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Some Insights Into The Grain Export Controversy

Introduction

U. S. grain exports have been a controversial public issue the past 3 years. Controversy involving producers, consumers, and labor has become especially prominent this fall.

This is a stark contrast to the '50's and '60's when agricultural surpluses abounded and most Americans agreed the nation should export more grain.

How important have been—and are—grain exports to U. S. producers? What is the potential role of American exports in agricultural and food policy in the post-1972 era? Could some government policies reconcile the interests of American producers and consumers?

In this issue of *Minnesota Agricultural Economist*, we* offer some insights into the grain export controversy.

Historical perspective

American grain farmers depend greatly upon the export market. This is because they produce far more than our domestic needs require. Foreign markets have always been important to U.S. farmers, but their

importance has increased substantially in recent years. The export demand has increased more rapidly than has domestic demand. Grain prices have risen as a result, and farmers have responded by producing record crops of wheat, feed grains, and soybeans. With larger crops and larger percentages of those crops being sold abroad, U.S. farmers are more dependent upon the export market now than in past years.

In the 1950's, U.S. wheat exports averaged 390 million bushels per year—36 percent of our average annual production. By the 1960's, exports had risen to an annual average of 713 million bushels—54 percent of our wheat production. During the past 3 crop years (1972/73 through 1974/75), our wheat exports have averaged over 1.1 billion bushels per year—67 percent of annual wheat production.

The growth in corn exports has been even more dramatic. In the 1950's, U.S. corn exports averaged only 152 million bushels yearly—5 percent of annual production. In the 1960's, corn exports averaged 516 million bushels per year—13 percent of production. In the last 3 crop years, however, corn exports averaged 1.2 billion bushels per year—23 percent of U.S. corn production.

Soybean exports averaged 67 million bushels per year in the 1950's

—17 percent of domestic production. By the 1960's, they had risen to an annual average of 236 million bushels—29 percent of our production. In the last 3 crop years, soybean exports have averaged 473 million bushels per year—35 percent of U.S. production.

The growth in dollar value of U.S. agricultural exports has been even more spectacular. In the latter half of the 1960's, agricultural exports were relatively constant at slightly over \$6 billion each year. In 1970 and 1971, they rose to over \$7 billion each year. However, the big jump occurred between 1972 and 1973 when exports nearly doubled—from \$9.4 billion to \$17.7 billion. In 1974, they reached the all-time high of \$22 billion.

U.S. agricultural imports also increased during this period, but not as fast as did exports. Hence, the positive trade balance in the agricultural sector has increased substantially. The agricultural trade balance was a positive \$2.9 billion in 1972, a positive \$9.3 billion in 1973, and a positive \$11.7 billion in 1974. In each of these 3 years, the trade balance in the nonagricultural sector was in deficit, largely because of increased petroleum imports. In 1974, the trade balance in the nonagricultural sector was a record negative \$14.7 billion. The positive trade balance in the agricultural sector reduced this to a nega-

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tive \$3 billion total. Hence, agricultural exports contribute greatly to the U.S. balance of payments. They help maintain a strong dollar in relation to other currencies and hold down the value of our imports.

Export availabilities, 1975-76

Carryover stocks of wheat and soybeans were larger at the start of the 1975-76 crop year, but corn stocks were smaller than in the previous year. American farmers are expected to produce record crops in 1975, and considerable quantities will be available for export.

Table 1 shows the expected 1975 production and projected domestic use of wheat, corn, and soybeans for 1975-76. Subtracting domestic use from production gives the amount available for export (assuming no major changes in grain prices and no change in amounts of carryover stocks). Thus, over 1.3 billion bushels of wheat, over 1.5 billion bushels of corn, and over 600 million bushels of soybeans would be available for export. If smaller quantities are exported, carryover stocks next year would likely increase, causing downward pressure on farm prices. If larger quantities are exported, farm prices would increase because of reduced carryover stocks which are already relatively low.

