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Comments on Dr. Brandt's Paper

By Gwynn Garnett

The subject, "Expanding Export Markets for Farm Products, is very broad and has many facets. Dr. Brandt and I see this broad subject from quite different points of view. Wide differences of opinion might be expected—and there are some. However, there is a broad area of agreement between us. There is fuller agreement than my comments might indicate, but enumerating our points of agreement would serve no useful purpose.

I would like to emphasize far more than Dr. Brandt the importance of agricultural exports to American agriculture and how they should be fitted into general policy development. Two out of three diverted acres in 1954 have been due to a loss of export markets. To avoid the danger of surpluses and the burden of diverted acres, every group that meets to discuss farm policy should help to formulate a United States foreign economic policy and a United States farm policy that will facilitate the export of around 40 percent of our cotton, wheat, soybeans, rice, tobacco, and substantial quantities of other products. No farm program is adequate unless it is geared to the export of approximately this proportion of our agricultural output. Such a program is possible.

Dr. Brandt gave a splendid analysis of the prospects for export of farm products. For wheat it is not so good. I am not so optimistic as he about the export of rice, but it is still good. For cotton and tobacco the prospects are good. For soybeans, oilseeds, feed, and animal products we can expect a strong export demand. We agree on the prospects in these terms, but this is not enough. Within the framework of these prospects I would expect an agricultural export four years hence of 1.5 billion dollars to 4 billion dollars a year. American agriculture will be strangled if the export is only 1.5 billion dollars a year. We are likely to be relatively prosperous with a 4 billion dollar export. We dare not sit back and accept some figure of fate. Within this range we must seize the reins, jockey the race, and steer exports into the upper end of that range. The concerted effort of farm organizations, government agencies, and colleges will be required to develop a program which will do the job.

Dr. Brandt made a convincing appeal for currency convertibility. I would like to bring the subject of currency convertibility into a bit sharper focus. When international payments balance without foreign exchange controls, free currency convertibility is a logical development. Free currency convertibility will not of itself bring about a

balance of international payments. There are many advantages of free currency convertibility, as Dr. Brandt pointed out. However, even if convertibility is provided, many markets will remain protected. Currency convertibility will be no help against protectionism. The principal European markets will continue to direct their imports in a manner which will expand exports under bilateral trade agreements. Currency convertibility will not help us against this practice. Recent legislation enacted by the Congress now provides limited currency convertibility for farm products. It provides for the sale of products for foreign currency in an amount up to 1 billion dollars. Yet this currency convertibility for farm products is no panacea.

Dr. Brandt further stated that the United Kingdom and Germany were ready for currency convertibility in 1953. I should like to say that both countries are nearer currency convertibility now than in 1953. The United States did not reject the request but agreed to give it thorough consideration. The opportunity has not been lost for United States support of currency convertibility in the United Kingdom and Germany. I should like to repeat that when international payments balance without currency control, free convertibility is the next logical development. There is no assurance that currency convertibility would improve the international payments balance.

I should like to point out that producer payments apply differently to different products. To take two extremes, we import two-thirds of our wool, and the market is somewhat elastic. On the other hand, we export one-third of our tobacco, and it has an inelastic demand. The effect of producer payments on wool would be very different than on tobacco. Likewise, there are differences between animal products and wheat. The case for producer payments can best be made for those products which have the more elastic demands. One further point might be made with respect to deficiency payments. In both the General Agreements on Trade and Tariffs and the Charter of the International Trade Organization, export subsidies and producer payments are defined the same as far as discrimination in international trade is concerned.

Dr. Brandt took a dim view of selling surplus farm products for foreign currencies. Of all people in the United States I am the one most unlikely to give an unbiased view of this program. I have been one of the principal architects and salesmen. Congress has authorized 1 billion dollars. To test the possibilities of the idea on a full scale, 500 million dollars in offers have accumulated on the shelf. If the program is a bust, I expect to be hung in effigy. If it is a success, I shall be happy to have made some contribution to it.

