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Carl Zulauf and Dennis Henderson on False Hopes for Export Growth

Exports May Have Shifted from an Engine of Growth to a Catalyst for Downsizing U.S. Agriculture

Nobody knows with certainty what the effects of the Food Security Act of 1985 and its lower commodity price supports will have on U.S. agricultural exports. Involved is a complexity of changing exchange rates, lower U.S. commodity market prices, and changing systems of subsidization. Yet, one of the most critical questions for U.S. agriculture is, "What will be the effect of lower international prices on U.S. farm exports?" Here is one opinion. Do you agree? Disagree? Let us hear what you think.

The 1985 Farm Bill had as one of its objectives increased U.S. agricultural exports. The Bill's lower price supports and various export enhancement programs renewed optimism that U.S. agricultural exports will increase. Further optimism has been nurtured by the recent depreciation of the U.S. dollar.

Certainly, there is no denying the importance of exports to the prosperity of U.S. agriculture. Yet the recent decline in farm exports continues and a careful examination of the issues forces us to question recent optimism.

In Fiscal Year (FY) 1986, agricultural exports are projected at $27.5 billion, 37 percent below the peak reached in FY 1981. Equally sobering, the net agricultural trade surplus has declined from $26.6 billion in FY 1981 to an estimated $7.5 billion in FY 1986, a 72 percent decline; and the value of exports as a share of farm cash receipts has declined from 30 percent in FY 1981 to 20 percent this year.

There are three reasons why we see little reason for optimism at this time. First, the value of the U.S. dollar has not declined against the currencies of our non-European agricultural competitors. This increases the burden for enhancing U.S. export competitiveness on the provisions of the new Farm Bill.

Second, the current world trade environment and the experiences of the early 1980's suggest that export enhancement programs will quite likely trigger reciprocal actions by others.

Third, the U.S. sees its cuts in price supports as a move to regain lost markets, but our competitors call it predatory pricing.

These are important concerns to raise now, especially since Congress will probably consider an omnibus trade bill in 1986. In addition, there is substantial debate over implementation of the 1985 Farm Bill for 1987 and beyond.

Uneven Dollar Decline

The decline in value of the U.S. dollar, which began in March 1985, is often cited as portending future increases in agricultural exports. However, this argument comes from only a partial analysis of changes in dollar values. The dollar has indeed declined in value against most Western European currencies and the Japanese yen. For example, between March 1, 1985 and March 1, 1986, the real value of the U.S. dollar, when adjusted for differences in consumer prices and measured against the French franc, German mark, and Japanese yen, declined by 50, 46, and 41 percent respectively. (Data available on consumer prices prevent analysis later than March 1986).

But, to significantly increase the competitiveness of U.S. agricultural exports, the change in the value of the U.S. dollar would have to decline relative to the currencies of our export competitors. Over the March 1, 1985 to March 1, 1986 period, the real value of the dollar increased by 2 percent against the Canadian dollar and 3 percent against the Brazilian cruzeiro (cruzado now). The dollar did not change relative to the Argentinian austral and declined by only 5 percent against the Thai baht. There has also been little change against the Australian dollar and South African rand.

The sad fact for American farmers is that except for our European competitors, the value of the dollar has changed very little relative to the currencies of our agricultural competitors. While a lower U.S. dollar suggests that world agricultural trade may increase, it does not suggest that the U.S. share of world agricultural exports will increase. This places additional burden on the Farm Bill export provisions.

Export Enhancement Programs

The Food Security Act of 1985 contains an array of export enhancement programs: reauthorization of PL 480, an expanded Section 416 program, a new pilot barter program, reauthorization of short (less than 3 years) and intermediate (3-10 year) export credit programs, a new export payment-in-kind subsidy program, a targeted subsidy program to offset unfair trade practices of specific competitors, and a new "Food for Progress" program.

These programs are certain to increase the proportion of exports sold under some form of government assistance. The proportion has already nearly tripled in this decade—from 7 percent in 1980 to 19 percent in 1985—with the advent of expanded export credit programs. Given the new initiatives included in the 1985 Farm Bill, this proportion could reach 25 percent in FY 1986, a level last attained in FY 1973.

Assuming nothing else changes, these programs would enhance U.S. agricultural exports. But, they appear to be stimulating new or increased export assistance programs by our competitors, such as increased export subsidies from the European Common Market (EC).

Exports shipped with assistance may also replace commercial exports which would have occurred in the absence of the assistance programs. Such replacement is even more likely today with world agricultural grain trade, after growing rapidly in the 1970's, leveling out in the 200-220 million metric ton range so far in the 1980's.

Additionally, the targeted export subsidy programs are aimed at reclaiming markets lost to what, in the U.S. view, was unfair competition, especially by the EC. This has the effect of discriminating against some of our customers, such as Japan and other Southeast Asian countries, because they buy a relatively small

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amount of European farm products.

These Asian countries end up paying a higher price for the same U.S. exports that are being subsidized to European countries that buy from the European Community. While it is too early to forecast the response to this discrimination, the slighted countries may decide to increase their purchases from U.S. agricultural competitors.

Thus everything else is rarely constant in the world of international trade. For the reasons discussed we have to question the size of any export increase that will result from the export enhancement programs. Certainly the experience in the early 1980's is not encouraging.