But farm prices for grain also affect food prices paid by con-

Table 1. Carryover, indicated 1975 production of wheat, corn, and soybeans, projected domestic use 1975-76, and amount available for export

	Carryover from 1974 crop	Indicated U.S. production Sept 1, 1975	Projected domestic use 1975-76	Amount available for export with constant carryover
	(Million bushels)			
Wheat	319	2,136	797	1,339
Corn	335	5,687	4,115	1,572
Soybeans	220	1,442	828	614

Source: Economic Research Service, Crop and Livestock Reporting Service, U.S. Department of Agriculture.

sumers, so this sets the stage for many crucial policy issues. They center around how much grain we should export and to what extent we should insulate our domestic consumers from the world market. World grain prices have been strong and rising, reflecting narrow supply and demand balances.

What are some reasons for the narrow world supply and demand balances and the resultant increase in foreign demand for American exports?

Reasons for recent trends in agricultural exports

The reasons for the phenomenal growth in agricultural exports are numerous, but they can be grouped into these categories: rapid economic growth in several foreign countries; important policy changes

involving the USSR and the People's Republic of China (PRC); poor weather; a slowdown in the growth rate of agricultural production in several countries; rapid population growth in most less developed countries; devaluation of the U.S. dollar; and changes in animal feeding technology that emphasize use of high-energy feeds. All these forces have increased the demand for U.S. agricultural products. The volume and value of agricultural exports have increased dramatically, particularly for wheat, feed grains, and soybeans and soybean products.

Most industrial countries have experienced rapid economic growth in recent years. So, too, have several developing countries. The higher incomes in these countries have increased the demand for livestock products and, consequently, for grains and soybeans and soybean products. Table 2 illustrates the effect of rapid economic growth in several countries on U.S. agricultural exports between 1970 and 1974.

In addition, major policy changes regarding the USSR and the PRC have boosted U.S. agricultural exports. The USSR decided to stabilize and increase livestock production to meet growing domestic demands. Because of its highly variable grain production, the USSR must now periodically buy sizeable quantities of grains and oilseeds on world markets. The opening of diplomatic relations with the PRC has created a large market for U.S. farm products. The significance of both of these developments is also indicated in table 2.

Poor weather has played an important role in increased quantity

Figure 1. Corn, soybean, and wheat exports as a percentage of total production, average for 1950's, 1960's, and 3 years 1972-73—1974-75.

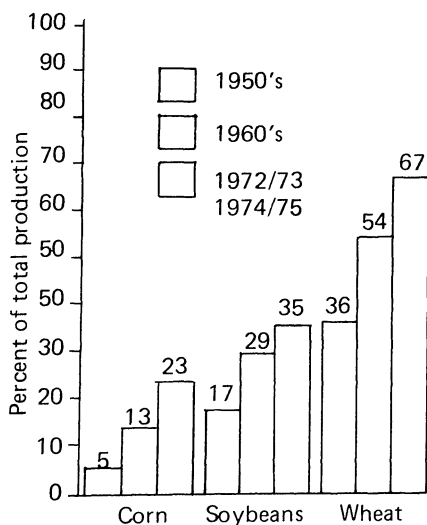


Figure 2. Average annual volume of corn, soybean, and wheat exports, 1950's, 1960's, and 3 years 1972-73—1974-75.

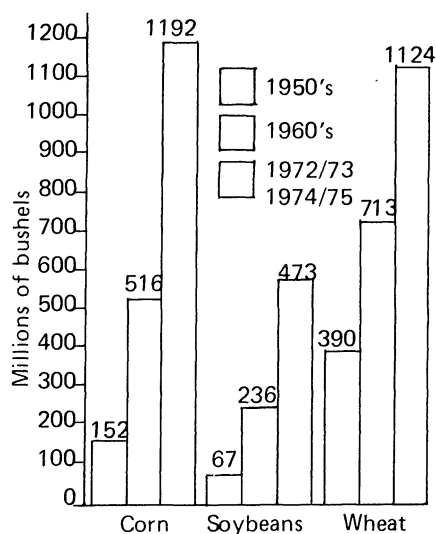


Table 2. Value of U.S. agricultural exports to selected countries, 1971 and 1974

Country	1971	1974
	Million dollars	
Japan	1,216	3,356
South Korea	303	660
Taiwan	168	518
Mexico	131	610
Brazil	87	369
EEC-6	1,766	4,470
USSR	51	514
PRC	0	852

