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Farm Exports: An I

by G. I

Much of the 1985 Farm Bill debate centered on the need to restore U.S. agricultural competitiveness in international markets. The reference point for that debate was most often the late 1970's when rapid growth in agricultural exports led to the 1981 all-time high export value of nearly $44 billion.

In this Centerfold, Ed Rossmiller takes an historical perspective and interprets the meaning of that history for future exports. Until recently he was with the Foreign Agricultural Service of the USDA and has been watching and analyzing international trade developments since the 1960's. He is now Senior Fellow, The National Center for Food and Agricultural Policy, Resources for the Future.

The export level of the late 1970's was an anomaly. A look at the historical context suggests that more modest expectations for future export levels and growth should be used.

We first plot the actual value of U.S. agricultural exports for the years 1940 to date. They range from a low of $500 million in 1940 to over $43 billion in 1981.

As we all know, the prices of farm commodities—like other items in our economy—changed drastically during these 40 some years. Thus, it is helpful to convert the actual values to "real" values. We chose to do this conversion on the basis of prices received by U.S. farmers in 1985.

Thus, we asked for each year "what would have been the value of U.S. farm exports if the commodity prices had been equal to what they were in 1985?" We plot these as black dots. For 1940 the real value would have been $2.9 billion instead of .5 billion. For 1981, the peak year, it would have been $39.9 billion instead of $43.3 billion. In 1985, of course, it would have been identical—$31.2 billion.

The Long Historical Period: 1940—1972

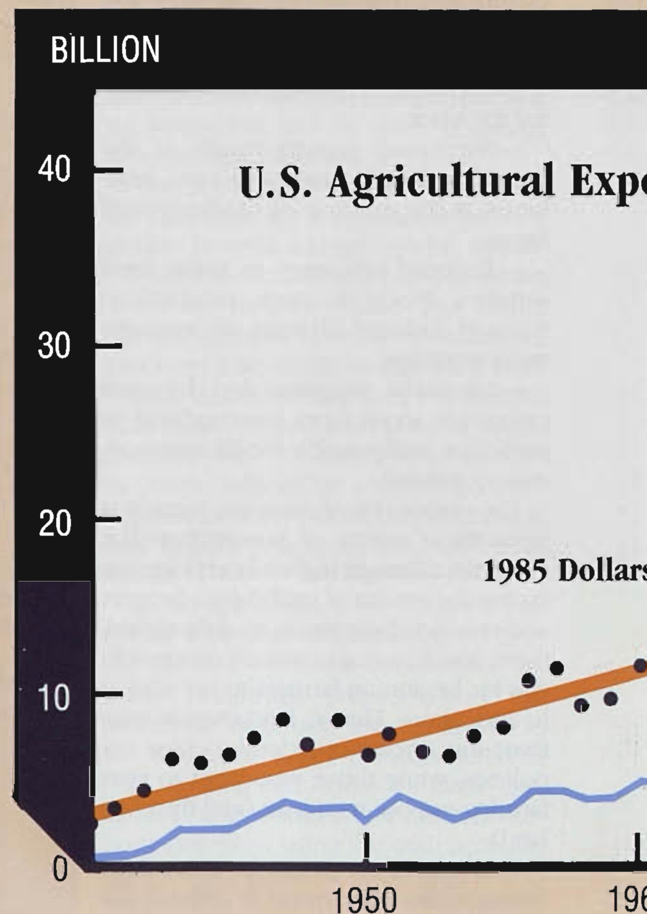
- U.S. agricultural exports increased with rather small deviations from a trend. The increase averaged $400 million (1985 dollars) per year.

Cause:

—Population growth and per capita income gains in importing countries pushed the quantity of farm products their consumers demanded at a rate somewhat faster than their increases in domestic food and fiber production.

The Jump: 1973

- A $5.7 billion (1985 dollars) jump in agricultural exports occurred in 1973. In actual dollar value exports nearly doubled.



Cause:

—Mainly due to USSR policy shift. In response to their domestic production shortfalls the USSR imported more rather than tighten their belt and slaughter their livestock.

The Export Boom Period: 1973—1981

- During these golden days for American agriculture, exports increased at the rate of $2.1 billion (1985 dollars) per year—about five times the $.4 billion per year rate of the long 1940-1972 historical period.

Causes:

—Relatively strong economic growth worldwide.

