THE MACROECONOMIC LINKAGES TO U.S. AGRICULTURE

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The Macroeconomic Linkages of Globalization to U.S. Agriculture

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INTRODUCTION

- A “devil’s deal” between the United States and China

- Both countries distorting international financial markets

- The U.S.: Large budget deficits
- China: Undervaluing its currency – the Yuan

- Consequences of these distortions:
  - A strong Euro
  - A strong dollar
  - Low interest rates in the U.S.
Introduction (continued)

- Elements of a “devil’s deal”:
  - Both countries dependent on the distortions of the others
  - In effect, China lends money to the U.S. to purchase China’s goods and services
DISTORTIONS TO TRADE

- U.S. producers are flooded with cheap imports

- U.S. exporters suffer from weaker demand
FURTHER CONSEQUENCES OF ADJUSTMENT

- Higher interest rates
- Potential for serious recession
- But trade adjustments and capital flows could alleviate
OVERVIEW OF REMAINING REMARKS

- Components of globalization
- Driving forces behind globalization
- Some significant macroeconomic linkages
- Concluding comments
SIGNIFICANT COMPONENTS OF GLOBALIZATION

- Current wave of globalization is not unique

- Better to think in terms of economic integration than in terms of globalization

- Key components:
  - Growth in international trade relative to global GDP
  - Emergence of a huge international financial market
  - The shift from Bretton Woods fixed exchange rate system to flexible exchange rates
SOURCES OF INCREASED ECONOMIC INTEGRATION

Three technological revolutions:

- In the transportation sector
- In the communications sector
- In information technology

Consequences:

- Dramatic reduction in transactions costs
- Increased scope of markets
EMERGING MACROECONOMIC LINKAGES

- The world on a dollar standard as its monetary unit, with U.S. Federal Reserve the central banker for the world
  - Causes the dollar to be stronger than it would otherwise be
  - Discriminates against U.S. trade sectors
Emerging Macroeconomic Linkages (continued)

- U.S. attempts to stabilize or offset shocks tend to create instability in commodity markets

- Linkages in financial markets

- Monetary and fiscal policy now important for understanding outlook and international competitiveness
CONCLUDING COMMENTS

- The importance of macroeconomic policy
- Competitiveness now much more than productivity
- Distortions in currency markets are equivalent to taxes and subsidies on exports and imports