

# \*Did Consumer Advocates Talk the Price of Food Up?

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America, with over half its citizens never living in times other than those of food surpluses, suddenly found itself in 1973 unable to cope with or understand food shortages which face the majority of the people of the world every day. Strangely enough, it was those who expressed the greatest concern for rising food prices in America who were the most responsible for both the food shortages and the even greater food price increases that followed.

Every year for the past 15 years until 1973, American consumers have spent a smaller percentage of their after-tax income for food than the previous year. Even with the food price increases in 1973, the average American consumers still spent a smaller percentage of their after-tax income for food than they did in 1970 or any year before 1970.

Food prices increased in 1972 although the percentage of average after-tax income going for food went down from 1971. Food prices went up because of increased demand for food both in America and throughout the world and not because of any conspiracy on the part of American farmers.

During this period food supply didn't increase as fast as food demand and thus the reason for food price increases. In their zeal to help the consumer many consumer advocates, including members of Congress and eventually the President of the United States, turned to food price freezes as a means of solving the food crisis.

Trying to solve a problem of food shortages with a food price freeze is like trying to solve a teachers' shortage with a ceiling on teachers' salaries. Instead of easing the shortage, it creates additional shortages. You solve problems of shortages with

programs which encourage production ... not those which discourage production.

Unfortunately, many politicians in both the Congress and the Administration took the easy way out and yielded to pressure from would-be consumer advocates by supporting those programs which appeared to help the consumer when in fact they did just the opposite. Those in Congress who pointed out the fallacy of the food price freeze were labeled as being unsympathetic to the consumer when in fact they were the ones being honest with the consumer.

In February of 1973 food prices, responding to increased food demand, were on their way up. Farmers, anticipating better pork, poultry, beef and grain prices, were increasing their breeding herds, buying better machinery and preparing to produce record volumes of food.

Then came the boycotts and threatened freezes or price rollbacks in April. While the boycotts and demands for freezes or rollbacks were well intended, they accomplished only one thing. Farmers who in February were increasing their breeding herds in anticipation of better prices started decreasing them in April.

The louder the cries from consumers and consumer leaders for boycotts and food price freezes, the more farmers reduced their breeding herd numbers. Farmers weren't reducing their herd numbers or drowning baby chickens to hurt the consumer. Like everyone else, they are in business to make a profit, and I might add their income is substantially below that of non-farmers. Breeding herds were being reduced and chickens drowned only to lessen losses they anticipated they would take if the boycotts or freezes took place.

In June of 1970 President Nixon said, "I will not take this Nation down the road of wage and price controls, however politically expedient that may seem ...". On March 15, 1973, President Nixon said he opposed food price controls because they could lead to shortages and blackmarketing. A

*\*Congressman Litton was scheduled to be the speaker at the noon luncheon on Wednesday, December 5, but was unable to attend. We are grateful to Congressman Litton for providing a copy of this paper.*

few days later Secretary of Agriculture Butz inferred that anyone who favored a food price freeze would be a damn fool. A few days after that, March 29, 1973, President Nixon announced a food price freeze. In all fairness to my Republican friends, I must admit many Democratic members of Congress favored price rollbacks which would have been even worse.

The freeze meant farmers not only couldn't look forward to increased prices for their products, but were caught in a squeeze between ceiling prices and increasing costs of production. Instead of being encouraged to increase their production, they were discouraged. Tens of thousands of farmers across the country took this occasion to cull their herds of all but their very best breeding animals. Many farmers decided it was time to quit completely.

The high-quality dairy cows going to market and the fact that such an unusually high percentage of the sows going to market were pregnant indicated that these were animals that farmers, before boycotts and freezes, clearly had planned to keep to produce more milk and pork.

