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DIPLOMACY AND INTERNATIONAL TRADE

-Emphasis on Agricultural Commodities-

Dean Rusk

This paper addresses some international trade issues from the perspective of both industrialized nations and developing nations. Expansion of export markets for American farm products depends greatly upon developments in the arena of international diplomacy.

There appears to be a substantial gap between economic theory on the one side and what seems to me to be happening in the real world on the other. I think people in agricultural economics have come closer to closing that gap than a good many others have done. But for example, I find a missing piece in our present discussion of something called "Reaganomics." We need to spell out in some detail what is to happen around corporation and union board tables if this particular program is going to work. Those are the decisions that really determine what our economy is going to do.

You see a poll taken every now and again, "How do you rate the President on managing the economy?" The President doesn't manage the economy; he doesn't have the power to manage the economy. Asking the question is a fraud upon the American people, but of course, it's one of those frauds happily protected by the First Amendment. What happens around corporate and union board tables is far more important, as to what happens in the economy than anything done by the government, itself.

Farmers are caught in a squeeze between their costs and the prices they receive for their products in a market, — despite price supports and things of that sort, — which is largely a market of open price competition. The factors of supply and demand seem to operate in the farm commodity markets not only nationally but on an international basis. Yet, farmers buy in a market of, shall we say, limited price competition. If effective demand slackens, so I was taught, economics would say then that producers drop their prices to maintain production and to bring the buyers back into the market place. But is that happening? We seem to see a rigidity of prices on the industrial side, a rigidity which is, in effect, policed by both management and labor even though there is some decline in the rate of increase in inflation. We do not see significant drops in prices in many of our products. What tends to happen in lieu thereof is to cut back on production, lay off workers, mark time until somebody puts enough money back into the economy to bring the consumers back at the same old high prices.

This issue, it seems to me, needs to be explored by the agricultural economists because we may be in one of those conflicts of interest, which we have seen before in our society, similar to the actions of those who used to be called robber barons. The situation at that time prompted Theodore Roosevelt to take off

on his trust-busting program. Or similar to the classical argument between protectionism on the manufacturing side and free-market policy on the part of, historically, our farmers; or the great dispute about freight rates that preoccupied this country for a good many years. So, there may be some organic questions to be raised about what is happening in our society which has a direct bearing upon the position of the farmer.

TRADE WITH INDUSTRIALIZED NATIONS

I would like to comment a little bit about international markets. Though I may have some doubt about whether they will play a critical role, there is no doubt that international markets for our farm products are going to be very important in the total picture. The value of the dollar has created a problem during the early 1980's. The dollar is, in my judgement, overpriced. One cannot be sure that it will come down significantly or that, if it does come down, other countries may try to keep pace by devaluing their own currencies in a kind of trade war in the level of currencies.

With respect to protectionism abroad, I feel that we should continue to counteract efforts to bar international markets from the American farmer. I was very disappointed to see that our trade talks with the Japanese about farm trade broke off without a solution. The economists have looked at the Japanese situation and say, as I did once to a Japanese representative, that it would pay Japan if they were to put every one of their beef farmers in a lifetime villa on the Riviera and buy their beef in world markets. But, if you're on the Japanese side and you understand that the liberal Democratic Party depends very heavily upon a farm vote to remain in office, then the going is tough. But I think we ought to work at that continuously and be pretty tough in our approach to the Japanese.

It was my privilege during the 1960s to meet every year in a joint cabinet meeting between the United States and Japan. And in those years, if there happened to be a billion dollar trade deficit on the Japanese side in their trade with us, they would fume and snort and pound the table and act as though Mt. Fuji was about to explode, until we took some measures to bring this kind of imbalance back into an even balance. These days, when we're 12 to 15 billion dollars or more in deficit to them in our bilateral trade, we get relatively short-shift from them in our discussion of trade matters. They are among the toughest bargainers in the world when it comes to matters of yen and dollars, and I do think we ought to be persistent and we ought not to be too understanding of the fact that their governing party

has some local political problems — the rest of us have some problems — and do our best to try to open up that market more and more for American farm products.

Similarly with the agricultural policies in Europe. France succeeded many years ago in imposing a common agricultural policy on the other members of their community — pretty expensive to the peoples of those countries in terms of the prices they have to pay for farm products and also a major barrier in terms of our ability to export to Europe. And we, I would think, would want to keep pressure on relaxing some of those restrictions in Europe, despite the fact that the Common Market as a whole is, perhaps, our principal market for agricultural products.

TRADE WITH DEVELOPING NATIONS

In the longer run, we're going to be very much involved with the plight of the developing countries, and they are in deep trouble these days. Some years ago Robert MacNamara, then president of the World Bank, began to warn everybody that we were rapidly coming into a situation where just the debt service which would be owed by the developing countries would be substantially more than any new annual increment of income or foreign aid which they might get and that this was going to create a very serious problem for everybody.

