APPRAISAL: POLICIES TO MAXIMIZE AGRICULTURAL EXPORTS

by Sherwood O. Berg¹

The formulation of foreign economic policy and the conduct of foreign diplomacy is always fascinating. To have American agriculture and the American farmer occupy such a prominent part of the stage in which the drama unfolds is, to a degree, both disquieting and challenging. In his presentation, Dr. Hedges has given us an excellent overview of the agricultural trade policies which have served as guidelines for encouraging commercial exports and developing government-sponsored export programs for farm products. He has presented an excellent brief for the importance of agricultural exports at a time when we sorely need foreign exchange earnings; he has laid out the operating principles under which the government sees fit to intervene in international trade to promote food consumption and bolster economic development abroad; and he faces forthrightly some of the major problems facing American farm product markets abroad, especially with the emergence of regional trading blocks or custom unions. One cannot fault such a presentation, for Dr. Hedges covers an important area of our economy exceedingly well and comprehensively. If there is a shortfall, it lies in the fact that alternative policies of courses of action are not examined or even remotely expounded.

My comments will take the form of an excursion into three general problem areas: (1) the question of implementing our policy or "living up to" our policy pronouncements; (2) the operational considerations in carrying out specific programs, including some economic "side effects" of such programs and (3) the strategy and tactics of our foreign trade policy in the current situation. Obviously, each area which Dr. Hedges touched upon raises issues. Some of these are of a general policy nature; some are more specific. In my brief commentary, I am going to confine myself to a couple of selected points under each of the three major categories.

The Policy Considerations

On trade liberalization. Dr. Hedges lays great stress upon access to markets. He makes this one of the cornerstones of our present trade policy. Access is sought through multilateral nondiscriminatory action with goods moving across boundaries at "moderate levels of fixed tariffs." The term "moderate levels" has been with us for eons; the term "fixed", in this context, is of more recent vintage, growing out of our anxieties over the policies emerging from the newly-created European Economic Community (EEC). According to Dr. Hedges, trade liberalization can best be served (1) by relaxing non-tariff barriers in general, and (2) as far as farm commodities are concerned, by nations acting responsibly and developing national price support policies so as not to jeopardize international trade based on the principles of economic advantage.

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These observations raise some interesting questions. There are always problems when one moves from the concert auditorium of policy goals to the circus arena of actual programs implementing the goals. I need not reiterate the conflicts or the inconsistencies in our domestic farm policy and our international trade policy. However, at the very time that our government has made a strong, generally favorable, persuasive case to the countries of the Common Market against intensifying artificial barriers to trade, it raises the support price on corn and other feed grains. The effect may have been to dissipate the psychological advantage we had gained in plain speaking to EEC leaders and Western European nations. Thus, are we falling back on a policy that in effect states that international trade is at best a consideration of secondary importance in formulating national agricultural policy?

On international commodity agreements. I was somewhat surprised that no mention was made of international commodity agreements as one of the tools in the kit currently available to policy makers. We do give considerable homage to the concept of "freer" trade. But the facts of present-day life are that governmental intervention in foreign agricultural trade is substantial. Within our own experience, we have seen the adoption of the Agricultural Marketing Act of 1929; the AAA of 1933, with Section 22, which permitted import quotas when price support programs were threatened, and Section 32, which provided for a 30 percent tariff to subsidize farm exports; the Sugar Act of 1935; and, more recently, Public Law 480, a blunt instrument of bilateralism.

In the main, these are indicative of what has happened in many regions of the world. A new agricultural protectionism has shown itself in almost every part of the world since World War II as nations pursue farm income bolstering programs and seek food self-sufficiency. Prior to World War II, the main emphasis in government intervention in trade was on tariffs for regulating imports. In the post-World War II, we saw the creation of government export monoplies. The operations of our PL 480 program typifies our venture into the latter type of a program.

Dr. Hedges does state that one result of government intervention in trade has been that the export prices of farm commodities has been fairly stable in recent years. However, from an overall policy point-of-view, particularly in view of the Trade Expansion Act of 1962, are we prepared to accept government intervention in trade as an integral and more or less settled part of our foreign agricultural trade policy? Are we prepared, or do we contemplate, moving in the direction of international commodity agreements to achieve, at the expense of other policies or other possible programs, some of the stability in prices we desire? Some rebel at international commodity agreements; some press for more.