Pork and poultry prices were first to go up because of the sows that went to market and the eggs that weren't hatched. Pork and poultry shortages (caused by the freeze supposedly to help the consumer) caused prices for these food items to skyrocket when the freeze was lifted. Had the freeze not been lifted, severe shortages would have resulted. High pork and poultry prices caused by the freeze caused consumers to shift to beef which helped create a similar situation in beef.

Put yourself in the shoes of the farmer for just a minute. Imagine you own a farm. Farm debt has increased 400 percent since 1960 so chances are you own it with the bank. Imagine you have room on your farm to keep between 10 and 100 sows this winter. First you hear that corn prices are going up and since that will raise your feeding costs, you lean toward keeping 10 sows. Then you hear hog numbers are down, meaning better pork prices, so you decide to keep 100 sows. Then you hear of consumer boycotts being planned for meat and consumer advocates crying for food price freezes or price rollbacks. This causes you to decide to keep 10 sows.

The 90 sows you didn't keep (because of boycott and food price freeze threats) could have produced 10 pigs each (twice a year). The 900 pigs you didn't produce because of the 90 sows you didn't keep represent 180,000 pounds (200 pounds per market hog) of pork the consumer will never see. Multiply this by the thousands of hog farmers around the country who were frightened by the

boycotts and food price freezes and you see why pork production went down. Consumers bidding against each other for a limited amount of pork simply bid up the price of pork.

Consumers in effect talked the farmers into raising less food (by their support of boycotts and cries for food price freezes) and then, by bidding against each other for reduced food supplies, bid the price of food up. If consumers (especially those who claimed to be consumer-leaders) had had a better understanding of what encourages farmers to produce more or less food, there would have been no food crisis in America this year. By now food production would have started responding to higher food prices and food supplies would have been more in line with demand instead of being short.

The food price freeze hurt everyone. It hurt the consumer by raising her food costs. It hurt the producer by denying him profits from higher production and in many cases by forcing him to take losses. It hurt the economy by reducing the production of goods we needed to help offset our balance of trade deficit.

What brought on the food price increases in the first place that triggered the boycotts and food price freezes? A series of economic factors in 1972 over which farmers had no control are to blame. Starting in September of 1972, we increased social security and medicare by 10 billion dollars annually and in an annual national budget of 250 billion, this is a big increase. Much of this increase was spent by retired people on food. Last year the food stamp program was increased 17%. All of this went for food. Russia and China changed their food policy, their trade policy with the U.S., and experienced a bad crop year . . . all last year. We too had unfavorable weather. The standard of living went up around the world. We devalued the dollar twice in 14 months, making American-produced food a much better bargain abroad, and foreign buyers bought more. We also experienced a period of high inflation. All of these factors combined last year to increase food prices in America.

One of the big reasons consumers are suspicious of food price increases is because these prices go up so suddenly, unlike the gradual price increase of most other products and services. This too can be easily explained. It is because the demand for food is inelastic.

The elasticity of demand is based on the essential nature of the produce (food is very essential) and the price as it relates to the role performed by the product. The more essential the

product and the lower the price in relation to the importance of the role of the product, the more inelastic we find the demand. This means the demand for food is very inelastic.

In cases where products have an elastic consumer demand, decreases in supply of the product result in corresponding increases in price which are offset by a corresponding decrease in demand (because of the higher price), thus both averting shortages and resulting in gradual increases or decreases in price.

However, in the case of food, increases in price are not offset by corresponding decreases in purchases because people must eat. With less food to go around and people trying to buy as much as always, this quickly bids the price up. And since increases in price are not offset by corresponding decreases in purchases, we have food shortages. Because of the inelastic demand for food (unlike the demand for many products), a one percent decrease in supply results in a 3 to 4 percent increase in price. The desire to stabilize food supply so as to avert radical price changes to the consumer and to give foreign buyers confidence in our market, the U.S. government has often been more involved in farming than either consumer or producer would like.

