Part IV

World Agricultural Price Developments, Control Schemes, and Commodity Trading
WORLD AGRICULTURAL PRICE DEVELOPMENTS, CONTROL SCHEMES, AND COMMODITY TRADING

Mordecai Ezekiel

As I have only very recently rejoined service with the United States Government, this statement is based largely on my experience and studies during the past 16 years with FAO — the Food and Agriculture Organization of the United Nations.

Shortly after World War I, economists in the United States began to make quantitative analyses of the factors that affect commodity prices. Traders had always recognized that prices went down when the crop reports showed an increase in cotton or wheat acreage and yield, and prices went up when new demands were reported on the market, such as more active demand for cotton textiles in England or Japan. The new studies for the first time began to measure just what was the effect of specific differences in these price-influencing factors of supply and demand on the exact level of commodity prices. The first studies, as by Henry L. Moore on cotton, Holbrook Working on potatoes, Henry Wallace on corn and hogs, Louis Bean on cotton, and others on wheat, related the average exchange prices for a crop season to the average levels of indicators of supply and of demand during the same season. Later Bradford Smith studied the level of cotton prices month by month through the season, and related them not only to changing domestic and foreign demand conditions through the season, but also to the changing estimates of the size of the
current year’s crop and the next crop. This study for the first time measured the ways traders on commodity exchanges shifted the prices that prevailed, as quantitative indications changed of past and future demand and supply. Still other studies related changes in acreages planted and crops obtained in the following season, changes in average to the prices for the previous crop, and so began to measure not only how demand and supply factors influenced prices, but also how prices influenced subsequent supplies.

Commodity price analyses and price forecasting studies were continued through the year, in ever increasing complexity. So, too, were studies of the behavior of commodity exchanges and of futures markets, especially those by Holbrook Working, which span the entire period from 1933 to 1962.58

It is a far cry from the situation of 40 years ago of prices responding solely to supply and demand conditions, to the situation today when traders must also keep informed of the latest changes — or rumors of changes — in governmental and production controls, loan rates, deficiency payments, tariffs, import controls, decisions by international commodity agreement authorities, and many other factors reflecting governmental or cooperative intervention, before he can judge what action to take on the market. At some times, trade interests like processors or warehousemen must even decide whether it is worth while hedging their operations on future markets at all, or whether the price is supported or controlled at such steady levels by governmental actions that it is unnecessary to pay the cost of that price insurance on their own transactions.

Let us go back and review briefly the high-spots of the changes that have taken place in the relation of exchange

INFLUENCE OF ENVIRONMENTAL FACTORS

operations to basic economic conditions during my own lifetime, and the events that led to the great changes in the relation of governments to actions which influence farm prices and production.

In the decade after the first World War, the war-ravaged countries of Europe speedily restored their pre-war productive capacity. World acreage and production in Canada, the United States, and the southern hemisphere, had expanded sharply during the war to meet the war-time shortages and needs. As European production recovered after the war, world prices began to decline. In the latter half of the 1920 decade, North American farmers were worried by the downward trend in prices for wheat, hogs, and other products. With this declining trend, European countries began to raise their tariffs to protect their own farmers. The Great Depression of 1929 intensified these movements, here and abroad. Under President Herbert Hoover, the Federal Farm Board was set up with the then enormous sum of 500 million dollars to try to stabilize farm prices and to develop and encourage the extension of cooperative marketing to help raise farm prices — the first peacetime price intervention by the Federal Government.

The Federal Farm Board encouraged and financed new marketing cooperatives, and tried hard to check the declines in prices, especially for wheat and cotton. As the Great Depression spread round the world, prices fell lower and lower in world markets, European countries pushed their tariffs still higher, banks failed throughout the farm regions of the United States, and the Federal Farm Board soon had all its available resources tied up in commodity stocks — the first accumulation of publicly-owned "surpluses." Out of this experience in trying to support farm prices without limitation of production, while foreign outlets were declining because of
restrictions on trade abroad, were born the New Deal farm programs. These tried to raise farm incomes in the States by making supplementary payments to farmers above what their crops would bring on the markets and simultaneously requiring farmers to cut down production — or trying to by limiting acreages — as a condition for receiving the cash benefits. At the worst of the depression, corn, wheat, potatoes, and ewes had sold for less at American central markets than it cost farmers to ship them there — and out of this desperate situation came the resort to drastic remedies.

The efforts at production control through voluntary participation of farmers were soon reinforced by mandatory control on cotton marketings under the “Bankhead Amendment”, and of tobacco under marketing limits; and by government loans to support prices of cotton and later of other crops, when the regulation of acreage failed to raise prices as planned. Still later to meet the needs of World War II prices were supported at higher levels to encourage production and these price supports, once established, continued in the years after World War II to support production above what the domestic and world markets would take. The surplus foods accumulated during the early New Deal period were used directly to relieve the hunger of jobless workers on relief, to provide school lunches for poorly fed children, and eventually, under the early experimental food stamp plan, to supplement the adequacy of food supplies for families at low incomes. During this period, the government for the first time experimented with ways of selling food the same way that surgeons sell operations — charging the well-to-do more than it is paid by poorer people who cannot afford the full price. Also, under Henry A. Wallace’s “Ever Normal Granary” proposal, the first steps were taken toward deliberately maintaining larger reserve supplies to protect against crops failures.
INFLUENCE OF ENVIRONMENTAL FACTORS

During the 1930's, the United States was experimenting with various methods of adjusting or manipulating food prices, and setting up marketing agreements for some commodities. In the case of fluid milk at least those grew into continuing systems of separate local market areas or "milksheds", each one more or less walled off from the rest of the country. Similar or parallel developments were taking place in European countries. A national Milk Marketing Board was developed in England to handle the sale and marketing of milk for the entire country; tariffs and import restrictions were continued or increased to protect European farmers in those countries on a net import basis from competition with the low world market prices, and experiments continued with trying to establish international commodity agreements to maintain prices for commodities such as sugar and wheat.

The first International Wheat Agreement, negotiated in 1933 under American initiative, sought to balance reduction in U.S. wheat production by parallel cuts in output in other exporting countries, and to limit exports to each country's share of the estimated import demand, so as to remove the pressure of surpluses on world prices. Argentina had a bumper crop the first year of the Agreement, but had made no preparations to enforce the limitation of exports as agreed, so that agreement blew up only a year after it was signed. Its governing board was kept alive, however, as the International Wheat Committee, which years later, after World War II, eventually negotiated and put into effect the more limited International Wheat Agreement which, with successive modifications, has had some influence in stabilizing prices for much of the commercial movement of wheat in international trade in the post war years.

During World War II more or less stringent regulations were imposed on production and trade in food crops in near-
FUTURES TRADING SEMINAR

ly all the warring countries, accompanied by strict rationing in those countries shortest of food. The organizations for supervising or directing the production, distribution, and consumption of food tended to carry over into the post war years, and to contribute to the continued development of public direction or support of food production and prices.

In the United States, the idea that adequate food supplies were essential for post war recovery was pungently expressed in Secretary Wickard's slogan, "Food will win the war and write the peace". Certainly his system of higher price supports to assure expanded production during the war did contribute to the ease with which the United States could help meet the war and post war threats of famine and starvation due to war-disorganized farming and distribution abroad. The war-time Combined Food Board, which had planned the Allies Grand Strategy for the deployment and use of the food supplies available to them, was found necessary to keep in action to distribute the limited available supplies in the years just after the war. One of the first steps of the newly-formed Food and Agriculture Organization of the United Nations, which had been launched with great hopes just after the end of the fighting in 1945, was to establish early in 1946 an Emergency Food Council. This carried out for several years the same function of distributing the global food supplies in a rational manner, which the earlier combined Board had done as a war effort. This had the effect of holding back increases in food prices in some exporting regions to less than they would have been if there had been uncontrolled bidding for the limited total supplies. The long-term purchase contracts between the United Kingdom and its supplying Dominions similarly held back price increases in this trade long after the rapid post-war price inflation had raised world prices to much higher levels. This post-war price
INFLUENCE OF ENVIRONMENTAL FACTORS

inflation, which initially appeared in the United States shortly after the war-time price controls were abandoned, soon put pressure on prices in other regions, and was followed eventually by a general rise in price levels round the world.

Food production per acre and per man, which had been increasing steadily ever since the mid-30's, shot up rapidly during the war years in the United States, with abundant supplies of fertilizer, and strong patriotic and price incentives to expand. After the war, European recovery and increase in production efficiency, yields, and output, were encouraged by a long series of public actions, national and international. These included the United Nations Relief and Rehabilitation Administration (UNRRA), the Marshall Plan, the European Recovery Administration, and the large technical assistance programs developed by them; and the combined efforts of nations encouraged by the UN and FAO. Many of these organizations served not only Europe but all the countries damaged by the war. The rapid and continuing increase in European productivity in agriculture and industry, which has given European economic life a dynamism previously unknown in this century, was a direct consequence. While it has made the European market far more independent of imported temperate zone food products than for many decades before, it has also increased European demands for tropical food products and raw materials far above previous levels.

The international assistance programs of the leading nations (the United States, United Kingdom and its Dominions, and France) and of other smaller countries, gradually shifted over to encouraging world-wide economic development. This was expressed in the United States by the Point 4 Program, the ICA, and now the AID; in England by the Colonial Development Corporation and other assistance activities, and in
FUTURES TRADING SEMINAR

France by the portions of the Monet Plan applying outside continental France and by continuing and expanding support to the previous French territories as they neared or reached independence. The FAO and UN programs of technical aid and information to their member nations were greatly intensified in the 1950's through funds from the UN Expanded Technical Assistance Program, and later from the UN Special Fund. More recently, the new concepts of FAO's "Free the World from Hunger Campaign", of the UN'S "Decade of Development", and of the U.S. "Food for Peace Program", also aided and speeded this activity on a world scale.

But despite all this help, progress in agricultural efficiency and in industrial development in most of the underdeveloped countries has not yet begun to reach anything like the annual rate of increase in productivity per acre and per man, or of national income per capita, that has been attained now for a number of years in most of the industrialized countries of Western Europe. Even in the less industrialized countries of southern or central Europe, the rates of progress are far above those in the underdeveloped world. This is true also of Poland and Yugoslavia, which have broken away from enforced collectivization and have improved incentives to their farmers. But I am getting ahead of my story, and must return to the developments affecting farm prices, price supports, and commodity exchanges in the decade and a half since the war devastation began to be conquered.

The worry over accumulating supplies toward the end of the decade of the 40's was swept away by the Korean War outbreak and the fear of new war-time shortages. A general craze to build up reserve stocks swept the world. For the period of the Korean War boom — 1950-52 — prices soared and industry rose to peak levels of activity, aided by expanded military orders and intensive rearmanent. The settlement
of the Korean War produced a sharp recession in commodity prices, especially for farm products, while production continued to expand stimulated by earlier high prices and by improving technical methods. Surplus stocks in the United States began to pile up to record levels. Efforts to dispose of these stocks continued, with a search for ways that would help consumers and aid economic development in underdeveloped countries, without harming commercial exporters of those same products or commercial farmers in the recipient countries. This program, beginning with efforts to help India and Pakistan meet severe crop failures and threat of starvation, gradually developed into the extensive U.S. PL 480 Surplus Disposal Program. This and other surplus utilization activities now operate in accordance with an internationally-agreed code of behaviour, the FAO Principles of Surplus Disposal, and under the watching eyes of an international committee, the FAO Subcommittee on Surplus Disposal, which meets frequently at Washington to hear complaints and check on how well the activities conform to the agreed standards.

After the collapse of the Korean War boom, the decade of the 50's was characterized by quite different farm commodity developments in the advanced Western countries and in the poorer developing countries. In the former, methods of increasing output per man and per acre continued to improve at a rapid rate. Throughout Europe, even in the less dynamic countries along the Mediterranean Sea, the use of labor-saving machinery increased, tractors were substituted for horses and oxen, the use of fertilizers and pesticides increased rapidly, and the movement of men from farms into city industry speeded up. Agricultural yields and output generally increased far above levels that had been thought possible in Europe a generation earlier, and that continent became less
and less dependent on imports of food from other temperate-zone countries. The development of improved grasses and mixtures, and of methods of making grass silage with very high protein content, enabled farmers in Great Britain and in northwestern Europe to increase both milk and beef production with much less dependence on imported food grain or oilcakes. At the same time, the rapid technical improvement and expansion of their industrial activity, the effects of the Common Market in securing better use of each country's relative advantage and skills, and the continued development and introduction of improved techniques, have enabled Europe to begin to compete successfully with American industrial specialties, notably automobiles, and even to invade the U.S. market. Altogether, this has produced a dynamic industrial life and an economic spurt in Europe which has challenged the previous industrial dominance of North America. This rapid growth in income and industrial output in Europe did not, however, lead to anything like a corresponding increase in the demand for imported farm products. Import requirements for temperate-zone products fell with the rapid expansion in European productivity, and incomes per capita reached the level where there was relatively little further increase in demand even for imported foodstuffs, except for favored tropical products such as citrus fruit and cocoa. More and more the demand for fats was absorbed by the increase in oil seeds and of hogs in Europe.

At the same time, underdeveloped countries round the world, aided by international financing and technical help from the more advanced countries under both bilateral and international programs, were rousing from their centuries-old lethargy, and were striving to raise their own production, employment, and standards of living. This effort was intensified by the dissolution of the old colonial empires, and by
INFLUENCE OF ENVIRONMENTAL FACTORS

the rush for immediate and full independence even in coun-
tries and regions not yet well prepared to handle their own
affairs. In the case of the British Commonwealth and the
French possessions, there had been a long previous period of
preparation, of extensive financing of their development, and
of education of the people of the colonies to begin to manage
their own affairs. In some of the other areas much less pre-
paration had been made.