Our Program Operations

Market promotion versus market development. Considerable emphasis has been placed upon cooperation between government and trade organizations in the sale of American farm commodities abroad. There is an issue of the degree to which the costs of such trade expansion should fall upon the private sector, represented by business firms or trade groups, and the public sector, represented by the U.S. government.
Market development is looked upon as embracing general measures undertaken to increase or forestall the decrease in the sale of our farm commodities abroad. On the other hand, market promotion can be considered a part of the overall market development process and consists of those activities which take place at or near the consumer. The latter activities are largely persuasive in character and include advertising, promotion gimmicks and the like.2/

It would seem desirable that the government's responsibility should be concentrated on those activities in which the trade has no real incentive. Efforts might be concentrated on areas in which initially substantial short-run losses might be involved or on areas in which reorganization of the market structure is needed, such as the adoption of new or revised export grades and standards. The activities might also include eliminating or minimizing monopoly profits (from lack of knowledge or other imperfections), and introducing "new" products which enhance the well-being of consumers. The changes in the modified supply and demand relationships as a result of market development should lead to greater overall benefits to both producers and consumers.

The concept of market development extends back through the distribution, marketing and production process to the very farms on which commodities are produced. Too little attention has been given to the "feed back" of our experiences among foreign buyers to our producers here at home. "Feed back" of marketing information is needed to develop sustaining customers. The soybean producer of Iowa should have an evaluation of how the customer in Japan reacts to his product. Those of us in an academic environment are conscious of the communication problems in the bureaucracy of the present-day, large University. The problem of communication in a muted price mechanism operating in the area of international trade is even more acute, but not insurmountable. It is a real challenge to the United States Department of Agriculture and the private trade organizations.

In the matter of sharing of costs in market development, I wish to add that the government's contribution is generally greatly underestimated. How does one value the loss in the agricultural attache's service in the individual countries abroad that results from the added responsibilities these attaches have been forced to take on as our market development work has expanded? Except for trade fairs and selected marketing specialists, little of the regular government employee's time is credited as a government contribution in this form of activity.

Local currency in economic development. At the present time, I am a little confused in winnowing the chaff from the grain in the operations of PL 480 and the Food-for-Peace program. There seems to be a tremendous amount of overlap in program description and operation. Where one leaves off and the other begins defies description. The situation is particularly confusing regarding the use of Title I funds under PL 480.

Under agreements totaling $11.6 billions, the United States presently owns or controls $5.2 billions in local currency equivalents (see Table 1.) However, only about one-fourth, $1.6 billions, has been dispersed for economic development

2/ Learn, Elmer W. and James P. Houck, Jr., "An Evaluation of Market Development Projects in West Germany under Section 104(a) of Public Law 480." University of Minnesota Agricultural Experiment Station, Bulletin 455, June 1961, pp 13-15.
purposes. In other words, little has been done to put economic projects into 
operation so that the impact of the double-edged use of farm surpluses can make 
itself felt. Foreign currencies have been accumulating faster than development 
plans have been implemented. Perhaps the urgency, at least on the United States 
side, has been on disposal rather than on economic programming.3/

The lag in implementing development projects, the further accumulation of 
currencies, and the continuing practice of making the proceeds of PL 480 sales 
available on a repayable loan basis, bearing interest, will intensify our problem 
of international relations in the future. A study of our local currency operations 
in 19584/ indicated that if we continued sales at approximately at the levels prevail-
ing at that time for the ensuing three years and then stopped them, U.S. foreign cur-
rency holdings would reach $12.5 billions equivalent by 1970 and $37 billions equiva-
 lent by the year 2000 A.D. If our operations continued at the same levels, not for 
three years but until 2000 A.D., U.S. claims on world resources in the form of local 
currency would amount to over $150 billions equivalent.

The implications of large unused balances owned by the United States in the 
monetary-fiscal system of another country are obvious. When we have such huge 
holdings, how we handle these sums is of tremendous importance to the financial 
stability of the other country. The degree to which actions in our own self-interest 
might be regarded as internal involvement or intervention would place further stress 
and strain on international relations. For example, how would we react if some foreign 
country had a special dollar fund in the United States treasury equivalent to one-half 
of our annual budget?

Our past experience raises some questions regarding the desirability of continu-
ing to give aid on a basis which generates local currency. Under certain conditions, it 
may appear desirable to make outright grants, particularly if there is little likelihood 
of payment in dollars for a reasonable period of time.

