1956, the measures resulted in a 32-percent gain in the yield of Spanish peanuts. In Virginia, use of the practices resulted in an 80-percent increase in the yield of Spanish peanuts and a 78-percent gain in yields of Virginia bunch peanuts.

Bulk Handling of Milk Stepped Up

The trend toward bulk cooling and handling of milk on dairy farms has proceeded at a phenomenal rate, and market analysts predict continued conversion in most markets during

1958, states A. M. Meekma, Extension Dairy Husbandman of the Texas Agricultural Extension Service.

The rapidity of conversion has surprised market analysts because of the considerable reorganization, added investment, and increased initial cost involved. These factors have caused mixed reactions among farmers, and the shift has not been uniform in all areas.

Mr. Meekma says that large producers generally convert to the bulk tank system more readily than do smaller operators. Producers usually expand their herds when this system is installed.

Storm Cellar Good Insurance

Many persons who have seen the destructive black funnel of a tornado rushing directly toward their homes or have experienced similar disasters had never realized the value of a safe place, just as "we never miss the water until the well goes dry." A storm cellar can be constructed easily without special skills and with only a few special tools, according to the Texas Agricultural Extension Service.

Since tornadoes usually move from southwest to northeast, the storm cellar should be located southwest of the house. For an extended period of occupancy, 10 square feet of floor area should be allowed for each person; only about 2 square feet per person are required for short occupancy. Storm cellars should be strong enough to withstand the impact of falling debris and should be watertight, economical, and relatively easy to maintain.

Instructions on building a storm cellar, together with information on other uses for the cellar, are contained in Leaflet L-388, *The Disaster Cellar,* published by the Texas Agricultural Extension Service. Copies of this release may be obtained from local county agricultural agents or from the Agricultural Information Office, College Station, Texas.

Improved Native Grasses Promising

Greatly improved native grasses developed by the Texas Agricultural Experiment Station are being tested throughout the State. Seeding these selected grasses in combinations may be a practical substitute for the long-sought "miracle" grass needed for restoring low-producing, drought-stricken ranges.

Stock farmers not only need drought-resistant pastures but also must have grasses capable of setting good seed, producing abundant leaves, and establishing themselves quickly. A. H. Walker, State County Agent Leader and former Extension Range Specialist, says that the improved native varieties probably will lend themselves to more economical seeding and land preparation than grasses introduced in the past.

Forty different varieties of 15 grasses are being tested in 68 plantings throughout Texas. Included are old reliables, such as the grama grasses, cane bluestem, green sprangle-top, little and big bluestem, switch grass, and plains bristle grass.

Protect Livestock from Lightning

Lightning is a constant threat to animals standing under trees or along wire fences, according to W. C. Krueger, Extension Engineer at Rutgers University, New Brunswick, New Jersey. He says that losses can be prevented by taking the following precautionary measures.

◆ In order to make trees safe from lightning, extend a well-grounded lightning rod up the main trunk to the topmost leaves of each tree.

◆ Protect livestock standing near fences during lightning storms by placing a heavy wire alongside every third or fourth post to a depth of 3 or 4 feet into the ground and then staple the wire firmly across the intersecting line wires. The ground wire should extend slightly above the top of the post.

The FARM AND RANCH BULLETIN is prepared in the Research Department under the direction of J. Z. Rowe, Agricultural Economist.