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CENTRAL PLANNING IN THE U. S. GRAIN EXPORT INDUSTRY

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The designers of this symposium chose their words admirably -- Public Vs. Private Control of U. S. Grain Exports. The policy choice is truly between public and private control, not between government control and some unseen hand of a mythical free market. The subtopic assigned to me -- Central Planning in the U. S. Grain Export Industry -- also faces reality. Grain exports in the future will embody considerable planning; the question is where the planning will be performed.

There is a world grain market, to be sure. Even mighty governments cannot reliably control this market, nor can the international grain companies or the various semi-governmental grain marketing boards. But these institutions strongly influence grain movements and prices; we are not dealing with a classical free market.

The United States grain-exporting system consists of about 35 privately-owned exporting firms, some of them foreign owned and based. A half-dozen of these do practically all the U. S. business -- 90 per cent or so in recent years.

The other principal grain-exporting countries handle the trade through monopolistic governmental or semi-governmental boards. This is true of Canada, Australia, Argentina and Brazil. The European Economic Community exercises indirect governmental control, through subsidies, embargoes and other devices, as does the United States.

The main importing countries likewise depend heavily on government decision-making in buying grain, with some of the largest importers being strictly state traders, especially the Soviet Union, China and other Communist states.

In the United States, the policy of relying on private grain companies to handle exports has meant that the Big Six at times have largely decided, along with the major state-trading importers, where American grain was sold, how much of it and at what price. This came about because of a close partnership between the U. S. Department of Agriculture and the grain companies. Officials in USDA making decisions on export subsidies and food aid shipments often were former executives of the grain companies -- or, in effect, executives on leave for government service, for some of them returned to their companies later. Information available to the Department of Agriculture about grain trade matters often became available to the grain companies before it became publicly known.

To understand American grain export policy, one must look back at agricultural policy in general which was dominated for many years by the condition of surplus production capacity. Government officials were plagued with problems of low agricultural prices, accumulating surpluses of grain and crop acreage limitations. They sought to export as much as possible -- by subsidizing exports, giving grain away as economic aid and encouraging commercial deals whenever and wherever.

When the Soviet Union quietly entered bids for U. S. grain in 1972 we were still ruled by surplus psychology, and the administration in power, for doctrinal reasons, wanted to put an end to government crop controls. In this atmosphere, no one worried about allowing the Russians and the grain companies to decide national farm policy. This was a golden opportunity to dispose of government-owned grain, so sales were subsidized. From the higher levels of statecraft the grain sales looked good for the policy of U.S.-U.S.S.R. detente. All the planning, if we may call it that, was opportunistic and short-range.

A Senate Foreign Relations Committee study group reported in April, 1976, that several of the large grain companies were handling the Soviet Union's grain sales to its Eastern European satellites and some other countries. Thus at the time these companies were buying for the Russians, they were also selling. This arrangement must have given the Soviet Union considerable bargaining power.

Who looked after the interests of the United States? The multi-national grain companies did not and could not be expected to; they worked for both sides, and the bigger the volume the better. Most of the grain companies are closely owned and their shares not publicly traded, so they are not required to file reports with the Securities Exchange Commission. Thus the public knows little about their operations.

The public did find out, however, from investigations of the Department of Justice (not the Department of Agriculture) that these companies were engaged in planned, systematic cheating on weights and grades of export grain. To use the language of the Las Vegas gambling trade, this was a "skimming" operation. The companies bribed inspectors to allow short weights and substandard quality in grading.

At least four of the big companies and several lesser ones have been convicted on criminal indictments, and at least 70 executives and employes have been convicted. The companies face civil suits for damages from the U. S. government on food-aid shipments and from other buyers. The government of India has sued five companies on charges of short weights.

The corruption in the grain export trade seems to have been an accepted, traditional way of doing business. Farmer cooperative leaders who may have known of the "skimming" -- they certainly knew of the complaints from foreign buyers about grain quality -- did not blow the whistle. That may reflect the power of the big companies which own and control much of the railroad grain-car supply and through which a farmer co-op often has to deal. The grain companies also controlled, until the recent grain inspection reform act, the inspection services at gulf ports.

The record does not inspire confidence in our grain exporting system. Populist suspicions about the slickers who buy the farmer's grain at low prices, gamble in the futures markets and sell the grain far away at high prices have been reinforced. In view of the performance of the grain companies in handling exports of the United States, it would be difficult to argue that this is a system superior to that of the Canadians, or of others using a government board. In democratic countries direct public control assures the public of open information at least and a mechanism for expressing the public interest in policy.

