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# Expanding Outlets for Farm Products: Analysis of Opportunities in the Foreign Field

*By Karl Brandt*

What I shall present will not be an analysis, but an appraisal. I hold that economics is not a natural science in which one deals with absolutes and has bases for measurement, but is rather a subject dealing with man and his freedom of action. Foreign trade is such a field of human action, in which man creates, sets, and changes conditions. Appraising prospects is just as much a matter of complex judgment as is the adventure of marketing commodities in distant lands of the world. While certain limitations, rigidities, and elasticities are involved, the most fascinating aspect is the leeway for action, not its imagined absence.

Under a Republican administration we are tenaciously beset by many old, almost forgotten problems of agricultural policy, as in the days of the New Deal. On June 1, 1954, we had government holdings of almost 900 million bushels of wheat, over 900 million bushels of feed grain, 1.4 billion pounds of butter, cheese, and dried milk, 7.3 million bales of cotton, 610 million pounds of tobacco, large quantities of oilseeds and vegetable oils, and miscellaneous other products. The new wheat crop will add another 300 million bushels to the carryover. The contents of the public granaries are truly enormous. The Congress increased the borrowing authority of the Commodity Credit Corporation as of July 1 this year to 8.5 billion dollars, and on August 18 raised it to a total of 10 billion dollars. These publicly owned surpluses clog available storage facilities, reducing space available for new crops, and are a major disturbing factor in the world market. Our wheat stocks alone are almost as large as the total world trade in wheat in 1953. These surpluses are the backwash of the overlong extension of an all-out wartime production policy guaranteeing a high price floor to several million farmers irrespective of supplies available.

The supply situation is no longer a collection of facts and figures of interest to some commodity merchants and brokers. It has forced legislators in the Congress, the executive branch of the federal government, and the national farmer organizations to work out adjustments, no matter how unpleasant, politically inexpedient, or unpalatable to some they may be. All responsible leaders in public affairs now realize that we simply cannot continue a policy which wastes economic resources and diminishes our welfare, producing supplies nobody wants

and storing them at public expense until, to be moved at all, they must be given away, if not destroyed.

Support prices have been lowered slightly. The Siamese twin of all price supports—restrictive quotas on production and marketing—has been reintroduced. The cuts in acreage for cotton, wheat, and corn are severe. Still unsolved is the problem of disposing of surpluses already accumulated without upsetting the precariously supported, though not actually held, prices in the markets. It is feared that declining exports may cause a deluge of additional surpluses. Here is where the world market and international trade enter into the picture. In 1951 the produce of over 50 million United States acres was exported; in 1953, the produce of 30 million; in 1954, except for cotton, the export volume has been shrinking further. In 1952 American exports contributed the following percentages to cash farm receipts for the commodities specified: dried whole milk, 43; wheat, corn, barley, rice, grain sorghums, rye, dry beans and peas, 37; cotton, 30; and tobacco, hops, lard, tallow, plums and prunes, 20-28. In 1951 exports of these commodities contributed even more to cash receipts.

In the fifty years between 1900 and 1951 the volume of United States exports remained at or oscillated between 25 percent above and 25 percent below the 1924-29 average, but during the 1930's dropped to 50 percent of it. The volume shows, therefore, a remarkable resistance against radical shrinkage except in response to a deliberate policy of withdrawal from the world market. The annual value of exports shot up from 1 billion dollars in prewar years to almost 4 billion dollars after World War I, and from 750 million dollars in the 1930's to 4 billion dollars after World War II.

After twelve or thirteen years of extraordinary prosperity, a huge capital investment, and a far-reaching renewal of its technical and biological inventory, American agriculture now has a much greater effective capacity to produce than it had before World War II, and it can step up the volume and shift the emphasis in production faster than ever before. Hence, there is a powerful incentive to maintain exports at a high level. If prices cannot be raised or tend to decline, the volume that can be sold governs the gross income.

First let us delve into the international situation as the environment for foreign trade, and the leeway for this country, as the leading power in the world, actually to shape this situation toward expanding foreign trade. Then I shall review the changes in the major areas of the world's food economy, the prospects for American exports of chief commodity groups, and conclude by appraising the probable,

and what I consider a desirable, course in agricultural export policy in the next few years.

