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Agricultural Trade Is Vital

By William E. Kost and
Cathy L. Jabara,
agricultural economists,
International Economics Division,
Economic Research Service

Agriculture in the United States plays a central role in global interdependence. It is in the best interest of the world and of the United States to continue that role and to pursue more open trade in agricultural products.

Gains From Trade

International trade involves the exchange of goods or services between at least two countries. Since it is voluntary, countries must perceive a potential for self-benefit for the exchange to take place. Trade occurs because countries can trade their goods or services relatively more cheaply for those they desire but could only produce themselves at a higher cost. The so-called gains from trade arise from the real opportunities that low foreign prices provide.

With each country having different endowments of land, labor, capital, and management, trade allows a country to specialize in the production of those goods it best produces. In some cases it is either impractical or impossible to produce an item locally, and, consequently, it can only be obtained from the international market. In other cases, it can be pro-



Dana Downie

duced locally, but because of high production costs, it is better to buy it from foreign sources. A country is better off using its resources to produce those goods for which it is particularly suited, and buying from other countries the goods they more efficiently produce. Trading and production specialization permit higher living standards and real income than would otherwise be possible and permit more goods to be produced from a given set of resources. Both allow a more efficient allocation of resources.

Many people view international trade as somehow different from interregional trade within a country. Interregional trade is implicitly considered to be beneficial, and international

Consumers in Manila, Philippines buy U.S. agricultural products. Trade occurs when it is cheaper to import, impossible to produce, or better to specialize in products for which resources are best available.

trade harmful. Complications such as different currencies, languages, distances, and national policies may exist, but, with the exception of different currencies, the other factors can exist within a country, particularly a large one like the United States. There is little difference between someone in Illinois selling soybeans in order to buy oranges from Florida or automobiles from Michigan and someone in Iowa selling corn to buy coffee from Brazil or televisions from Japan. The logic is identical.

Imports Benefit The United States

The United States is the second largest importer of agricultural products in the world (\$19 billion in 1984) after West Germany (\$21 billion). Without these products the U.S. diet and level of living would be lowered. Every time American consumers have a cup of coffee, a glass of iced tea, a banana split, a chocolate candy bar, or add vanilla, cinnamon or pepper to their food, wear silk shirts, or buy rubber tires, they are benefiting from agricultural trade. These, and many other agricultural products consumed in the United States, are produced elsewhere.



Ed McCrossan

Coffee drinking is an American institution but where would it be if it were not for international trade? The United States is the world's second largest importer of agricultural products.

Value of U.S. Imports, Selected Years

| | 1960 | 1970 | 1980 | 1984 |
|-------------------------------|--------|--------|---------|---------|
| Million \$ | | | | |
| Nonagricultural commodities | 11,486 | 32,627 | 223,590 | 297,754 |
| Agricultural commodities, all | 4,010 | 5,592 | 17,276 | 18,898 |
| Supplementary ¹ | 1,979 | 3,451 | 9,924 | 12,220 |
| Complementary ¹ | 2,031 | 2,141 | 7,351 | 6,678 |
| Total all commodities | 15,496 | 38,219 | 240,866 | 316,652 |

¹Supplementary agricultural import products consist of all products similar to agricultural commodities produced commercially in the United States, together with all other agricultural products interchangeable to any significant extent with such U.S. commodities. Complementary agricultural products include all others, about 90 percent of which consist of rubber, coffee, raw silk, cacao beans, wool for carpets, bananas, tea, spices, and vegetable fibers.

SOURCE: *Agricultural Statistics*, various issues and *Foreign Agricultural Trade of the United States*, 1984

Without imports, these products would be unavailable.

The United States also imports products such as cheese, processed beef, wool, sugar, strawberries, tomatoes, tobacco, and wine, that compete with domestically produced goods. If these products can be imported for less than domestic output costs, the American consumer will be better off. To the extent that these imports allow for resources to be transferred to the production of commodities for which American resources are more suited, producers also benefit. These imports also allow the American consumer to purchase year-round the commodities produced only seasonally in the United States. Both these complementary and supplementary imports give American consumers lower prices and more varied diets throughout the year.

