

Hillman, Jimmye S.

Article — Digitized Version

High food prices: The tip of an iceberg

Intereconomics

Suggested Citation: Hillman, Jimmye S. (1974) : High food prices: The tip of an iceberg, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 09, Iss. 5, pp. 150-153, <https://doi.org/10.1007/BF02927291>

This Version is available at:

<https://hdl.handle.net/10419/139020>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

the path of imports of individual goods, which have so far militated against higher sales. LDCs, on the other hand, would have to make serious efforts to adapt themselves better than in the past to conditions in industrialised countries. This means that attempts to market their products must be combined with planned market research, perpetual advertising, adaptation of product design and presentation to consumers' habits⁵, and the use of the most cost-effective and profit-effective distribution system⁶.

Only in succeeding in this way in meeting the notions on quantity and quality of potential users

⁵ Christian Wilhelms, Klaus Boeck, Market and Marketing in the Federal Republic of Germany — a Manual for Exporters from Developing Countries, Hamburg, 1971.

⁶ Dietrich Kobschull, Axel Borrmann, Franz-J. Jäger, M. Rasul Schams, Ursel Steuber, Vermarktung und Verteilung von Rohstoffen (Marketing and Distribution of Commodities), Hamburg, 1973.

of the goods used will it be possible to increase the sale of farm produce. *Pari passu*, this is equally true of all processed products, whose manufacture needs to be built up (and in spite of the obstacles existing within the European Community).

Measures to be taken in this context ought to be carried out both by and in favour of all LDCs. To limit development policies of the EC to the group of associated and preferentially treated countries would set up new difficulties and discriminations, whose creation must be avoided right from the start. Although development policy may be directed towards similar aims of LDCs, which are in a similar situation, it must never forget the entirety of all these states and therefore must not allow a small restricted group of countries to monopolise the benefits from development aid.

High Food Prices: The Tip of an Iceberg

by Dr Jimmie S. Hillman, Tucson *

High food prices generate symptoms which are more obvious than their underlying causes. For these the following article suggests some fundamental explanations, laying stress on monetary issues.

The news media, housewives, politicians and citizens at large have confronted economists for explanations of the continuing food price rise and soaring consumer prices in general, and they have demanded to know, "Why can't we do something about it?" Questions have taken the form of implied attempts to blame the Russian grain purchase of 1972, or some elusive middleman between farmer and consumer — the packer, the processor, the distributor or the retailer — for the woes of consumers.

Fact is, there is no single "foreign devil" nor single "dirty politician" on which we can blame the recent consumer malaise. This is not to say that tactical errors have not been made such as were surely committed by some US, Canadian and Australian officials in the Russian grain deal, but by and large, attempts to pinpoint the cause(s) for such problems as high food prices have been illusory.

* Head of Department of Agricultural Economics at the University of Arizona; former Executive Director of the National Advisory Commission on Food and Fiber.

Stating generalizations about cause and effect in the complex technological world which has emerged since World War II has tended to place the credibility of the economist in great jeopardy. Some of us, however, like characters in a Samuel Beckett play, feel "We must go on..." Hence, this, another observation on a few of the problems which plague us. But the reader should be warned that this article can only suggest some broad explanations.

Agriculture and the Terms of Trade

For a hundred years or more, the terms of trade appear to have been stacked against the farming sector, against raw material producers, and against developing countries whose economic efforts lay heavily in industries in those sectors. This is another way of saying that because of the high productivity of the farm sector in countries like the United States, or because of the poor bargaining power of the agricultural producing sector throughout the world, or both, farm and

related raw material prices and incomes have been lower and less stable than their counterparts in manufacturing industries. As a result, governments invariably have intervened to preserve or to increase national food supplies through measures to increase or stabilize farm prices and through prices, farm incomes.

Until recently, there appeared to be definite limits to effective demand for commercial farm production in the industrialized countries. Witness the grains and cotton surpluses which accumulated in the US, butter in Europe, and the various programs used by many countries to subsidize their agricultural sector, either directly or indirectly, at ever-increasing costs. In many of the poor countries, agriculture never got off the ground because of a lack of price and income inducements — a lack of real investment opportunities.

What happened in 1972–73 to change all that? What happened to cheap food in the United States? Why the gloomy specter of Thomas Malthus once again? Is the current situation permanent or temporary? These are complex questions but enough hard information is available to make some meaningful observations.

New Surpluses in the Fore?

First, there is little evidence that the world is any shorter of food than it has ever been. In fact, the very affluence of the world is one of the “problems”; that is, *more* nations are coming into the market with *more* purchasing power ready to buy as nutritious a diet as possible for their people. In this current “crisis” the Russians didn’t decrease their animal herds as they have on two similar occasions since World War II — they went into the world market and bought grain to feed their livestock in order to upgrade the diets of their people with more animal protein. This and other developments verify the accelerator effect on the demand for agricultural resources as incomes rise and people shift to consumption of livestock products.