### THE ENVIRONMENT FOR FOREIGN TRADE

Agricultural exports are a part of the economic intercourse between nations. Dealing with some of man's vital raw materials, they are dependent on the political and military world climate. The current "peace" impresses me as merely a continuation of war with other weapons, including such insidious ones as vodka and caviar served in foreign embassies in Moscow or Nanking. Yet it also appears that neither side has much taste at the moment for firing the first shot in World War III. We may have five, ten, or fifteen more years of tension, local conflict, further division of nations, more disarmament conferences and continued rearmament, but no major outbreak of war.

In such a situation, the importance of certain gradual adjustments that have been taking place in associations among nations must be recognized. During the war we were *the* power that was defeating the Nazi war machine and was salvaging our nearly defeated allies—even to the point of supplying the Red army with food, shoes, trucks, and ammunition. After the war our allies clung to us for rehabilitation. But Western Europe's economy is now almost entirely restored, not only having made up its losses but having gained some 50 percent more in industrial production. Thus, the British Commonwealth closes ranks and makes itself more independent of the United States, unwilling to lean as heavily on us as it had for more than a decade. Most of the countries on the Continent, willingly or unwillingly, follow suit. This has advantages for the free world; all nations need to stand on their own feet economically and also need a healthy expansion of world trade. This is particularly true of the countries of Europe.

The United States has decreased its tariff rates to the lowest point in its long protectionist history, has participated in the GATT agreements, and has poured 30 billion dollars into European and Asiatic reconstruction. But as a nation we are not ready to assume the role England once played as the banking and trade center of the world, or to facilitate world trade and the transfer of capital as a necessary venture. We have withdrawn gold from circulation as a trade medium and use it instead as a dead security. Although we long ago outgrew our status as a nation of infant industries, we still maintain a protectionist policy for agriculture and many now extremely powerful industries, such as our vast array of chemical plants. For reasons having chiefly to do with national defense, we give aid to other nations, often overgenerously. But when it comes to aiding trade, our national action is still hesitant and parsimonious.

In 1953 the Bank of England and Western Germany were ready to make the pound sterling and the Deutsche mark freely convertible. Had they succeeded, many other countries could not have helped following suit. But the Bank of England wanted assurance that, in the event of cornering attacks on the pound sterling by international speculators, the United States Treasury would join forces with the Bank in its defense. This proposal was rejected, and a unique opportunity to expand world trade and prosperity for the West was lost.

To understand why the return to convertibility is crucial, we must remember that the world-wide autarchy drive and exalted economic nationalism which stymied economic development began with the introduction of foreign exchange controls during the great depression of the early 1930's. Import quotas, licenses, and embargoes are only supplementary fences erected around a market to make foreign-exchange controls effective. Once the price—the exchange value—of a currency is artificially fixed and pegged, planned economy is its only defense. False exchange rates make prices meaningless and competition a game with loaded dice. If currencies were convertible and controls and quotas abolished, trade would quickly assume the multi-angular pattern of the days before World War I. The problem of dollar balances and bilateral arrangements would disappear, and merchants would buy where they could get the desired quality of product at the most advantageous price and mode of payment.

Foreign countries must eventually be able to earn dollars enough in the aggregate if they are to buy more American goods. This they cannot do unless we export dollars in the form of a stronger flow of American investment abroad, or buy more goods abroad. For practical success, both are necessary. Foreigners desiring to sell in the United States are faced with other obstacles besides import duties and deterrent customs procedures. The sheer size of the American market poses grave problems in advertising and merchandising.

Only four years ago, with the outbreak of the Korean war, a general scare about food shortages sent the prices of agricultural commodities skyrocketing. But today reports from all parts of the world indicate a return of food and fiber production and per capita supply to normal rates prevailing before World War II. Farm production for the world as a whole has caught up with the large increase of a population now estimated at 2.5 billion people.<sup>1</sup> For grain, sugar, fats and oils, and even for animal products, there is no longer a seller's market; available supplies, with a few exceptions such as coffee, tea, and some spices, exceed the immediately effective demand. There is a stand-by capacity to produce that adds to the atmosphere of plenty

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<sup>1</sup>United Nations, *World Economic Report, 1952-53*, New York, 1954.

and of softening prices. It is against this background that we have to weigh our agricultural export policy.