of U.S. agricultural exports in recent years. Poor crops in the USSR in 1972 and 1975 are examples. Others include the poor crops in South Asia in 1972 and 1973 and the long drought in Sahelian Africa. Poor U.S. grain crops in 1974 helped maintain a tight world supply and high prices.

In addition, the growth rate of agricultural production slowed significantly in some parts of the world as the benefits of the "green revolution" were exploited. This was particularly true in Asia where new wheat and rice varieties boosted production substantially in the late 1960's. Recent production growth has been much more moderate.

Population continues to grow rapidly in most less developed countries. Increased populations, together with growing incomes in the same countries, add significantly to food demand. Food imports have increased to the extent that production in the less developed countries has not kept pace with increasing demand.

Devaluations of the U.S. dollar made U.S. products cheaper on world markets relative to those from countries which didn't devalue their currency. Therefore the competitive position of the United States was improved relative to other major exporters of food and fiber.

Finally, important changes have occurred in animal feeding technology. Use of high-energy feeds are being emphasized. These changes have added strength to the demand for high-protein meals, particularly soybean meal and feed grains.

All these forces have created an export boom for U.S. agricultural products. They have also dramatically raised the price of food here and in world markets.

Exports and domestic prices

Changes in the level of farm exports from year to year are only one of many factors that can change farm prices. Foreigners want U.S. wheat, corn, soybeans, and other commodities. Their desire and ability to pay for these commodities determine part of the total demand faced by U.S. farmers. Foreign buyers, in a sense, compete with domestic buyers for available supplies. Under traditional U.S. trade policy, foreigners and domestic users compete under virtually the same ground rules. The importance of a few huge multinational marketing firms in buying, selling, and merchandising grains—both domestically and overseas—may obscure this point, but it is valid, nonetheless.

Changed foreign demand for U.S. grain and oilseed generally affects prices about the same as would a similar change in domestic demand. But since changes in the foreign market are likely to be more rapid and less predictable than are domestic demand changes, their price-changing effects are highlighted in the press and in the market place. For example, consider the impact of a sudden increase in foreign grain dealers' demand for U.S. corn. Through the complex structure of the international grain market, these orders flow to traders and firms with access to U.S. supplies. At this time (or even beforehand, if the highly organized information systems—both public and private—are working), traders will attempt to obtain enough extra stocks to meet this new demand. Depending upon the timing and delivery details of the orders, traders will attempt to purchase actual grain stocks, contracts for future delivery, or some of both.

Since supplies cannot be increased within a given crop year, the new orders will have a price-enhancing effect. More buyers try to obtain part of an essentially unchanging supply. If the market has few or no inventories available beyond purely "working" or "pipeline" stocks, then cash and futures prices will increase for the grains in export demand. This lack of stocks characterizes today's grain markets throughout the world. Through the economic processes of substitution and arbitrage, prices of other grains and related commodities will also tend to increase, at least a little bit.

Shortrun wholesale price increases may be passed along to retail prices in at least three ways. The simplest

is directly through the process of cost increase. Products for which the basic farm commodity represents a fairly large part of the final value may show a rather quick response to wholesale price increases. The competition for and shortage of the raw material results in product shortages and price jumps which may be quickly passed along. In other cases, the shortrun process may be more subtle and indirect. In these days of chronic across-the-board inflation, producers and sellers of food products are continually facing increased costs of labor, transportation, energy, packaging materials, and so on. These cost pressures are more or less continuous. A sudden spurt in basic raw material costs may provide the impetus for an abrupt upward adjustment in retail prices, alleviating, for a time, the price-cost squeeze on usual profit margins.