Exports Benefit The United States

The United States is an industrial nation; however, agriculture accounted for 18 percent of total exports in 1984. The United States is the world's largest exporter of agricultural products (\$38 billion in 1983 compared to \$208 billion for the world) selling 69 percent of

its wheat, 41 percent of its corn, 59 percent of its soybeans and soybean products, more than 50 percent of its cotton, and 37 percent of its tobacco overseas in 1983. The production from one out of about every 2.5 acres of cropland harvested was exported. The United States exports more of the relatively low-valued, raw material products, such as grains, oilseeds, tobacco, and cotton, in contrast to exports of high-valued, processed products which accounted for \$9 billion or 25 percent of U.S. agricultural exports in 1983.

Its relative efficiency in production of agricultural products has given the United States an important role in supplying food and feed products to others through world trade. It has a natural resource base large enough to produce substantially more food than it can consume. For example, the United States has only a small portion of the world's population, yet it produces about half of the world trade in grain. More specifically, in 1983 U.S. farmers supplied about 37 percent of world wheat exports, about 56 percent of coarse grain exports, about 86 percent of world soybean exports, and 21 percent of world rice exports.

U.S. exports provide increased income to farmers, as well as to those employed in industries that supply purchased inputs to farmers, and assemble, process, and transport agricultural exports to foreign countries. In 1983, approximately 23 percent of farm income, or about \$1 out of every \$4.26 received from the sale of farm products, was derived from exports.

Because of the dispersion of U.S. agricultural production and the variety of products exported, all regions of the country benefit from our agricultural exports. Agricultural exports account for a third to a half of total farm income in 16 States: Arkansas, Illinois, Indiana, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, North Carolina, North Dakota, Ohio, Oklahoma, and South Carolina.

More than a million people in the United States work in agricultural export-related jobs. Of these, about half a million U.S. farm workers could be considered as producing for export with the remainder employed in nonfarm, export-related industries. In addition, every dollar's worth of U.S. commodities exported generates an additional \$1.05 in eco-



Ed McCrossan

U.S. farm exports generate income that spreads throughout the national economy. Jobs are created in many non-farm sectors.

conomic activity in such areas as financing, transportation, warehousing, and the production of farm supplies.

Without foreign markets, American producers would have been burdened with even larger surpluses than has been the case. This excess production would have been dumped into the domestic market or forced into government stocks. Prices would have been severely depressed and farm income drastically lowered. More farmers would have lost money and been forced out of production. Consumers might have initially benefited from the depressed food prices; however, as producers left and excess stocks were depleted, food supplies would dwindle and prices would go back up—up to even

higher levels than before.

Without agricultural trade, far fewer farmers would be producing for a smaller domestic market, benefits would be substantially reduced due to economies of scale, and prices would be significantly higher than they are when trade is allowed. In the long run, even consumers would be hurt by lack of trade.

The United States earned \$38 billion from agricultural exports in 1984. Only from export earnings or borrowing from foreigners can the United States earn the foreign exchange necessary to purchase overseas goods. Exports of agricultural products help the American consumers buy foreign cars, televisions, video and stereo equipment, cameras,

Value of U.S. Exports, Selected Years

| | 1960 | 1970 | 1980 | 1984 |
|-------------------------------|------------|--------|---------|---------|
| | Million \$ | | | |
| Nonagricultural commodities | 14,591 | 34,337 | 169,846 | 170,014 |
| Agricultural commodities, all | 4,519 | 6,958 | 40,481 | 38,027 |
| Grains | 1,617 | 2,341 | 18,261 | 17,303 |
| Oilseeds | 342 | 1,120 | 6,794 | 6,234 |
| Other | 2,560 | 3,497 | 15,426 | 14,490 |
| Total all commodities | 19,110 | 41,295 | 210,327 | 208,041 |

SOURCE: *Foreign Agricultural Trade of the United States*, various issues.