It has always surprised me that those groups who are the most critical of government farm programs and anything that comes close to a subsidy to the farmer are those on fixed incomes or those in the lower income range. Since the lower the income, the higher the percentage of it that goes for food, it would appear these people (and those in Congress who represent them) would be supporting those programs which lower food costs. One study showed that families with annual incomes of \$15,000 and over spend about 12% of their after-tax incomes for food while families with incomes below \$3,000 may spend more than 50% of their after-tax incomes on their food needs; however, they can get food assistance.

It is true inflation has driven skyhigh prices consumers pay for most things they need. Since food is both a family necessity and one that is purchased regularly, consumers noticed it here more than elsewhere. Irritating to farmers, however, during the meat boycotts in April was the fact that beef prices to the farmer were no higher than 20 years ago . . . how many other things were that cheap?

Farmers are proud of their production efficiency. Inflation is a situation whereby we have a shortage of goods and services in relation to dollars. It can be overcome by less government

spending or more productivity. Farmers have increased their productivity per man-hour more than twice as much as the non-farmer in the past twenty years, which means that if non-farmers had increased productivity as much as farmers, inflation would not be a problem in America today. Can't you now see why farmers are upset at being called the cause of our rising inflation?

The truth is that food prices have not increased nearly as much as the price of other goods or wages in the past 20 years. If food prices had gone up as much as wages in the past 20 years, round steak that sold in April, 1973 during the boycotts at \$1.75 per pound would have sold at \$2.67, eggs would have increased from 68 cents a dozen to \$1.61 and a 59 cent-a-pound frying chicken would have sold at \$1.46. The retail price of food from 1952 to 1972 went up 38% while wages went up 140%.

Less than 16% of the average after-tax income is spent on food in the U.S. In England it is 25%, in Japan it is 35%, in Russia it is 58% and in Asia it is 80%. With 50 and 80% of your income going for food, that doesn't leave much left over for other things. With less than 16% going for food in the U.S., that leaves much left over for those things Americans are known to have and enjoy. Therefore, the low percentage of income that goes for food in the U.S. (low food prices?) is one of the reasons Americans can afford TV sets, better homes, a second car, and many of those things Americans have that those abroad don't enjoy.

Once given a 7% return on his assets, the farmer received 74 cents and 81 cents an hour for his labor in 1971 and 1972. He could have gotten this by simply selling out and drawing interest. It is true the farmer breathes fresh air and lives in the wide open spaces, but his costs are going up too and he can't be expected to continue at these wages.

Have the consumer advocates and the short-sighted politicians vying for consumer votes learned a lesson? I fear they have not. Some of the same people are now asking the government to shut off exports of grain and other farm products.

Again imagine you are a farmer. Grain prices have gone up sharply in the past few months. Because of this you are considering making long-range investments in machinery and land improvements. Now you hear talk that the government is considering stopping exports of American grains. What do you do? Chances are you won't make the big investments. Once again when American farmers should have been encouraged to

produce more, they were discouraged. Once again the consumer will have been used.

The shell game will stop only when the consumer learns what encourages farmers to produce more or less food and they stop supporting those who are misleading consumers for their attention and votes.

The years 1971 and 1972 were the first since 1893 that this great productive America has bought more goods than it sold. Were it not for farm commodities, our deficit in trade in manufactured goods would have reached ten billion dollars. How can it be said food is too high in America if it is the one thing we produce cheaply

enough to sell on the world market at a surplus? What else do we have to sell to stabilize the American dollar, balance our trade deficit, and make it possible for us to import energy-producing products to keep the country running?

If we stop the sale of American grain and other farm products to countries which have a lower standard of living than ours, we not only again discourage farm production as we did with the food price freeze, but we are also admitting that the less privileged people of the world are willing to pay more to our farmers for the food they produce than we are in America.



*In the absence of Congressman Litton, Dr. Harry Dewes presented an after-luncheon program on practice in New Zealand. Pictured are Mrs. and Dr. Dewes and their daughter Lorna.*