A third way these shortrun price increases are passed along is through changes in the demand for existing inventories of already-processed products. If raw material price increases are substantial, and especially if they appear more or less permanent, the value of all existing inventories increases. This occurs because inventory replacement costs go up and because a scramble for lower-priced, already-processed stocks will likely occur among traders, wholesalers, and retailers who bid up their prices.

Shortrun impacts can spread into the livestock sector. As prices of grain and/or oilseeds advance in response to vigorous export market growth, costs of livestock production increase. This is because prices for both high-energy feeds (corn and wheat) and high-protein feed (soybean meal) increase. Faced with rising feed costs, pessimistic livestock growers may respond almost immediately by reducing their inventories of cattle and hogs on feed and even selling off breeding stock. So as feed prices rise, meat and other livestock prices may hold steady or fall.

If longer-run effects are considered, then the economic relationships become more complex, and their impacts broaden into all parts of the feed and livestock economy. In the first instance, higher prices in the grains and oilseed sector induce a supply response from farmers who can devote more land, labor, machinery, and energy to these products. If "Mother Nature" cooperates, a larger output generally can be expected. This supply response will tend to offset the full extent of price

increases which would occur in the absence of expanded output.

Also in the longer-run, the higher price of feed and the reduced numbers of livestock available for breeding, feeding, and, hence, for slaughter will put upward pressure on meat prices. For chickens, turkeys, and eggs, this full process can occur in 3-6 months; for pork, in 1-2 years; and for beef, the full effects may extend over a 3-5 year period because of the longer time required for breeding and raising cattle.

Making specific predictions about the price effects of changes in exports is difficult since many other economic forces change at the same time. However, some insight can be gained from research studies done at the University of Minnesota and elsewhere. If we could isolate the 1-year effect on prices of an increase in corn exports from the 1974/75 level of 1.1 billion bushels to the expected 1.5 billion bushels for 1975/76, we would see:

- ◆ Upward pressure on farm-gate corn prices of about 35 cents/bushel;
- ◆ Decreases in livestock production of approximately 0.6 percent;
- ◆ Increased average farm level livestock prices of about 3.0 percent;
- ◆ Increased average retail prices of meat, eggs, and dairy products of about 1.5 to 2.0 percent.

These are effects that could be expected if *nothing else* but exports changed. However what actually occurs in the marketplace will be the net result of all the forces at work. In any 1 day, week, or year, other economic changes can override, obscure, or reinforce the effects of a substantial increase in farm exports. In particular, the sizeable increase in corn production predicted for 1975/76 will offset and dampen the price increases for corn and livestock products that would otherwise occur. However, the underlying tendencies discussed in this section are present, and it is helpful to understand them.

Producer and consumer interests

Exports have taken an increasing share of the U.S. grain crop in recent years. Wheat exports now take 2 out of 3 bushels produced in the United States.

Exports of feed grains and soybeans are also of growing importance.

Domestic use, however, continues to overshadow export use of these feed crops. And 90 percent of the domestic use is for livestock feed.

United States corn supply and utilization figures for recent years are shown in table 3. Even with the increased exports of the past few years, 3 out of 4 bushels of corn produced still went for livestock feed.

For soybeans, 2 out of 3 bushels produced are currently needed for domestic use—primarily as soybean meal for livestock!

The data in table 3 show that almost all downward adjustment in use necessitated by the short 1974 corn crop was made by the U.S. livestock industry. The 1974 corn crop was 996 million bushels below that of 1973. This resulted in a decrease of 942 million bushels in the feed use of corn during the 1974-75 marketing year from the previous marketing year. By contrast, corn exports stayed essentially the same—dropping only 103 million bushels.

This suggests two things: first, the U.S. livestock industry can effectively buffer changes in either crop production or world export demands. But secondly, in so doing, livestock producers and U.S. consumers must absorb the shocks of variations in feed and, subsequently, meat supplies.

This forms the basis for potential conflict of interest among different groups of U.S. citizens in choice of export policies. If large variations continue to occur in either U.S. production or in foreign demand, grain price variations will be high, with subsequent wide swings in the incomes of crop producers and specialized livestock producers as well as in changes in meat supplies and consumer prices.