- Developed countries followed a loose monetary policy after the first oil shock. Officials were concerned more with maintaining econmic activity and growth with tight control on inflation.

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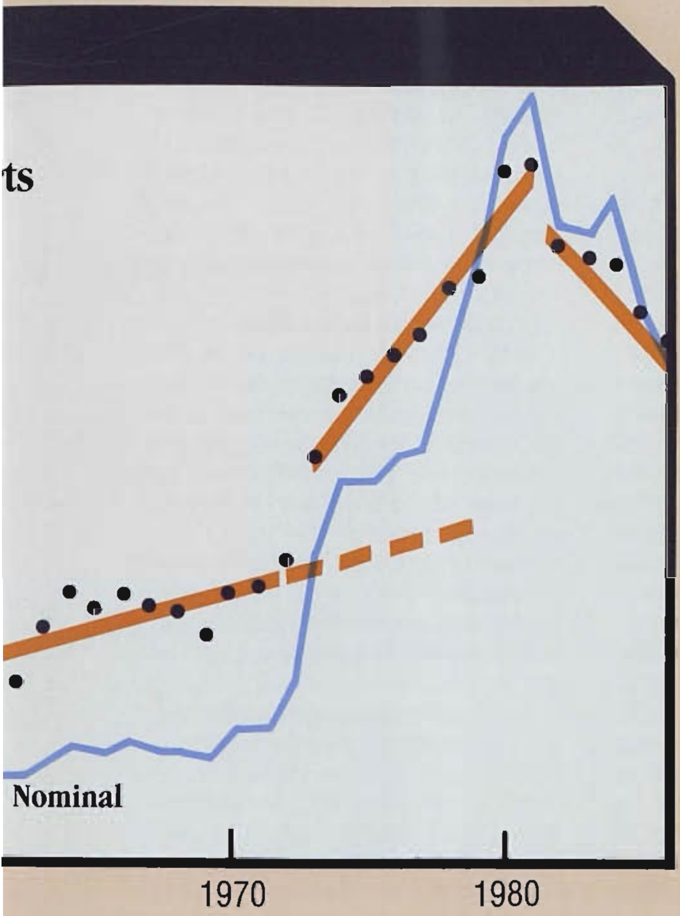

—Massive and continuing growth in world liquidity.
• Recycled petrodollars. Commercial banks, lending to less developed countries and to centrally planned economies increased at a 20 percent annual rate throughout most of the period.
• Low and often negative real interest rates. These resulted from exchange rate policies of many less developed countries (coupled with the loose monetary policies of developed countries), and they encouraged rapid accumulation of external debt.

—Increased U.S. market share in a rapidly growing market.
• Low value of the dollar in foreign exchange markets made the United States price competitive.
• Farm programs had led to large stocks of agricultural commodities that were available for export. There were also vast tracts of idle land that could be quickly put into production.

The Drop: 1982

• In 1982, agricultural exports drop by $4.7 billion (1985 dollars).

Causes:

—Worldwide recession that hit with a vengence in late 1981 and early 1982.
• Second oil shock in 1979. Developed countries responded by tightening monetary policy to counter inflation.

The Export Decline Period: 1982—1986

• While four observations and an estimate do not make a firm trend, the rate of export decline since 1982 has averaged almost $1.6 billion (1985 dollars) per year.

Causes:

—Continued worldwide recession.
—Reduced world liquidity.
• Tight monetary policy increased real interest rates to historically high levels and pushed the exchange value of the dollar to a peak in early 1985. These conditions left dollar denominated debt burdened countries with huge debt service obligations, exacerbating the weak demand caused by global recession.
—U.S. price competitiveness in world markets is reduced.
• High value of the dollar coupled with U.S. farm program loan rates fixed under the presumption of high inflation rates.
—Competition from abroad increases.
• High U.S. loan rates and high value of the dollar put high floor under international prices. These cause increased production in other countries for import substitution and export.

What Does The Future Hold?

• Important indicators are moving in the "right" direction.
—Loan rates and value of the dollar are lower. These changes help restore U.S. price competitiveness.
—Lower interest rates and lower dollar value provide debt service relief for debtor countries.
—Global economic recovery is slow but beginning.

• Thus, exports will turn around.
—But not quickly
—And not to the historic high levels
—Nor to the high rates of growth of the 1970s. C

GRAPH BY SARAH L. SCHMITT