Are exports a dependable base for farm prosperity?

Otto Doering
What sounds sensible (export more) when heard separately in each country becomes nonsense when aggregated around the world. No one can have more net exports unless someone else has more net imports.


Background
We have a strong relationship between exports and farm prosperity in the United States. From the early 1900s to the early 1920s, increasing prices and export volumes made farming unusually prosperous and boosted land values. During World War II and its aftermath, another boom in prices and exports was experienced. A third boom occurred in the 1970s, which peaked in 1981. All the prosperous periods were the result of political decisions or crop failures.

If we calculated the full cost of exports, including government support to farmers, transportation subsidies, damage to the environment, etc., sometimes we ended up exporting commodities below our full internal costs of production.

High commodity prices encourage all farmers to produce more. The high prices in 1995-97 certainly helped bring about our current oversupply of commodities. We know that increasing U.S. commodity prices through high loan rates in the 1970s increased the prices for farmers beyond our borders. We changed our policies in 1985 to avoid this by moving to lower loan rates and depending more on deficiency payments.

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for our farmers, basing this on a target price set well above the loan rate.

What we see historically is long periods of moderate or low prices punctuated with shortages and high prices and export demand. Despite policies to boost grain exports, volume has been mostly flat since the 1980s. High prices from export booms have been rare (only during the teens, in the 1940s, and during the 1970s).

**Why do we see what we see today?**

- Agricultural commodity markets are mature. In a mature industry, technical changes tend to increase supply faster than demand. Agriculture commodities have an inelastic demand, therefore, supply increases cause larger percentage price decreases. To increase market share, one has to sell at lower prices. High prices encourage competitors to increase production.

In the case of grains, a long period of low prices might discourage high cost producers and allow the U.S. to increase export share. The cost for this would be some producers going out of business or government transfers to farmers allowing them to maintain their incomes. Today’s farm program is effectively doing this.

- The export boom of the 1970s had some important agricultural drivers:
  - Bad weather around the world and
  - the corn blight in the U.S.

The critical non-agricultural drivers were:

- The decision of the Soviet Union and other Communist states to import grains,
- freeing of the dollar from fixed exchange rates made our exports less expensive in terms of other currencies, and
- recycling of petro-dollars, which resulted in interna-

- Food is a strategic good. Politically, many countries have social policies to slow out-migration from agriculture and to encourage the maintenance of the present investment stock in agriculture.

- Free markets in commodities and inputs may not make for high prices and volumes. Prices and volumes would likely be different under free trade from where they would be otherwise, but farmers might not be more prosperous. Land values would be driven lower in those countries that previously subsidized their agriculture and their exports. This would hurt current owners. Free trade would not necessarily end the boom and bust cycles brought about when high international prices encourage everyone to invest, oversell, and produce more. We continue to have the capacity in the U.S. to produce more than we need. As long as other world producers are in the same over-capacity position, or want to be self-sufficient, a U.S. free trade position will not necessarily bring prosperity to U.S. farmers.

**Future trends that are important to us**

- The mobility of technology and the increasing speed of its development change the outlook for our exports. Lowered variable costs will become the driver of production through enhanced technology. International markets for technology will be opened, which

### Table 1. Scorecard of factors influencing potential export growth.

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
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<tbody>
<tr>
<td>Bad weather, crop failures overseas</td>
<td>Good weather, bumper crops overseas</td>
</tr>
<tr>
<td>Increasing consumer incomes overseas</td>
<td>Other countries’ export subsidies</td>
</tr>
<tr>
<td>Trade agreements</td>
<td>Motivation for self-sufficiency</td>
</tr>
<tr>
<td>Export subsidies</td>
<td>Strong dollar</td>
</tr>
<tr>
<td>Weak dollar</td>
<td>Technology diffusion and mobility</td>
</tr>
<tr>
<td>Comparative advantage</td>
<td>Expanded world capacity</td>
</tr>
<tr>
<td>Population growth overseas</td>
<td>Increased global productivity</td>
</tr>
<tr>
<td>Resource degradation overseas</td>
<td>Increased crop weather tolerance</td>
</tr>
<tr>
<td></td>
<td>Mobility of investment capital</td>
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</table>
A variety of factors involved in determining export growth are listed in Table 1. An assessment of these factors does not indicate export growth as a foregone conclusion even with more open trading rules.

The strongest potential growth avenue for grains may be processing, where most of the demand growth has occurred over the past 20 years. This goes beyond taxpayer subsidized ethanol production and price protected fructose production to such things as biochemicals and plastics. However, this usually requires price stability at moderate levels for the raw materials.

**Summary**

The long-run experience in creating agricultural prosperity through export growth is not very good. Technology moves across borders easily and rapidly. Price spikes encourage excess investment, which results in excess production. It can take many years for invested production capital to depreciate and reduce overall supply.

Prosperity from agriculture and food product production will come to those adding value to basic commodities supplying consumer desires and finding new uses for commodities. The largest returns will likely be to those meeting consumer demands by adding value and capturing market niches. Production agriculture needs to look at things such as how healthy foods reduce heart disease, cancer, and other diseases. Capturing some of the medical and health dollars could save the nation money while improving the financial health of agricultural producers. **Producers must find ways to capture added value rather than produce more commodities.**

Supply adjustment can come from reduced acreage or from reduced yields. Reduced yields will occur with reduced inputs (land, fertilizer, technology) or bad weather. Farmers don’t take land out of production as long as they can cover variable costs.