The Embargo Study

The Findings and Two Commentaries

Embargoes have been a central issue in decisions of farm policy since the early 1970s when President Nixon initiated an embargo on oilseed and oilseed products. The issue has received renewed attention with the publication in November 1986 of the Economic Research Service Congressionally Mandated Study, Embargoes, Surplus Disposal, and U.S. Agriculture. The co-principal investigators of the study were Alex F. McCalla of the University of California-Davis, and T. Kelley White and Kenneth Clayton of the Economic Research Service. In all, eleven ERS economists, 25 U.S. university economists, and three economists of Resources for the Future cooperated in the analysis and the preparation of the report.

Because of the importance of the topic we include in this edition of CHOICES the principal findings of that study. We also include commentaries about the study by two keen observers of agricultural policy:

The first is by Carol Bookins who is President of World Perspectives, Inc.

The second is by Kenneth R. Farrell who up to the beginning of this year was Director of the National Agricultural Policy Center of Resources for the Future. He is now Vice President for Agriculture of the University of California.

We recognize that many people disagree with the findings of the study. Thus, CHOICES invites you to share with other readers your reaction to the study and the commentaries by Bookins and Farrell. Send your letters to Yyle Schertz, CHOICES, 12708 Oak Farms Road, Herndon, Virginia 22071.

Principal Findings of Congressionally Mandated Study

- Embargoes of the 1970's. The general oilseed embargo of 1973 and the targeted sales suspensions of 1974 and 1975 did not last long and had predictable, short-term results. That is, they moderated high futures prices but generally had little effect on trade volumes, world prices, U.S. exports, and U.S. farm income. Foreign country response was limited. In fact, the embargoes were viewed as positive, market stabilizing forces by other countries.

- The 1980 Embargo Against the USSR. The 1980 embargo was a foreign policy action to punish the USSR. It was not meant to reduce high prices. Its longer duration (16 months) meant that success depended on cooperation of grain companies and competitive exporters. Early cooperation waned, and the effect on USSR meat consumption was minimal. The embargo did not significantly reduce USSR imports (at most, 3 million tons) or world trade. The USSR altered trade flows by replacing lost U.S. exports with the same or substitute commodities from other sources. Therefore, world prices and trade volumes changed little. Because of changed USSR behavior, the United States lost USSR market shares after the embargo. The United States also lost market shares throughout the 1980's, but likely more as a result of world economic conditions and foreign country response rather than the embargo. Policies implemented during the embargo to prevent U.S. farmers from bearing the cost of the embargo were more than successful.

- General Export Subsidies. The Commodity Credit Corporation (CCC) is authorized to sell surplus commodities on world markets at competitive prices. This would require export subsidies. The United States has chosen not to go this route, relying instead on land set aside, commodity storage, and support prices. A dynamic analysis of the period beginning in 1973 was conducted on potential effects of a general subsidy program for wheat and feed grains which disposed of farmer-owned reserves (FOR) and/or CCC stocks. U.S. disposal of stocks would have cost more than existing programs, and farm income would have been basically unchanged. World prices would have been much more variable. A static analysis of dairy stock disposal reaches similar conclusions; disposal could be done, but it would be more expensive than current programs and would have little effect on dairy farmers' income.

- Targeted Export Subsidies. General subsidies apply equally to all destinations. The alternative is to determine if different subsidies targeted at particular destinations are preferable. It pays to subsidize price-responsive markets when other countries do not change their behavior. If the subsidy goal is to maximize farm income, minus subsidy costs, then targeted subsidies could do so at lower cost than general subsidies. If, however, the goal is to eliminate all stocks, then targeted subsidies do not raise farm income enough to offset government costs.