To what extent does potential conflict of interest occur relative to government export policies between grain producers and domestic grain users? To better examine possible areas of conflict, we can divide

domestic users into three groups: livestock producers; livestock feed-makers and meat processing groups; and consumers. Some major goals of each group may be:

Crop producers—strong prices and increasing net income;

Livestock producers—strong prices and increasing net income;

Processors—stable prices, increasing margins, and large volume;

Consumers—stable prices and certainty of supplies.

Comparison of the goals of these groups suggests potential conflict.

Crop producers and livestock producers: Crop producers want high crop prices, while livestock producers want high livestock and livestock product prices. Since feed represents the major input cost in livestock production, high feed prices are usually followed by higher livestock prices. Therefore, in the longer run, there is no basic conflict on price levels between these two groups. However in the short run before livestock producers adjust numbers back, they suffer losses when feed prices advance rapidly as they did between 1972 and 1974.

Thus during periods of adjustment to changing feed supplies and prices, conflict of interest occurs in the "rising net income" goal of the two groups of producers. However in the corn belt, these two producers are usually the same farmer, i.e., the livestock producer grows his own basic feed supply. Thus, his overall farm earnings will tend to increase as crop prices increase, even though his livestock enterprise will show some red ink for a while. It is the specialized livestock or poultry firm—one that buys most of its feed inputs—which will have a net income conflict during the adjustment period. This producer will show relatively low or negative earnings during periods of rapidly rising crop prices and very high earnings during periods of sharply falling crop prices.

Therefore, the majority of family farmers that produce either crops alone or crops plus livestock would be in favor of grain export maximization policies. By contrast, speci-

Table 3. Corn supply and utilization 1970-72, 1973, 1974, and projected for the 1975 crop

	Marketing year beginning Oct. 1			
	1970-72	1973	1974*	1975**
Supplies:				
Carryin	933	709	483	335
Production	5,122	5,647	4,651	5,687
Imports	2	1	2	1
Total	6,057	6,357	5,136	5,983
Utilization:				
Feed	3,956	4,193	3,251	3,500
Food, Industrial, seed	409	438	450	466
Domestic use	4,365	4,631	3,701	3,966
Exports	857	1,243	1,140	1,500
Total use	5,222	5,874	4,841	5,466
Carryover	835	483	295	620
U.S. farm price	1.26	2.55	2.95	?

* Preliminary figures

**Projection based on Sept. 1 crop report

alized livestock producing firms would more likely favor export policies which would stabilize grain prices—especially on the up side.

Crop producers and processors of feed and livestock: The goals of processors would lead them to ask for export policies similar to those desired by the specialized livestock producers. In addition, they would probably want a generally lower level of grain prices. When grain prices are low, the business volume in livestock and poultry feed preparation would be greater, as it would be in meat, poultry, and livestock and poultry product processing.

Crop producers and consumers: This conflict area gets much press and deserves close scrutiny. Perhaps the major reason for the increased interest in this area is the different inflationary role that agriculture has played in recent years. In the 2 decades before 1973, nominal grain prices were very stable; thus, agriculture played an important anti-inflationary role. However during 1973, and to a lesser extent in 1974, rising farm product prices have played a greater role in adding fuel to the inflationary fire.

To what extent does conflict exist between consumers and producers over government actions concerning current feed and food grain exports? Perhaps more importantly, to what extent can it be resolved in export policy formulation?

Economic market models suggest that a natural conflict exists between consumer and producer groups on issues such as the level of commodity exports.

Consumers want stable food prices at the lowest possible cost. Therefore, consumers would generally support agricultural supply and demand actions which tend to put downward pressure on domestic food prices. Examples would be reduced exports and increased imports.

Grain producers, on the other hand, want high grain prices. This suggests they would support expanded foreign exports and reduced imports.

This results in a classical case of a conflict between two groups in the marketplace.