Food and feed grains and soybeans are and have been in short supply only in an economic sense. It is a “red herring” to run continuous headlines about “the starving millions”, the African drought, etc., (one does not have to be classified as an anti-charitable to state this!). There are considerable supplies in private grain channels and another amount in government stocks of some countries. To be sure, the large US Government-owned stocks of the last 20 years are now depleted and that country is contemplating the revocation of import quotas on wheat in order to assure an adequate domestic supply. Despite all this, there has been and will continue to be food

and fiber available at a price, and it is now evident that the 1972–73 partial price controls only distorted the current and future distribution mechanism. In fact, the entire 1972–73 food crisis was to a large degree an anomaly which, with adequate effort on the part of government and the private trade, should not reoccur.

Second, despite the increase in prices, food is still a relatively good buy. From an American point of view, the typical family spent no more than 20 p.c. of its income on food in 1973; and while further immediate decreases in this percentage are unlikely (the percentage has declined from 27 p.c. since World War II) there is little likelihood that it will increase measurably in the near future. The US as a whole is eating more and better than ever before (or the data so show), and the same is true in many other countries. With bumper crops around the world in 1973 and 1974 the “crisis” of 1972–73 could give way to commercial surpluses once again. The agricultural supply and demand situation which changed so rapidly between early 1972 and summer 1973 is very capable of reversing itself almost as quickly.

This is not to say that those who want a diet of animal protein, green leafy vegetables, fruits and selected other items will not have to pay more. The particular “squeeze” on American farm product prices was put there in part because of the economic ability of other countries to outbid the US consumer.

Lack of World Monetary Policy

With two dollar devaluations since 1971 and increased affluence abroad, American food and fiber are excellent bargains for foreign buyers. In 1972, the US exported almost \$ 13 bn of agricultural products; in 1973 it was about 19 bn. This helped offset — to pay for — the rising flood of imports of manufactured goods and raw materials which had been coming into the United States as a result of its post World War II prosperity. The recent significant acceleration in the volume growth of international trade (8 p.c. in 1972, as against 6 p.c. in 1971) is largely attributable to the upswing in economic activity in the United States followed by a similar strengthening of demand in other industrial countries.

These phenomena are, in large part, what the current inflation and balance-of-payment problems in the United States are all about. As far back as 1958, some economists, notably Robert Triffin, were pointing out that the dollar was in fundamental disequilibrium. This means simply that US prices and costs were out of line and that the US was living “over its head” vis-à-vis certain other powerful economic entities of the world. The Viet Nam War, high defense costs and a contin-

ued unwillingness of the US to pursue proper fiscal and monetary policies — notably a tax constraint to dampen, or pay for, its excesses — precipitated an explosive economic situation. The relatively stable economy which had existed during the decade approximating 1953–62 gave way increasingly to a turbulent set of economic circumstances which were not compensated by sufficient monetary underpinning and by adequate trade stability.

World monetary policy or a lack thereof, indeed, played a major role in bringing us to the current crisis. For more than a century and a half, gold through the Bank of England and subsequently through the US Federal Reserve, provided the balancing mechanism of the world economy and world trade. After World War II, the dollar, denominated in gold, greased the wheels of world commerce and provided the means by which the US corporations bought themselves into dominant positions everywhere.

By maintaining unrealistic exchange rates vis-à-vis other major world currencies, the US partially insulated the US consumer from the full effects of world demand for its agricultural commodities. The full exposure to world demand that occurred with the recent large exchange rate adjustments has been a major contributor to the recent rises in retail prices paid by US consumers. Those who have hastily concluded that we have entered a new era in commodity prices are partially correct in that the closer integration into the world market does imply higher prices of major agricultural export commodities in the US market for the foreseeable future.

Flight into Commodities

The US was able to maintain its unrealistic exchange rates because there was a positive and growing demand for dollars as a medium of exchange and a secure temporary store of value as the volume of international trade grew at a rapid rate. Foreign industries with major interests in exporting to the US, particularly the auto industries of Germany and Japan, exerted strong pressures on their governments to maintain what were for them very favorable exchange rates with the US. The consequence of these actions was a rapid build-up of dollars in foreign ownership. By 1971 the accumulation of dollars became so great that fears of the consequences of a panic effort to exchange dollars for gold or other currencies forced the US to allow exchange rates to move away from the past unrealistic values. A part of the recent boom in demand for agricultural commodities is a consequence of foreign holders of dollars moving to convert their large accumulations of dollars into tangible assets.

When it became increasingly evident in the early seventies that the dollar had weakened, international monetary authorities were forced into an accommodating arrangement, the Smithsonian monetary accord of 1971. That turned out to be merely patchwork despite President Nixon's exaggerated statement that it was "the greatest monetary event in the history of the world", and the dollar was further devalued in the spring of 1973. In short, the dollar had, by then, lost its dominance. Gold had already been pushed aside as a balancing tool in world trade. Nothing was left to keep the world trading system "honest".