The most effective support for a strong and steady flow of United States agricultural exports which our government can provide is to give active and effective assistance to foreign note-issuing banks in their efforts to restore convertibility of currencies. Any improvement in customs procedures, abatement of import duties, or increase in private foreign investment also would aid agricultural exports.

Yet in the emergency created by the overflowing granaries, there are some moral obligations to be noted, which are also matters of practical common sense. Our tariff policy has always been dictated by a philosophy that defines dumping as an unfair trade practice. Dumping simply means selling a commodity abroad at a lower price than at home. Our customs service guards against dumping by foreign manufacturers, frequently checks the facts in the countries of origin, and applies countervailing duties or refuses the imports entry into this country. When we are on the receiving end, we bitterly denounce the practice as cut-throat competition or worse. But we cannot very well just ignore this when we ourselves are eager to export agricultural or other products. Moreover, we cannot start dumping stocks without reaping the practical consequences of deep resentment and retaliation with the whole arsenal of protectionism and economic nationalism. Exporting with government subsidies is the worst sort of dumping. That some other nations, such as France, are preparing to engage in this practice does not make it any better.

If the domestic price is fixed by government action, and that price is higher than the world market level, practically nothing can be exported unless it is dumped. The "need" to dump, therefore, arises from a policy of supporting domestic prices which, in the event of oversupply, constitutes price-fixing. If we were to choose a different method of supporting farm income—one which would not tamper with the market price—we would not find ourselves in this dilemma. This is why nearly all agricultural economists of repute advocate making compensatory or deficiency payments to farmers, which leaves intact the price mechanism and the market.

The course of our farm income-support policy, the principal philosophy and devices of which have remained the same since 1933, is in contradiction with a foreign-trade policy giving our farmers the benefit of a healthy flow of exports. The report of the Randall Commission on Foreign Economic Policy states, "It is necessary to harmonize our agricultural and foreign economic policies without sacrificing

the sound objectives of either." President Eisenhower's comment on this was, "I am convinced such reconciliation is possible."<sup>2</sup>

### CHANGES IN THE WORLD FOOD ECONOMY

But even if everything were ideally arranged for a maximum flow of exports, might not prospective foreign purchasers have enough from their own production to satisfy their needs? A brief glance at the major areas of the world shows the following picture. Europe, as the traditional main purchaser of American products, has gone through a rapid and successful process of agricultural reconstruction accelerated by energetic American army, ECA, and MSA aid to industrial reconstruction. Restoration of European consumer purchasing power has kept farm prices remunerative and has stimulated recovery. Public planning and financing have played a part in mechanization and in supplying fertilizer, seed, and pesticides. The emphasis has been on increasing the acreage of high-yielding crops and boosting the yields of all crops.

The United Kingdom subsidizes agriculture to create larger domestic supplies for emergencies and to decrease dependence on overseas markets. Instead of importing 75 percent of its food as it did in prewar years, it now imports only 50 to 60 percent. Agricultural output is high. After fourteen and a half years, rationing of food and feed has finally been abolished, but markets of farm products remain controlled by boards. British farmers since the end of the war have increased the proportion of their land used for fodder and decreased the crop area, and grow one-third less wheat. The emphasis is on livestock production, but chiefly on the basis of domestic fodder. Livestock produced with home-grown feed in 1954 is over 50 percent greater than in prewar years.

Yet the United Kingdom is still the world's greatest market for agricultural exports, food as well as feed and fibers. In 1952 agricultural imports were 7.6 billion dollars, or 50 percent of the imports of fourteen OEEC countries.<sup>3</sup> The imports in 1951 and 1952 amounted roughly to 6-7 million tons of grain, over 1 million tons of oilcake and meal, 1.4 million tons of fats and oils, and 1.2 million tons of meat. But, naturally, the British make the most of their purchases and place them where they do the most good for their industrial exports, particularly in sterling-bloc and other soft-currency countries. It is British policy to become as independent as possible of American economic

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<sup>2</sup>83rd Congress, 2nd Session, *House Document 360* (Message of the President to the Congress).

<sup>3</sup>Cf. OEEC, *General Statistics, No. 3, 1954*, Paris, May 1954.

affairs and the possibility of an American depression or the recurrence of high American protection.