Ready or not, the drive for independence and economic
development as promised in the great war-time declarations,
especially in the Four Freedoms, developed into a world-wide
rush which may be approaching its final stages. Each newly-
independent country tries to develop its own plans and pro-
grams, well or crudely, to increase its own production in farms
and factories; to establish the institutions and build the in-
frastructure — roads, power, education, organizations, medical
services, etc., necessary for modern life and progress — and
usually to expand its food and raw material production, both
for its own consumption and for export. Increased export
earnings are needed to help pay for greatly increased imports
of industrial products to be used for creating new productive
capacity, and for expanding consumption. Throughout the
decade of the 50’s, once the Korean War was over, and into
the present decade, underdeveloped countries have expanded
their farm production for export much faster than the import
demand for these products was growing. As a consequence,
the prices of these exports has steadily declined in relation to
the prices of industrial products purchased from the developed
countries. This process has been intensified by the increas-
ing control of prices and wages by great corporations and
great labor unions in Europe as well as in North America, so
that an upward spiral which has become known as the “wage-
cost-price-profit-push-inflation” in the industrialized western
countries has grown to such an extent that prices for industrial products and services continued to creep up all through the fifties, and reached such an intensity that industrial prices and the average price level continued to advance right through the last business recession in the United States — for the first time in American economic history. It was this process which the President sought to challenge and check in his recent dramatic intervention in steel prices, but that is outside my present topic. Agriculturally, and from the point of view of the underdeveloped countries, the international results have been felt in a continuous decline in "the terms of trade" for the prices of the agricultural exports of the less developed countries, as compared to the prices they must pay for their industrial imports. This decline has continued as a persistent trend for almost all of the last ten years. The annual aggregate value of their exports is many times the amount of the large cash contributions to their development that the underdeveloped countries are now receiving from international financing of all sorts — from the U.S.'s enlarged program through AID and other agencies; from the expanding finance, loans, and grants that France, the United Kingdom, Germany, and other Western countries are now contributing to world-wide economic development; and multilaterally from the International Bank and other international sources. In some periods, as notably in the 1956-57 recession, the decline in the purchasing power of underdeveloped countries' exports was as large as the entire amount they received from international financing and assistance. It is this pressure on their export earnings that has led the underdeveloped countries to search so strongly for every way to stabilize markets for their major exports such as citrus fruit, coffee, cocoa beans, coconut oil and rubber.

In the United States too, farm prices fell throughout the
INFLUENCE OF ENVIRONMENTAL FACTORS

50's after Korea, with a gradual but substantial reduction in average farm support price levels. In this case, rising costs of distribution offset the decline in prices at the farm, so that a 30% decline in farm prices during the 50’s had no perceptible reflection in lower retail prices or in resultant increased domestic consumption.

Turning from this effort to portray some of the broad developments which have affected domestic and international demands for farm products, let us take a look at the status of government regulation of support of farm prices, trade, and incomes in other countries — I do not need to describe our own present domestic controls and price supports to this audience.

A recent FAO publication: "Developments in Agricultural Price Stabilization and Support Policies in 1961" provides an excellent summary of the world-wide situation, covering the developments in 48 countries. This document prepared for FAO's Committee on Commodity Problems, and based largely on information supplied by 48 countries, reviewed the developments in price supports in all parts of the world and all important farm commodities. Besides actual price supports, methods of supplementing farm prices as in the British deficiency payment scheme, are also covered.

Out of 25 countries reporting wheat price supports on 1961 crops, over half increased the level of support above a year earlier, and only 4 reduced the level. The 1961 levels were lowest in the major exporting countries, ranging from $1.40 per bushel in Canada and a little more in Argentina up to about $1.70 in Australia, $1.79 in the United States, and about $1.90 in New Zealand. Support prices in European countries (for soft wheat) were all much higher, at around $2.25 to $2.55 in the Netherlands, France, Spain, and Greece; and

[209]
$3.05 to $4.35 in Germany, Yugoslavia, Norway, Finland, and Switzerland. European support prices thus ranged up to almost 2½ times those in the United States. High support prices were also used in a few non-European importing countries, such as Israel, Japan, Ecuador, and Colombia with a range of support levels from $2.90 to $3.50 per bushel. It is easy to see from the levels of support prices how great are the price incentives to encourage continued expansion of wheat production in both major and minor wheat importing countries.

In very undeveloped countries, on the contrary, the tendency is generally to use price controls to hold down prices to farmers, so as to provide cheap food for the cities. In Pakistan and India, for example, wheat prices to farmers were materially below the prevailing prices on world markets.

In feed grain such as rye, barley, oats, and maize, the situation is broadly similar to that in wheat, with support levels increased from 1960 to 1961 in many countries, and with support prices in importing countries usually 2 to 3 times those in exporting countries. For barley, Canada has a somewhat lower support level than the United States, and reduced it in 1961, while the United States raised its level. For other feed grain, Canada reported no guaranteed price, and the United States supports were the lowest of any country reporting. Corn (which I learned to call “maize” while working for FAO) is a special case. It is widely used as a bread grain in African and many Latin American countries. (In Argentina and Thailand, 1961 support levels were a little below those in the United States, about the same as the U.S. in South Africa, Rhodesia and Nyasaland; while in Central America, Colombia and Venezuela, and Ceylon, and in Spain, France, and Yugoslavia, the level of support was from 25 to 50% above that in the United States.) The general average
INFLUENCE OF ENVIRONMENTAL FACTORS

of corn support prices changed little in 1961, increases in some countries being offset by declines in others.

Support prices are used much less frequently for meat and livestock products, and are more difficult to compare because of the great differences in quality. (The scattering cases reported indicate prices for meat animals, meat, and eggs generally at least twice as high in importing countries as in exporting ones. Milk, for use whole or in manufacturing, is supported more frequently, but the level of support shows much less variation between countries than for most other products, with United States prices not so far below those in Europe, which has had at times a butter surplus problem of its own. Changes in milk support levels were only slight from 1960 to 1961. Butter support prices were reported only from North America, Oceania, and South Africa, with the Canadian level highest, and the United States next, with the others substantially lower.)

Cotton is the other commodity most widely supported by governments, but differences in quality, and some apparent errors in computing currency conversions, make it difficult to work out international comparisons. Scattering reports are available of support prices on a wide range of other crops, too many to summarize here.

In addition to support prices, the report covers non-price supports to agriculture, including land reform programs, improved or increased farm credit, and aids to farmers in changing farm structure to reduce costs, raise efficiency, or assist the movement of excess labor from farms to other employment — to which special attention has been paid in Sweden and the Netherlands.

One ironic comment which might be made on the existing barriers to international trade in farm products is that in the past countries — and traders — sought to buy at the lowest
prices they could, and sell at the highest they could. Today, the legislation of many countries — as for fruit and vegetable imports in several European countries — permits imports as long as the prices they are offered at are high, but reduces or bans imports altogether as soon as the prices at which they are offered get too cheap, thus reversing the normal rule of prudent businessmen.

The establishment of the European Common Market has certainly speeded up industrial production and general trade in its member countries and international trade among them. As yet, however, it seems to have made little impact on farm price and production policies among its members, or on actual farm price support levels to European producers. It now seems possible that the Common Market may be widened further by the accession of the United Kingdom with some arrangement for sharing in its obligations and benefits by members of the British Commonwealth, and eventually the United States and the remaining western European countries may also join. If that happens, much greater progress may be made in the future in reducing trade barriers around the world, on farm products as well as on industrial ones, and in ultimately achieving a more orderly and efficient use of relative advantage to govern farm and industrial production and consumption round the world, and to achieve a better balance in agricultural and industrial production and growth. As yet, however, there are few signs of any such drastic change in national agricultural and industrial price policies, either in exporting or importing countries.

A recent FAO report\(^\text{60}\) gives some indication of where the world may be heading, if national agricultural policies continue along the same general lines as in the past ten years.

\(^{60}\text{Agricultural Commodities — Projections for 1970; E/CN. 13/48; CCP 62/5, F.A.O., Rome, 1962, 189 pp.}\)
INFLUENCE OF ENVIRONMENTAL FACTORS

That study, made in cooperation with the staffs of all other competent international agencies, including the Common Market, projected what the food situation would be at the end of the present decade, on the assumption that present policies continue unchanged. It also assumed that population growth would continue as now expected, and that national incomes per capita would grow at relatively optimistic rates. The analysis showed that by 1970 European imports probably would decline sharply, or vanish entirely, for all foodstuffs except for beef, and for sub-tropical and tropical products. It also indicated that for the developed world as a whole, the annual production of foodstuffs in excess of current demands would reach about three times the present production of surplus food. It may be partly in response to these circumstances that most European countries have recently joined with the United States and other traditional food exporting countries to establish a 3-year experiment in the multilateral distribution of surplus foodstuffs under the new FAO/UN World Food Program. Just yesterday they and other countries made initial pledges of 87 million dollars in commodities, services, and cash for its operation — but that is a subject for a speech by itself. So are the recent efforts toward making more effective the existing international commodity agreements for sugar, citrus products, and coffee, and in establishing new ones such as the proposed cocoa agreement now under discussion.

In the light of this over-all review of the world situation, it is clear that traders and speculators on commodity exchanges have a much more complex world to deal with today than did those of one or two generations earlier. But despite the difficulties, the exchanges still carry out their function of providing central markets to register the prices that do prevail, of providing future markets for those who wish to pro-
FUTURES TRADING SEMINAR

tect themselves by hedging, or to take a flyer on the future, and for maintaining an independent market place where all the factors concerned, natural or man-made, private and public, can be brought to a single focus and registered in a price. In the non-Communist world, which embraces the great majority of the nations of the world, that function continues to be an important one.
World Agricultural Price Developments, Control Schemes and Commodity Trading

Robert L. Raclin

Needless to say, I am delighted to once again have the opportunity to speak before the Board of Trade symposium, but also a bit surprised to be invited back. It is however, somewhat of a humbling experience to speak following a man of the reputation and stature of Mordecai Ezekiel, who has so ably discussed this vast background of world agricultural price development, control schemes, and commodity trading.

I would like to pinpoint my discussion, however, using Mr. Ezekiel’s background of what has taken place over a recent period of time to show —

A. How the commercial interests in the grain and oilseeds trade use the futures markets as a result of this whole general topic we are discussing and —

B. What I think I foresee in the future.

For many years, American, and indeed, world agriculture, operated on a laissez-faire philosophy, where the strongest survived. After the second World War, however, we adopted a protectionist philosophy in the United States which, in fact, did not alleviate the problem of surplus, but merely intensified it and so the commercial and speculative segments of the market found an increasing use of futures markets. The protectionist philosophy, which, in essence, said that we would keep the same number of farmers (who were adopting much more efficient methods to produce much more per acre) still farming, has resulted in a very uneconomic situation.

I think obviously, we have, by our high support program, encouraged far too many people to engage in farming when,
in fact, we can produce the world's needs with a much fewer number. This is true in the United States; however, it is equally true in Europe.

The Marshall Plan, in my opinion, had its real value in not only allowing the devastated European countries to rebuild their economic structures (and in all probability as they enjoyed this coming into being, conversely did not seek a political way of life opposite to ours), but it also created a credit revolution in Europe which is still not fully appreciated. For the first time in centuries, a vast number of people could tap the credit resources within their own countries and expand their own businesses. This rising standard of living has, in fact, created a whole new demand, whether it be for housing, clothing, transportation, food, or other human wants and desires. This, coincidentally, allowed the U.S.A. expansions in industry and agriculture to build itself to help fulfill this demand.

However, our high support programs, which caused crops to be grown and defaulted to the government at higher than world market prices, created quite a problem both here and abroad. Surplusage was accumulated and this is expensive to maintain because of the storage costs as well as quality controls. I think there is no doubt that PL-480 and “Food for Peace” came into being as much as a result of our desire to get rid of surplusage as it was a humanitarian desire to rebuild devastated areas.

Intense competition within various segments of the American market caused domestic crushers here of oilseeds, for example, to operate sometimes at large losses for extended periods of time and these interests, in an effort to supplement these losses, went into new ventures. They became grain elevator operators, they became next, export merchants, and lastly, they became trading companies in Europe and the Orient.
These people understood the true use of futures markets, as it was most ably pointed out last year by Virgil Wiese.

These Americans have long understood that the individual crops are harvested at one time and therefore, there is maximum pressure at that time, and if they can buy their grain at a very cheap basis under the futures market price, they then use the futures market. They really concern themselves in using their elevator storage capacity to make the maximum gain by buying cash grain at the maximum under futures and selling or processing the cash grain when it is at the futures price or over, a premium to it, regardless of price level. In other words, they are interested in the spread difference. The use of the futures as a price insurance is only of secondary importance — it facilitates banking to be long cash and short futures rather than just long cash, and have the bank worry about vertical price movements. They, in essence, attempt to buy as cheap as they can and go “long the basis”.

Now, today, these very astute commercial interests are involved in Europe and the Orient and no longer, therefore, because of these many political and economic factors which have caused high support programs here and, to some degree, the common market in Europe, can the European processor afford to buy flat price, CIF. His competition is using the futures market. He, too, must use the futures market. Today, more and more of the European or Japanese importing interests buy grain at “a basis” CIF over futures, thereby becoming “long” the domestic basis and “long” ocean freight and insurance. He puts the price on his grain as he buys futures. He can do so in one of two ways —

1. Either by having a commission house such as our own, buy for him and sell at a simultaneous or later time, ex pit versus cash to the exporter from whom he bought the grain on the basis CIF or —
2. He can tell the exporter that he (the European or Japanese merchant), will price the grain by instructing the exporter to buy futures and thereby putting a cost per bushel price on the basis trade. The new total futures plus basis equals CIF flat price. This method is called "spotting the board". The exporter who is long cash and short futures and is so instructed by the importer, merely covers his short board position for the importers account!

I think there are more advantages to the first way, for the traditional lines of supply are still maintained; that is to say, that the exporter here still continues to be so in spite of the fact that he now probably could be a competitor of the importer via his trading merchant activity. By using a commission house, the importer interest, in essence, always hides his cost from his supplier (potential competitor) since an ex pit trade can be made at any price, not necessarily the day that the futures were purchased.

Further, since the commission house has contact with many domestic sources of information, whether it be from commercial channels or the commission houses or connections in Washington, he is able to present to the importing buyer a relatively unbiased viewpoint. The buyer also knows that when he buys his futures from a commission house rather than "spot the board", that he, in fact, is getting the same price he designated. There has been some suspicion in the past, that when some importers in Europe have instructed exporters here to "spot the board" during the day, they always, for some reason, seem to get the highest price at the day of their buying price!