Producers and consumers are linked through the marketplace:

Table 4. Approximate direct and indirect effect on annual average per capita food costs of a 2 cent per pound change in the price of wheat, feed grains, and soybeans*

Commodity group	Effect on annual per capita food cost	
	Direct ^a	Indirect (livestock) ^b
	\$/person	
Wheat	\$3.00	\$.80
Feed grains	2.68	29.00
Soybeans	2.04	2.62
Total	\$7.72	\$32.42

*Source: Robinson, K.L., "Unstable Farm Prices: Economic Consequences and Policy Options," Cornell University Paper presented at AAEA meeting, Columbus, Ohio, August 1975.

^aBased on 1973/74 per capita disappearance of grain for domestic food and industrial use, including use in alcoholic beverages, corn syrup, and starch.

^bBased on 1973/74 per capita use of grains in feeding livestock.

one group as the suppliers of grains and meat; and the other as the demanders of food. The linkage, of course, is not direct. Large amounts of services and other products are added to the agricultural product before it is ready for the consumer. Since the linkage is not direct, movements in price at one level are not always precisely the same as at another market level. A major reason for this is that many costs besides raw material costs contribute to the price of a consumer product. Changes in the costs of services and other products often add more to food prices than do changes in raw product price. For example in 1974, 80 percent of the increase in food prices was from sources other than increased farm prices.

The strength or weakness of the market conflict between farmers and consumers often depends on: (1) the level of understanding of facts, such as the one just stated; and (2) the degree of uncertainty in the market.

Because of public concern over inflation, news focus on the relationship between export levels and food prices has probably intensified the conflict without materially increasing understanding of the magnitude of the relationship.

Export levels do affect domestic crop prices. But the change in crop prices must be quite large before any significant change is affected in the consumer price index (CPI) (a measure of cost of living). Grain products account for only 2.9 percent of the consumer price index. Since the farmers' share of the sales of these products is only 21 percent, the direct weight of farm products in the CPI is only .6 percent. Therefore even if farm grain prices were doubled (or cut in half) because of a change in export policies, resultant changes in the price of cereals and bakery products would *add less than 1 percent to the CPI*¹. Since wheat is such a minor component of the price of a loaf of bread (about 10 percent), changes by bakery interests last year that large wheat exports would drive bread prices to \$1 per loaf were not based on facts.

Changes in livestock prices that would result from changes in crop prices would have somewhat more influence on the CPI. Assuming that feed costs constitute two-thirds of livestock and milk production

costs, a doubling of grain prices would (after the livestock industry decreased production) increase the meat, poultry, fish, and dairy product components enough to raise the CPI by another 3 percentage points.

Another way of showing the impact of a change in grain prices on food costs is shown in table 4. Estimates indicate that a price change of somewhat over \$1 a bushel in all grain (2 cents per pound = \$1.12 per bushel of corn and \$1.20 per bushel for wheat and soybeans) would increase annual per capita food costs by only \$40 per person.

Improved understanding of these less-than-generally-assumed-magnitudes of the relationship between farm prices and consumer prices would help lessen the conflict between farmers and consumers regarding export policies.

The uncertainty about both the immediate magnitude and future directional changes in grain and food prices also affects the degree of conflict between the two groups. For example, in the 1950's and 1960's, less uncertainty existed about the impact of exports on either group. During the era of agricultural surpluses, actions aimed at expanding agricultural exports aroused little disagreement or conflict between producer and consumer groups. The major reason was that grain exports were coming from excess market supplies. Export expansion or contraction did not impact directly upon market prices as they do today. Thus, both supply and price conditions were fairly certain, and the level of grain exports was not the public policy issue that it is today.

Indeed, general agreement existed among most sectors on goals such as reduced surplus grain storage costs, humanitarian uses of grain surpluses, and improvement in balance of payment positions as more foreign exchange was obtained from cash sales.

The current situation is different! Much uncertainty now exists in the market. It is basically centered on this question: "Does the future hold potential for serious shortages or larger grain inventories if exports are either allowed to go unchecked or regulated through some government action?" Neither group seems to get assurance either way as they

view conflicting reports on the condition of agricultural production or the needs of foreign countries.

