



Agricultural Policy Questions VI:

Are Exports Likely To Be A Long Term Driving Force Behind The United States' Grain And Soybean Markets?

“Exports will be the salvation of agriculture.” We have heard that mantra repeated countless times over the years. As a result, since the 1985 Farm Bill, agricultural policy has been specifically shaped to favor exports and to make American producers more competitive in the export market. Federal agricultural policy lowered price supports and instituted other programs designed to increase export volume, world-export share, and presumably export value. Grain prices have declined. Average grain prices are lower for the ten-year period after the 1985 Farm Bill than for the ten-year period before the farm bill. Grain prices during the four-year tenure of the 1996 Farm Bill are lower yet.

So, have average grain export volumes increased over these periods? No, they have not. In fact, export averages for grains (corn and wheat, which are the major export grains) have declined somewhat over those three periods (Figure 1). Soybean export averages have increased only marginally during the three periods. The November issue of *Policy Matters* provides additional information about export trends.

With export volumes for corn, wheat, and soybeans flat, the U.S. share of world exports and export share of total U.S. use has declined—markedly in some cases (Figure 2). Today, exports of major U.S. crops represent smaller percentages of world exports and smaller proportions of total U.S. grain and soybean disappearance than before the U.S. lowered price supports and instituted other measures designed to increase exports. This includes the recent use of marketing loans that allow market prices to fall below “support prices.”

The data are clear. Exports have not been the driving force behind the U.S. grain and soybean markets since the mid-1980s. However, that does not mean that exports couldn't become the demand growth engine in a future time period. As we will see, over the last century exports have played that role during three relatively brief time periods. And, as occasionally occurs, there will be future years in which exports will surge (pulling up prices for that year and perhaps the next year).

But, what the last fifteen years have taught us is that there are special circumstances surrounding the grain export market that often overpower the influence of price. This realization about the nature of the demand for crop exports has been a gradual and painful process. Among the reasons for the extended learning curve are the suddenness of the last grain export explosion in the 1970s and the new-era frenzy it caused during the 1970s through the mid-1980s. Another reason is the fact that many of the non-price and political considerations that affect grain exports only originated or intensified a relatively few decades ago, following World War II. Let's begin by putting the export boom of the 1970s and 1980s into historical perspective.

Ag Exports Are Not A New Phenomenon

Given the unbridled optimism that accompanied the export boom of the 1970s and 1980s, one could think that U.S. agriculture had never materially participated in world trade prior to 1970. History, however, shows that agricultural exports have been important to this country since before this country was a nation. Great Britain's control over colonial exports of agricultural products and the imposition of stiff export taxes were high on the list of grievances that resulted in the Declaration of Independence. Export taxes were subsequently prohibited in the U.S. Constitution.

Over the last century, there have been three periods of export-driven financial prosperity in agriculture. Following an extended depressed period after the Civil War, farm prices and incomes increased after the turn of the last century partly due to stronger exports.

World War I Brought A Short Export Boom Followed By a Long Period of Low Demand

World War I brought a surge in agricultural exports as war-torn Europe turned to the U.S. for food and fiber. Historian Wayne Rasmussen writes: “Farm prices rose, the government called for increased production, and farmers responded...Then, agricultural prices collapsed in July 1920...” Prices never recovered in the twenties and fell con-

siderably further in the 1930s.

Conventional wisdom at the time was that the low price and income problems were temporary and would evaporate once domestic and export demand strengthened. In the 1920s, large national cooperatives for major commodities and an early federal agency, the Federal Farm Board, went bankrupt as they accumulated stocks for later sale. A return to demand expansion did not materialize!

Early self-help attempts also included efforts to encourage farmers to voluntarily reduce production. Even with sharply lower prices, farmers cut back output very little—free market supply response was minimal. Federal farm legislation was put in place in 1933 which included provisions to reduce supply as well as to support prices and incomes.

World War II Ushered In Second Boom

World War II ushered in the second export boom. Again, as exports soared so did prices. Rasmussen writes, “Secretary of Agriculture Claude Wickard called for increased production of many commodities...” Following reconstruction, exports stopped being a growth market and excess capacity again set in.

