

U.S. AGRICULTURAL EXPORTS
AND THE FOOD SECURITY ACT OF 1985

By

Carl Zulauf and Dennis Henderson*

May 5, 1986

Department of Agricultural Economics and Rural Sociology
The Ohio State University
2120 Fyffe Road
Columbus, Ohio 43210

*The authors are Assistant Professor and Professor, respectively, of Agricultural Economics at The Ohio State University.

The authors thank Leroy Hushak and Vince Showers for their comments and suggestions.

**U.S. AGRICULTURAL EXPORTS
AND THE FOOD SECURITY ACT OF 1985**

The importance of exports to the prosperity of U.S. agriculture is well known, as is the recent decline in farm exports. In Fiscal Year (FY) 1986, agricultural exports are projected at \$28 billion, 35 percent below the peak reached in FY 1981. Equally sobering, the net agricultural trade surplus has declined from \$26.6 billion in FY 1981 to an estimated \$7 billion in FY 1986, a 74 percent decline; and the value of exports as a share of farm cash receipts has declined from 30 percent in FY 1981 to 20 percent this year.

Concern over the decline in farm exports figured prominently in shaping The Food Security Act of 1985. Several export enhancement programs were authorized and price support levels were set on a downward path. These provisions have renewed optimism by many observers that U.S. agricultural exports will increase although the decline in price support is shrouded in debate over the short, medium, and long term responsiveness of U.S. export demand to lower U.S. prices. The optimism of these observers has been further nurtured by the depreciation of the U.S. dollar.

However, we believe that careful examination of these arguments tempers this optimism, whatever the price responsiveness of U.S. export demand.

VALUE OF U.S. DOLLAR

The decline in value of the U.S. dollar, which began in March 1985, is often cited as portending future increases in agricultural exports. However, this argument is based upon only a partial analysis of changes in dollar values. The dollar has declined in value

against most Western European currencies and the Japanese yen. For example, between April 1, 1985 and January 1, 1986, the real value of the U.S. dollar, when adjusted for differences in consumer prices and measured against the French franc, German mark, and Japanese yen, declined by 28, 25, and 23 percent respectively. (Data available on consumer prices prevent analysis later than January 1986.)

But, in terms of increasing the competitiveness of U.S. agricultural exports, what is important is the change in the value of the U.S. dollar relative to the currencies of our export competitors. Over the April 1, 1985 to January 1, 1986 period, the real value of the dollar increased by 2 percent against the Argentinian austral and the Canadian dollar, did not change relative to the Brazilian cruzeiro (cruzado now), and declined by only 3 percent against the Thai baht. Based upon available evidence, there has also been little change against the Australian dollar, Chinese yuan, and South African Rand, but exact calculations are precluded by the lack of adequate consumer price data for these countries. Thus, except for our European competitors, the real exchange value of the dollar has actually changed very little relative to the currencies of our agricultural competitors. This lack of change against the currencies of major export competitors tempers the increase in U.S. agricultural exports which can be expected from the commonly discussed depreciation of the U.S. dollar, thus shifting more of the burden for increasing U.S. export competitiveness to the provisions of the new farm bill and other factors.

EXPORT ENHANCEMENT PROGRAMS

The Food Security Act of 1985 contains an array of export enhancement programs: reauthorization of PL 480, an expanded Section 416 program, a new pilot barter program, reauthorization of short (less than three year) and intermediate (3-10 year) export credit programs, a new export payment-in-kind subsidy program, a targeted subsidy program to offset unfair trade practices of specific competitors, and a new "Food for Progress" program. These programs are certain to increase the proportion of exports sold under some form of government assistance. This proportion has already nearly tripled in the 1980s -- from 7 percent in 1980 to 19 percent in 1985 -- with the advent of expanded export credit programs. Given the new initiatives included in the 1985 Farm Bill, it would not be surprising if this proportion reached 25 percent in FY 1986, a level last attained in FY 1973.

Under the assumption that nothing else changes, these programs would enhance U.S. agricultural exports. However, they appear to be stimulating new or increased export assistance programs by our competitors, such as increased export subsidies from the European Common Market (EC). Given these types of competitive reactions, export assistance programs become factors in maintaining current export sales, but are unlikely to enhance U.S. market shares. Exports shipped with assistance may also replace commercial exports which would have occurred in the absence of the assistance programs. These possibilities are made even more likely by the fact that world agricultural trade, after growing rapidly in the 1970's, has leveled out in the 200-220 million metric ton range so far in the 1980's.

The targeted export subsidy programs are aimed at reclaiming markets lost to what, in the U.S. view, was unfair competition, especially by the EC. This has the effect of discriminating against some of our customers, such as Japan and other Southeast Asian countries, because they buy a relatively small amount of European farm products. These countries end up paying a higher price for the same U.S. exports that are being subsidized to other countries. While it is too early to forecast the response to this discrimination, the slighted countries may decide to increase their purchases from U.S. agricultural export competitors.