In addition, the political support programs have caused an interesting twist in the whole oilseed industry. For example, last summer in Cannes, a most able and articulate German
INFLUENCE OF ENVIRONMENTAL FACTORS

Oilseed crusher pointed out the fact that while the American crusher had the ability, under PL-480 or Food for Peace, to get rid of his oil at a fairly reasonable price, the European crusher did not. The European crusher also, therefore, faced the American competition on meal, for since the European crusher had to sell his oil cheaper and he was paying approximately the same price for beans, he had to price his meal higher than did his American competition. Defensively, the many European crushers are now using these same economic weapons, i.e. the futures market, to protect their own interests due to political actions.

Another interesting political development has been the common market. As I have pointed out above, the Marshall Plan which infused credit, raised the standard of living and has created permanent demand. One of the forms of demand has been the sharply increased consumption of poultry in Europe. Outside of selective consumption of poulet de Bresse, there has been a large export of American frozen poultry. The Common Market tariffs, however, will raise the duty on American frozen poultry about 20%. The demand, nevertheless, is still there. We, therefore, should see the increased exports of soybeans and soybean meal to meet the rising demand of a whole new poultry raising industry. This industry will require hedges and the use of American futures markets. Another use of futures markets resulting from political action!

It is exceedingly interesting to us that a number of American mixed feed companies have, by purchase, gone into European ventures whether it be in Germany, France, Italy or the Low Countries, and these American companies are well versed in hedging soybeans, oil and meal. The European crusher who attempts to compete with these American companies although they may have a German or Dutch name,
must use, and indeed, will use, the same weapons. Again, another example of how political action and control schemes have caused the increasing use in the commodities futures market!

The rise of nationalism which leads to —

A. Higher internal domestic consumption as the standard of living rises, and

B. Larger exports in order to realize credits to buy needed products which have, thus far, not been locally produced, also leads, indirectly, to the use of futures.

This is especially true in oilseed producing countries. Oils are so price-interrelated as to value, and substitutions are so frequently used by peripheral mills on the continent, that a shift in exports can cause a European mill to hedge his oil if quantities of competitive oil are offered for sale.

Political action such as the large Russian sale of sunflower oil which internally is used for inedible purposes and their purchase of U.S.A. and Australian tallow as a substitute, can cause large movements in American and U. K. futures markets.

I, also, might point out the maize (American corn) situation. At the present time, a lot of maize is grown in the south of France, and the people that handle it do not ship it to the north of France where there is a large consumption, but rather ship it to the United Kingdom, collect the rail subsidy from the French government as though they did ship it to the north of France, then apply the subsidy to the price of the American maize a/o Argentinian maize they buy, and ship the western hemisphere maize to the north of France. While this is going on, large futures hedges are carried, again reflecting going "long" the basis.

In this world in which we live, it seems to me it is quite hard to look very far in the future. We certainly have a cloud-
INFLUENCE OF ENVIRONMENTAL FACTORS

ed crystal ball with the political/agricultural situation today. As I write this, there are many sources who say we will indeed not have a new farm program nor an extension of our old one, but will revert to the old law which carries us back to the 1958 price support level. It is absolutely obvious that as long as governments continue, there are apparently going to be some controls. Politically, we seem to be, regardless of country involved, unable to face up to the economic realities. There is always the pragmatic desire to seek votes and this causes uneconomic price support programs which encourage more grain production than what we will need. As it has been mentioned, it is indicated that the world production, if unchecked, can produce surplusage three times demand by 1970.

There is hope, however, to some degree, that we may adopt an "adaptive program for agriculture". This is a quoted statement of national policy by the research and policy committee of the Committee for Economic Development. If we can move forward to a constructive reduction of numbers of people and resources involved in agriculture, to the point where we are producing what the world needs, there can be, I believe, a rise in the price level which would benefit all remaining farmers. To cut production and pay subsidies to present number of farmers, causes the taxpayers less taxes, but higher prices. This probably would cause no less use of futures markets, if the true function of futures market is understood by the speculative element and they act accordingly. This report by the Committee for Economic Development, (which I urge you to read), has stated, "We have noted that agriculture's chief need is the reduction in the number of people in agriculture."

We notice that there is certainly an increasing number of commission houses interested in servicing this demand for peo-
FUTURES TRADING SEMINAR

people who wish to trade in futures. Another major brokerage firm has aggressively gone into Europe, indeed, even into West Berlin. Our own firm has offices in Beirut, Paris, Geneva, Zurich, Amsterdam, Antwerp, Hamburg, Frankfurt, Oslo, London and Bramford, England, as well as in South America and the Orient. Many other commission houses have offices in some of these cities. In addition, there are new exchanges springing up. There is a new Greasy Wool Exchange in Sidney, Australia, as well as commodity exchanges in Japan. There is a revitalization of dormant exchanges in England, Holland and Germany. The rise of nationalism and political controls and control schemes are certainly causing an increasing use of futures markets and I am sure, in our lifetime we can, with the greatest optimism, look forward to an expanded use of various futures markets.
World Agricultural Price Developments, Control Schemes and Commodity Trading

Arthur R. Upgren

First, I must say that I'm really a little bit out of place here. I am usually considered under the general heading “economist”, but not “agricultural economist.” My special field of interest is capital formation, and capital formation is what will come from the European Common Market. It has already.

May I also very quickly add that countries can get along very well without being part of the Customs or Common Market union. Sweden has, I think, the third highest per capita level of gross national production or income of all the countries of the world. It has the highest per capita possession of automobiles in Western Europe, but I don't think it's been in any common market of any kind.

What small countries can do to have a rising standard of living is, of course, to adjust to the world that they find about them. If you don't like common markets, then you specialize in the process of adjusting to the large market, and you will get along very well.

I don't think there has been anything distressing about the standard of living in Switzerland, Holland, Belgium, Denmark, and Sweden, and yet they're all small countries, no part of any large markets.

Next, I'm answering a few points that have been raised. One is, “Why have a Common Market? If we should go into it — which, of course, I would most strongly urge — wouldn't this be discrimination against the world?”

[223]
I served in the State Department when our policies toward common markets — we called them "customs unions" then — were being developed. One great thing about working under Secretary Hull in the State Department, you could take any good, bright youngster who had finished "Principles of Economics," Second Semester, and knew the Law of Comparative Advantage and Specialization, and he could answer questions for you because the view of the State Department was consistent. It was, of course, that we want the larger markets because of an idea which hasn't been freely discussed here, and that is such a market can make countries rich.

And that is, of course, what we want in Western Europe — to make them rich. If they're rich, they can do three things. First, they can start defending themselves a little more. That was the purpose of the Marshall Plan. This should be the fruit we should get from it. Secondly, they can help us in aiding the underdeveloped countries. Our Vice President is over attempting to persuade them to do that, I believe, this very week.

And, then, thirdly, as they get richer, they provide new markets for us because that's, of course, the area with which we trade the most.

We have the highest production and income in the world. So we make goods here for those high incomes, and once people get the margin in their income above subsistence, then, they buy the fine things of life, mostly durable goods. And as European income rises, Europeans will also want more and more of these "above subsistence" items.

And who has specialized the longest in making those? Of course, it's the U.S.A. So this Common Market will have great advantages.

And, now, for the one point I'd make in connection with Dr. Ezekiel's paper. It's the fact that I don't believe that the
INFLUENCE OF ENVIRONMENTAL FACTORS

demand side and its growth in the future was thrown against this pessimistic outlook of agricultural production. Now, Dr. Ezekiel did have two sentences on that, that the F.A.O. report took into account — population and the rising rate of increase of incomes. But we may see a surprise in that, if our European countries now adapt their producing scale, their factories, their investments to the size of the market they’re going to have.

The late Emory DeVake strongly urged at the end of World War Two that the Allies lower their tariffs at once and abruptly around the world, so that the capital expenditures in the post-war period would be adjusted to that basis, rather than being adjusted to the basis of national markets. But we went on fifteen years with national markets, and, now, we are attempting the adjustment, or, rather, Europe is, and we might well attempt it with them.

I think the demand side, then, will be somewhat better. Let’s take the case of broilers that has been mentioned so very, very frequently.

The Common Market if it is complete could have three hundred twenty-two million people. That’s two-thirds more than we have. I think we are eating something like twenty-eight and one-half pounds of broiler meat in the United States. Pretty nearly put the lamb off the table. Start multiplying some of that out, and converting it into feed equivalents, and, then, give Europe a rising standard of living and an increase of demand for broilers such as we have, and I should think the demand on feed would be very great.

What’s going to happen in Europe? I suppose you have all read Lionel Eddy’s saying that the future of the remainder of this decade in Europe will be traffic jams all over the continent. Europe and the rest of the world is making six million autos now. I include Japan with that because I want
to come out with a figure that is larger than our production of cars which last year was 5,547,000. While Europe in the last two or three years produced many more cars than in the past, they have sold fewer to the United States. They didn't produce more cars in order to dump them over here. They're producing all of these things because they want the fine standard of living.

I spent, as a Fulbright scholar, six months in Denmark just nine years ago. No one there dreamed that a person could have an automobile even if he were a member of the faculty of the University where I served.

It's completely changed now.

There was one car I remember vividly. It was owned by a faculty member, a distinguished scholar by the name of Peterson. It was a 1931 model Ford, and you couldn't have given it to a Macalester freshman.

That's all changed rapidly, and I'm trying to just remove this little wave of pessimism by the tremendous law of income and demand. I don't think we are competent yet to judge, and, therefore we have a buoyancy which is the precise thing that we do need.

Well, now, I also would like to comment on just a few cases where we have had some successes to report because there seems so much pessimism that we can't alter the agriculture programs we have. And I must admit they are about the worst of any I can think of. But it may be — as Bill Myers told me — that a mistake in America isn't really an important one until it runs over a ten billion dollar figure.

Let me give a few successes. We have education, which is the work of you and me. We took a Democratic party platform plank and the successful President who ran on it and by February seventh forced the Democrats to completely abandon that reckless plank on interest rates.
INFLUENCE OF ENVIRONMENTAL FACTORS

The plank was, you know, adopted without qualification — perhaps under the influence of that remarkable climate in California — when the Democratic party met there. It promised that the Democratic party would produce low interest rates. But on February seventh, it was completely repealed and squelched. So, these successes can come.

Now concerning tariffs. We have lowered our effective tariff rates on goods that are subject to duty when they come to the United States from forty-eight and one-half per cent to twelve and one-half per cent today. So, at least we can respond to those people who propose that "if businesses had a subsidy —"

We have been cutting it down very, very rapidly, providing you think a tariff is a subsidy, while the subsidized farmers have been getting the very greatly increased production which they thought industry had and which industry rapidly is losing.

I think we have used much more care the last five years in changing social security than we have in changing the agriculture program of the United States. Medicare, with the close fifty-two to forty-eight vote in the Senate will tell the doctors to come up with a sensible plan. I think they will. We'll see that come. We don't seem to have similar sensible plans proposed in the area we have been discussing — agriculture.

Another point surprises me enormously. Some time ago I discovered that when we developed detergent soap, we released well over two billion pounds of fats and oils into edible uses from soap making. Then, we made inedible oil, whale oil for example, into edible oil. The Germans found the same process, and we had been selling Germany 500 million pounds of lard a year. To protect our market we should have made a trade agreement with Germany. But our tariffs
FUTURES TRADING SEMINAR

prevented it. Meanwhile Norway couldn't sell us her whale oil so Germany bought the whale oil which we considered inedible from Norway, made it edible, and our market went out the window.

And I recall sitting with a group, Dean Hoover from Duke and Oscar Johnson in the cotton days. Johnson was making a statement, "Now, if the market would just move up on cotton one-fourth of a cent a pound, we would be out of our troubles of buying and storing it." Well, I just suggested it might have been practical for the government to contemplate just moving its price down one-quarter of a cent and move the market, but that didn't seem very possible.

Just in these rather random comments, what we are faced with, of course, is a problem that I heard first put forth at Bretton Woods by Alexander Loveday who ran the League of Nations Economic Service. He said that if the Lord's Prayer were written today in modern dress like Hamlet, it would be, "Give us this day our daily work," and the problem of the world is how to maintain employment and incomes.

I don't think it's a problem necessarily of keeping people on farms or not keeping them on farms. I think it's a case of giving them their work, which really means an income. Now, Thomas Watson faced up to that in a speech at an N.A.M. Congress three years ago this December. He said, "If the worker has invested twenty-five years of his life in working for a company, and a machine comes in and automates him, our problem is how (and no one knows this better than the Northwestern Railroad today, I think) to share the fruits of the increased income stream that flows from the introduction of that machine, how to share it fairly with the workers." That is also the problem, I would assume, for agriculture. To give it a name which I'm not happy with,
but I can't think of a better one. It's a "sociological" problem.

The main problem is not the one outlined in the Committee for Economic Development's proposal. I wouldn't think of moving the people right off the farm. I would even make the case that farm production might go up. Certainly social costs of maintaining those people if they aren't successful in the city would go up immensely, or they would revert back to the farm somewhere else as workers and get back on good farms and increase output substantially more than they do now on very small farms from which the supply is so very, very small.

It gives a new idea of how upside down we have gotten in the area. I think we can take hope and optimism. My motto is, "Don't get ulcers, give them."

And I think we should take a little hope from the fact we had thirty-three and one half million people living in farms in 1939, twenty-eight and one-half million in 1945. That would support the C.E.D. recommendation — in five years we talked five million people off farms, and out on the farms they produced forty-two per cent more, showing, then, of course, they had clearly been getting in each other's way and trampling the crops down.

Then, in 1961, we were down to 15,400,000 on the farm, so the adjustment is going right on. This should be a thoroughly solvable plan. But I haven't heard a hint of a plan here. I heard of incomes running up to fifteen, twenty thousand dollars from our friend in Illinois at breakfast this morning. This should be quite a solvable problem, but it seems we have a dearth of suggestion, so, we (up in our school) are going to make some.