U.S. Loan Levels

Using authority contained in The Food Security Act of 1985, the Secretary of Agriculture lowered 1986 price support levels for most program commodities by at least 25 percent.

While the U.S. views the sharp decline in price supports as a competitive move to regain lost markets, our export competitors view it as predatory pricing.

The U.S. views deficiency payments as a means for maintaining the income of family farmers in light of cuts in price supports. But our export competitors view them as subsidies that encourage American farmers to produce more even though the loan rate—let alone the market equilibrium price—provides incentives to produce less.

No wonder Argentinian farmers are protesting and calling for—among other policy changes—a reduction in taxes on farm exports. Thai farmers and students are protesting the marketing loan initiated for U.S. rice and calling for assistance. Australian wheat farmers are calling for increased government involvement; and (4) Canadian corn farmers are seeking a countervailing duty on U.S. corn imports.

In the eyes of our competitors, the sharp U.S. reduction in price supports is an attempt to export our farm crisis, and this view is fanning the winds of trade protectionism. Already, potential trade wars over limitations on U.S. textile imports and the ascension of Spain and Portugal to the EC have significant implications for the U.S. farm economy.

In 1985, Congress passed, but President Reagan vetoed, a bill which would limit clothing and textiles imports from Taiwan, South Korea, Hong Kong, and other Third World countries. An override vote is scheduled for August 1986. In 1984, Taiwan, South Korea, and Hong Kong accounted for 44 percent of the U.S. imports of cotton, wool, and manmade fibers.

The EC dispute involves a series of tariffs and quotas that began with the merging of Spanish and Portuguese agricultural policies into the EC's Common Agricultural Policy. This includes restrictions on soybean and feedgrain imports by Spain and Portugal. In response, the United States announced various trade restrictions if the EC restrictions are imposed. The EC then announced that they would retaliate against the U.S. threatened restrictions. Currently, discussions are going on to circumvent the retaliation cycle.

The U.S. has a substantial share of its agricultural trade and trade surplus at risk in the textile and EC trade wars. In 1985, the latest year for which information is available, agricultural exports to South Korea, Taiwan, and Hong Kong totaled $3.1 billion. To Spain and Portugal, we exported $1.3 billion and $5.3 billion to other EC countries (Belgium, Denmark, France, Greece, Ireland, Italy, Luxemburg, Netherlands, United Kingdom, and West Germany).

In sum, these exports total 31 percent of all U.S. agricultural exports. The net agricultural trade surplus with these countries was $3.8, $1.0 and $1.9 billion respectively, accounting for 50 percent of the total U.S. agricultural trade surplus.

In the short run, the sharp reduction in U.S. price support levels may do little more than encourage increased protectionism and export assistance by our competitors. In the long run, it may encourage self-sufficiency among our competitors as they channel production resources from current export commodities, which in their view are being attacked by the U.S., to agricultural products currently imported.

In recent years, Brazil has rearranged its price support system to encourage corn while the EC has done the same for oilseed production. Currently, both import these commodities from the United States.

This international political view of changes in U.S. loan rates argues that sharp reductions in price supports set in motion institutional constraints which limit the quantity response to price declines, whatever the underlying price responsiveness of export demand.

Summary and Policy Suggestion

The current world agricultural trade environment and the experiences of the early 1980's suggest that export enhancement programs will more likely maintain rather than enhance U.S. agricultural exports. The decline in price support levels, especially the sharp decline initiated for 1986, has spurred international resentment against what is perceived as predatory pricing by the U.S. This resentment comes against a background of growing worldwide protectionism. With the size of U.S. agricultural exports currently at risk in potential trade wars over U.S. textile imports on one front and Spain and Portugal's admission to the EC on another and with little change in the U.S. dollar against our non-European agricultural competitors, the value of U.S. exports—and maybe quantity—is unlikely to increase by much if any (and may decline) over the next few years. This conclusion is reached against a backdrop of ever-increasing U.S. productivity of agriculture. In short, despite the intentions and objectives of The Food Security Act of 1985, exports have probably shifted from being an engine of growth to being a catalyst for downsizing U.S. agriculture.

Should the United States simply shrug its shoulders and ignore the export market? We believe such a view is as unlikely to be beneficial to the long-term health of U.S. agriculture as is the current policy. Exports didn't emerge as the engine of growth in the 1970's over night. It took 20 years of market development beginning with P.L. 480 in 1954. This lesson suggests that a more patient, more measured export enhancement program may well yield results equal to, if not greater than, the current aggressive policy.

Specifically, we suggest eliminating the Findley Amendment—authority for the Secretary to lower loan rates up to 20 percent—and marketing loan provisions of the 1985 Farm Bill. This approach would be a good-faith gesture in a world of increasing trade protectionism. At the same time the 5 percent annual downward adjustments in the loan rates contained in the Farm Bill would signal our intention to be a strong competitor in world agricultural markets. These changes in program provisions would also reduce government outlays for farm programs.

Thomas Paine once remarked that "moderation in temper is always a virtue, but moderation in principle is always a vice." We suggest that agricultural policy based more on temper than principle is more a virture than vice. ■