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Agricultural Outlook Forum

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THE MACROECONOMIC LINKAGES TO U.S. AGRICULTURE

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The Macroeconomic Linkages of Globalization to U.S. Agriculture

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INTRODUCTION

- A “devil’s deal” between the United States and China
- Both countries distorting international financial markets
 - The U.S.: Large budget deficits
 - China: Undervaluing its currency – the Yuan
- Consequences of these distortions:
 - A strong Euro
 - A strong dollar
 - Low interest rates in the U.S.

Introduction (continued)

- Elements of a “devil’s deal”:
 - Both countries dependent on the distortions of the others
 - In effect, China lends money to the U.S. to purchase China’s goods and services

DISTORTIONS TO TRADE

- **U.S. producers are flooded with cheap imports**
- **U.S. exporters suffer from weaker demand**

FURTHER CONSEQUENCES OF ADJUSTMENT

- - Higher interest rates
- - Potential for serious recession
- - But trade adjustments and capital flows could alleviate

OVERVIEW OF REMAINING REMARKS

- - Components of globalization
- - Driving forces behind globalization
- - Some significant macroeconomic linkages
- - Concluding comments

SIGNIFICANT COMPONENTS OF GLOBALIZATION

- - Current wave of globalization is not unique
- - Better to think in terms of economic integration than in terms of globalization
- - Key components:
 - Growth in international trade relative to global GDP
 - Emergence of a huge international financial market
 - The shift from Bretton Woods fixed exchange rate system to flexible exchange rates

SOURCES OF INCREASED ECONOMIC INTEGRATION

- Three technological revolutions:
 - In the transportation sector
 - In the communications sector
 - In information technology

Consequences:

- Dramatic reduction in transactions costs
- Increased scope of markets

EMERGING MACROECONOMIC LINKAGES

- The world on a dollar standard as its monetary unit, with U.S. Federal Reserve the central banker for the world
 - Causes the dollar to be stronger than it would otherwise be
 - Discriminates against U.S. trade sectors

Emerging Macroeconomic Linkages (continued)

- U.S. attempts to stabilize or offset shocks tend to create instability in commodity markets
- Linkages in financial markets
- Monetary and fiscal policy now important for understanding outlook and international competitiveness

CONCLUDING COMMENTS

- The importance of macroeconomic policy
- Competitiveness now much more than productivity
- Distortions in currency markets are equivalent to taxes and subsidies on exports and imports