During the 1970s, after I left Washington, somewhat to my surprise and concern private banks in the West, including American banks, took on very substantial bank loans to many of these developing countries. Up until that time, such loans, such general purpose loans were handled largely by international institutions such as the World Bank and the International Monetary Fund (IMF). But these loans, almost of necessity, cannot be anything more than roll-over loans. It is very unlikely that they're going to be paid back as far as the principal is concerned, and so I think a number of our banks are facing some problems now in making the adjustment to the financial difficulties which a number of these countries are having.

During the Truman administration, it was my pleasure to receive the Finnish ambassador when he brought me the final \$5 million check to close out their payments on their World War I war debt. You may remember that during those years, Finland gained a tremendous reputation because they were about the only country in the world repaying their World War I debt to the United States. So we had a little ceremony and each one of us said the appropriate thing. But then we went into my office, had a cup of coffee together, and we both laughed and reflected upon the fact that every time they paid us a \$5 million installment, they borrowed another \$10 million. Well now, these developing countries are in that situation. These are roll-over debts.

How do we help the developing countries put their respective houses in order? Well, I would suggest today that that is centrally a function for the World Bank, and the International Monetary Fund. I do not believe it is the function of the United States Government to try to take on that job. To begin with, what do we have to say to them? Can you imagine what would happen if the American ambassador or an American cabinet officer were to go down to Mexico

and Brazil and say, "You've got to cut back on your severe government deficit. You've got to raise taxes. You've got to deal with your unemployment situation." If we should try to say this to those governments, the derisive laughter would float all over the world because they can look at our situation here. They won't take it from us. We've got nothing to teach them in these matters. But the International Monetary Fund can operate with not only some assistance, but with a considerable degree of discipline which would not be accepted from a national government such as the United States. There is sensitivity about the extent to which these countries will permit other government, as they put it, to interfere in their domestic affairs.

For example, in his book The Vantage Point, Lyndon Johnson talks about an issue in which he and I disagreed during the 1960s. India had had two bad monsoons in a row with a rather substantial drop in food production. The United States had food ships going to India in a steady caravan. Lyndon Johnson looked at this situation and decided that there was no way in which the Indians, themselves, were going to be fed unless India, itself, took some far-reaching steps to improve its own situation with respect to food. For example, at that time if there was a state in India which had a food surplus, they would not move that surplus over to an adjoining state where there was a severe food deficit. There was an inadequate allocation of rolling stock to move food from one part of the country to another. They were losing from 15 to 20% of the food that they themselves produced to rats and mildew and rot and other forms of loss. They were making almost no allocation in their budget for the building of fertilizer plants. There were very few, if any, extension workers out in the fields where the farmers were growing food, to try to show them how to grow food more efficiently. So Lyndon Johnson stopped these food ships going to India, right in the middle of their severe food shortage. And he sent Orville Freeman off to Rome to sit down and have some talks with the the minister of agriculture in India, and they put together a program which included major steps to be taken by India, itself. That program was adopted, put into effect in India, where-upon President Johnson resumed the flow of food ships. At the time, I was opposed to stopping that flow of food ships, but he knew instinctively that a lot of Indians were going to starve unless they did a lot of things which they were not doing. Now today Indian food production is in much better shape, even in years of severe monsoons, but they still talk in India resentfully about this intrusion by us into the internal affairs of India.

SUGGESTED INITIATIVES IN DIPLOMACY

International organizations like the World Bank and the International Monetary Fund can use their resources accompanied by severe disciplines of the sort which are not interpreted as interference in somebody else's society. I would hope, therefore, that our own government would give serious thought to maintaining the resources of the Bank and the Monetary Fund at an adequate level. It is not in our interest, in my judgement, for us to draw back on the replenishment of those funds simply because we, ourselves, are trying to cut our own budget, because in the long run, what happens to these developing

countries is of critical importance to our own prosperity and our own balance of payments situation.

I think that we must make continually intensive efforts to do a better job of selling agricultural products abroad, and I would start with the government on this matter. Since Benjamin Franklin first went abroad to represent the American colonies, the promotion of trade has been a major responsibility of our diplomacy. But there are times when we seem to be somewhat neglectful of that responsibility. Perhaps I have a little bias on this matter, but in the continuing struggle in Washington, there has been an inclination to take such things as the work of the agricultural attaches and now the commercial attaches out of the hands of the State Department and transfer them directly to the Departments of Agriculture and Commerce. One of the prices to be paid is that when that happens, then the bureaucracy of the State Department generally takes the view, "Well that's their business, let them run it." And we do not engage the highest levels of our diplomacy in these day-to-day problems of trade. Selling American products abroad is going to take a lot of concerted effort by the President, the secretary of state, our ambassadors, right through the entire gamut of our representation abroad. I would hope that we could keep "gigging" our ambassadors that promotion of our export trade is a primary function of their respective embassies.

You watch a British, German, French, Japanese ambassador at work, wherever — including Washington — they're salesmen. They're out there working on market opportunities all the time. I would like to see us remind our own ambassadors regularly — just once a year is not often enough — that improving our export trade is one of their central tasks.