FAO

and many other products in addition to agricultural imports. Historically, the agricultural export surplus has helped to offset a continuing deficit generated by the nonagricultural sector. A country must export in order to import.

U.S. Exports Benefit Others

Agricultural exports are also desirable for humanitarian reasons. Many parts of the world are incapable of producing enough food to feed their people. Others can produce the food, but only at a prohibitively high cost. Since the United States is a more efficient producer of food, it can help.

Peruvian school feeding programs, supported by the World Food Program to which the United States is a major contributor, encourage parents to send children to school and improve their diets. Many of Peru's children under the age of 6 suffer from malnutrition.

Countries with limited resources can buy food from the United States at prices substantially below their cost of production.

The United States operates the world's largest food aid program to needy countries, shipping in 1984 more than 5.6 million tons of food aid to about 70 countries under the Food for Peace Program. Close to 90 percent of this volume was grains. In addition, since 1982,

a substantial amount of dairy products has gone to low-income countries under other programs. This food aid can pave the way for U.S. commercial exports. For example, in 1956–58 the United States food aid to 17 overseas markets was \$3.1 billion, and commercial sales of all goods were \$3.6 billion. Two decades later, food aid from the United States to these same countries was only \$756 million, and commercial sales had grown to \$43 billion.

In addition to feeding starving people, there are beneficial side effects to the world, to this country in general, and to U.S. agriculture. Providing adequate diets improves a country's ability to develop and grow. As economic growth takes place in developing countries, they are more able to purchase the food they need and also more likely to want more and higher quality food as their incomes rise. Since the United States is a major producer of agricultural products, it is in our best interest to promote world economic growth. Economic growth increases the size of our future markets for products, including agricultural products. This growth in foreign demand is one of the driving factors underlying U.S. economic growth.

Opposition To Freer Trade

The arguments supporting trade hinge heavily on arguments for economic efficiency and maximizing national and global production from given global resource bases. These arguments are of the form "the bigger the pie the better!" They do not address how this larger pie gets divided among countries or individuals within a particular country. Who gets what is the real policy question that must be answered.

Opposition to freer trade is strong in certain segments of most economies, including the United States. Some people or groups are hurt by trade. U.S. beef producers can be hurt by Argentine beef exports. The U.S. automobile industry can be hurt by European and Japanese automobile exports. European grain producers can be hurt by U.S. grain exports. Pressure for protection from these groups is understandable.

Most of the arguments for protection stem from special interest groups wanting help. Arguments usually range from national security, balance of payments protection, the offsetting of unfair policies of other countries, protection of domestic economic policies, revenue



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generation, protection of national health, market differentiation, to infant industry protection. Protecting an industry until it can develop enough to exploit economies of scale and compete may be appealing at first glance. But if the industry has enough influence to get such protection, it also may have enough political influence to maintain it way beyond the point where it is needed.

Decisionmaker's Perspective

The economists generally respond to these questions of equity among market participants by saying that the gainers from trade will gain enough to compensate the losers and still have more than they did before trade was allowed. Everyone can still be better off with trade. Any protectionist argument should be evaluated in the context of who gains at

U.S. agricultural commodities being negotiated with a developing country importer. A growth in foreign demand for U.S. farm products is one of the factors underlying the economic growth of the United States.

whose expense? Once you have identified the winners and losers, you can ask whether you really want those groups to win or lose. Viewing protection issues in this context focuses attention on the proper issues.

With this focus, many recognize the need to maintain flexibility under conditions of continued economic growth and change. An economy cannot remain static under conditions of change. Protectionist policies tend to foster the maintenance of the status quo. Policies that minimize the pain of transition for resources that cannot easily move or adjust may be better pursued than policies that protect and isolate.