Nobody's going to like them, I'm sure, but I think suggestion lets you sharpen your target as you go. May I add, too, that economic policy is just suffering.

[229]
Brazil is a country that had terms of trade that rose for almost ten years to two-seventy-five. The only parallel I know is that period when the parity ratio for farm products rose to one-twenty-eight during World War II. Brazil, two-seventy-five, lasting for about ten years. They could send out one shipload of their export, and it would pay for two, three, four shiploads of our products. I find nothing to compare with that in the terms of trade that I have been exposed to in studying this area.

Now, what's the financial condition of Brazil with all that three million square miles, wonderful resources? Brazil has managed to go "busted" five times since the end of the War.

Now, we turn to Germany which had one-quarter of its man made wealth destroyed, according to the Bombing Commission reports. Germany's industrial production fell thirty-eight per cent. How are they doing? Excellently. Back on the gold standard, strong currency. So the economic policies involved are important, and I think we could be much more zealous in our approach to people of the country, that we must come by a sensible policy if we choose to remain strong.

I don't think I completed when I said the State Department always felt that we should encourage customs unions, common markets, because that market would make them richer.

Modern technology calls for enormously large producing areas and marketing areas. Eugene Stalley has written, "When we made electric locomotives, if we put all the world's production in one factory, you could not use assembly line procedures." I'm sure that applied to diesel engines and electric locomotives.

We sustained Latin America. I don't see any point whatever in a common market between countries that have like exports and like imports. You sum up the export troubles you have, and you sum up the import troubles, but I don't
INFLUENCE OF ENVIRONMENTAL FACTORS

think you solve anything until you get a fair amount of complimentary relationships, and that complimentary relationship is far more applicable to Latin America in combination with Europe than in combination with any part of Latin America or in combination with the United States.

Well, now, I would like to sum up just briefly our answer to our problem. I think it’s United States economic growth. In the 1930’s we didn’t have it, and we fell into an abyss both with respect to policy and respect to production. Slowly, slowly we are climbing out of that. If we can see that Europe will make progress, get richer, I think our trade will grow. I think we might get many surprises, and we have certainly had them in the area that we have been discussing here — our agricultural exports.

Three hundred and twenty-two million people in Europe had a standard of living of twenty-two and twenty-eight dollar wages, barely a third of ours. Now it is rising, and there is no reason why it shouldn’t rise to an extremely substantial level. I think we should measure out a little more what the demand side for our products would be over there.

Well, I ought to close on a lighter note. Someone once said Western Europe and the free world outside of the United States produced six million cars, and we produced five million, five. A Russian heard the two figures. He said, “We produced four hundred eighty-three thousand cars last year,” and the American said. “Oh, hell, we had more cars stolen than that.”

The last comment I make is really in the sense of a confession. Up at Dartmouth, we have in the basement of Baker Library — by the way, Baker Library was given by a capitalist, George F. Baker, in a capitalistic institution, Dartmouth College, built in the capitalistic manner, Sir Christopher Wren, and they have got some great big murals in the
basement there, and they're as communistic murals as they can be, and the whole edifice hasn't even started to crumble yet. One of the workmen over in the building had seen the murals, with Orozco doing them, and the workman just wasn't hep. He went over to see Max Norton. He said, "Mr. Norton, that mural will not do."

"Well, why?" Mr. Norton said. "You know Nelson Rockefeller brought those fellows up, made them professional. He's getting the murals at professional rates, which is remarkable for murals and Orozco is a very famous man. Why do you say the murals won't do?"

"Well," the man said, "Mr. Norton, you remember up in that corner where they have those gears?"

"Yes," Mr. Norton said, "I think I remember. Well, what about them?" "Oh," the workman said, "Them gears won't mesh."

Now, I'm a little afraid perhaps my gears haven't meshed, but as one who has come to you from the outside, a different field of work, I have been dismayed a little by the pessimism. I have been dismayed but unable to pick up much in the way of a hint as to how you would solve the problem. It's been fifty per cent solved for us despite bad policy. I think we should do a little better if we adopt some good ones.

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Discussion

World Agricultural Price Developments, Control Schemes and Commodity Trading
Wallace O. Yoder, Chairman

YODER: Thank you, Art, for that very delightful finish. If you will address your questions, targets are open.

HALCROW: Professor Upgren seems to take a much more optimistic view of the world and its potential than some of
INFLUENCE OF ENVIRONMENTAL FACTORS

our other speakers have taken, and I'm inclined to agree with him. I don't know if we're perennial optimists together, but I'm reminded of some of the projects we have had in the past that have gone wrong.

For example, at the end of World War II and for about three or four years after that, some of our most eminent scholars in agricultural economics were basing policy projections on a population growth rate in the United States which would imply a terminal, I'm told, around one hundred sixty-five million or something like that. In 1949 new population projections came out and completely upset the erudite studies.

And I don't mean to speak about them in any disrespectful manner because they were good studies — there are many other instances of projection that went wrong. We are now, again, looking at projections and markets.

I wonder if we shouldn't be a little more optimistic — rather than accept, say, the F.A.O. report here as Dr. Ezekiel has mentioned it in his paper.

The F.A.O. report, for example, bothers me, and yet I can't say it's wrong.

EZEKIEL: May I make one comment on that? In 1951, I believe, F.A.O. published a projection of the food production up to 1955, based on the plans of countries as far as then made and on estimates filling in plans from some of the underdeveloped countries where no specific plans were available, and it seemed very optimistic at the time to assume that the then short food supply could show as much progress as was then projected.

After the events, we checked up on what happened, and in this case, the actual expansion in production exceeded by about one or two per cent the optimistic projection, but it was a projection like this and actually like that (indicating).
FUTURES TRADING SEMINAR

Second, the figures I gave you were not forecasts. They were "iffey figures", and the "if's" were very carefully spelled out. The "if's" very simply were these: That the population would continue to increase — we're talking world totals of population, of course — would continue to increase at the high rates projected by the U.N., which may not be high enough, but which do reflect the rather more rapid rates since the War.

Since the War, I think the World Health Organization has been a very major factor because it's brought modern medical science into use around the world, and it is possible to go out and stick an injection needle into hundreds of thousands of people with very little effort. You couldn't inject "know how" or how to run economies as rapidly as you can inject antiseraums. The big increase of world population is not because of expansion in birth rates, but a reduction in death rates. There has been a sustained birth rate with a very rapid shrinking death rate.

We aren't likely to have another such new development on top of that, so the present projections on population are probably more accurate than the immediate post-war ones. That's number one of the "if's".

A second "if" is that industrial production in the highly developed countries will expand at two alternative rates, one very optimistic rate, another somewhere less optimistic. You can take your choice of those assumptions. The higher rate is sufficiently more rapid than already has been experienced since the War to give you any desirable optimism you want there.

Third, there's a projection for the underdeveloped countries of a gradual increase in productivity and income per capita which may or may not be right, but rather than their showing signs of going off into the stratosphere at new sub-
INFLUENCE OF ENVIRONMENTAL FACTORS

orbital speeds, they're generally increasing very, very slowly in per capita product as yet.

Then, the two other assumptions. The first is that people spend these increased incomes per capita in the underdeveloped countries and the developed countries in the same way that their countries have responded in the past to changes in income. I may mention one or two of those, how food consumption rests on, I think, the stability of the relation of consumption to income around the world. Specialists have been studying on that in the F.A.O. the U.N. and the Common Market. The projection report is a common product of all the professional information known on this in both individual countries and international organizations.

The consistency of those relationships between changes in income and changes in mass consumption are remarkably close.

F. A. O. — where we have been working on this particular thing — has put together something like six thousand individual diet studies, all the good ones that are available around the world, and they have taken into account everything that is available to give any basis of judgement.

The other “if”, the other assumption is that in spite of the Common Market, European countries will continue to follow the policies they followed to date, which you have had described by several of your speakers, of maintaining or raising agricultural supports. This assumption is there will be a continuation of present supports, without applying to agriculture the sharp reductions in tariffs and reductions in prices where they are uneconomic, reductions such as those they have applied to industry.

Now, if Europe suddenly goes berserk and the European farmers lose all their political power — which as somebody has pointed out is about four times as great as that of farmers
FUTURES TRADING SEMINAR

in the United States, because they're a much larger proportion of the population — maybe the unexpected will happen. But the forecasts assume present policies are continued and things expand as I have indicated, and then indicate what the result will be on demand.

On the supply side, the forecasts rest on a continuation of the great improvement in productivity of various countries as we have had in the past and a beginning of improvement in the less developed countries. If all of those things work as indicated, this is what it will do.

If there are great changes, however, as for example, if the United States suddenly starts to decrease its agricultural production substantially instead of increasing it then, of course, the results will be different.

You can take your choice whether you accept these "if's" or not.

RACLIN: I would like to comment on two things, if I may.

I heard a high official of the U.S.D.A. make the statement that if the farmers had the ability today to grow whatever they wished to grow, they could produce approximately four times the quantity that they presently do produce.

Productivity is there with the use of fertilizers, insecticides, and so on. On the demand side, with the restrictive area such as the Common Market, concurrently you are getting the rise of nationalism in special export areas. It looks to me like it is a quite pessimistic picture, barring a sudden population explosion to a degree greater than we are now experiencing.

The one bright hope, and, maybe it is the only good hope, is that there is from the demand side an area that has not been discussed here this afternoon — consumption of what the free world produces by the communist controlled areas. This is a vast and tremendous market.

The Red Chinese purchases of Canadian crops may be,
INFLUENCE OF ENVIRONMENTAL FACTORS

without a weather accident, one of the cheapest purchases that has ever been made. It will shortly be announced that Canada is selling a tremendous amount of wheat and barley and several kinds of other grain. This type of thing, is where we can take up the excess production. But barring the ability to settle the political disagreements which prevent the U.S.A. from selling to Communist countries, and which I personally don’t see in the near future, it does seem we are in the position for political or economic reasons to grow greater quantities throughout the world; greater quantities than we do now. It is indeed a serious cause of concern because the demand for this vast excess is not here at the present time.

HALCROW: Just one observation. I believe that both our production and consumption in the United States and in most of the highly developed countries of the world have tended to move ahead of the projections that have been made in the recent past.

UPGREN: I would suggest, too, that when we use such depressing estimates as four times as much production, that’s what our good friend Professor Viner would call “engineering resources.” We could produce two and one-half times the automobiles that we do, but the automobile industry is getting along pretty well. I don’t think you prove anything, but only bring a needless pessimism with a “four times.” There is nothing to encourage it. We’re not adjusted to any necessity of attempting it.

I might add that I wrote Dr. Ezekiel when he was in Italy a couple of years ago. We were post-war planners, and in post-war planning, I would say, the economists in the United States were approximately ninety-eight and one-half per cent wrong on a simple basis of failing to realize that with a national income that had doubled during the War and that couldn’t be spent, all that was required was that our wives
learn how to spend two dollars when they had only spent one dollar before. That lesson was easily mastered. (Laughter).

We had, secondly, an accumulation of liquid assets of two hundred twenty-five billion dollars to buy anything that a doubled income wouldn't buy. We had a starved demand. Most of the planners — I was one — came out with a prediction of a depression at the end of the War, looking only at the cut of seventy — estimated at practically a hundred million.

I had asked Dr. Ezekiel if there was some way we could project some of these unknowns of rising productivity, but it shifts. When it shifts forward, I think, perhaps, the estimates have changed. And so we have several areas where the same thing has happened, and I'm not disturbed by the engineering resources. We have so many of those. They don't get converted too rapidly into bearing on market supplies.

EZEKIEL: I have to answer Dr. Upgren on the last point. I gave a talk before the Federal Reserve Board in the period he was talking about in which I presented a projection of post-war activity which took into account some of the things he mentioned, and Alvin Hanson was there.

My projection called for a rapid increase in activity after the War with a short recession. Hanson was sure it couldn't be right, so I prepared an article which was ready for publication before the end of the War forecasting industrial activity over the next two years after the war.

I was unable to get it published because so many forecasts had been published by then that the Budget Bureau put the ban on further forecast publications. It happened that that particular forecast, estimating the index of industrial production quarter by quarter for two years after the War, hit the actual figure with a maximum error of less than 10 percent.

UPGREN: I would say our group has the advantage of having the two members who were approximately right.
INFLUENCE OF ENVIRONMENTAL FACTORS

EZEKIEL: I do want to add one point, though, on the question of optimism and pessimism. I think it's possible to be too pessimistic in looking at the figures on surpluses, depending on how they're stated. Actually, even with this projected tripling of world agricultural surpluses by 1970 that I mentioned, if that additional production were distributed in the underdeveloped countries it would add only 2 percent to per capita food supply, and leave consumption there still far below desirable standards.

In other words, the projected output doesn't mean the world would produce more food than is needed or could be used, but, simply that it could produce still more food than could be sold commercially.

I think it is not unlikely that arrangements for making use of what surpluses are available by non-commercial means will continue to expand. The new World Food Program approved yesterday at the U.N. is the first step towards international distribution of international surpluses with the cost being shared by the well-to-do European countries as well as by the United States. In fact, out of the total pledged of eighty-five million dollars, about fifty million is from the United States and thirty-five is from other countries, with a number of countries including Switzerland still to be heard from. Possibly, half of the check for surplus disposal will be picked up in this particular operation by the other well-to-do industrial countries.

Even if food production does exceed commercial consumption as much as the projections indicate, if that excess food is plowed back in the underdeveloped parts of the world in speeding their economic development and raising their standard of consumption, it would still represent an addition on the order of two per cent increase in the average consumption per capita as I have indicated.

[239]
FUTURES TRADING SEMINAR

Second, there is one way out that hasn't been mentioned very much in any of our discussions this morning which I would like to mention. The questionnaire asked for it, but I noticed in the discussion this morning they didn't quite get around to that point, and that is the long term opportunity for markets for the enormous agricultural productivity of the United States and, also, Argentina, Australia and New Zealand. (Actually Argentina is doing a pretty good job now of eating up themselves what they manage to produce.) The opportunity for these exporters is, I believe, not by trying to get back the markets in Europe that these fat plains and cornbelts did enjoy earlier, but to establish new and permanent markets for them in the underdeveloped world.

