Commentary on "The Challenge in Building Market Demand"

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Dr. **Hathaway** has given a thoughtful and thorough presentation on the subject of building market demand. I find myself in basic agreement with the tenor of his presentation.

Dr. Hathaway's paper reminds us that we need to go back to the basics. He reminds us that the problems of U.S. agriculture in the **1980s** are not the result of our domestic agricultural programs. The 1981 agricultural bill was not all that much different from those in the 1970s. And the problems are not the result of unfair competition, which really did not change that much in a decade. Most of our problems can be traced to unusual events in the 1970s that led to considerable disruption of normal markets. The oil shocks of 1973 and 1978, the unusual weather patterns and droughts in key production areas during the **1970s,** the extension of unusually liberal loans to emerging markets that temporarily spurred demand, our failure to deal with escalating inflation at home, and our low and even negative real interest rates all played a part in making commodity markets in the 1970s very volatile and, in general, unsustainably optimistic. And although this forum deals primarily with international problems, I believe the agricultural problems of the 1980s also have domestic origins as well and I will return to that topic later.

The oil shocks drained liquidity from the Free World and especially the developing countries, leading to excessive bank loans, recycling as it was called. Eventually, this led to some of om customers spending part of their available income for debt servicing rather than for the purchase of grains and' oil seeds. Defensively, some of our customers sought to produce more of their own grains and oil seeds in an effort to reduce their imports. In this environment, the transfer of production technology was greatly accelerated, contributing to increased local production in some countries.

Since some, perhaps most, of the causes of our agricultural problems of the 1980s lie outside of agriculture, it is likely that some of the solutions do also. A more balanced federal budget, lower real interest rates, and less volatile financial markets would help.

We have seen how, despite a seemingly generous 1981 agricultural bill with considerably higher target prices and loan rates, that in the succeeding four years, real commodity prices collapsed, incomes of farmers from commercial markets fell, and land prices plummeted—all that despite the infusion of several tens of billions of public dollars into agriculture. The economics overwhelmed the politics. What happened in the world and domestic markets overwhelmed what happened in Washington. We need to get back to the basics—the expansion of markets based on the customer's productivity and ability to buy—and to our ability to produce efficiently at low cost.

That does not mean we should not try to change agricultural policy or change and improve agricultural programs. But we should realize by now that these programs will not always prevent problems. I have developed considerable respect for the markets. To paraphrase Dr. Hathaway's last sentence, "We have met the markets and they are bigger than any of us."

I congratulate Dr. Hathaway for his emphasis on markets and marketing. I have spent nearly 40 professional years in the meat industry and have lived and managed through an era of rapidly expanding domestic markets for red meats and more recently an era of contracting markets. And I can assure you, many of Dr. Hathaway's statements rang loud bells. For example, in his conclusion, he states, "We have focused our attention on the competition and have paid almost no attention to the problems of market growth, but as almost any business can tell you, when markets are shriveling and overcapacity is growing, things are tough?

Dr. Hathaway may have been discussing the export markets of the U.S. agricultural sector when he penned those lines, but he could have been analyzing the U.S. domestic red meat industry. From the time I started with Oscar Mayer in 1946, I saw the demand for red meat expand more rapidly than population until the early 1970s. Then, for many reasons that we do not have the time to discuss here, the demand for red meat slowed during the 1970s, and, since about 1979 has been in full retreat.

Although this conference and Dr. Hathaway's paper are concerned with international trade and international markets, I believe the rapid decline in U.S. domestic meat demand that we have experienced, especially since 1979, is a much larger part of agricultural income problems here in the 1980s than is generally recognized and deserves some comment here. From 1979 to 1984, while personal disposable income rose 49 percent, spending for all meat at retail increased only 11 percent, and spending for beef and pork rose less than 8 percent. In only five years, spending for beef, pork, broilers, and turkeys fell from 4.23 percent of disposable income to just 3.15 percent. For the first half of 1985 it was 2.97 percent. To show the magnitude of that six year decline, if that downward trend of 1.26 percentage points in six years were to continue, there would be no spending for meat by the year 2000.

The real demand for beef and pork at retail has fallen about 20 percent since 1979. On a per capita basis, it has fallen about 25 percent in that time. Most of the demand collapse has been exhibited in much lower real retail prices. This kind of demand decline is unprecedented in our industry since the 1930s.