One of the results of the recovery of agricultural production in Europe is that Germany, the second largest export market in Europe, is trying to buy as much wheat as she can from France and Turkey. She even bought some 10 million bushels from Sweden. Italy imports over 1 million tons of grain net, and some 200,000 tons of fats, and thus ranks with Belgium and the Netherlands.

In general, all of Western Europe, except Spain, plus French North Africa, had good grain crops last year and favorable prospects for this year. Besides expanded output of grain, there is a large output of potatoes (the equivalent of corn in the United States), and an even larger output of sugar beets. Measured by prewar records, the production of all types of meat is high, but still far below what the demand could be if consumer purchasing power were to increase or the price of meat to fall. Europe's dairy industry output is expanding, and the supply of butter and cheese is increasing.

As production mounts and the last remnants of wartime food and feed rationing disappear with the restoration of the food economy to a more normal state and better-stocked pantry shelves, the old tendency to protect agriculture against overseas competition is coming to the fore again. Attempts to establish a green pool or a government cartel of agricultural producers in the six Schuman Plan countries are now virtually dead. While they aimed at the abolition of trade barriers for selected agricultural commodities within the pool countries, they also involved the possibility of a common customs boundary against overseas countries. The reason these efforts foundered lies primarily in the diversity of interest among the six partner countries.

The Germans must boost their industrial exports or face domestic chaos and foreign domination. Radical agricultural protection within their free-market economy is, therefore, impossible, but the situation militates for bilateral trade agreements. While cereal consumption is shrinking, the tendency to increase the consumption of animal products and vegetable fats prevails. In 1952-53 the per capita consumption of meat was still 20 percent below prewar. The Germans buy agricultural products in countries which are willing to buy more German industrial export goods. I expect them to maintain heavy agricultural imports despite rising agricultural production.

The French, with their heavily planned economy and state ownership of basic industries, are facing in agriculture surplus problems similar to those confronting the United States. The French think more in terms of state-controlled agricultural markets, public

granaries, and subsidized farm exports. Danish agriculture has become more self-sufficient in feedstuffs, but has large exportable supplies of butter, bacon, and eggs.

Taking Continental Western Europe (the NATO countries minus Britain plus Western Germany) as an area, I would expect in the coming years an increasing output in animal products, vegetables, and fruits, and also in bread grain, potatoes, sugar beets, and feed materials. The deficit to be imported from overseas will consist chiefly of some quality wheat, feed grains, and oilseeds—the latter for crushing vegetable oil and having available high-protein feed concentrates. The purchases of these materials, so long as currency convertibility is not generally achieved, will be negotiated mainly against concessions on industrial imports by the export countries. But for many commodities, price, conditions of payment, and quality will determine where they are bought. With stocks already replenished, there seems little intention to lay in larger ones.

Next to Western Europe, the entire Soviet orbit is a potential exporter as well as a buyer of agricultural products. The USSR, its western satellites, China, North Korea, and North Indo-China compose the area. None other presents so many puzzles. It is a vast area of the globe and a large segment of the human race, where industrialization is forced by rugged state capitalism and agriculture is collectivized. The expansion of agricultural production is demonstrably and admittedly the weakest link in the system. Large agricultural exports are, therefore, improbable. While enough cereals and sugar for direct human consumption are being grown, the supply of all animal products and fats remains critically short. The reason is that animal production is located in the native forest belts and requires mixed farming, a system which does not easily lend itself to MTS operation or collective management.

Will the USSR and the western satellites import feed materials, or instead buy animal products and fats? It is my guess that if there is no major war and the Soviets grant the Russian consumer a little more leeway in his diet, the USSR will probably buy animal products and fats in the world market rather than feed grain. In fact, the pressure on butter prices in the world market has recently been lessened by Soviet purchases. Measured by the exorbitant prices of animal products inside Russia, the world-market offers are cheap. I also conclude, for different reasons, that Soviet China, too, will buy animal products rather than feed grain in the world market. She may, in addition, buy wheat and rice.