What's happening now with Pakistan, India, and many other poorly fed countries, depending temporarily more and more for their food supply on the productive capacity of these efficient producing areas, I think is something that may continue over the long pull as a permanent factor of world economic production, if you assume that the hungry millions of India, China, Pakistan and similar countries are ever to have a decent diet. Even with all of the agricultural technology in the world, they never can get it from what they produce in their own countries alone.

If you only have, as in India, something like a half acre or an acre of land per family, and that land has very, very poor soil generally and an exceedingly limited supply of water, all the agricultural technology in the world and all the improvements in methods isn't going to give them anything like a decent living standard with a diet containing adequate animal protein and fruits and vegetables. The only way they will ever get a decent living standard is by industrialization to the point where they can produce industrial products for themselves and have enough of them left over to sell to the
INFLUENCE OF ENVIRONMENTAL FACTORS

rest of the world in return for things the rest of the world ships them. This means, of course, that the United States and Europe would have to be prepared to import some of their industrial products from them. The fact is, if you look at dairy products, for example, commercial exports paid for in cash of milk and milk products to the Far East has “zoomed” rapidly in the period since the War.

They now are one of the major commercial markets for those exports, and if you take the commercial and non-commercial or “concessional” together, new markets are being built up there which I think will be permanent if, in their economic development, they can adjust their production to find ways to pay for imports in hard cash.

So, there are ways out. The question is how to adjust this developing economy of the world to help make them fit together into a balanced economic system on a worldwide total.

COLLINS: I have a double-barreled question for Dr. Ezekiel. He made reference, I believe, to a United States contribution of fifty million dollars to an international food distribution program. The legislative proposals submitted by the Administration last spring had in them some language which was interpreted as providing some kind of authority for that kind of a contribution. The language in question was eliminated by both the Congressional Committees on Agriculture, so it is not in the Bills that are now in Congress between the two houses.

Therefore, my question is: What is the authority under which the present contribution has been made?

Second part of it, how is this authority different from what was requested? And I guess to nail this down, the third part is what was the reason for the request if they are able to participate without this authority?

EZEKIEL: Well, I don’t have your questions down one, two,
three, but the —

COLLINS: You understand the general sense?

EZEKIEL: Yes. But the point is that Public Law 480, under one of its titles, gives authority for grants of surplus food to international organizations.

It was explained to the committees when this was discussed that it was felt that this was covered by existing legislation, but they wanted to tie it down double-barrel, and the committee decided not to write it into the bill. The committees — the only difference is that — you asked why they asked for the authority. The original request was that full responsibility for how these commodities were to be used after they were turned over to the international organization was to be left to the international organization in which, of course, the F.A.O. had its own voice, along with the U.N.

Under the existing authority, PL-480, there are a number of restrictions some written and some unwritten, so since the wider authority asked had not been given, the grant was made under the narrower existing authority with the condition that the disposal of the commodities would be under — that is, the particular projects into which they went would be under U.S. control project by project, so it met both the legislative and the unwritten restrictions.

Of course, I am not a Congressional spokesman, a legislative spokesman, for the Administration, and this subject is being discussed at Washington by the appropriate officials. I think Harlan Cleveland is testifying today, but this, (off the record here) is what the situation is. I think there is no problem about it either with Congress or with the legal side.

FLOOR: Dr. Ezekiel’s previous point that he made with regard to developing markets, with the underdeveloped countries presently trying to industrialize becoming outlets for agricultural products leads, I think, into a question or com-
INFLUENCE OF ENVIRONMENTAL FACTORS

ment that I had in mind.

It seems that the two discussants this afternoon have clashed very directly on one rather crucial issue of whether the farm population should be reduced further or increased or stabilized.

It seems to me that this leads really to the whole point this conference has revolved around, first, the issue of agricultural surpluses as our major problem in both the industrialized countries and in the major agricultural producing countries, tying that fact in with the increasing productive efficiency of agriculture both here and abroad and, presumably, eventually in some of these developing countries.

It seems to me that this all ties back in through our trade outlets in agriculture, ties back into our main problem of jobs and income.

I think that we should be entitled to hear these two discussants resolve this issue for our edification as to what we do. (Laughter). Do we reduce the farm population or increase it?

UPGREN: While my colleague thinks of a good answer, I'll give you a start towards it. Our figures on farm income, I believe, are being revised. But Joe Davis went over some of the last ones, and you will recall the last ones in the present report. In that year farming income was twelve billion, two. Off the farm, income was six billion, eight. Of the twelve billion, two earned on the farm, four billion was the value of the farm home and the food produced on the farm for use on the family table. So that meant our income from farming operations, as we think of them, was about eight billion, if I recall that section of the President's economic report correctly, and our income earned off the farm was six billion, eight.

We made a study in Mower county, Minnesota, a county that comes fairly close to the average for all the United States.
FUTURES TRADING SEMINAR

The Hormel Company is there and it pays higher wages, but we also found, to be sure, poor farmers. A man had to be on a farm of one hundred seventy-six to two hundred fifty-six acres to earn as much as the farmer on forty to eighty acres earned off the farm which was, namely, seventy-three hundred and fifty dollars approximately.

I have been traveling in North Dakota quite a bit lately, and I find plenty of off-farm incomes in that intensely agricultural state. They drive the school buses, the men work in the oil fields. But the farms in North Dakota, themselves, have grown from four hundred ninety-two acres in 1946 — to seven hundred twelve acres today. We must spread more land under these large machines.

Then, we have had this exodus of farmers. Those who have the most energy and drive in these past fifteen years of high industrial output are the ones that have moved off, if you know what I'm referring to. If you don't, travel through New England, you'll see it in concentrated forms in any small town.

Those who remain on the farms, I think, should be supported for the rest of their lives out where they live just as the coal miners are. You see no attempt to move them because they lack competence for modern technological jobs. If you did move them, you would have to support them in the city, and that costs politically and financially.

As Cambodia would say, "We have done a pretty good job of fulfilling — far better than the communist society — of fulfilling the communist motto: Take from each according to his ability, give to each according to his needs, be it professors or be they farmers or be they husbands with healthy wives (Laughter) with good equipment in the kitchen."

There the income is according to need. If it calls for three automobiles, you go out and hustle and get it. On the other
INFLUENCE OF ENVIRONMENTAL FACTORS

hand, the family with much less ability may choose to continue living in Aitken or Koochiching county, Minnesota. Their abilities aren't very great. We're getting from them about what their abilities are, and we're giving back to them what seems to be about their need.

The problem is to divorce the whole problem and think in terms of income in solving the problem. We have such very, very few pieces of information on what incomes are in farming areas. Even the figures from the Department of Agriculture and the Census Bureau are very, very different.

The Department of Agriculture apparently wants to seek out every person living on land outside the city and call him a farmer, so they end up with a million and one-quarter more farmers to divide into the total income. The Census Bureau counts only the people earning their living on the farm. So we have these disparities, and the Department of Agriculture doesn't try to correct and give us good measurements.

That's the side that gives a hint of the direction I would take, and I am sure you will get a better answer from Mr. Raclin.

RACLIN: I don't know if you will agree to follow these steps with me or not, but it seems that after the Second World War a political party — and it doesn't really make any difference which one was in power as the case turned out — discovered that the farm bloc presented an economic political bloc, and it had to do everything to woo that group, to win votes, to win power, to stay in power. There has been a falling away recently from that viewpoint, but, basically, we have come down to the point where we are not realistically willing to face the fact that these high support prices, which were used to encourage production needed during the Second World War are not needed today. We are not willing politically to cut down high supports!

[245]
FUTURES TRADING SEMINAR

Therefore we find ourselves, rightly or wrongly, in a situation where we have this enormous surplusage in certain areas. We apparently will continue to. I am personally quite concerned, whether it be two and one-half times the present farm output or four times the present agricultural output. I venture to say that support prices are raised too far, for political reasons. You possibly could see further farm production increase sharply if it is to the political advantage of either party.

Now, we, then, get into the surplusage which we must get rid of in one way or another. We are in the position of England during the War. One more American tank or gun and the whole damn place would sink. (Laughter).

We then start, for various reasons, primarily in underdeveloped areas, in giving surplusage away, but we have caused additional problems as we have given. These countries have more of their own surplusage to sell. I give you, as an example, Brazil. We endeavored through PL-480 to give them soybean oil. This has given them the ability to sell Brazilian grown oilseeds and oils to Europe at low prices. We have given India and Pakistan tremendous amounts of soybean oil. This has increased their exports of peanut oil. We have given Israel soybean oil. They have bought U.S. soybeans for free dollars, crushed them for free dollars and exported the Israeli soybean oil into Europe, kept the American PL-480 soybean oil, and caused direct competition for European crushers who are buying our American beans and trying to sell soybean oil.

This is a non-ending cycle. We are in a situation where we have a favorable balance of trade and unfavorable balance of payments which is one cause of our present outflow of gold. We are at a critical level in gold. We have sixteen billion, one hundred million gold at this time. We have reserve re-
INFLUENCE OF ENVIRONMENTAL FACTORS

quirements of eleven and 3/4 billion. The Japanese govern­ment may raise the backing of the yen from thirteen to approximately 30 per cent gold they then would need two billion two hundred million dollars worth of gold, and there is only one place they can get it.

In spite of the enormous pressures on foreign governments, we have seen France in the last two months take over five hundred million dollars worth of gold, and Switzerland, fifty million dollars worth. This country due to its generosity is perhaps the only government of the world voluntarily debasing its monetary system.

Now, in spite of the fact that we would all like to see, I think, the optimistic statement of the President's come true on the soundness of the dollar, the fact is, that the specula­tors are not the only ones buying gold. Governments, it ap­pears, do not have the complete faith in the dollar they used to have. They apparently want to have gold instead. We are running into a situation where ultimately we must raise the price of gold, or we must stop the outflow of gold if we wish to remain on the gold standard.

The United States and Switzerland are the only major areas backing their money with gold although other countries have become increasingly strong on reserves.

I think that one of the problems of this great general prob­lem of inflation is whether or not we are going to have con­tinuing debasing of our currency.

This is one of the principal factors back of this continued and expanding increase in surplusage in the United States, and we are going to see, with rare exceptions because of cli­matic differences, the same type of uneconomic waste happen­ing in Europe under the Common Market.

The Common Market countries undoubtedly will not be able to grow soybeans, for example, but there will be an in-
crease in maize, wheat, barley, others. We will not export as much if we keep the same support high prices gentlemen. We are just going to accumulate increased surplusage. We're at that point where we must cut down production, and one of the ways, I think, is the economic shift from the farm to other areas where people who have been on the farm can be economically re-educated to produce what the world needs, not what the United States government has politically acquired!

I think it’s a very serious problem, and this is one of the major areas. I don’t think that the Birth Control League is going to take over the country. I think we are going to have more people in 1980 than we have today. I also believe we have the ability to produce far more than that new population requires and I see the world producing increasing amounts. As these nationalistic minded nations learn our efficient ways, they will be producing more oil seeds and grains. The problem will be intensified.

We must, I think, get away from the idea of supporting an uneconomic situation and get into an area of where we face the facts economically regardless of which party is in power. EZEKIEL: I’m not replying to some of the recent statements, but it just reminded me of one phrase that was popular years ago — and which, I assume now no longer applies — this was from John Maynard Keynes: That if a man from Mars came to this world, he would find it very hard to understand why black men in South Africa were busy digging gold out of holes in the ground in order that white men in North America might dig holes in the ground to put that gold into.

Although there are other things to be said on gold, I won’t add them here. I did want to make this comment. There has been a lot of loose talk including that of our friends in the Committee for Economic Development about reducing agri-
INFLUENCE OF ENVIRONMENTAL FACTORS

cultural production by reducing the number of people on farms.

The fact is, the number of people on farms has been reduced fantastically recently. I think that the number of effective producers in the United States today, the farmers that produce ninety or ninety-five per cent of the products, is something like a million and one-half farmers. The sub-marginal farmers are all the rest, and they produced, as has been pointed out, little more than their own farms consume and have no appreciable effect on the market.

People that expect to solve the farm problem by taking people out of agriculture overlook that it doesn’t do any good to take people out of agriculture unless you take the land out at the same time. Our rapid technological progress has shown enormous ability for the people who stay on the farm, after their sons have gone to the cities and after the fathers have died and the farms have been consolidated, for one man with modern machinery to run the acreage which two or three men ran before.

It’s only by reducing the area in production that you have any impact. It isn’t generally realized.

I have visited a number of collective farms in Russia, Yugoslavia, Czechoslovakia, and my observations are that the average American farmer in North Dakota or the Great Plains or Corn Belt operates a collective farm as big as is operated in most of these countries by a hundred families, but he operates it by himself or with his son, and with much less machinery than they have on those farms in the other countries. It is not the people on the land itself, but the area and what’s produced on the area, that has the effect of troubling the markets. It is also true, however, that enormous effort is needed to retrain the people living in the sub-marginal districts with poor agriculture, and to help them readjust.
FUTURES TRADING SEMINAR

But you can't simply cut them off in most of these area. I was up in New England the last month, and there is hardly a young man on any of the farms in New England, at least, the parts I went through. In Maine the few farms left are largely apartment houses for chickens, four or five stories high, full, of course, of mass producing chickens, and all the rest of the land is in pasture or going back to trees, and these are being run by old people.

You can't shift these old people off of the land. They can't be retrained for city industry. They don't want to be, if they could. The problem is how to help redirect the young folks, give them the training so they can fit into city industry as they go off and make this adjustment.

This thing about training people reminds me of one other point I wanted to bring up, Mr. Chairman. Mr. Upgren's point about how Germany and Denmark and so on came back promptly after the War relates to a very important point in economic development.

If the bombing had killed all the people in those countries and skipped plants, and if people had been moved in from India and Africa to reestablish the industry in these countries after the War, those plants would not be running yet. But when you left most of the people who knew how to do things and wiped out the plants, the same people still got going again as well as ever.