I agree with Dr. Brandt that it is no panacea, but I should like to say this in its defense. Our national security depends to a very large extent on the number and strength of our allies. One of the most important foreign relations and national security problems is to create sufficient cohesive forces among our allies to unite them in a determined military effort, should the need arise. Foreign trade is the most effective and readily usable force to unite nations on the basis of economic self-interest. Creating sufficient forces to reinforce our national security requires an expansion in international trade among nations of the free world so that it can be self-sufficient in food, raw materials, and markets within the defense perimeter. The basic idea underlying the program to sell surplus farm products for foreign currency was that in some way some part of the foreign assets in surplus farm products could be converted into a capital revolving fund for raising the general level of international trade among free nations and for promoting economic development.

Dr. Brandt listed four points in outlining what he considered a desirable course in agricultural export policy during the next few years: (1) feed the surpluses, (2) export the surpluses as feed, (3) sell farm surpluses for foreign currency, and (4) create strategic stockpiles of food in critical defense areas around the world. I find no disagreement on these four points but would want to approach the point of creating strategic reserves with a great deal of caution. More important, I feel that these four points do not constitute an adequate agricultural export policy. It is of utmost importance to formulate and implement an agricultural export policy and a foreign economic policy which will facilitate the export of around 4 billion dollars of farm products a year.

There are many facets to an affirmative agricultural export policy that could be classified in many different ways. For convenience I would like to classify them under the following four points: (1) produce quality products, (2) price them competitively, (3) merchandise them vigorously, (4) market them where people have the ability and the opportunity to pay for them. These principles of expanding markets are very similar to those for merchandising tractors, fruit juices, or household appliances. You start with a quality product, price it right, merchandise it vigorously in a market where people have the ability and opportunity to pay, or you will be squeezed out of the market. Consider each of the four separately.

1. **QUALITY.** Our greatest surplus is in wheat; yet the quality of wheat for which we have the best export market is in very short supply in the United States. We have a domestic farm program which takes no heed of the grades and quality of wheat in high market

demand. Premium milling wheat is hard red spring. This is all bought up in the domestic market. The Canadians are in a position to export high-grade milling wheat and are, therefore, squeezing us out of the market. Our grades permit a shameful tolerance. We have permitted cotton to be exported in damaged condition, leaving the importer no recourse. Foreign buyers want high quality soybeans. Our highest quality soybeans are bought in the domestic market, and importers find it difficult to buy the grade and quality they desire. Foreign buyers want soybeans, but we have not fully decided whether we are willing to sell them soybeans or whether we should try to force them to buy soybean oil. Some foreign buyers want to buy dried whole milk, but we have a program only for dried skim milk.

2. **COMPETITIVE PRICING.** When our export price on wheat is around \$1.95 per bushel, the Canadian price is a nickel less for premium quality wheat. As a residual supplier, we have let our high export prices encourage production of basic farm products abroad with which we must now compete at high prices. Our export pricing must be flexible and sufficiently competitive to discourage high-cost production in foreign countries.

3. **VIGOROUS MERCHANDISING.** Much can be learned in merchandising farm products by observing the merchandising practices used on consumer goods in the United States. Products are tailored to meet the demand. Liberal credit is available, and salesmen bring their product to the attention of consumers in every conceivable way. We have not touched merchandising of farm products abroad. A simple illustration is that we are prepared to sell dried milk in backward countries in wooden or fiber barrels. The packaging does not fit the needs of the consumer because of climatic conditions. Two hundred pound barrels cannot be transported, financed, or carried in stock until sold without spoilage in many potential market areas. Our merchandising of farm products abroad simply is not geared to the needs and requirements of the customers.

4. **MARKETING WHERE PEOPLE HAVE THE ABILITY AND OPPORTUNITY TO PAY FOR FARM PRODUCTS.** People in foreign countries have to be employed if they are to provide a market. There must be production of products for export and a market for those products. To this purpose the program for the sale of surplus farm products for foreign currencies was primarily directed. It authorizes the use of foreign currencies to establish merchandising of farm surpluses in new market areas, to promote economic development, and increase complementary production for export. It authorizes the purchase of strategic materials,

military requirements, and facilities, which offers the opportunity to pay.

Around these four points we should formulate a United States foreign economic policy and a United States agricultural policy geared to a high level of export of farm products. We still are standing at the gate on all four.