A rider must be attached to this speculation, however. If the Soviets should conclude trade treaties with Western Europe and other

countries which open their market for industrial goods, they may buy animal products from Europe or South America rather than from North America, Africa, or Oceania. This would also suit their political intentions. In that case the Europeans would become even greater buyers of feed materials—grains and feed proteins. New possibilities would then emerge for American exports of corn, sorghums, barley, and soybeans.

The free Asian countries, including Japan, South Korea, the Philippine Republic, India, Pakistan, Burma, South Indo-China, Thailand, and Indonesia make up an area with vast numbers of consumers. Industrial Japan, with close to 90 million people, is cut off from trade with China and Manchuria and cannot obtain her former imports of food from Korea. Today Japan is one of the prominent importers of food, buying 20 percent abroad. In 1952 food and other agricultural imports amounted to 1.5 billion dollars, and included 1.7 million metric tons of wheat, 1 million metric tons of rice, nearly 1 million metric tons of barley, and 700,000 tons of sugar. With a growing population and a great dearth of natural resources, Japan almost inevitably will continue to buy substantial amounts of cereals, sugar, fats, and even animal products abroad.

In India and Pakistan it will be chiefly a question of buying large quantities of cereals when the monsoon rain fails to come in time, as in 1952, when these countries had net imports of 2.8 million tons of wheat. But better storage facilities and intensification of farming may diminish import needs even in bad years. Concentration of policies on boosting agricultural output of food and fiber for domestic consumption, and of agricultural export commodities such as jute, tea, rubber, and spices, will show results in larger crop acreages and yields. Thus, the demand for imports will depend chiefly on compensation for poor crops owing to bad weather, or pests, or on great success in earning funds with agricultural and industrial exports.

Central and South Africa and the Near East can more or less be ignored as markets. The Near East exports considerable amounts of wheat from Turkey and Africa, peanuts, and miscellaneous products.

Latin America has a rapidly rising white population. Intensive industrialization drives are under way in Venezuela, Brazil, Argentina, and elsewhere, and there is a lag in the development of agricultural resources. Measured by the value of the world's agricultural foreign trade, Latin-American agricultural imports are not of first magnitude. In 1952 the value of all Central and South American agricultural imports was less than 700 million dollars. Yet this was close to half the imports of all free Asian countries, or more than the imports of Africa and Oceania combined. Latin America may loom large,

however, as a buyer of some of our agricultural exports. Cuba and Brazil have become the most important buyers. With their emphasis on exportable plantation commodities with a preferred place in the American market (coffee, cane sugar), their markets deserve the particular attention of American exporters.

There will be a steady demand for 250 million dollars' worth of American farm products in Canada, so long as the Canadians can export other farm products to us. We sell cotton, citrus fruit, vegetables, and feed concentrates to them, while they sell grain, meat, apples, etc., to us. The more Canada and the United States accumulate commodity stocks, the more importing countries will avoid buying more than normal pipeline supplies.

In drawing together the area survey, I would put the major markets in this order. Within the coming decade, the chief concentration of effective purchasing power outside the United States will lie in parts of Western Europe (the United Kingdom and the most industrialized parts of the Continent) and in Canada. Even with the success expected in agricultural intensification in this area, the deficit in grains, oilseeds, tobacco, and cotton may expand rather than shrink. If the USSR and her western satellites should engage in a large volume of trade with the West, this European deficit might increase, because Continental farmers would want to process feed materials into exportable animal products. Free Asia would rank next, with Japan and India as major buyers. Latin America would be a promising third, if not eventually a second, market area.

### **PROSPECTS FOR AMERICAN EXPORTS**

But international trade is a matter of exchanging specific quantities of specific commodities of specific qualities within the general framework of exchange of goods, services, and gold. The chances for the American farmer to export each year several billion dollars' worth of major farm products appear to me as follows.

Prospects for selling a large volume of American cotton and tobacco abroad seem better than for many other products. Our capacity to produce cotton at high wages with low costs per unit and to ship it in good standard quality in reliable volume at any time are still the best in the world. Cotton lint has a great unchallenged future as a fiber; the same is true for cottonseed as an oil and feed-protein source. The accelerated development and industrialization of colonial countries means, first of all, the rise of light industries, and first among them cotton mills. By virtue of the combined requirements of soil and climate, capital for production, gins, and transportation, there will be less competition with other export countries

than in the case of grains. If high employment is maintained in the United States and Western Europe, the foreign demand for American cotton will be high, provided its price is competitive; if so offered, a large volume will be bought.<sup>4</sup> This will also hold for tobacco, although here it is primarily a matter of importing-country tax policies.

