

# Food Prices Headed Higher

(Editor's Note: The following article was prepared by A. P. Stemberger and K. R. Bennett, professors of agricultural economics at Penn State.)

In the past few months, the American consumer has realized that the price level for most commodities is high. He has been aware of rising prices since 1965 when our rate of inflation approached five percent per year. However, because incomes kept pace with rising prices, the consumer wasn't too concerned. Perhaps this lack of concern was partly due to the fact that during this period food prices rose relatively little and then partly because of built-in convenience and services. However, during the past two years food prices have also risen sharply. This rise in prices was brought to the attention of consumers dramatically by the sharp rise in red meat prices that occurred after December 1972. Sharp increases in beef and pork prices have focused consumer attention on food prices and led to April's week-long boycott of red meats in protest of these high prices.

#### Food Prices

##### A Sensitive Issue

Since 1950, retail food prices have risen by 76 percent and factory wages have increased by 176 percent. But in the past two years food prices and wages have

risen about the same amount—13 percent. The rise in food prices, however, was sporadic and occurred mostly in the last few months, while the rise in wages was slower and more persistent. Even though the American public spent only about 16 percent of its income for food in 1972, rising food prices have struck a sensitive spot in the consumers' minds and fostered a rebellious attitude toward further increases in food prices.

The United States is not the only nation with rising food prices; the phenomenon is worldwide. In most nations of the world, where food purchases take a much higher proportion of consumers' incomes, food prices have been rising rapidly in recent years. In Chile, for example, food prices rose 24.3 percent last year; in Ireland, 11.3 percent; in the United Kingdom, 7.4 percent. By comparison, food prices in the U. S. rose only 4.3 percent during 1972.

#### Prosperity Propels Food Prices

What lies behind our rising food prices, both in the U.S. and the rest of the world? As people's incomes increase, they increase their consumption of high-protein foods, such as meat, and decrease consumption of fats and carbohydrates. Incomes are increasing generally throughout

the world. Europe and Japan are enjoying a prosperity higher than they have ever had—as is the United States. In our country, increased incomes have been accompanied by increasing consumption of red meat—principally beef. In 1950, per capita consumption of beef was 63 pounds, while in 1972, it was approximately 115 pounds. Similarly, demand for red meat has increased in other countries where rising incomes enable people to consume larger quantities than they have ever before been able to afford.

While demand for red meats has been increasing, worldwide supplies have been unable to keep up with the increased demand. In 1972 the U. S. produced 136 percent more beef and 25 percent more pork than in 1950 and our society could consume even more. But since 1968 a new factor has arrived on the scene—more meat demanded by a world which has high enough income to complete either directly or indirectly with American consumers for available supplies.

#### Pressure On World Grain Situation

Production of preferred high-protein foods such as meat, milk, and eggs requires feed grains and high protein supplements such as soybean meal. Throughout most of the world where they are grown, grains such as wheat, corn, oats, and barley are

required for human consumption and very little is available for production of livestock and livestock products. Only the United States has the quantities of corn, other feed grains, and soybeans necessary to support a large livestock industry and have some left over. Foreign nations, eager to upgrade their diets by addition of high-protein foods, must either import livestock products directly or buy the grains necessary for livestock production at home. In some cases, poor domestic grain harvests have forced nations to import grains to feed their people—in addition to building a livestock industry. The nation where most such grains are available is the U.S.

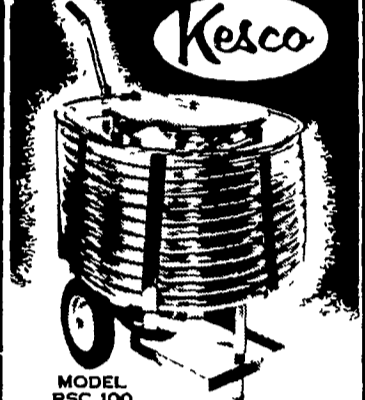
When a foreign nation buys wheat, soybeans, or corn in the U.S., supplies are decreased and prices rise. Costs of producing livestock products also rise as grain prices rise and, unless prices of meat animals also rise, producers lose their incentive to produce. If society wants increased supplies of meat, it must pay prices high enough to encourage production—essentially our society is bidding for supplies against foreign consumers. We can expect continued competition for food products from foreign consumers. Even though American farmers continue to produce record-breaking crops, this is no guarantee that food

prices will fall, except seasonally when available supplies temporarily exceed current consumption. Demand for our farm products from foreign nations may increase more rapidly than does our production. If this should happen, there will continue to be an upward pull on food prices.

#### Inflation—A Basic Culprit

The basic culprit in rising prices is the inflation now existing throughout the free world—and in some non-free countries as well. This stems from the aggregate of the monetary policies of nations. These policies have overwhelmingly favored high levels of spending by governments with deficit budgets and the creation

(Continued On Page 31)



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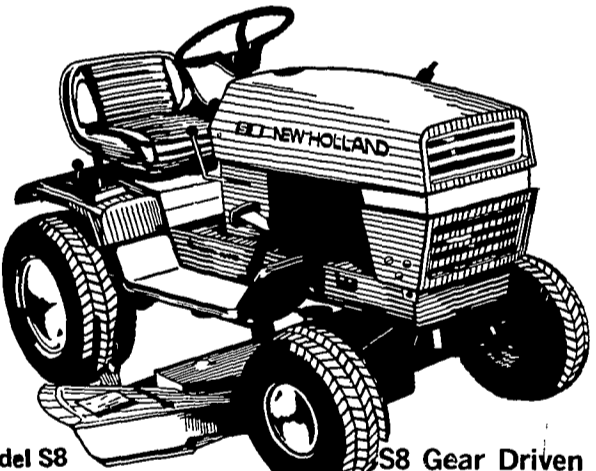
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