Because of this great uncertainty, both producer and consumer groups are likely "overreacting" to policy questions concerning exports and inventory build up.

Thus, the degree to which the potential producer and consumer conflict will be resolved may well hinge on policies which tend to decrease the level of uncertainty in the market as well as upon increased awareness of the magnitude of the relationship between exports and food prices.

Exports as a policy instrument

Agricultural exports are the only mechanism through which the United States can influence the domestic and world food situation for at least the next year. This year's crop is already determined in northern hemisphere countries. The southern hemisphere countries are the only place any significant adjustment in world food supplies can occur, and only Australia, Argentina, and South Africa are major exporters there. World grain stocks are at record low levels, especially in the United States. Little can be done to alter the availability of grain supplies in the United States or world market through reduction of stocks. Thus, exports are the only way the United States can influence domestic and world market conditions for major agricultural products.

If export demand is strong and this demand is reflected in the domestic market, commodities prices will be bid up. The higher prices will reduce domestic consumption and will increase the amount available for export. The adjustment may be greatest for feed grains where higher prices reduce the amount of grain fed at home. The reverse situation holds when export demand is weak or when restrictions are placed on the quantities exported. Domestic prices will be lower (lower than world market prices when export restrictions are in effect). The lower prices will increase domestic consumption and will reduce the quantities available for export.

The U.S. government can exercise several influences on agricultural exports, depending on its objectives.

¹Based on analysis by R. L. Robinson, Cornell University.

It can employ export and sales credit subsidies to stimulate exports, if conditions call for such action. It can also restrain exports through many means, if that is deemed in the national interest. One way to reduce exports is to control the approval of large-volume export sales. This can affect both the quantity exported and the destination of these exports. Examples are the recent moratorium on further grain sales to the USSR and the announced long term assurance of grain and soybean supplies to Japan. A more extreme position would be for the United States to declare export quotas such as it did for soybeans and soybean products during summer 1973. This sets a limit on the total exports of a commodity. This distribution of these exports among importing countries has to be determined, usually by negotiation.

Currently there are conflicting interests. On the one hand, large amounts of agricultural exports contribute favorably to our balance of payments and help defer the cost of imports. (Petroleum is the largest import item.) On the other hand, large agricultural exports will drive up the price of food in the United States and contribute to already high rates of inflation.

In today's tight world food situation, U.S. agricultural exports reduced below what they would be in the absence of any intervention tend to reduce domestic food and agricultural prices and to increase world market prices. Foreign buyers must satisfy their import demands from supplies outside the United States, driving up prices on world markets. The additional food kept at home as a result of export restrictions results in lower domestic farm prices.

The U.S. Department of Agriculture has already taken steps to limit exports to the Soviet Union. At the same time, assurances have been given to our regular customers—such as Japan and the European Economic Community—that we will be able to meet a substantial part of their import needs. Whether or not further action is taken to limit U.S. agricultural exports depends upon future assessments of foreign and domestic demands and the impact that alternative exports levels will have on domestic food prices. Clearly, inflation is a major concern, and there will be strong pressures in many quarters to keep food and agricultural prices from further aggravating the current inflationary situation.

Alternative export strategies

The United States could follow numerous strategies concerning agricultural exports—and especially regarding grains—to assure stable supplies and stable prices in the domestic market. The first and simplest strategy the United States could follow, over and above doing nothing, would be to monitor exports. All exports would be reported, and regular reports would be issued within a crop year, indicating the volume of exports to that date and the current domestic supply position. Such a policy would provide both domestic and foreign buyers with the latest information regarding current and prospective supplies in the United States, helping them make plans for the utilization of the commodity in question.

A second and somewhat more complex strategy may include the first strategy, plus an announcement by the government that the domestic market and regular foreign buyers would be assured their normal supplies. Implied is the threat, and possibly the use, of informal and selective export controls to guarantee regular domestic and foreign users their normal supplies. This is about what the United States is doing now.