The future of wool, still a fiber without equal—synthetic fibers notwithstanding—seems also bright. But under our economic conditions, sheep husbandry must adjust to high-quality meat production, with coarse wool as a by-product. Most of our apparel wool will be imported from Australia, New Zealand, Uruguay, and Argentina at prices lower than ours.

Other industrial raw materials produced in agriculture are linseed and tallow—one for oil paint and coatings, the other for soap. Linseed production competes in the West with wheat and barley for the same land and equipment. As both crops face severe acreage cuts (wheat now, barley later), linseed may gain and find foreign markets as seed or oil—as, for example, in Germany—if the price is competitive with synthetic resins and the industrial boom continues over there. Tallow is a by-product of beef, and will continue to find foreign markets insofar as it cannot be absorbed at home. To utilize more domestically would require the import of more coconut oil without the 3 cent excise tax; only with coconut oil can tallow be transformed into good soap and defend its position against the detergents.

The picture becomes more clouded the moment we look at the grain markets. The OEEC reports for fourteen European countries in 1953-54 a total production of 45 million metric tons of bread grain (wheat plus rye) against 34 million prewar, and a total coarse-grain crop of 39 million metric tons as against 30 million prewar. Also, there are 2.5 million metric tons of grain equivalent in the form of potatoes in excess of the prewar supply. Except for the possibility of years with bad weather, we may expect Europe's grain crops to rise in the future. World wheat and wheat-flour exports this year are probably still 80 percent above prewar, but the share of the major exporting countries is undergoing radical change. In prewar years Canada was the greatest exporter, Argentina next, Australia third, various other countries fourth, and the United States, with 8 percent of world exports, last. During the war and until 1949 we were in first place, far ahead of Canada, which was second; Australia was third, Argentina fourth, and various other countries fifth. Last year Canada had regained first position, the United States was second, Australia still third,

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<sup>4</sup> Cf. remarks of Lamar Fleming, Jr., Chairman of the Board, Anderson, Clayton, and Company, at the American Cotton Congress, Corpus Christi, Texas, June 4, 1954.

various other countries fourth, and Argentina last. Argentina, however, is expanding acreage and in time may move up to fourth position. What position the United States will occupy depends on whether we want to ship wheat at lower prices or give up competing, as we did in prewar years.

In the tough competition to come among exporters, the International Wheat Agreement of 1953, which covers only one-half of world exports, will not be of much assistance. The importing countries will not have much incentive to build larger stocks. In fact, I even expect other exporting countries to leave the job of holding stocks mostly to us. In general, I do not look for any real aid to farmers through international commodity cartel deals; they are all restrictive and defend the *status quo*. If we want to retain a large share in the world wheat market, we must export at prices that offer the maximum incentive to expand the food and feed use of wheat. Europe's share in imports may decline below its present 50 percent of world exports (compared with 75 percent before the war), while Asia's share may rise considerably above the 25 percent it now has (compared with 10 percent prewar).

As the country with the highest farm wages, the United States nevertheless is producing rice, a grain typical for countries with the lowest farm wages, very efficiently, and may continue to export to Japan and Korea, and may perhaps sell even to China.

The chances for selling feed grain in general seem brighter. Corn, barley, sorghums, and oats should have good foreign markets, particularly in Europe. But a steady permanent flow of United States feed grains to Europe requires prices that give animal feeders a strong edge, especially if East-West trade should come to full swing, as seems likely. Relatively low feed grain prices would, in due time, bring the prices of meat and eggs down, and thereby progressively expand their demand.

In the area of fats and oils our chances also seem fair. The Europeans cannot afford to produce annual oil crops on a large scale. These require too much precious land and too much sunshine, and yields are low. Europe's best fat producers are dairy cows, and even they need oilcake and meal. Mediterranean olive oil production is a different matter. The main bulk of fats for the United Kingdom and the industrial countries on the Continent must come as whale oil, tropical palm fats, or annual oilseeds. The whale oil supply is fixed by the International Whaling Agreement. Palm fats yield little, if any, cake.

