DISCUSSION: SOUTHERN AGRICULTURE IN AN ERA OF EXPANDING EXPORTS

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Clayton's concern is whether farmers are "adequately prepared to deal with" the "greater variability inherent in the export demand for U.S. farm products." In elaborating upon this concern, he reviews past and prospective growth and variability of exports and the implications that they have for Southern agriculture. He concludes that variability is rising and will likely to continue to do so because of expanding exports. The three major policy implications that he draws are: (1) the inadequacy of present policies to help farmers producing export crops accommodate to the variability in cash receipts; (2) the adverse effects that the variability in feed grain exports may have on Southern poultry and livestock producers; and, (3) the deleterious effects of expanded exports on the South's natural resource base.

I organize my comments around five questions: What is instability? Is instability undesirable? Is export demand *inherently* unstable? What causes the instability? and Is the major problem likely to be too volatile exports?

QUESTIONS

WHAT IS INSTABILITY?

The bulk of Clayton's focus is upon variation of export tonnage, but he does not define instability. He uses the following measures: (a) the interannual variability (standard errors) of foreign demand (commercial exports?) measured in tons of grain; and (b) the coefficient of variation and the standard deviation of nominal domestic farm prices, cash receipts, and income. There clearly is a need to distinguish among: relative vs. absolute variation, variation of prices vs. quantities, gross income vs. net income, and nominal variation vs. real (inflation adjusted) variation. Conceptually, we might use the following equation to make these distinctions and to identify the alternatives:

$$(1)\quad \frac{Y}{P_0} = \frac{Q_D P_D + Q_E P_E - P_X X}{P_0}$$

where

Y = nominal net income,

P_0 = CPI or some other index of purchasing power,

Q_D = quantity of domestic use,

Q_E = quantity of exports,

P_D = nominal domestic prices,

P_E = nominal export price,

P_X = nominal price of inputs, and

X = quantity of inputs.

The causes, consequences, and cures of instability obviously depend upon which term or terms, variances and covariances, or time period are used to define instability in this equation. One further needs to specify whether instability is to be measured in terms of the variable itself, its rate of change, or change in the rate of its change.

There is a growing volume of economic theory, especially in welfare economics concerning instability. It suffices here to say that Clayton's paper would have been easier for me to comprehend if he had made explicit his conceptual framework.

IS EXPORT INSTABILITY UNDESIRABLE?

Let us turn to the question of the adverse effects of instability of export quantities. Economists have spent considerable time evaluating the trade-offs between the mean vs. the variance of income. Presumably, stability comes at some cost. Some policies the government has used in the past to cope with instability are: (1) trade deterring farm programs and huge surpluses with very stable, but subsidized exports (1960s); (2) export embargoes to prevent domestic shortages (1970s); (3) embargoes or embargo threats to punish Russia or Poland (1980s); (4) refusal to trade with Communist Russia or Red China (1950s, 1960s).

Constant exports would not necessarily stabilize net incomes. The United States should not export the same amount during years of bumper crops as during times of poor crops. Unstable exports may in fact be stabilizing. Therefore, we should not imply, as Clayton does, that export instability is bad *per se* or is to be avoided irrespective of the trade-offs with expert growth or export revenues.

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IS EXPORT DEMAND INHERENTLY UNSTABLE?

Clayton's premise is that exports are inherently unstable. I believe a strong case could be made for the converse. It is difficult for me to believe that the excess demand curve for U.S. exports is more inelastic than the domestic demand curve. In general, I believe foreign demand to be more elastic than U.S. demand. Furthermore, the broader the market, the more elastic it becomes to any single country, thus, I see no reason why export markets are *inherently* more unstable. Of course, government actions, as D. Gale Johnson has pointed out, may be such that they destabilize the market, or cause the elasticity of price transmission to diverge greatly from unity (Bredahl et al.).

WHAT CAUSES THE INSTABILITY?

Clayton spends little time discussing the causes of instability: he deals mostly with its adverse consequences. However, he indicates that the U.S. is a "residual supplier," which apparently causes the U.S. to suffer greater export variability than non-residual suppliers suffer. He does not present any evidence to support this contention, nor does he draw a multi-country supply-demand diagram and use it to define a residual supplier and contrast it with a non-residual supplier.

Clayton does not test whether crops with expanding exports have significantly greater variability than do those with stagnant exports, although he implies that they do.

As suggested by equation (1), there are many factors that could contribute to increased export variability: inflation, flexible exchange rates, more erratic weather, shift from government-assisted to commercial exports, decline in grain stocks, and fickle U.S. and Soviet government policies. Certainly, government is a major culprit. The U.S. has imposed five grain embargoes in the past decade and is currently threatening another. Probably two-thirds of all grain trade involves government as either the buyer or seller or both (Seevers). Furthermore, agricultural trade has basically been sold down the river in the international trade negotiations. The trade liberalizations negotiated during the Tokyo/Geneva Round represent less than 5 percent of U.S. exports (Houck).

Contrary to Clayton, I do not see how export instability problems, which are to a great extent caused by fickle and misguided government policies, "might be handled entirely within the private sector." I am not arguing that government should either take over or keep out of grain trade completely. Rather I argue for more rational behavior of what governments do and undo. My interpretation of the new farm bill is that the Secretary of Agriculture has broader discretional authority than before and that future embargoes will be extensive and not selective. I only hope that this added discretion and future embargoes will be used to stabilize rather than to destabilize and to promote rather than to prevent U.S. agricultural exports.

IS THE MAJOR PROBLEM LIKELY TO BE TOO VOLATILE EXPORTS?

I am much less optimistic about export growth than is Clayton. I believe the problem will be too slow rather than too fast export growth. Last year at these same meetings, I argued that U.S. domestic grain demand in the 1980s would grow very slowly and that foreign demand would slacken as well. I still believe that there is a distinct possibility of recurring grain surpluses. The projected record grain carryovers, the Secretary's January 29 announcement of a 10 percent feed grain and 15 percent wheat acreage reduction programs, and the 11 percent drop in exports so far this fiscal year suggest to me that grain shortages for Southern livestock and poultry producers is not the most pressing problem.

I do not have sufficient information for critical evaluation of Clayton's concern about the deleterious effects of expanded exports on the South's natural resource base. He does not cite sufficient data nor give any references that would help me become better informed. My impression is that little is known about the physical extent or economic significance of erosion and resource depletion; I suspect there is little hard evidence linking erosion to exports.

I am most reluctant to suggest that the South disregard her comparative advantage, unless and until we have more hard evidence on resource depletion and its causes and consequences.

CONCLUSION

Although my remarks have been critical and nihilistic, I do not want to convey a totally negative impression of Clayton's paper. It certainly stimulated my thinking and raised a number of new questions. That, of course, is what an invited paper should do.

I am more concerned about the prospect of the lack of export growth than the lack of export stability. I do not believe we have adequate measures of the sources of export instability nor the connection, if any, of instability to export growth and welfare. I do believe that export growth is absolutely fundamental to the future of Southern agriculture and is a high priority research area.

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