And I can assure you it has had an effect on our industry. Real sales in the red meat industry declined 30 percent from 1973 to 1984—and 24 percent in just five years from 1979 to 1984. Real net earnings of red meat packers and processors fell exactly 50 percent from its all-time high in 1971 to 1981, and 41 percent from 1979 to the low so far in the 1980s. The real net worth of all red meat packers and processors fell 42 percent from its peak in 1973, and in 1984 was lower than at its lowest level of the 1930s.

However bad this decline has been on meat packers, it has been as bad or worse on agriculture, particularly the agriculture of the upper Midwest. From 1979 to 1984, the gross income derived from cattle, calves, hogs, sheep, and lambs fell from $45.5 billion to $41.4 billion. In real terms, it fell 33 percent in those five years—to the lowest level since 1965. In my career, I saw gross income from these animals rise from less than $31 billion (in 1984 dollars) in 1956 to over $65 billion in 1973 and back to $41 billion in 1984. And it is likely to be lower again in 1985. These tremendous changes in gross income from meat animals were largely the result of first increases, then decreases in the demand for meat in the market.

The sluggishness in the domestic demand for meat in the latter 1970s was overshadowed completely by the .rapid expansion in export markets for agriculture described by Dr. Hathaway. But when both the export and the domestic markets collapsed in the 1980s, the agricultural sector, now in a much more leveraged financial position, has come on very difficult times.

It seems that Dr. Hathaway is reminding us that we must look at the importance of the market, that good markets must be built first on real income and productivity of the purchaser and not on increased debt of the latter alone. In addition, there are going to be other competitors, other suppliers, other sellers in any reasonably open market. He reminds us that the international market is far more complicated than the domestic market. The international market is subject to many political considerations, foreign currency fluctuations, global weather variations, and changes in productivity and technology that have an impact on supply. There are also the various demand trends in all the many countries that make up the international market. It is a very complex mechanism.

We are reminded that the type of diet is very important to the total demand for grains and protein crops. With a subsistence grain diet, something like 400 to 500 pounds of grain is needed per person per year. As one's diet changes to include the consumption of animal and poultry products, such as eggs, milk, cheese, and meat, the use of up to 1,500 to 2,000 pounds of grain is needed per person per year to provide the diets that are common in the United States, Canada, much of northern Europe, and the USSR. Typically and historically, these diets are attained only in higher income, developed countries. Thus, we are reminded that it is not just populations that make markets, it is also the ability to buy and the desire to buy. The development of international markets must begin with the development of sound producing economies. And as Dr. Hathaway correctly points out, a more complex and expensive infrastructure is needed to support the use and demand for perishable animal and poultry based products than is required for a grain based diet.

The process of building more productive economies that increase consumer demand generally also involves processes that allow and perhaps encourage the agricultural producing sectors in those same countries also to become more efficient and productive. Thus, formidable competition for the U.S. producer is developed and the growing foreign market may not always yield a new and enhanced outlet for U.S. agricultural production. Sometimes, we may be discouraged that we may assist in building and rebuilding economies only to see them become stronger competitors rather than stronger customers. Such a circumstance must be considered a success for humanity, even if it cannot be considered a commercial success.

It is possibly outside the scope of Dr. Hathaway's paper to comment on the role of population growth rates on building market demand. I do not know what an optimum population growth is for an underdeveloped or a newly developing country. However, it appears that excessive population growth in parts of the world is inhibiting the pace at which some countries can increase their productivity and real income and thereby become consumers of a significant amount of animal and poultry products and therefore significant consumers of U.S. grain exports.

I suspect that some basics applicable in our domestic businesses are also necessary to enhance and build our export markets. We have to be a reliable source with consistent quality products year in and year out. I believe that we have the agricultural productive capacity, the transportation, storage, and financial institutions to compete with any other country in this regard. We have to know our customers and consumers, how to do business in international markets, and when price reductions will help make a sale and when they will not.

Like it or not, at this time in history, the U.S. agricultural production machine is capable of producing much more grain and protein crops than the United States can consume internally. Recent trends toward weaker domestic meat demand only magnify this fact. The momentum of changing from red meat consumption to white meat consumption adds to the excess capacity problem. It takes about half as many acres of grain to produce a given amount of poultry meat as it does to produce an equal amount of choice grade beef and pork.

Thus, we have to look outside our borders for customers. Dr. Hathaway reminds us how much we need these markets—how important they are to our agricultural sector. It is back to the basics—get our production capability and cost structure to the point of efficiency where we can compete effectively in the world market—and find and develop the markets with merchandising skill that is second to none.