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Two Worlds of Prices

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NEW 6/82
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Two Worlds of Prices is one of a series of pamphlets intended to provide Indiana's citizens with information about the agricultural food production, processing and marketing system which supplies our huge variety of safe and nutritious food on a daily basis.

Source of data: U.S. Dept. of Agriculture statistics.

ABOUT FARMS & FARMING

EC-584

New
Adm
Cost
Yes

TWO WORLDS OF PRICES

by R. L. Kohls, Department of Agricultural Economics



**PURDUE UNIVERSITY • COOPERATIVE EXTENSION SERVICE
AGRICULTURAL EXPERIMENT STATION • SCHOOL OF AGRICULTURE
WEST LAFAYETTE, INDIANA 47907**

"Corn prices slide as a large crop depresses the market. Farmers face another poor income year."

"Automobile manufacturers raise prices on new autos, blaming increased manufacturing costs. Auto sales hit lowest levels in two decades. Unemployment increases as plants cut back production. Major auto manufacturers post heavy operating losses."

Such headlines have appeared many times during the past several months. They illustrate the difference in pricing and operational behaviors between the market worlds of farming and industry.

The following table shows the annual percentage price change during the 1970s for two agricultural products important to Hoosier farmers: corn and hogs. It also shows the changes in selected manufactured products that are major cost items for farmers. (Data have been rounded to nearest whole percent.)

Year	Corn	Hogs	Autos/ trucks	Tractors, self-propelled machinery	Building materials
1970	15	2	6	5	0
1971	-19	-23	10	5	7
1972	45	43	4	5	8
1973	62	53	6	7	12
1974	18	-11	11	17	23
1975	-16	35	19	21	14
1976	-15	-6	11	11	4
1977	-6	-9	10	9	7
1978	11	18	6	9	8
1979	12	-10	10	11	1
1980	30	-9	6	12	17

The price behaviors of agriculture and industry are different! Corn and hog prices fluctuate substantially from year to year as the market adjusts to supply. The prices of autos, farm machinery and building materials have risen by varying amounts each year as manufacturers struggled to cover rising costs.

This past decade was subject to continuous inflationary pressures. How did these pressures influence price performance? Here are percentage increases that occurred between the average prices for 1970-72 and those of 1978-80:

Corn	101
Hogs	94
Autos/trucks	109
Tractors, self-propelled machinery	138
Building materials	116

Price levels between the beginning of the 1970s and the end of the decade increased for all these products. However, prices of the products of the industrial sector increased more than for those of the agricultural sector. It took more bushels of corn to buy a tractor; more hogs to build a hog house.

It has been a bitter observation of farmers that they must take what the market offers them for their products but pay the prices manufacturers set for their items. It does appear that the industrial world has more ability to offset inflationary cost pressures than does the agricultural world.

However, this is an incomplete story. Unpredictable weather changes crop production; livestock expansion or contraction takes time. Both grain and livestock essentially must be moved into use once they are produced. Industrial production can be adjusted upward or downward quite rapidly. A fundamental economic rule, however, applies to both. You can set prices, but you cannot force people to buy at those prices. You can sell different quantities, but you cannot force people to pay a fixed price for them. You can bargain for a fixed wage rate, but you cannot force people to hire you.

There is no doubt that in inflationary times this difference in the price behavior of farm production cost items compared to farm product prices makes agricultural net incomes more unstable. This price behavior also is not serving industry well. Several major manufacturers are awash in red ink as their products are not selling. Workers must also face up to the fact that if they insist on fixed high wages, fewer may find jobs.

More cost and price flexibility in response to changing market conditions would be advantageous to business, farmers and workers. However, lacking this, bringing inflationary pressures under control offers farmers the most relief.