INTERNATIONAL AGRICULTURAL TRADE POLICY ISSUES FOR CONSUMERS

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Export Impacts on Domestic Food Prices

Rapid increases in export demand for agricultural products cause a fairly rapid increase in farm commodity prices. These are, in turn, reflected much less rapidly, in higher food prices.

Variations and instability in export sales generate uncertainty for U.S. farmers, livestock producers, food manufacturers, and distributors. This uncertainty adds economic costs to the domestic food supply and sometimes generates an "upward ratchet" effect on the pricing behavior of food retailers.

Variability in exports results from a combination of controllable factors such as world economic growth, international balance of payments, the value of the U.S. dollar *vis-a-vis* the currencies of importing nations, trade barriers, subsidies, and uncontrollable factors such as weather, pestilence, etc.

Why Export Agricultural Products?

Given the potential/actual upward impacts on food prices, why should we export agricultural products? The economic benefits to society at large from specialization of production in goods in which the U.S. has a comparative advantage, and trade for those goods that can't be produced in the U.S. or can be produced elsewhere and transported to the U.S. at a lower cost is certainly one reason.

While society in general benefits from specialization and trade, there are differential distributional impacts. This means those who produce exportable products benefit directly while those who produce goods that are displaced by imports bear direct costs and benefit only indirectly.

The Pros and Cons of Protectionism

Reasons to protect domestic markets from the impacts of international trade include national security, protection of "infant" industries, protection of the *status quo*, reduction of payments to foreigners, and retaliation against trade restrictions or political actions by other nations.

The costs of protecting domestic markets includes the loss of economic efficiency associated with exploitation of international comparative advantages and the loss of export markets, due to retaliation, which are beneficial in terms of domestic employment, income, and earning foreign exchange for the purchase of critical resources not adequately available in the U.S.

Impacts of Restrictions on Food Imports

The rationale for food import restrictions is tied to domestic price support programs and the desire to protect domestic livestock industries from subsidized exports by other nations.

Impacts of lifting these import restrictions would include undermining domestic agricultural policy, reduction in food security associated with the maintenance of livestock herds which could be liquidated in event of a severe crop failure, and relatively modest lowering of domestic food expenditures due to the relatively small portion of food spending on restricted items.

Should Food Reserves Exist?

Should food reserves exist as a matter of public policy to mitigate the impact of unexpected foreign demand on food prices? Economic rationale for food or grain reserves is a supply-stabilization mechanism within the bank between stock acquisition price and stock release price.

Unwillingness of other countries to carry large food reserves increases the cost to the U.S. for maintaining such stocks and tends to put the U.S. in the role of "residual supplier" to the world market when crop shortfalls exist, thus increasing rather than mitigating food price instability.

Humanitarian Food Aid vs. Commercial Exports

Humanitarian aid tends to ebb when commercial exports expand and vice versa. This raises the conjecture that such aid is more a release for the U.S. to dispose of excess agricultural production when world market demand is weak than an effort to eliminate world hunger.

Economic aid has been demonstrated to generate expanded export market opportunities for U.S. products, including agricultural commodities, in the long term when such aid results in economic development in the recipient country. Combined with technical assistance, economic aid appears to be more effective in resolving world hunger than does food aid.

Food and International Politics

Does the U.S. effectively provide economic support to its political adversaries by engaging in commercial trade in such critical materials as foods and feedstuffs? Selective embargoes are unable to substantially reduce food import availability to political adversaries.

What is the potential for all major food exporting countries to organize into a cartel for the purposes of allocating markets, stabilizing export shipments, and raising revenues from export sales?

Cartels have the longer term disadvantages of encouraging importing nations to expand production and/or conserve use and thus reduce overall export market potential for the cartel members. This, in turn, encourages cheating as one member cuts price in order to gain market share at the expense of other members, ultimately bringing collapse of the cartel and often permanent erosion of world market opportunities for its members. Are exporters "ripping off" the farmer and consumer?

World trade in agricultural products is dominated by state trading organizations outside the U.S. Thus, large size is probably necessary to deal effectively with foreign buyers at least over the longer term.

Government trading of U.S. agricultural exports would be a substantial contradiction to the overriding private enterprise philosophy of the U.S. political economy. Appropriate public policies such as antitrust laws, proscriptions against collusion, and anti-price fixing laws are means of assuring private industry behavior consistent with the goals of society.