

**AUTHOR'S NOTE**

In the 1960s, potatoes were a significant feature of politics in Maine. The plight of potato producers got to be associated with the potato futures markets. Politicians won, and lost, elections on the basis of who could most effectively beat up on potato futures. Several bills to ban futures trading in potatoes were introduced, and I got an invitation to address the subject. It presented an opportunity to revisit the onion legislation debacle of 1958 and, at the same time, brag about the superiority of midwest agricultural knowledge of futures.

It was a somewhat harrowing experience. There was a substantial audience of irate potato farmers behind me as I faced the Congressmen on the dais. In my mind's eye, they were armed with spears that might be unleashed at any time. Fortunately, none were, but I left the room as soon as possible.

## STATEMENT TO THE DOMESTIC MARKETING AND CONSUMER RELATIONS SUBCOMMITTEE OF THE HOUSE AGRICULTURE COMMITTEE

*March 16, 1972*

My name is T. A. Hieronymus. I am a professor of agricultural economics at the University of Illinois. I have been employed there since 1946. Much of my time has been spent in teaching and research in commodity futures trading. My writings on the subject are fairly voluminous. I appear here today in opposition to H.R. 7287, a bill to ban futures trading in potatoes.

CHAPTER 29

The central point to which I want to go is that there is no case to be made in opposition to potato futures trading that is any different than can be made against futures trading in any or all other commodities, and that I suspect that much of the hue and cry against potato futures trading is related to unsatisfactory speculation on the part of growers and shippers. The market has been a useful pricing tool for growers and shippers who have used it properly in connection with their business. I suspect that their speculative experiences in cash potatoes and potato futures have been less satisfactory and that here lies some of the root of disgruntlement.

I have been this way before. I did quite a lot of work on the onion futures market before appearing before a congressional committee in the spring of 1957 in opposition to a bill to ban futures trading in onions. I repeated the process before appearing before the Senate Committee on Agriculture and Forestry in 1958. I subsequently spent quite a lot of time assisting with legal proceedings to test the constitutionality of the onion futures ban. The onion futures market was an institution that contributed to marketing and pricing efficiency and benefited onion growers.

Prior to the trading of onion futures in volume, dealers bought onions at harvest at substantially reduced prices—at prices low enough to make them willing to assume the attendant risks of ownership. Prices regularly increased during the storage season by more than the cost of storage to the disadvantage of the growers. During the period of active futures trading, the dealers hedged and speculators bid prices high enough at harvest that the seasonal increase in price above the cost of storage disappeared. Speculators, as is true in other markets, assumed the risks of price changes at no cost to the market and to the benefit of the growers. In the years immediately following the demise of futures trading, the dealers went back to buying at reduced harvest prices. They could do so because the competition of speculators was no longer present. They needed to do so because they could not afford to carry the risks of ownership at higher prices.

The banning of futures trading in onions clearly worked to the disadvantage of the growers. It did not greatly disadvantage the dealers, who simply went back to their old ways—one suspects, more profitable old ways. The Chicago Mercantile Exchange was temporarily disadvantaged, but it soon developed in new directions and has since expanded and prospered almost sensationally. The onion speculators went elsewhere and traded in other commodities. It was no big deal except to marketing efficiency and those people whose businesses were directly related to the actual onion production and trade.

In the year of the greatest debacle and the generation of the greatest negative hue and cry, the price of onions was quite high in the fall during harvest. Large hedges were placed in the market, and hedgers were net short by a wide margin. Behind these hedges were large sales of actual onions by growers, some for spot delivery and some in storage for deferred delivery. Opposite the hedgers were the speculators who were net long by a wide margin. The price of onion futures declined drastically, held steady for a time, and finally completely collapsed at the end of the season when the new crop in Texas came in early. The growers who sold early received excellent prices. Those whose market judgment told them to hold did not do so well. They were understandably frustrated and lashed out at the most convenient whipping boy, the futures market. The simple fact was that there were too many onions, and the price went where it inevitably had to go. The speculators, as a group, lost heavily. When I looked at who the speculators were as the occupational identity of traders was revealed in a market survey made by the Commodity Exchange Authority, I found the single largest occupational group of long speculators were onion growers. Onion growers, as such, sold at advantageous prices. Onion growers, as speculators, fared poorly indeed. I strongly suspected then, and continue to think now, that much of the opposition to onion futures trading arose out of unhappy speculative experience on the part of onion growers.

In this connection, I note with interest from the CEA market survey of November 27, 1970 that there were 247 members of the potato industry who were identified as speculators, who were net long by a substantial margin, and that there were 163 members of the potato industry identified as hedgers, who were net short by a comparable margin. I note comparable patterns in the surveys made on October 29, 1965, and on October 27, 1961. It is typical of every survey result that I have looked at.

The economic difficulties of Maine potato producers have been well documented in these hearings. They arise out of increased potato production in other regions and the highly inelastic demand for potatoes. They are lamentable, but they can in no way be ascribed to the existence of a potato futures market, or to speculation in potato prices. Nor would they be alleviated if futures trading were to be eliminated.

It appears to me that the long campaign against futures trading in potatoes is the result of four things: (1) general frustration arising out of an unfavorable economic position; (2) frustration resulting from having timed the sales of cash potatoes poorly; that is, having speculated poorly in cash potatoes; (3) unhappy speculative experiences in futures losing speculators are notorious alibiers and misuse of futures in connecting with growing and shipping operations; and (4) misunderstanding of the operation of futures markets.

I do not doubt the sincerity of the people who are testifying in support of the bill, nor do I suggest that any of them are losing speculators in futures. Rather, I am looking for the root of the support. The kind of thing that I am describing is like that which I have observed in many years of teaching the role and use of futures markets to farmers, interior merchants, and bankers. I am pleased to report that a great deal of progress has been made in developing an understanding of futures markets in the agribusiness community of the Midwest. Each year, more farmers and marketing firms make effective use of futures as management tools, and I hear less and less blaming of futures trading for price problems. In twenty-five years, I have seen the attitude of the agricultural community toward futures change from predominantly negative to predominantly positive.

I think that, as in grains and livestock, an active and expanded futures market in potatoes can be a useful instrument in restructuring the potato industry to a more profitable level. The potato futures market is a useful forward pricing and hedging medium for growers, shippers, merchants, and processors that has been well documented in these hearings, and I will not restate the case. I particularly commend the statement of Mr. Caldwell of the CEA. The point that I would like to make is that speculative markets, if used extensively by the industry concerned, particularly producers, are useful in readjusting production to profitable levels.

Speculators are in the business of anticipating events to come and discounting their impacts into forward prices. They put money at hazard in guaranteeing those forward prices. If producers contract their services forward when futures prices are at profitable levels and decrease production when futures prices are not at profitable levels, production is adjusted to amounts that speculators, in the aggregate, judge to be appropriate. If the speculators are right, they may make money, and if they are wrong, they lose. The profit-loss results of speculation tend to improve its quality and, thus, its effectiveness in guiding production to appropriate levels.

Producers of commodities that are actively traded on futures markets need never produce at unprofitable prices. As futures prices are at profitable levels, they can contract their services forward, and as they are at unprofitable levels, they can

refuse to produce until prices rise appropriately. If they go ahead and produce when forward prices are below profitable levels in the hope that prices will rise, they have only themselves to blame if they lose money.

My suggestion to potato growers is: rather than blame futures markets for their competitive problems, they should make effective use of the markets.

I thank you very much for the opportunity to be heard.