A third strategy could involve the development and pursuit of an explicit export policy. The policy might take this form:

A. The United States would announce to the world its domestic requirements as well as the trade requirements of its regular foreign customers, indicating that those supply requirements will be protected by whatever management devices are needed.

B. The United States would periodically (possibly every 3 months) announce the drawdowns in supply that have occurred and indicate the extent to which domestic requirements and those of regular foreign customers could be met without imposed export management devices.

C. Food aid exports to less developed countries (LDC's) on concessional terms would be adjusted to the situation, or guaranteed in light of the situation, to protect the requirements of the United States and the needs of LDC's dependent upon us.

D. Sales of grains and related commodities to state trading nations would be negotiated by the U.S. government regarding the total vol-

ume of sales, range of prices, and other economic considerations, such as transport subsidies. Specific sales and the handling of grain would be conducted in the United States, as in the past, by private trading firms. But by this procedure, the volume of sales to state trading nations would be limited to and made consistent with the guaranteed requirements discussed in point A.

E. If the worldwide shortage were of such magnitude and if free exports from the United States were so large that they would cut into the requirements guaranteed under point A, then the United States would impose export controls after properly informing world traders, as indicated under point B. Exempt from these controls, of course, would be the already guaranteed exports to regular foreign purchasers. This would be the action of last resort to protect and guarantee the domestic requirements and the requirements of foreign purchasers regularly dependent on the United States.

A fourth strategy would involve providing leadership in the development of, and participation in, an International Grain Reserve Stock Program with the capacity to even out supplies between years, hence stabilizing prices. This strategy could logically be pursued in addition to any of the first three strategies. This strategy would insure stable domestic markets for grains and possibly for other commodities through the achievement of stable international markets.

For this strategy, the United States would need to reach agreement with the important importing and exporting countries regarding:

- a) a stabilization target price, or target price range;
- b) reserve stock decision rules regarding the acquisition and release of stocks; and
- c) the maximum total reserve stock to be acquired and individual country stores of that total reserve stock.

The implementation of this strategy would be far from easy, first because of the difficulty of coordinating the stocking actions of individual participating countries, and second because of the conflict of interest between producer interests and consumer interests within the United States and among the potential

participating countries. However, it is a necessary strategy if the United States wants to be an integral part of an international grain market *that does not fluctuate wildly.*

There is no *one* best export strategy for all situations. What is best depends on what people want. If people want stable markets and are not concerned about government intervention in the economy, then some combination of strategies 3 and 4 is best. But if people are concerned about government intervention and are not unduly concerned about unstable markets, then some combination of 1 and 2 is best. It is not clear yet what most Americans want.

Summary

The United States has a comparative advantage in the production of feed and food grains, resulting in production in excess of domestic needs.

Although the United States historically has been a net exporter of many agricultural products, several factors recently have contributed to dramatically increasing exports. These reasons include policy changes in the USSR and People's Republic of China, poor weather, slowdown in growth of agricultural products in several countries, rapid population growth in most of the less developed countries, devaluation of the U.S. dollar, and changes in livestock-feeding technology.

Rising agricultural exports, together with general inflation in the United States, has generated considerable controversy between those who realize gains from exports and those who fear the effect of exports on domestic prices.

Of practical necessity, U.S. policymakers must compromise between "reasonable" prices to consumers and grain producers. In an era of inflation, policymakers have in-

centive to encourage domestic supplies sufficient to dampen rising prices. However if producers are to have sufficient incentive to increase supplies, they must be assured adequate prices through some combination of export markets and other policies.

While compromising between consumers and grain producers, policymakers must also be aware of the interests of livestock producers and the entire food processing-marketing complex. To further complicate the issue is the need to consider the significant contribution of agricultural exports to the balance of payments and to the nation's humanitarian responsibilities toward less developed countries.

These considerations place farm exports at the focal point of controversy. Resolution of the controversy will pose a rigorous challenge to policymakers in the coming years.



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