Strategy and Tactics

The challenge of the European Economic Community is made abundantly clear 
by Dr. Hedges. The challenge he discusses is raised, not by our enemies, but our 
friends in the NATO area. In the process of making internal adjustments, the Common 
Market is throwing up new external walls to keep out American farm products. What 
strategy do we use in meeting this formidable array of resurging economic strength? 
Do we say flatly that unless the EEC countries ease their restrictions against our 
products, this country will resort to economic reprisals against European prod-
ucts? Do we accept the barriers as a necessary price for the political and economic 
strengthening of a free Europe?

3/Berg, Sherwood O., "The Role of Food for Peace" (Farm Foundation: Increasing 
4/Berensen, Robert L., William M. Bristol and Ralph I. Straus, Accumulation and 
Administration of Local Currencies, International Cooperation Administration, 
Washington, D.C., August 1958, p. 5.
It can be argued that it is almost politically impossible to lower the German grain prices to the French level. Such action would have consequences on farm income that would be comparable to going to the free market in the United States. We have rejected, on a number of occasions, this alternative.

Thus, it seems unlikely that political considerations will permit the establishment of a common wheat price level any lower than the present average of German and French prices. Moreover, in the face of impending wheat surpluses and rapidly expanding demand for feed grain, the common feed grain prices may be raised to the level that wheat will substitute reasonably well for feed grains as a livestock feed. Then, feed grains will compete reasonably well with wheat for the use of land. Present discussions in the Common Market suggest that the feed grain prices will be about 85 to 90 percent of wheat prices on a comparable weight basis.

Do we retaliate by raising industrial tariffs on European goods? I hope not! This would merely set off a new round of protectionism in the realm of industrial commodities. Neither do we have to take the matter lying down and accept whatever policy is set by the EEC. Again, we should resort to a bit of Yankee ingenuity and good, hard horsetrading. First of all, we should get all we can for agriculture outside the obviously protected feed-livestock sector. This will take concerted effort and skilled negotiating. Secondly, we must get industrial concessions to offset the losses that we may have to take in grain and certain livestock products.

The ability to implement successfully the Trade Expansion Act depends upon having current and accurate information at hand regarding the producing areas of the world. Specifically, we must have information regarding the real comparative advantage for various commodities. And, just as important, we have to display our ability to determine and to maintain a negotiating position based upon such information. This means, for one thing, that we must be prepared to establish priorities and exchange trade concessions among various commodities.

Can any administration in a democracy such as ours accomplish this in the light of the tremendous pressure special interest groups can bring to bear? Does the administration have at its disposal the sort of objective appraisal that is needed? Given the complexities of our governmental decision-making mechanism at higher levels, could an administration effectively use such information to combat the special interest groups? In other words, can we get away from the situation in which we have President Kennedy and Chancellor Adenauer arguing over the tariffs on chicken necks when Cuba is about to go up in nuclear smoke? In general, do we have the machinery to operate the Trade Expansion Act in practice as it is envisaged in theory?

After our involvement in two World Wars, we have tended to look back upon Western Europe as "the dead hand of the past." Suddenly we find ourselves in an era of new involvement, of forging new relationships, of confrontation with new problems, and of having within our grasp new opportunities. This promises not to be deadening, but most exciting.
Table 1

Status of Foreign Currencies (Dollar Equivalents), Title I, PL 480, 1954-61.

<table>
<thead>
<tr>
<th>Status</th>
<th>Amount (Mil. dol. equivalent)</th>
</tr>
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<tbody>
<tr>
<td>Authorization through Dec. 31, 1964</td>
<td>15,750.0</td>
</tr>
<tr>
<td>Agreements signed, including ocean transportation ( a/ )</td>
<td>11,637.0</td>
</tr>
<tr>
<td>Commodity purchases transacted ( b/ )</td>
<td>7,651.6</td>
</tr>
<tr>
<td>Currency deposited following sales ( c/ )</td>
<td>5,239.8</td>
</tr>
<tr>
<td>Allocations by Bureau of Budget ( c/ )</td>
<td>5,309.0</td>
</tr>
<tr>
<td>Transfers to agency accounts ( c/ )</td>
<td>4,378.9</td>
</tr>
<tr>
<td>Disbursements by all agencies ( c/ )</td>
<td>2,619.8</td>
</tr>
<tr>
<td>Disbursements for economic development ( c/ ) ( d/ )</td>
<td>1,666.6</td>
</tr>
</tbody>
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\( a/ \) Estimated CCC costs through June 30, 1962

\( b/ \) Purchase authorization transaction through December 31, 1961

\( c/ \) Through December 31, 1961

\( d/ \) Includes loans to foreign governments, $1,399.2 million; grants for economic development, $196.2 million; and loans to private enterprise, $71.2 million.