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COMMENTARY

Kenneth L. Robinson's Viewpoint

Macroeconomic Variables

Policy and Supply Changes Overwhelm Their Effects.

During the early 1980s, it became fashionable to argue that agriculture's problems are due mainly to misguided macroeconomic policies. Economists focused particularly on those factors that contributed to large federal deficits, rising interest rates, and a strong dollar.

No one denies that macroeconomic policies are important to agriculture—especially those that influence the rate of growth of foreign markets, such as policies related to trade, aid and development—but the current agricultural depression is only weakly related to changes in conventional monetary and fiscal policies. Changes in production and agricultural policy decisions, both at home and abroad, overwhelm the effect of conventional monetary and fiscal policies on farm exports and farm prices.

Production Affects Trade

World demand for grain obviously has suffered in the past two years from lower oil revenue in some countries, a slower rate of economic growth in others and large debt repayment obligations; however, these are not the major reasons for the decline in world grain trade. Almost all the decline is attributable to a drop in purchases by Western Europe and the Communist Bloc countries—the USSR, China, and Eastern Europe. Total grain imports by all other countries combined have continued to rise, although more slowly than in the 1970s.

Fluctuations in exchange rates or even in U.S. support prices appear to have had little influence on grain imports by Western Europe, the Soviet Bloc and China. Total imports for this group of countries generally rose during the 1970s when world prices were increasing, and have declined since 1981 despite much lower prices and a weaker dollar. Changes in their imports have been mainly a function of changes in domestic production and by policy decisions made in Brussels, Moscow, and Beijing rather than those made in Washington.

The most important single factor contributing to low grain prices has been increased production, both at home and abroad. Import demand for grain has declined because a number of traditional importers have either become more self-sufficient or now produce small quantities for export. This includes India, Pakistan, Bangladesh, and Saudi Arabia. New varieties of wheat have enabled countries in Western Europe to increase average yields to over 100 bushels per acre. This is a function both of technology and pricing policies.

The same factors have led China to become more self-sufficient. China even exported some corn in 1986. Policy reforms initiated by Deng Xiaoping may turn out to be more critical for U.S. agriculture than changes in the value of the dollar.

Higher yields and more favorable weather in the principal exporting countries also have contributed to weak world grain prices. Changes in both yields and planted acreage led to nearly a 100 million ton increase in the combined production of wheat and feed grains in the United States between 1971-72 and 1981-82. Shifts in the aggregate supply curve owing to improved technology account for most of the increase in output in recent years.

Grain production has been sustained at the 1981-82 level during the past two years despite a substantial drop in acreage. U.S. farmers produced an average of 324 million tons of wheat and feed grains combined in 1985-86. In the peak export years, total grain disappearance never exceeded 291 million tons. Thus, even if there had been no decline in U.S. exports, we would have had to cope with a surplus amounting to somewhere between 20 and 30 million tons.

While our production has remained stagnant, that of competing exporting nations has continued to rise. Total cereal production in Western Europe, Canada, Australia, and Argentina rose by around 22 million tons between 1981-82 and 1985-86. As residual supplier on world markets, the U.S. probably would have lost sales owing to increased exports by these other countries even if we had reduced support prices earlier or the dollar had been weaker.

Our competitors are reluctant to hold stocks and have no alternative but to meet U.S. price reductions, whether these are the result of changes in U.S. loan rates, the sale of PIK grain, or a weaker dollar. Competitive devaluation is one of the instruments they have employed to neutralize the effect of a decline in the value of the dollar relative to the yen and the mark.

Combined Wheat and Feed Grain Production

Principal Exporting Countries	1971-72	1981-82	1985-86
	(million tons)		
USA	229	325	324
Western Europe Canada, Australia and Argentina	198	255	277
Total	**427**	**580**	**601**

Average of 2 years in each case.

Implications for Forecasting

The foregoing comments suggest that macroeconomic variables will add little to models designed to forecast future exports or the prices of export crops. The most important variables are those that more directly affect production, including technology, weather, and agricultural policy decisions. Unfortunately, the latter do not lend themselves to econometric analysis based on time-series data. Changes in some of the more critical variables, such as policy decisions made in Brussels, Beijing, or Moscow occur too infrequently to provide a basis for estimating relationships. Shifts in supply associated with technology and weather are equally difficult to forecast. But in attempting to improve our projections, we need to concentrate on the more critical variables. Conventional monetary and fiscal policies do not rank very high on this list. C

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