Since feed portoins are scarce on the Continent, and Manchurian

soybeans now go to Russia, American soybean production has a good chance of supplying part of the need. Soybeans are a crop well suited to the land-use pattern of the corn belt, and their position should improve as the coarse-grain acreage is reduced. The chief market for soybeans is in Europe (Germany, France, Holland, and Scandinavia), but Japan, Formosa, and Canada are also large buyers. The American soybean export industry must guard the quality of its product. At the European oilseed crushers' association meeting in Cannes, the complaint about 4 to 6 percent impurities in American-grown soybeans was general. Sunflower and safflower may possibly be grown, eventually, on a large scale in the United States for export purposes. Both fit into western grain farming; both can substitute as crops for wheat or barley.

With a highly efficient production of feed grain, oilcake, and succulent feed, and an equally efficient production of milk, eggs, chicken meat, and pork there is no reason why these American animal products cannot be sold at competitive prices in the world market. It is a question for efficient agricultural producers to decide. In grain and bulk products, salesmanship has little leverage, while price and quality exert a great deal. But it is a different story with finished products. There packaged goods are sold at retail, and we must see to it that the quality is peerless and the price to the ultimate consumer is as reasonable and attractive as possible.

Of all the animal proteins we produce, dried skim milk is by far the most price-worthy, the most nutritionally valuable, and the most versatile product in kitchen use. Not milk prices kept high by government price floors, but lowered production costs and improved servicing of consumers at home and in many foreign lands will promise the greatest future for American dairymen. The answer to margarine is 92 score butter, offered at as tempting a price as competition will allow. American pork in small cans would supply luxury meat to people in densely populated countries where there is a shortage of animal production. This means the former colonial areas and the entire Soviet orbit.

Many countries, particularly tropical ones, can produce a great variety of fruits and vegetables. Theoretically, any country in any climate with a large farm labor supply can do so. But in practice, when it comes to a reliable flow of standard quality that can be shipped at any time, or when it is a question of dehydrated, canned, or deep-frozen products, the capital equipment of American large-scale production, processing, and shipping is almost without competition. We cannot supply mass markets in bulk where purchasing power is low. But we can supply people in metropolitan areas who have a high

enough purchasing power to enjoy fruits or vegetables out of season. Again, it is a question of competent and aggressive merchandising abroad. If this course is to be taken, we would need to adopt a more liberal import policy for foreign fruits and vegetables, particularly with our Canadian and Latin-American neighbors and in the Pacific area.

### AGRICULTURAL EXPORT POLICY

This leads me back to my starting point—the surplus situation. With due regard to what I have said about the foreign market, it is still axiomatic that the chief solution of our excess production problem must be sought at home. The American farmer's greatest possession is his vast, uniform domestic market with nearly 160 million consumers, a rapidly rising population with a mounting purchasing power in an expanding economy. This market has such a high purchasing power that it offers ever greater opportunities for improving the diet. We have by no means reached the saturation point for per capita consumption of animal products—neither for eggs, milk, dairy products nor for red or white meat. Producing these would reduce the bulk of grain or oilcake at a ratio of from 13:1 to 6:1, or an average of 10:1. If we figure the truly ingested portion, the ratio is closer to 15:1. In other words, we would reduce the volume of surplus cereal supplies to one-fifteenth their weight in animal products.

The farmer's gross income does not depend on price alone, but on price times sales volume. His net income depends on the differential between prices and costs and on his efficiency as a producer. To fix prices high and to freeze production and marketing through quotas is the antithesis of a flexible free-enterprise economy, and will never yield a good income. One hundred and sixty million consumers who have a price incentive to buy exert a far greater leverage for farm prosperity than 10,000 quota-enforcing officers can ever bring to bear by the imposition of restrictions which, in effect, antagonize and tax the consumer.

The gap between the present maladjusted production and supply situation and one in which supplies flow freely into consumption at home and abroad must be closed primarily here at home. Quota restrictions, unfortunately, have become a necessary evil to achieve the transition. But the real adjustment must be the gradual lowering of price floors while acreages are being adjusted and surpluses moved into consumption channels. The whole concept of a "surplus" stands and falls with price-fixing, just as price-fixing and rationing create the black market. If prices are free to move, they clear the market. Only locally and very temporarily can quantities of agricultural

products remain unsold in a truly free market, and then only highly perishable ones, such as fruits and vegetables. If anyone doubts this, he may be referred to the butcher store, where he will learn how price clears the shelves even of such perishable and optional food as meat. We hear a great deal of loose political nonsense these days about how prices do not allocate resources in agriculture. The adjustment of acreage after potato price supports were abolished tells a much different story.