The training of the human mind is one of the biggest unsolved problems in economic development, and a great deal more effort has to be made in all these underdeveloped countries in helping to raise the level of their people, teaching them all the skills and all the things they need to know for economic development. Merely physical needs are not enough, so that is a very important thing that is being watched in-
INFLUENCE OF ENVIRONMENTAL FACTORS

creasingly in economic development work to bring in elementary education, advanced education, enough training to do the things that need to be done.

And it was because you had trained people who know how to do things that Europe came back so fast with the resources that it got from outside. Now, although much larger resources or equal resources are going to underdeveloped countries, they don't produce results nearly so fast because, while you can build a factory or even a hydro-electric plant in two, three or four years, if you have to produce the trained technicians, it takes a generation or, maybe, two or three generations to establish the institutions and train the professors and teachers to train the people.

It's a long, slow job to build up the rest of the world, but it's being worked on now.

ARTHUR: Well, I want to make just a footnote on several comments regarding the C.E.D. Report. It seems to me that between the discussants, they have almost suggested a nice solution for this problem.

I venture to make this comment because my name does appear in the report, and I haven't been asked whether or not the statements are being represented in the light of the discussions that preceded the issuance of the report. This may be a time at which I can make a little mention of background.

Let me first comment about the point that seems to be bringing the speakers together. Arthur Upgren has first, I think, taken the newspapers' focus from the C.E.D. Report to the effect that the C.E.D. recommends uprooting two million farmers and moving them off of the land.

Dr. Ezekiel gives us a comment to the effect that the problem is not one of moving these people off of the land, that only a million and one-half farmers are involved in the basic con-
FUTURES TRADING SEMINAR

tribution of a surplus in our agriculture.

Perhaps we can solve this problem on Arthur Upgren's terms, and merely change the base figure of the count of the number of farmers, and we can remove two million farmers from the statistics rather than from the land, and we would —

UPGREN: That's what C.E.D. did. It thought that by moving a statistic of a farmer to the city, you chop off production. And you just don't do it. It's a confusion of poverty and production. These people are poor. That is illustrated by the simple figure that fifty-three per cent of our farmers produce only ten per cent of what is commercially marketed. You take off fifty-three per cent of your farmers, and you don't solve your problem, but you intensify other problems immediately.

ARTHUR: If these people are poor, and they're only accounting for five or fifteen per cent of the agricultural production, they're not being benefited by what we are doing.

UPGREN: Of course, not.

ARTHUR: This leaves the C.E.D. area with some measurement of reference.

UPGREN: I meant that if we worked out all of the figures and made a sample study of people on farms and their incomes that the burden of treating what is basically a sociological problem is vastly less than the people in the United States think.

ARTHUR: In the discussion of the C.E.D., it was made clear that there was no intent of uprooting and moving human beings off of the land. This was an entirely different kind of problem that commercial agriculture can make an adjustment along the lines suggested, and that it should result in two million less people or some substantial number less people being counted among the productive farmers. They can do it by statistics more easily than you can do it by moving people out. I'd recommend that.
INFLUENCE OF ENVIRONMENTAL FACTORS

YODER: I thing the Chair will recognize Mr. Berg. Maybe we can get a little bit more to the subject.

BERG: I think I would supplement the remarks that have been made and come at it from a different angle. I think Upgren would do that because this is really his specialty, capital formation.

I think we have been led into a trap on a number of occasions in here by looking at this in terms of what you might call “partial analysis”. We talk about the labor in agriculture. I think we should take the total changes which have taken place over the years. If we take the last two decades treated in aggregate terms, and I'm going to lump these small farmers with the large farmers because we get a labor input, you find that in the last twenty years, the amount of land in agriculture has been fairly stable, but we have had a tremendous change in the in-put structure.

When we look at labor and capital twenty years ago, perhaps, fifty-five, sixty per cent of total inputs in agriculture was the labor force. Today, this is done to somewhere around thirty, but what we have done is substituted capital in the form of technology for this labor, and that when we look at the adjustments that have to be made, perhaps, merely working on a labor force, we have excessive resources in agriculture, and these are across the board — land, banks, capital and management — and when we think of withdrawing resources, I don't think we can necessarily concentrate on one facet, but we have to pull out a unit, and even Arthur's idea of taking out land alone, I don't think would do it.

The idea of taking out whole farms with the capital and the management that goes along with it has some merit.

Just another observation, you may leave these people up in Aitken and Koochiching County, and I think the old folks that are there will stay until they die, but I don't think that the
young folks are going to be satisfied at all with the conditions up there.

We'll have this continual need to train these young people for what we hope is more adequate jobs and satisfactory living.

UPGREN: I thoroughly agree.

COLLINS: If we have hammered this one far enough, I would like to return to the question I intended to present this morning and time ran out on this most important aspect, I think, of the morning's discussion which was the anticipated effect of the Common Market on our ability to export.

The point was made by Jesness that we have about twenty-five per cent of the people in the European Common Market that are in the business or producing food.

Then, we have allied with them, maybe, another twenty-five per cent. I don't know. This gives us about one out of two at the outside, and the sympathies of this additional twenty-five per cent may be in the direction of guaranteed prices domestically. It may be somewhat in sympathy with the other side of the question.

Now, the point is we know what the political developments have been in this country with respect to price supports. I think they're beginning to reveal themselves a little more clearly right now than at any time in the past although if you look deep enough, you can find them some time ago.

Now, is this rather pessimistic outlook that we took this morning of a short run nature in the sense that as these people look around the world — our communications, of course, are improving all the while — as they look around the world and see Canada selling wheat for a dollar and one-half and the United States selling wheat for a dollar fifty-two cents, this kind of thing, how long politically can they hold out with a level of guaranteed prices in the area of three dollars for wheat.
INFLUENCE OF ENVIRONMENTAL FACTORS

I would like to hear either or both of you explore that a bit.
YODER: This question is addressed to whom?
COLLINS: To both. This group has been playing around this same area that Dr. Jesness was on this morning. I would like to hear both of them comment.
UPGREN: I would make just one quick comment while the others are preparing a good one. It is that the industrialization intensification in Western Europe can be increased and with that you provide industrial opportunity.

Take for example our coal problem. When John L. Lewis finally got wages up, we really got coal pouring out. We ought to build a monument. He dieselized our American railroads and increased coal miner unemployment. There are about two hundred thirty-five thousand unemployed coal miners.

In Germany where the coal problem is immensely worse than with us, they have a seventy million ton surplus as a result of the Suez fiasco. But the unemployment of coal miners in Germany is only fifty-seven thousand because the coal miner digs coal right across the street, so to speak, from a steel plant. The industrial horizon is open to him, whereas in West Virginia, the coal miner, except for the younger one, can't leave.

I am pointing out the mobility of Western Europe now. Many Italians work in Germany, for instance. The industrialization that can come now, adapting their industries to size and intensifying capital, could suck people off the farms too rapidly with these opportunities. At least at a more rapid rate than farming over there could adjust to.

If you can grow two blades of grass where one grew before, the price of grass ought to come down. You use a downward price, but everyone else here wants to defend the price and cut the production. I think cutting the price is reasonably
appropriate for longer efficiency.

I think the problem will be solved over here much more rapidly than we think.

One of the changes hard to anticipate —
RACLIN: Before we get into this, it seems to me another logical conclusion of this is, if we can convince the government and ourselves that we can reduce the farmer pool over a period of time, it will be less attractive to grow what you cannot sell in the marketplace.

I think that maybe the surplus on farms would be quite easily resolved. This is a painful process. This is not politically astute to do, but this is, I think, another constructive step, and there is a lot of pressure being brought on the Congress of the United States to do so. I think we are seeing this effect in the farm bill being written now.

I have the opportunity to be in Europe two or three times a year to do business from Norway to Spain, and occasionally see representatives at various trade meetings of communist areas. Many Europeans appear perhaps more sophisticated than we.

They invite communists to the meetings. Isn’t the European viewpoint to welcome American entry into the Common Market? Then over a period of time we would export into this Common Market area those products which we produce most efficiently, and they would in time produce those products which they would use most efficiently. They foresee that — I think this is accurate — for example the Common Market will not be large producers of wheat if we come into the Common Market and if Canada comes in.

YODER: The Chair will entertain one more question.
EZEKIEL: I beg your pardon. Just a slight comment I was going to make about the European side, that in Europe the proportion of workers in agriculture has gone down very rap-
INFLUENCE OF ENVIRONMENTAL FACTORS

didy in this period since the War. Italy, for example, which at the end of the War was a country with two million chronic unemployed in the industrial parts of Italy plus an unknown number of unemployed on the farms, passed a year ago the crucial point where the farm population fell below half of the total.

We have noted in F.A.O. studies by one of our young workers, that in developing countries, the total population on the land rarely starts to decline until the time when the non-farm part is already half the total.

After the non-farm part exceeds half the total, then your development of industry can move fast enough, not only to absorb the increase in population on the land, but to begin to dig into the people already there. You see, you have to absorb in industry all of the increase in population in non-farm employment, all the increase in employables on the land, before you can start reducing the total number working there.

Italy, now, has reached a point where only thirty per cent of the workers are in agriculture, where it was something like fifty per cent before the War. In country after country in Europe, the reduction of people on the land is very rapid, where previously it had been overpopulated, so you’re reaching a point of a very rapid shift into industry of the surplus farm population along with the use of more machinery and all the other techniques which enable one man to handle more land.

And in one country at least, Italy — it’s under the Common Market there — it’s one country I know that has really changed their agriculture policy. They have shifted from encouraging wheat production on all the uneconomic parts of the country by high support prices. They have reduced their support price for wheat very sharply, have told their farmers, “We know that you can’t keep in wheat production in your area
with that. Either find ways of irrigating and produce fruit and vegetables for which we do have expanding markets in northern Europe or get out of agriculture," and they're diversifying, producing these intensive products more rapidly or shifting their land into very extensive cultivation such as grazing for cattle and so on with the men flocking to the city.

We have had a dramatic picture, too, on that. In Rome last fall when the Farmers' Association of Southern Italy met — that takes from Rome south — Southern Italy is entirely different world from industrialized northern Italy, and in the past farmers have been talking about things to do. For the first time they talked about one thing, and the thing they talked about was how the world had "gone to the dogs". It was impossible to farm in Southern Italy any more. All the hired men had left, and how in the world could farmers keep on farming without any hired men? (Laughter).

WALSH: My question is addressed to Mr. Raclin.

During the past two days as I have listened to some very fine speeches, I have tried to assess the reliability of the ideas and concepts I was hearing.

Therefore, I was impressed with your illustration that as governmental agriculture programs increased in one case the amount of commodity trading also increased. If this can be reliably tested here, it seems to be a very important piece of evidence.

For example, what policy implications might it have for the Chicago Board of Trade regarding agricultural programs? Would you please discuss some of these possible implications?

RACLIN: Well, I can give you one example in which I was a complete failure, but it might be interesting to you. And understand that these comments are in terms of this afternoon's topic, referring to international rather than domestic governmental policies.

[258]
INFLUENCE OF ENVIRONMENTAL FACTORS

For some time the Spanish government has under PL-480 had enormous quantities of soybean oil brought into their country, and you can run a chart which shows a definite correlation between Chicago Board of Trade soybean oil prices and prices CIF except there is a divergence each time that the Spanish government bought, which would mean that the American price went up, and the European price stayed at the previous level.

The reason for this was very simple. The American crushers were long cash soybean oil and short futures as a hedge protection. Then as they made their sale to Spain, they would buy their short futures back and the Chicago price would go up.

Well, the thought occurred to me that possibly the Spanish government should be interested in using the American futures market. They first would pre-buy a third of their requirements in the futures market, knowing that they were going to buy American cash oil. They then would buy the cash oil from American suppliers and sell American futures as they bought the cash oil. As a result they then would have a profit as the domestic U.S. crushers lifted their hedges, causing the price to go up. The Spanish government would benefit.

We talked to most — or what we thought were most — of the responsible officials in the Spanish government pointing out this correlation to them, but, unfortunately, there had been a rather messy situation in Spain, and the new people who were handling the purchasing did not want to be accused — and I can sympathize with them completely — of possibly being in a position of using another method to purchase their supplies, even though it would be at a lower price.

But this was one possible example, I think of where a government control could lead to an expanded use — this parti-
cicular one was unsuccessful — an expanded use of the futures market. We have observed, and I am sure our competition has observed, that today virtually without exception the Japanese use the futures markets on soybeans and we have support prices on soybeans. The Norwegians, the Danes, the Swedes, the Germans, certainly the Low Countries all use American futures markets.

The franc has now been freed in France for economic hedging purposes. Certainly Italy and the Middle East are coming to this. It is not expanded on a government level at this time in Spain.

It is certainly true in the United Kingdom, more firms are realizing the safety of the use of the futures markets. Governments are allowing their nationals to hedge their cash positions in the futures markets, and they're allowing convertibility of their money to do so.

And this type of governmental thinking, I believe, portends a pretty enthusiastic future for the Board of Trade. I see an increasing use of futures by these people who better understand it's uses and functions.

YODER: I will entertain one more question before turning the meeting over to the general chairman.

JESNESS: My name was brought up. I was the optimist among the pessimists this morning. Maybe I ought to rise to their defense, but the question Collins raised, he said came out in my discussion. Let's note this. That I fully agree with the speakers that we can look for non-farm employment to reduce farm population in Europe, but the process at least for a considerable period of time is going to increase agricultural production rather than decrease it, which supports the pessimism of my colleagues this morning that for these competitive products the United States cannot expect an enlarged market in Europe.