This time around, few expected a return to brisk export growth any time soon. In fact, agricultural export demand was characterized as fickle and inherently unstable. Few believed that hundreds of thousands of farmers would voluntarily idle land to eliminate excess supplies. Again, farm programs reduced production through short and long term land retirement and eased the adjustment process by providing a measure of price and income stability. During the 1950s and 1960s, farmers and their bankers knew what prices to expect during the current crop year and crop years to come. This knowledge gave some the confidence to expand their operations and others the information they needed to call it quits.

Once Again, Third Export Boom is Influenced By Political And Non-Price Factors

The third grain export boom began in 1973 and peaked in 1981. Just as in the previous two export booms, a sizable share of the surge in exports had political roots. Its beginning coincided with a USSR decision to import grains when their production fell short of needs rather than slaughter livestock to cut feed demand as they had previously done.

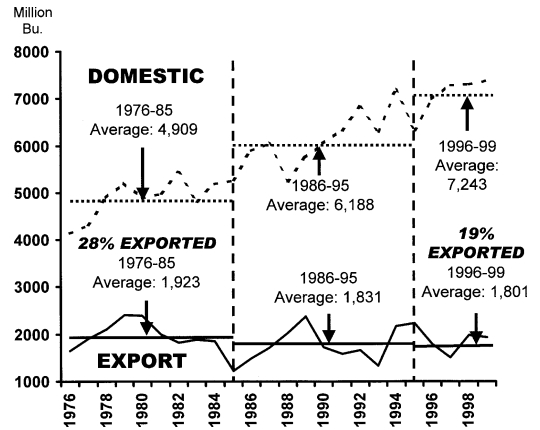
In addition, a portion of this export boom was related to the decision of the Organization Petroleum Exporting Countries (OPEC) to raise oil prices, profits, and bank balances by forming an oil cartel. As OPEC profits began to pile up in major western banks, the banks began to look for opportunities to recycle the petro-dollars back into the international community.

With the help and encouragement of the U.S. government, loans were negotiated with underdeveloped countries. The money was intended to be used to spur economic development and facilitate trade. However, much of the money was used to import agricultural products. Our exports of major crops took off. Unaware of the quicksand nature of the newfound export demand, government officials, including the Secretary of Agriculture, told farmers that agriculture had finally turned the corner and urged them to plant fence row to fence row.

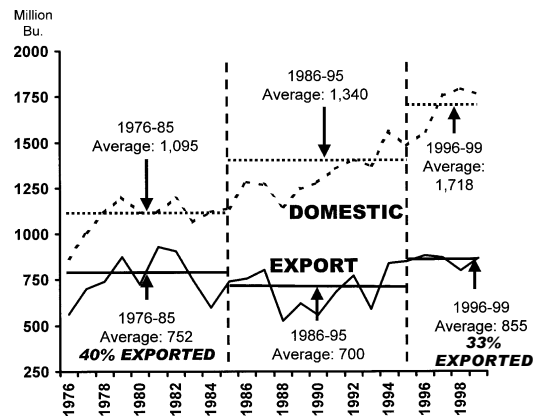
Exports remained strong until the loans came due. Excess capacity returned despite repeated assurances by policy and agricultural leaders as

Figure 1.
U.S. Domestic and Export Demand

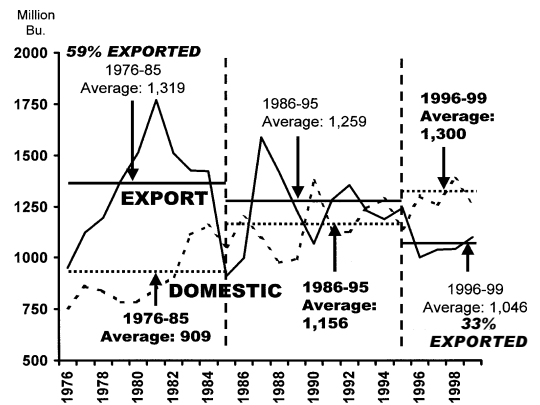
Corn



Soybeans



Wheat



Source: USDA

late as 1981 that the farm problem of the future would be how to expand capacity not constrain it. Agriculture again faced declining exports of major crops and to this day, over fifteen years later, farmers continue to face a flat crop export market.