In addition, in 1972 world commodity output (5 p.c. as against 3.5 p.c. in 1971) did not fully match the increase in demand which resulted in a strengthening of inflationary pressures in all the main economies. And, since there were appreciable differences in the pressures of demand among the main trading nations, a major disequilibrium of trade balances developed in the course of the year. The rapid increase in world prices was due not only to certain agricultural production shortfalls in 1972 and increased demand but also to efforts at replenishment or increase of inventories and to speculative hedging in the face of monetary uncertainty.

Several strong forces, therefore, came to the fore and started putting pressure on world commodity prices:

☐ The strong productive positions of Germany and Japan put these countries in a highly competitive position for raw materials and food.

☐ Since neither the dollar nor gold could "police" the world pricing system, other countries fled to whatever sanctuary of economic value that was available — bidding up asset values enormously.

☐ As a counterpart to this second factor, the developing countries also put in their bid for a part of the "development dividend" through industrializing schemes and through attempts to keep food supplies at home, and low in price. An example of this was Brazil's policy to keep meat cheap to domestic consumers, even if that necessitated the army regulating meat distribution and prices. As part of their strategy, developing countries have reduced real costs by permitting a large dose of inflation to offset the effects of rising wages to hide unemployment.

Adjustment Difficulties

As of 1974, it would be pointed out that other major industrial nations are inflating at rates considerably greater than the United States. The problem in the US has been one of greater variance

in monetary policy on a quarter to quarter basis, but Europe and Japan are inflating monetarily at rates above 10 p.c. per year. It remains to be seen what the oil crisis and a resurgent US dollar will do to world monetary reform.

In a fundamental sense, technology has so thoroughly integrated the world since World War II that it has been impossible for economic and political institutions in various countries to adjust at a pace sufficient to prevent some short-run disruptions such as that which happened in the food sector in 1972-73, as well as some longer term fundamental disequilibria. There are those who hold that the US should not have dispensed its technical know-how so rapidly after World War II, which would have given the world more time to adjust to the fundamental changes inherent in that war. Though great strides have been made to adjust to the new situation, such as the Kennedy Round of Tariff Negotiations from 1962-67, much remains to be done. A group of 20 strong commercial nations met last fall in Nairobi in an attempt to discover and effectuate a new monetary system for the world. Recently, the five leading commercial nations met in secret, apparently to find solutions to monetary problems. Many economists believe it is a waste of time to attempt further trade negotiations among nations without first solving the outstanding monetary issues. The US first took that position but has lately softened on the matter, particularly after its devaluations.

Monetary Issues Most Important

During 1973 there was an acceleration in the expansion of world economy and trade despite endemic monetary instability. The short run effects of this expansion which has been fueled by anticipation of further inflation cannot help but put pressure on raw material and commodity prices. Such effects will help improve the US trade balance but will pressure domestic agricultural and food prices.

In the long pull inflation and monetary instability are dangerous problems for world trade. Insufficient coordination on major issues such as the energy crisis can only exacerbate these fundamental economic problems.

In sum, fundamental issues such as monetary problems, technological change, institutional disorder, underlie most of the economic problems in the world today. High prices such as those which exist in the food sector are but symptomatic of more basic problems. To be sure, there are questions such as the strain that excess population and demand are putting on the world's resources and environment. But within the technology, structures and institutions that exist, monetary matters seem to be of dominant concern. The fundamental question that will be answered in the days to come is whether a solution can be found from among the major alternatives of flexible exchange rates, special drawing rights and a world central bank that will prevent the occurrence of the severe monetary storms that have come with increasing frequency in recent years. The currency of no one nation can perform a role which the dollar performed from the end of World War II until 1971. Nor can gold perform the role. As an aside, the United States experienced an analogous dilemma in its domestic economic sphere before it created the Federal Reserve System before World War I.

Finally, it is necessary to understand the fundamental economic forces which are at work in the United States and the world in order to comprehend problems and how to solve them. For example, it will do little good for the US to limit agricultural exports, or to fulminate against individuals such as Secretary of American Agriculture Butz if one does not recognize that the position of the US in the world of economics and politics has changed fundamentally. Such recognition will necessitate discipline in fiscal and monetary matters which may alter noticeably the economy and style of life in many countries during the next quarter century.

WELTKONJUNKTUR DIENST

Annual subscription
rate
DM 60.-

This quarterly report — compiled by the Department on Business Cycles and Statistics of the Hamburg Institute for International Economics — analyses and forecasts the economic development of the most important Western industrial nations and on the international raw material markets.

V E R L A G W E L T A R C H I V G M B H - H A M B U R G