[260]
Also, let's bear this in mind. Mordecai if I understand you rightly, you said that what is needed is to take land out of production — just the situation in the United States. Would you let me qualify that by saying that you have to take the land and people out, and, then, add to the point raised by Sherwood Berg, that it is conceivable to me that you are going to take capital out as a process. You're going to take capital out as people and land are adjusted out of production. That capital becomes an innocent victim, one of the contributors to this, and I think the thing we need to do is to have a program that goes in the direction not of taking land out and keeping the people alive, but helping the people adjust and the land adjust and lower our prices in the process as the market takes over.
NAME INDEX

Ackerman, Joseph 183-185

Arthur, Henry B. 3-27, 29-31, 32, 34, 37, 42-45, 48, 49, 52, 55, 58, 59, 108, 124, 183, 184, 251, 252

Baker, George F. 231

Bakken, Henry H. VII-X, 4-5, 42, 45, 54, 62, 68, 75, 86, 106, 107

Bean, Louis 197

Benedict, Murray R. 73

Berg, Sherwood 176, 177, 184, 185, 252-254, 261

Black, John D. 75, 86

Brace, Harrison VIII

Chamberlain, Edward 44

Clayton, Will 174

Cleveland, Harlan 242

Clodius, Robert L. 95-99, 100, 102, 103, 106, 108, 121, 122, 123

Cochrane, Willard 77, 82

Collins, Warren 61, 182, 186, 242, 254, 255, 260

Conant, James B. 174

Condon, Lester P. 13

Coontner, Paul H. 109, 111, 115

Davis, Joe 243

deGaulle, Charles A. 162, 175, 176

DeVake, Emory 225

Eddy, Lionel 225

Emery, Henry VIII

Erdman, Henry E. 52, 65-99, 100, 105, 106, 109, 119, 120, 122, 124


Fox, Karl A. 67

Freeman, Orville L. 13-14

Fulbright, 226

Galbraith, Kenneth 55

Goldschmidt, Walter 113, 114

Gordon, 67


Greeley, Horace 66, 67

NAME INDEX

Hanson, Alvin
238

Hendel, Julius
51, 52, 116, 117, 118, 155-165, 175, 177, 178, 188, 191, 192

Herter
174

Hoos, Sidney
73, 76, 80, 818, 82, 84

Hoover, Herbert C.
34, 199

Hoover, Dean Duke
228

Huge, Wilbert E.
89-94, 101, 102, 105, 106, 107, 108, 109, 110, 123, 125

Hull, Cordell
224

Jesness, O. B.

Johnson, Oscar
228

Kennedy, John F.
147, 163

Keynes, John M.
248

Khrushchev, Nikita
161

Kohls, Richard L.
50, 100, 101, 102, 116, 122, 167-173, 174, 180, 181, 182, 183, 184, 187, 188, 189, 193

Kramer, Erich
67, 68

Kristjanson, Larry
109-111, 122, 124

Lewis, John L.
255

Lippman, Walter
175

Lodge, Henry Cabot
174

Loveday, Alexander
228

MacCurdy, Rahno M.
67

Marshall, George C.
129, 216, 224

Martin, William M.
10

Means, Gardner
52, 53

Mehren, George L.
79, 80

Mighell, Ronald L.
25

Mill, John Stuart
87

Miller, Clem
73

Monet, Jean
130

Montavon, Paul A.
178-180

Moore, Henry L.
197

Murphy, W. B.
24-25

Myers, William
226

Norton, Max
232

Nourse, Edwin G.
68, 69, 70

Orozco, José Clemente
232

Padberg, Daniel I.
54, 109, 110, 192
NAME INDEX

Plaxico, James S.
42

Raclin, Robert L.
215-222, 236-237, 245-248, 256, 258-260

Ragsdale, J. M.
174, 186, 192, 194

Raskin, Ben
29-35, 50, 51, 59, 62, 106, 114

Reichmann, James P.
120, 122, 123

Rockefeller, Nelson
232

Roy, Ewell P.
124, 125

Schaars, Marvin A.
68

Schuman, Robert
130

Seltzer, R. E.
80

Simmons, Will M.
85

Smith, Adam
37, 44-45, 49

Smith, Bradford
197

Sorenson, Vernon L.
82, 104

Stine, O. C.
73

Stokdyk, E. A.
69, 79, 80

Telser, Lester G.
29, 37-42, 44, 45, 46, 48, 49, 52

Thuroczy, Nicholas M.
44, 45, 57, 59, 123, 124, 190, 191, 192

Truman, Harry S.
53

Uhlmann, Richard F.
IX

Upgren, Arthur R.
53, 174, 176, 1223-232, 237, 238, 243-245, 250, 252, 254

Viner, Jacob
237

Wallace Henry A.
53, 197, 200

Walsh, Richard G.
258

Watson, Thomas
228

Wellman, H. R.
80, 81

Wentworth, Jack R.
178

Wesson, William T.
82, 84, 85

Westing, J. H.
189, 190

Wickard, Claude R.
202

Wiese, Virgil
217

Wilkins, George
103, 187, 190

Working, Halbrook
84, 112, 187, 198

Wren, Sir Christopher
231-232

Yoder, Wallace O.
43, 47, 48, 49, 232, 252, 255, 256, 260
SUBJECT INDEX

A

AAA, 53
Access to markets,
   freedom of, 11
Acreage,
   controls of, 18, 41, 123
   of wheat, 124
Advertising and promotion, 73-74, 85, 88, 100
Advisory boards,
   function of, 74, 75, 76
   cling peach, 77, 81
   observations of, 87
Africa, 39, 151, 157, 168, 210, 211, 248, 250
   coffee, 56
   South, 61
   nations, 131
   countries of, 136
Agency for International Development (AID), 203, 208
Agribusiness,
   importance of, 165
Agricultural Acts,
   of 1933, 69, 71, 72, 98
   of 1937, 70, 72
   of 1961, 73
Agricultural Adjustment Act, 69-70
Agricultural,
   control programs, 14-15, 18-19, 133, 135
   migration out of, 38
   free economy in, 41
   regulation, 59
   feudal status, 158
   double standard program, 158
   productivity, 170
   mechanization, 184-185
   role of sciences, 184
   chemicals, 185
   fertilizers, 185
   revolution in Europe, 185
   surpluses, 199
Agricultural Producers Law, 70
Agricultural Prorate Act, 69-70
Anti-trust laws, 55
Apples, 84, 85, 98, 105
Argentina, 61, 151, 157, 201, 209, 210, 240
Asia, 131, 151
Atlantic Institute, 174-175
Auctions, 5
Australia, 141, 143, 157, 209, 211, 220, 222, 240
Austria, 131

B

Bankhead Amendment, 200
Barley, 109-110, 210, 237
Belgium, 130, 147, 158, 223
Birth Control League, 248
Brazil, 39, 44, 151, 230, 246
Bretton Woods, 228
Broilers, 91, 124, 125, 135, 137, 156, 1959, 160, 177, 184, 185, 219
   consumption of, 144
   exports, 138, 163
   European production, 182
   Newcastle disease, 184
Butter, 93, 211
Buyer,
   “most favored,” 7

C

California, 120
California Fruit Union, 67
Cambodia, 248
Campbell Soup Company, 24-25, 34
Canada, 141, 143, 191, 199, 209, 210, 211, 237, 254, 256
Cantaloupes, 66
Cargill, 156, 187
Carpeting, 147
Caveat emptor, 5
Census Bureau, 245
Central American Free Trade Association (CAFTA), 131, 151
Ceylon, 210
Chamber of Commerce,
   California, 69
Channels of trade, 12
Chicago Mercantile Exchange, 84
Chile, 151
China, 240
Red, 236
Cherries, 66
Citrus fruits, 84, 206, 213
Coal, 130
Cocoa, 213
Coffee, 39, 56, 105, 213
   market, 44
Cold War, 129, 161
Colonial Development Corporation (CDC), 203
Colombia, 151, 210
Combined Food Board, 202
Committee for Economic Development (CED), 221, 229, 248, 251, 252
Committee of Arbitration, 192
Commodity Credit Corporation, 13-14, 34, 59, 92, 141

[267]
### SUBJECT INDEX

<table>
<thead>
<tr>
<th>Subject</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparative advantage, principle of</td>
<td>167, 169</td>
</tr>
<tr>
<td>Competition,</td>
<td></td>
</tr>
<tr>
<td>enforced,</td>
<td>16</td>
</tr>
<tr>
<td>stifling of,</td>
<td>93</td>
</tr>
<tr>
<td>unfair,</td>
<td>147</td>
</tr>
<tr>
<td>from abroad,</td>
<td>148</td>
</tr>
<tr>
<td>Congress,</td>
<td>42, 53, 57-58, 69, 73, 135, 143, 193, 241, 242, 256</td>
</tr>
<tr>
<td>Contract farming,</td>
<td>25, 32-33, 35</td>
</tr>
<tr>
<td>Control schemes,</td>
<td>197</td>
</tr>
<tr>
<td>Corn,</td>
<td></td>
</tr>
<tr>
<td>price of,</td>
<td>30, 35, 38, 60-62, 197</td>
</tr>
<tr>
<td>price formula on,</td>
<td>35</td>
</tr>
<tr>
<td>yield per acre,</td>
<td>48</td>
</tr>
<tr>
<td>control system,</td>
<td>57</td>
</tr>
<tr>
<td>cash, 59-60</td>
<td></td>
</tr>
<tr>
<td>American,</td>
<td>60</td>
</tr>
<tr>
<td>consumption of,</td>
<td>61</td>
</tr>
<tr>
<td>cost of production,</td>
<td>61</td>
</tr>
<tr>
<td>market,</td>
<td>92, 111</td>
</tr>
<tr>
<td>drop in price,</td>
<td>108</td>
</tr>
<tr>
<td>stocks of,</td>
<td>118</td>
</tr>
<tr>
<td>trading in,</td>
<td>120</td>
</tr>
<tr>
<td>production,</td>
<td>144</td>
</tr>
<tr>
<td>as feed grain,</td>
<td>145</td>
</tr>
<tr>
<td>export of,</td>
<td>188</td>
</tr>
<tr>
<td>quality,</td>
<td>189</td>
</tr>
<tr>
<td>submarginal returns,</td>
<td>200</td>
</tr>
<tr>
<td>support prices for,</td>
<td>210-211</td>
</tr>
<tr>
<td>Cotton,</td>
<td>39, 48, 135, 137, 148, 177, 197, 200, 211, 228</td>
</tr>
<tr>
<td>seed, 137</td>
<td></td>
</tr>
<tr>
<td>exports,</td>
<td>138</td>
</tr>
<tr>
<td>acreage,</td>
<td>197</td>
</tr>
<tr>
<td>yield, 197</td>
<td></td>
</tr>
<tr>
<td>Czechoslovakia,</td>
<td>249</td>
</tr>
<tr>
<td>Dairy products,</td>
<td></td>
</tr>
<tr>
<td>consumption of,</td>
<td>144</td>
</tr>
<tr>
<td>Decade of development,</td>
<td>204</td>
</tr>
<tr>
<td>Deferred shipment permits,</td>
<td>157</td>
</tr>
<tr>
<td>Deficiency payments,</td>
<td>program of, 158</td>
</tr>
<tr>
<td>Demand,</td>
<td></td>
</tr>
<tr>
<td>agricultural products inelastic,</td>
<td>38</td>
</tr>
<tr>
<td>catchers,</td>
<td>60</td>
</tr>
<tr>
<td>nature of,</td>
<td>76</td>
</tr>
<tr>
<td>tinkering with,</td>
<td>93</td>
</tr>
<tr>
<td>inter-dependent,</td>
<td>101</td>
</tr>
<tr>
<td>curves,</td>
<td>122</td>
</tr>
<tr>
<td>Democratic party,</td>
<td>226, 227</td>
</tr>
<tr>
<td>Denmark,</td>
<td>131, 223, 250</td>
</tr>
<tr>
<td>Depression,</td>
<td></td>
</tr>
<tr>
<td>great, 57, 54, 199</td>
<td></td>
</tr>
<tr>
<td>low point in,</td>
<td>200</td>
</tr>
<tr>
<td>Diamond Walnut Growers Association,</td>
<td>79</td>
</tr>
<tr>
<td>Dumping,</td>
<td></td>
</tr>
<tr>
<td>wheat, 147</td>
<td></td>
</tr>
<tr>
<td>cotton, 147, 148</td>
<td></td>
</tr>
<tr>
<td>grain, 160</td>
<td></td>
</tr>
<tr>
<td>Ecuador,</td>
<td>151, 210</td>
</tr>
<tr>
<td>Eggs, 73, 91, 124, 125, 211</td>
<td>consumption of, 144</td>
</tr>
<tr>
<td>El Salvador,</td>
<td>151</td>
</tr>
<tr>
<td>Emergency Food Council,</td>
<td>202</td>
</tr>
<tr>
<td>European Atomic Energy Committee (Euratom),</td>
<td>130-131, 150</td>
</tr>
<tr>
<td>European Coal and Steel Community (ECSC),</td>
<td>130, 150</td>
</tr>
<tr>
<td>European Economic Community (EEC), 129-194,</td>
<td></td>
</tr>
<tr>
<td>European Free Trade Association (EFTA), 131, 150</td>
<td></td>
</tr>
<tr>
<td>European Recovery Administration (ERA), 203,</td>
<td></td>
</tr>
<tr>
<td>Ever Normal Granary,</td>
<td>200</td>
</tr>
<tr>
<td>Ewes, 200</td>
<td></td>
</tr>
<tr>
<td>Exports, 132, 135-136</td>
<td>dollar, 137, 139</td>
</tr>
<tr>
<td>cotton, 138</td>
<td>tobacco, 138</td>
</tr>
<tr>
<td>soybeans, 138</td>
<td>subsidies, 147, 160</td>
</tr>
<tr>
<td>U.S., 156</td>
<td>value of, 163</td>
</tr>
<tr>
<td>technology, 170</td>
<td>managerial skill, 170</td>
</tr>
<tr>
<td>wheat, 188</td>
<td>170</td>
</tr>
<tr>
<td>corn, 188</td>
<td>188</td>
</tr>
<tr>
<td>agricultural,</td>
<td>208</td>
</tr>
<tr>
<td>aggregate value of,</td>
<td>208</td>
</tr>
<tr>
<td>Farm Bureau Federation,</td>
<td></td>
</tr>
<tr>
<td>California, 69</td>
<td></td>
</tr>
<tr>
<td>program, 182, 186</td>
<td>people, 192</td>
</tr>
<tr>
<td>Farms,</td>
<td></td>
</tr>
<tr>
<td>numbers compared,</td>
<td>133</td>
</tr>
<tr>
<td>size of, 133, 244</td>
<td>fragmentation, 183-184</td>
</tr>
<tr>
<td>agglomeration,</td>
<td>192</td>
</tr>
<tr>
<td>too many, 215-216</td>
<td></td>
</tr>
</tbody>
</table>