I suspect that there are some opportunities for the use of somewhat more imagination than we have used in the past in trying to move our farm products abroad. For example, because of a drop in their own exports, the developing countries are very short of foreign exchange. The worldwide recession of 1980-82 hit them in that respect just as it has hurt the rest of us, but I wonder if we have explored all the possibilities of moving agricultural products to certain countries in exchange for at least partial payment in local currencies, where we ourselves can use those local currencies, either for our own costs in those countries or under the aid program.

In the past we have allowed such counterpart funds, as they're called, to be insulated from the local economy on the grounds that the use of those funds would be inflationary in character. For example, we allowed several billion dollars worth of counterpart funds to pile up in India. We nibbled away at some of those for the expenses of our own embassy, but we weren't even allowed to use those funds to make grants in aid to India itself, for its own development. I think we can do a better job of that because we did not extract from India at that time agreements on how these counterpart funds might be used on a broad basis. I say we might go back to that and see what might be done there.

We now have legislation, new legislation, authorizing the establishment of trading companies. My impression is that so far these trading companies are not basically aimed at the agricultural sector. I wonder if we might not explore that possibility,

whereby we might move agricultural products in one direction and move back into this country commodities which we could use which were produced in other countries, where they could send us their products rather than hard exchange.

So, we need a good deal of inventiveness. Some may sound like weird devices. Some of them may, in terms of macroeconomics, not be particularly acceptable from the point of view of general practice. Some of them may be unacceptable to financial markets. But I think it's a key problem for us to move our agricultural products into foreign markets.

With reference to the grain embargo imposed upon the Soviet Union during the Carter Administration and the lifting of those embargos by President Reagan, I would express the scepticism which I have developed over the years with respect to economic sanctions. I have participated in the imposition of economic sanctions more than once in my day in government, but a few years ago, in testimony before two committees of Congress on the then new Export Administration Act, I urged those committees of Congress to institute some in-depth studies of our trade sanctions over the past 30 years — to look at them and ask to what extent those trade sanctions actually contributed to the purpose for which they were imposed. My guess is that they would find they have made very little contribution to such purposes. Indeed, typically you'll find that trade sanctions often are used in a situation where somebody does something that we, ourselves, don't like, where there's not much that we can or are going to do about it anyhow, and the imposition of trade sanctions at least helps us to feel a little warmer inside in this country. This is a matter that I think needs to be examined.

There are those who want to throw Poland into default. Well that's about like saying to the Poles, "We're so mad at you that we're going to forgive you your debts." There are all sorts of ways to shoot oneself in the foot when one gets into that situation. So I'm very skeptical about the use of economic sanctions. I wouldn't mind actually a piece of legislation in Congress as an amendment to the Export Administration Act which would specify that in imposing economic sanctions, we would always exempt food and medicine, if you like, on a broad humanitarian basis. In any event, sanctions must be weighed in terms of effectiveness.

WORLD POPULATION AND FOOD

Let me express one final concern: By the year 2000 there will be almost 6 1/2 billion people in the world. Before students in our classrooms get to be my age, they face the prospect of 12 to 15 billion people on this planet. Obviously, there will be a major problem of food. There will be needs almost beyond imagination, although in many circumstances those needs will not be translated into effective markets in which people are able and willing to buy. Nevertheless, in the longer run, I see no shrinkage of markets for America's farm products. But I am quite sure that we ourselves cannot feed the hungry of the world over the next several decades. It is beyond our physical capabilities and certainly beyond our fiscal capabilities to undertake that responsibility. And yet, given the explosion of communications, we cannot

expect large numbers of people to starve peacefully. One of the oldest causes of war in the history of the human race — the pressure of people upon resources — is reviving in a period when there are thousands of megatons lying around in the hands of frail human beings.

So we have an enormous stake in what happens to the food problem over a considerable period of time. Now there is one thing we do know how to do in this country and that is to grow food, thanks to all sorts of things — a favorable climate most of the time and a powerful combination of education, research and extension. Our great land-grant college system is a unique American contribution to world affairs. But we must do what we can to help other people grow more food where they live, if it is within our power to do so.

I was a bit startled on the occasion of a substantial grant given to four or five states to do research and development on peanuts with a view to assisting developing countries to grow peanuts more effectively. This was, at least, part of the project. There was criticism of that grant on the grounds that we were thereby shrinking foreign market opportunities for American grown peanuts. Let me

pull no punches on this. That to me is on the ethical level of saying that we should try our best to spread disease throughout the world in order to increase the export of American pharmaceutical products. We simply cannot get away with that kind of an attitude. Whatever food other people can grow, there will still be shortages and the problems involved in how they can buy the food which they need in addition to what they can grow is an economic problem with which you gentlemen and others will have to wrestle.

I am sure that there is a great deal more that we can do to take care of that substantial increment of our market which is in the international field. We should make a concerted effort in that direction. We should look for new devices, new gimmicks if you like, new trading possibilities even though some of them may appear to be complicated and even uneconomic, in order to move these products overseas. To do so we will not only serve ourselves but will serve the rest of the world in our own interest by helping to reduce the impact of hunger on violence.

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