Thus, everything else is rarely constant in the world of international trade, especially when the countervailing forces set in motion by export enhancement programs are considered. This calls into question the size of any increase in exports that will result from export enhancement programs. Certainly the experience in the early 1980s is not encouraging.

U.S. LOAN LEVELS

Using authority contained in The Food Security Act of 1985, the Secretary of Agriculture lowered 1986 price support levels for most program commodities by at least 25 percent. The decision was explained on the basis that lower prices will help the U.S. regain lost export markets. It has also brought forth heated debate over the short, medium, and long term responsiveness of export sales to changes in U.S. prices. However, the debate has tended to ignore the international political dimensions of U.S. loan rates. While the U.S. views the sharp decline in price supports as a competitive move to regain lost markets, our export competitors view it as predatory

pricing. While the U.S. views deficiency payments as a means for maintaining the income of family farmers in light of cuts in price supports, our export competitors view them as subsidies that encourage American farmers to produce more even though the loan rate, let alone the market equilibrium price, provides incentives to produce less. Therefore, it should come as little surprise that (1) Argentinian farmers are protesting and calling for, among other policy changes, a reduction in taxes on farm exports; (2) Thai farmers and students are protesting the marketing loan initiated for U.S. rice and calling for assistance; (3) Australian wheat farmers are calling for increased government involvement; and (4) Canadian corn farmers are seeking a countervailing duty on U.S. corn imports. In the eyes of our competitors, the sharp decline in price supports has become an attempt to export our farm crisis.

This view is fanning the winds of trade protectionism. Already, potential trade wars over limitations on U.S. textile imports and the ascension of Spain and Portugal to the EC have significant implications for the U.S. farm economy. In 1985, Congress passed, but President Reagan vetoed, a bill which would limit clothing and textiles imports from Taiwan, South Korea, Hong Kong, and other Third World countries. An override vote is scheduled for August 1986. In 1984, Taiwan, South Korea, and Hong Kong accounted for 44 percent of the U.S. imports of cotton, wool and man-made fibers.

The EC dispute involves a series of tariffs and quotas that begin with the merging of Spanish and Portuguese agricultural policies into the EC's Common Agricultural Policy. This includes restrictions on soybean and feed grain imports by Spain and Portugal.

In response, the U.S. announced various trade restrictions if the EC restrictions are imposed. The EC then announced that they would retaliate against the U.S.'s threatened restrictions. Currently, discussions are going on to circumvent the retaliation cycle.

The U.S. has a substantial share of its agricultural trade and trade surplus at risk in the textile and EC trade wars. In 1984, the latest year for which information is available, agricultural exports to South Korea, Taiwan, and Hong Kong totaled \$3.5 billion; to Spain and Portugal, \$1.7 billion; and \$6.5 billion to other EC countries (Belgium, Denmark, France, Greece, Ireland, Italy, Luxemburg, Netherlands, United Kingdom, and West Germany). In sum, these exports totaled to 31 percent of all U.S. agricultural exports. The net agricultural trade surplus with these countries was \$3.2, \$1.4 and \$3.3 billion respectively, accounting for 42 percent of the total U.S. agricultural trade surplus.

In the short run, the sharp reduction in U.S. price support levels may do little more than encourage increased protectionism and export assistance by our competitors. In the long run, it may encourage self-sufficiency among our competitors as they channel production resources from current export commodities, which in their view are being attacked by the U.S., to agricultural products currently imported. In recent years, Brazil has rearranged its price support system to encourage corn and wheat production while the EC has done the same for oilseed production. Currently, both import these commodities from the United States.

This international political view of changes in U.S. loan rates argues that sharp reductions in price supports set in motion institutional constraints which limit the quantity response to price declines, whatever the underlying price responsiveness of export demand. At the very least, this view argues for moderation in reducing U.S. price support levels for export commodities.

SUMMARY

The Food Security Act of 1985 had as one of its objectives increased U.S. agricultural exports. To accomplish this goal, price support loan rates were lowered and a variety of export enhancement programs were authorized. However, the current world agricultural trade environment and the experiences of the early 1980s suggest that export enhancement programs will more likely maintain rather than enhance U.S. agricultural exports. The decline in price support levels, especially the sharp declines initiated for 1986, has spurred international resentment against what is perceived as predatory pricing by the U.S. This resentment comes against a background of growing worldwide protectionism. These considerations, along with the size of U.S. agricultural exports currently at risk in potential trade wars over U.S. textile imports and Spain and Portugal's admission to the EC, as well as the lack of appreciable declines in the value of the U.S. dollar against the currencies of our non-European agricultural competitors, suggest that the value of U.S. exports, if not quantity, is unlikely to increase and may actually decline over the next few years. In short, despite the intentions

and objectives of The Food Security Act of 1985, exports have probably shifted from being an engine of growth to being a catalyst for downsizing U.S. agriculture.