We can keep export markets open for a sizable volume of products only by shifting to flexible farm prices which stay in line with competitive world-market prices. But in order to reach that state of affairs, we must find ways and means of reducing our public commodity holdings to a normal size. This applies first of all to the enormous holdings of wheat and corn. I see a possibility of doing that without creating havoc and heavy retaliation in the world market only through four sorts of measures:

1. The main bulk of the excess must be used as feed for livestock at home. This requires writing off a substantial loss, but it would give the dairymen, the cattle feeders, the hog farmers, and the egg-and-broiler producers a chance for profitable expansion of production. Only if our wheat carryover can be reduced to or below the 500-million-bushel line will we regain the necessary freedom of action with reference to our storage facilities. By far the cheapest adjustment of excess grain storage is via the livestock industry.

2. A substantial part of the excess stocks should be sold as feed material to foreign countries, if need be after denaturing it, with the provision of a one-year credit by the American exporter.

3. If we want to put emphasis on maintaining high production and farm income, rather than on curtailing production and income, without disorganizing the entire world market, we may use some of the surpluses as a foreign investment. Special concessions could be granted to industrial enterprises in colonial areas in the form of loans of surplus food for their workers and workers' families. It would amount to a form of foreign aid. Repayment could be made later, if need be in the form of raw materials. The trouble with this method is the red tape involved.

4. I believe we should also explore the possibility of laying in a military reserve of wheat (perhaps as cracked wheat) and wheat flour in permanent storage in strategically located deposits in various defense areas of the world. It is possible to store any grain in paper-sealed concrete-floor trench silos for many years in perfect condition,

as storage practice in Argentina, Uruguay, and Paraguay has shown. I would expect this true military stockpile laid in at the foreign air bases to achieve two purposes: (a) it would effectively and completely eliminate this volume from the market in this country and elsewhere; and (b) it would give assurance that for a period of five or six years emergency supplies would be available in case of war at the spots where needed, and thus would relieve our warehouses, railroads, ports, and ships of that much cargo. At the end of five years the stockpile might be replaced by new supplies and the old ones released for whatever price they would bring. If this idea were found practicable and were adopted, it might well be applied also to the storage of some canned meat reserves. However, this military stockpile offers merely a limited supplementary solution to the problem of surplus disposal.

I do not believe that either the freezing of 2.5 billion dollars' worth of surpluses nor the sale of surpluses for foreign soft currencies is a genuine solution to our surplus problem. The freezing does not eliminate the stocks from "visible supply." The frozen quantity still continues to press on the domestic and international markets. Sale for soft currency, on the other hand, is a cumbersome, makeshift arrangement that actually amounts to extending foreign aid via tortuous detours. We could much more easily accomplish that end with earmarked dollar aid to recipient countries. At best it is a politically expedient method of extending aid or credit.

In closing, I would like to emphasize again the fact that tomorrow's export market for any one commodity is not a given entity that can be measured. Its size means the capacity to absorb a flow of goods in exchange which nations and their enterprising merchants create by intelligent, resourceful, and responsible action. Foreign trade is a two-way traffic. We have a good chance of maintaining a prosperous flow of American farm exports if prices are free and competitive. The means for achieving it lie in a progressive foreign economic policy, in trade negotiations, in merchandising, and services to our customers. It is no exaggeration to say that creative imagination brings potential demand to the point of actual buying. It expands the world market. To me it borders on the absurd, therefore, to approach the question of how much farm products we can export by calculating the "elasticity" of foreign demand by mathematical formulas and highly sophisticated tools of statistical analysis. It seems just as absurd as a general's basing his conduct of a war on a statistical analysis of the enemy's propensity to lose. Fortunately enough, man is not a passive part in a dynamic process called history; instead, he is endowed with the responsibility and the freedom to chart the course of history, and that includes the agricultural exports of the United States of America.