©1963 Mimir Publishers, Inc.
SUBJECT INDEX

decrease in, 229
income, 243
migration from, 255, 257, 258
Fat, 206, 227
Federal Farm Board, 34, 59, 132, 199
Federal Reserve Board, 10, 238
Federal Trade Commission, 55
Feed grain, 177
program, 57, 59, 62, 108, 119, 135
exports of, 143-144, 156
council, 164, 192
Feeds, 22
Fertilizers and pesticides,
use of, 205, 236
Finland, 210
Flax, 110
Florida, 120, 177
Flour,
export, 199
Food and Agricultural Organization
(FAO), 197, 203, 204-205, 212, 225,
233, 235, 242, 257
founding of, 202
surplus disposal program, 205
publication of, 209
Food for Peace, 204, 241
Food Stamp Plan, 200
Foreign Agricultural Service,
report to, 163
Fortuna, VII
Four Freedoms, 207
France, 130, 149, 158, 159, 162, 175,
183, 204, 208, 209, 210, 219, 220, 247,
260
Free market,
government intervention in, 37
failure of, 38, 45, 51, 52
norm of, 44
alternative to, 45
limitations of, 45, 46
no literal meaning, 49
privileges of, 50
world, 53
Frozen foods, 85
Fulbright scholar, 226
Futures,
market, 22-23
potatoes, 82
voluntary risk bearers, 90
hedging in, 95, 102
exist for, 96
social invention of, 97
decline of, 99
organized market, 103
Liverpool, 109-110
Canada, 109-110
foreign buyers in, 260
Futures markets,
Canadian, 110
United States, 110
Liverpool, 110
India, 110, 111
Buenos Aires, 110
Malaya, 111
Germany, 111
Holland, 111
for burlap, 111
used by two kinds of people, 113
help hedgers, 117
opportunity for profit in, 117
fundamentals of, 117-118
interference with, 118
study of, 198
used by crushers, 259
Futures trading, 22-24
in citrus fruits, 84
characteristics favorable to, 84-85
market orders effect on, 87-88
"no cure-all," 89
identified with intense competition, 89
identified with expanding markets, 89
objective of, 97
market orders inimical to, 106
on basis, 217
G
General Agreement Trade and Tariff
(GATT), 147
Germany, 111, 130, 149, 156, 158, 159,
163, 208, 210, 219, 222, 227, 228, 230,
250, 255
Glass, 147
Government,
control programs, 14-15, 20, 25-28
as trader, 21
as part of market structure, 29
price support, 32
Free market intervention, 37
regulations, 37
current program a failure, 41
cartel, 41, 49
price support program, 50-51
intervention, 112
production controls, 198
loan rates, 198
deficiency payments, 198
tariffs, 198
import controls, 198
Grade standards, 31
top, 57
low, 57
off, 57

[269]
SUBJECT INDEX

Grapes, 66, 68, 69, 79, 102
   Tokay tonnage, 68-69
   price of, 69
Greasy Wool Exchange, 222
Greece, 136, 158, 209
Guatemala, 151

H

Hedge,
   corn, 60
   in futures, 95
   social purpose of, 95
Hedging,
   on the basis, 112
   cost of, 198
   price insurance, 198
   long the basis, 220
Hogs, 197, 199, 206
Holland, 111, 156, 159, 163, 219, 222, 223
Honduras, 151
Hong-Kong, 39
Hormel Company, 243

I

Imports, 132, 135-136
   soybeans, 138
   wheat, 140
   certificates, 160
   cash deposit, 160
   no restrictions, 177
   controls, 198
India, 205, 210, 240, 246, 250
Industry Clearing House, 68, 69
International Apple Shippers Association, 84
International Bank, 208
International Cooperation Administration, 203
International Wheat Agreement, 148, 201
Ireland, 188
Israel, 210, 246
Italy, 130, 136, 158, 185, 186, 219, 237, 257, 258, 260

J

Japan, 39, 153, 197, 210, 217, 221, 225, 246-247

K

Korea, 209
Korean War, 54, 204, 205, 207

L

Laissez-Faire,
   failed, 53, 54
   philosophy, 215
Lard, 117
Latin American Free Trade Association (LAFTA), 131, 151
Law of Supply and Demand, 93
   factors affecting, 197
   conditions of, 198
Law of comparative advantage, 224
Laws,
   antitrust, 14
   League of Nations, 228
Lemons, 78-79, 80, 81
Lettuce, 66
Livestock, 22
Loans,
   non-recourse, 24, 33
Luxembourg, 130

M

Market,
   forecasts, IX
   seminars, IX, 5
   structure, 3, 7, 21, 25-27, 35
   functions, 3, 6, 7
   behavior, 3, 9
   performance, 3, 9
   stages, 4, 5
   values, 4
   focus, 6
   scope, 6
   incentives, 6
   rewards, 6
   micro, 6, 8
   macro, 6
   institutions, 7
   news services, 7, 12
   transactions, 8
   inspectors, 10
   reporters, 10
   contracts, 10, 12
   licenses, 10
   rules, 11
   customs, 11
   franchises, 12
   dealerships, 12
   options, 12
   census, 12
   grades, 13
   orders, 16, 17
   power, 16, 42-44
   authority, 16
   restraints, 16
   blind, 37

[270]
SUBJECT INDEX

scarcity, 38
gluts, 38
competitive, 43
coffee, 44
control, 44
spot, 95
a coordinating device, 103, 113
buyer's, 186-187
analysis, 198
Marketing,
state, 4
classic concept of, 4
relationships, 5
flexibility of, 30
management of, 97
mismanagement of, 97
carrying charges, 114
cooperatives, 199
Marketing Act,
California, 70, 71, 72
Marketing agreements, 65-125, 201
defined, 71
licenses under, 71
Maine potatoes, 82
reduce price instability, 96
Marketing Board,
Canadian, 110, 123, 124
Australia, 123
France, 123
milk, 201
Market orders,
defined, 17
countervailing measure, 55
monopoly, 56
effects on futures markets, 65-125
objective of, 65, 73, 97
social invention, 66, 75, 97
voluntary sign-up, 67-68
number in effect, 70-71, 74
Federal, 71
initiation by referendum, 72-73
method of financing, 74-75
regulations similar to, 75
nation-wide, 83
unanswered questions, 83-84, 91
risk of price changes, 65, 86
two results of, 87
"no cure-all," 89
associated with production control, 89
associated with orderly marketing, 89
legalized cartel, 89
reduce price instability, 96
for basic crops, 98
for specialty crops, 106
conflict with futures trading, 106
produce information, 106-107
diversion of products, 107
limits volume of marketings, 121
features required for, 121
Markets,
environmental factors, X
defined, 3
government controlled, 4
inter-personal, 4
inter-firm, 4
historical development of, 5
regulated, 9
free, 11, 179
access to, 11
speculation, 40
freeing of, 41
shrinking, 93
no automatic rights, 170
Marshall Plan, 165, 203, 216, 224
Marshallian Cross, 103
Meats,
consumption of, 144
support prices, 211
European imports, 213
Medicare, 227
Mercantilism, 189
Mexico, 151
Milk, 21, 70
producers, 56
Federal order, 70
dried, 144
milk sheds, 201
support prices, 211
Minneapolis Grain Exchange, 190
Monet Plan, 204
Mutual Security, 129

N
National Association of Manufacturers (NAM), 228
Netherlands, 130, 209
Newcastle Disease, 184
New York Produce Exchange, 84
New Zealand, 141, 209, 240
Nicaragua, 151
Norway, 131, 210, 228, 256
Nyasaland, 210

O
Oats, 109-110, 120, 210
Quaker, 187
Office of Internal Audit and Inspection, 15, 31
Onions, 85, 86, 98, 105
Orange Growers Protective Union, 67
SUBJECT INDEX

Oranges, 79, 80, 81, 85, 98, 100, 101, 102, 177
O.P.A.
  ceiling prices, 30, 120
O.S.A., 54

P
Pakistan, 205, 210, 240, 246
Paraguay, 151
Peaches,
  abundance of, 66, 81
  “green drop,” 76, 77, 107, 108, 109
  cling, 100, 107, 108
Peru, 151
Point 4 Program, 203
Poland, 204
Pools,
  stabilization, 81
Portugal, 131, 150
Post War Aids, 129
Potatoes, 82, 84, 85, 98, 104, 105, 117, 119, 120, 161, 197, 200
Price
  freeze, 16
  supports, 18, 38, 135
  corn, 30, 85
  fair, 32, 51
  fixed, 33
  flat, 33
  direct control, 41
  instability of, 66
  elastic, 68
  inelastic, 68
  “lock gate,” 160
  studies, 198
  vertical movement, 217
Prices,
  administered, 52
  elastic, 68
  inelastic, 68
  parity, 76
  time as factor, 96
  spot, 97
  hidden, 119
  target, 135, 140, 159
  World decline, 199
  support, 246
Pricing,
  freedom of, 11
  affecting income, 104
Producers Marketing Law, 72
Product,
  differentiation, 10
Production,
  controls of, 18, 198
  elasticity of, 30
  regional specialization in, 119
  increasing food, 203
Programs, Agricultural,
  disposal, 18-19
  diversion, 18-19
  subsidy, 18-19
  food stamp, 20
  effect of, 25
  price support, 32
  New Deal, 200
Prunes, 100, 101
  production of, 101
Public Law 480, 19, 139, 205, 216, 219, 242

Q
Quaker Oats, 187

R
Republican Party, 31
Resources, economic
  allocation of, 37-38, 104, 253
  freezing, 58
Rhodesia, 210
Rice, 135, 177
Risk sharing,
  major methods of, 90
  extension of, 91
  cost of, 93
  primary function of, 105
  incidental to, 113
Rome,
  treaty of, 131, 155, 157, 162
Rubber, 111
Rumania, 61
Russia, 109, 149, 152, 161, 168, 220, 249
  communist dogma, 161
  potatoes in, 161
  shortage of fats, 161
  shortage of protein, 161
Rye, 110, 120, 159, 210
  bread, 161

S
Self-help Programs, 74
Seller,
  “most favored,” 7
Seminars, IX, 5
  futures trading, 5
Smith Act, 52
Smuggling, 40
Southern California Fruit Exchange, 67
Soybeans, 32, 38, 90, 91, 119, 135, 177, 178, 219
  oil, 137, 178
  import, 138
SUBJECT INDEX

export, 138

council, 164, 192

meal, 178

Spain, 158, 187-188, 209, 210, 256, 259

Speculation,

in commodity markets, 40

Speculators,

hope for gain, 95

interest in, 99

investment medium for, 113

complexities in trade for, 213-214

Spot markets, 95

Steel, 130

prices of, 208

Sugar, 21, 139, 213

Sunkist Growers Incorporated, 79

Sun Maid Raisin Growers Association,

79

Sun Sweet Prune and Apricot Growers

Association, 79, 107

Supply

agricultural products inelastic, 38
elastic, 38
pitchers, 60
nature of, 76
chronic, 80
excessive, 81
tinkering with, 93
management, 98, 99, 122, 125
response, 101
free, 119
control, 120

Supreme Court, 53

Sweden, 223, 131

Switzerland, 223, 239, 247, 131, 210

Tariffs,

reduction of, 131-132
Smoot-Hawley Act, 134, 136
barriers, 157
intra-community, 160
rates, 198
higher, 199
cutting down, 227

Thailand, 210

Tobacco, 46, 135, 136, 137, 177
exports, 138

Trade,

channels of, 12
negotiations, 145-146, 162-163
policies, 146
agreements act, 146
free, importance of, 165
blocks, 172, 173
yankee, 173
European block, 175

barriers to, 181, 192, 212

teams, 187, 188

international, 193

Trade Expansion Act, 163

Trade Practices,

elimination of unfair, 96

Transactions,

GIF, 217, 218

Turkeys, 73, 75, 91, 121, 122, 124, 125

U

United Kingdom, 131, 141, 142, 156,

162, 175, 176, 181, 197, 206, 208, 220,

222, 246

Farmers Union, 162

United Nations Relief and Rehabilitation

Administration, (UNRRA), 203

United States, 123, 134-135, 136, 141,

147, 148, 153, 156, 175, 177, 179, 180,

181, 191-192, 199, 206, 207, 208, 209,

210, 216, 220, 224, 227, 231, 233, 236,

237, 239, 240, 241, 246, 247, 248, 254,

256, 260, 261

national image of, 165

farmers, 145

USDA, 13, 14, 17, 31, 60, 72, 79, 101,

109, 133, 236, 245

Foreign Agricultural Service, 156

Uruguay, 151

V

Variably Levies, 158-159, 160, 176

Venezuela, 210

W

Walnuts, 78-79, 81, 100

Washington, D. C., 42, 145, 180, 218

Wealth,

distribution of, 48

Weights and measures, 31

Wheat, 38, 48, 51, 110, 119, 123, 124,

155, 139, 142, 156, 157, 177, 197, 199,

200, 237, 257

subsidy, 138

exports, 139, 141, 143, 144, 188

imports, 140-141

per capita consumption, 140

surpluses, 143

classes of, 143

flour, 137, 159

floor and ceiling prices, 159

groats, 159

meal, 159

bread, 161

blends of, 164

baking quality, 190, 191
<table>
<thead>
<tr>
<th>Subject</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>sedimentation test, acreage of, yield, price of</td>
<td>192, 197, 254</td>
</tr>
<tr>
<td>World Food Program</td>
<td>213, 239</td>
</tr>
<tr>
<td>World Health Organization</td>
<td>234</td>
</tr>
<tr>
<td>World Trade, aids to</td>
<td>132</td>
</tr>
<tr>
<td>World War I, 51, 129, 133, 148, 168, 197, 199</td>
<td></td>
</tr>
<tr>
<td>World War III, 54</td>
<td></td>
</tr>
<tr>
<td>Yacatecuhtli, VII</td>
<td></td>
</tr>
<tr>
<td>Yugoslavia, 204, 210, 249</td>
<td></td>
</tr>
</tbody>
</table>