One would have to decide the issue on the basis of religious faith in private enterprise, or on ground that government in business is sinful, to come out in favor of the American way on grain exporting. You couldn't base such a conclusion on the facts of the case. It does not follow that a choice must be made between the American and Canadian alternatives.

In a study for the Canadian-American Committee, T. K. Warley concludes that: "Canada has derived some advantages from the fact that wheat marketing is controlled by a central agency, the Canadian Wheat Board. These advantages include the ability to deal head-to-head with import monopolies on the basis of near parity of information; to ensure that an appropriate level of stocks is always on hand; to enter into 'multi-annual' framework agreements; and to systematically allocate between the U.S.S.R. and other claimants on national output."

Warley added: "It would not appear that there is a clear need for the United States to contemplate adoption of a centralized selling system now that its trade in grains has been brought under effective political regulation by fiat and by the bilateral agreement with the U.S.S.R."

In a study for the British-North American Committee, D. Gale Johnson concluded that the American grain export system worked about as well as the Canadian in prices obtained. He found small differences in export prices to all destinations over the 1972-1976 period considering differences in quality of wheat. He said the price comparisons indicated a "rather similar performance by the two export systems in their reactions to the Soviet and Chinese purchasing efforts."

In comparing market price averages, Johnson did not purport to make a full comparison of the export systems. A more important question is whether the Canadian system returned to farmers the same proportionate amount as the American system. Another is whether the public interest in stability of supplies and prices was equally guarded.

My fellow panelists, Andrew Schmitz and Alex McCalla, compared the U. S. and Canadian grain export systems for the National Grain and Feed Association. According to the Milling and Baking News, they concluded that the Canadian system wouldn't work here: U. S. marketing problems are too complex, since our grain moves in many directions, whereas Canadian grain moves mostly east and west by rail.

Schmitz and McCalla wrote further that the "U. S. believes there should be specialization, and, hence, producing firms should not become marketing firms, nor should the latter be government or producer monopolies." They said Americans prefer the "free enterprise system" to the Canadian plan, because farmers in this country enjoy taking risks: "Farmers who are risk-takers, obtain nonmonetary benefits from speculation and are relatively good at forecasting, clearly prefer markets where the possibility exists for some farmers to do better than others."

It may be that Canadian farmers, who "prefer pool prices" and are "risk adverse in their activities" (as Schmitz and McCalla put it), are a different breed of cats from American farmers. I have never sensed this.

In any event, some degree of order and central planning in grain exports may be achieved without going to a pool payment plan for farmers. And it is evident that the general public and consumer interest will be an important factor in export policy, not just farmer interest alone.

T. K. Warley may be overly sanguine when he says American grain trade has now been brought under effective regulation. But improvements have been made. Grain export sales above a minimum size must be reported promptly; USDA, after a stumbling failure last spring to report a soybean sale to Japan, is no longer conspiring to keep such news from the public; the two past administrations resorted to export embargoes in emergencies. Dumping U.S. grain abroad no longer is the guiding light of policy. The new administration is going to be tempted on wheat before long, though.

The "system" still lacks dependability and institutionalization. Too much depends on crisis decision-making, for which we do not have a logical process. Standing policies on reserve stockpiling and disposal would help. Perhaps it will take legislation on accumulation and release prices. The bill introduced by Representative James Weaver of Oregon a couple of years ago to make the Commodity Credit Corp. the "seller or marketing agent" for exports of grain and soybeans deserves more attention than it has had so far.

The Weaver bill would formalize the situation which exists now under the Export Administration Act of 1969. CCC could replace the private grain companies in export transactions or it could issue regulations governing them but allow private traders to make the sales. In effect, the government now handles or supervises sales to Communist countries, while other sales are handled by private companies. A middle ground of regulation and actual export operations by CCC would be probable under this bill. Centering responsibility in CCC would facilitate management of U. S. grain in connection with any international reserve plan or even a U.S.-Canadian agreement on export policy. Although there is merit in keeping most of a U. S. grain reserve on farms, CCC should have a sizable stockpile under government ownership for purposes of international reserve operations.

Another step that would help improve the grain export system would be a much larger and stronger farmer cooperative grain export operation. The "yardstick" principle would be useful here. The administration has proposed making government commodity loans available to co-ops. Since interest rates would be below commercial rates, this would help the new Farmers Export Co. and other co-ops to expand their share of the business.

Grain exporting and importing have become centralized government operations nearly everywhere in the world. The U. S. government must see that its voice is reliably expressed, so that our grain export policy is not left to international companies and foreign governments. That is the issue, and no particular institutional set-up is a panacea.

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