Similar to the export collapse following World War I, the reaction following this third export surge was largely denial. When exports and U.S. share of world exports began to decline after 1981, the consensus was—The previous higher export levels and export shares are ours to recapture and sustain, and all we need do to achieve that goal is lower crop export prices. Once those export levels are recaptured, crop agriculture will again be prosperous.

For this to work, lower prices would have to expand total export demand. Importing countries would need to import more and produce less themselves; and/or competing export countries would have to reduce output and exports. Logic and economic theory would suggest these courses of actions might be taken by importing countries and competing exporting countries. However, neither course of action tends to occur to a significant degree. Here again, the difference between what is expected and observed is due to the unique nature of agricultural import and export markets.

Lower Prices Do Not Drive Out America's Competitors In Export Markets

Lower crop prices have not and will not cause competing exporters, including Canada, the European Union, Brazil, Argentina, and Australia, to fold up shop and give the United States their market share. Just as in the U.S., total crop acreage in competing countries declines very little in response to lower prices (See *Policy Matters*, January 2000). When U.S. prices drop, our competitors quickly lower their selling prices for crop exports, as well. Internationally, agricultural products are in a “follow-the-leader oligopolistic” market characterized by deep-pocket governments and marketing boards.

Lower Prices Do Not Cause Importers To Significantly Increase Grain Purchases

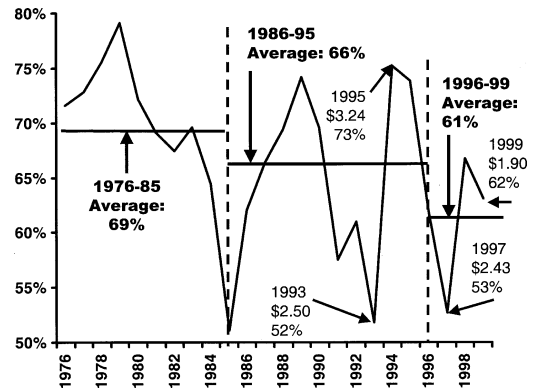
Similarly, importing countries will not necessarily increase their imports simply because the price of agricultural products has declined. Importing countries tend not to buy much more of an agricultural product when its price declines for many of the same reasons individuals tend not to increase the total quantity of food they buy just because prices change (See *Policy Matters*, February 2000). Individuals need so much food and are willing to pay whatever it takes to get what they need. But, they are unlikely to buy much more because the price has dropped. Over the long term, export demand is affected by income, population and other shifters. In a given year weather's effects on yields and general economic considerations influence demand and price.

An additional factor in the case of importing countries is that most of them import agricultural products because they have to—not because they want to. If they can reasonably produce it themselves, they probably will. Thus, following a price decline, importing countries may not increase their imports of an agricultural product significantly, even if it now costs more to produce it themselves than it costs to import it.

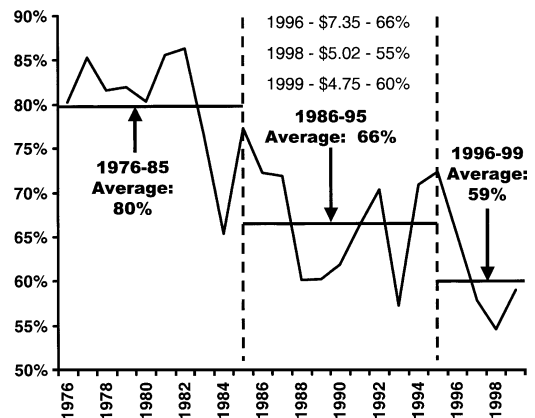
It's one thing to depend on another country for television sets or some

Figure 2.
U.S. Exports as Percentage of World Export Volume

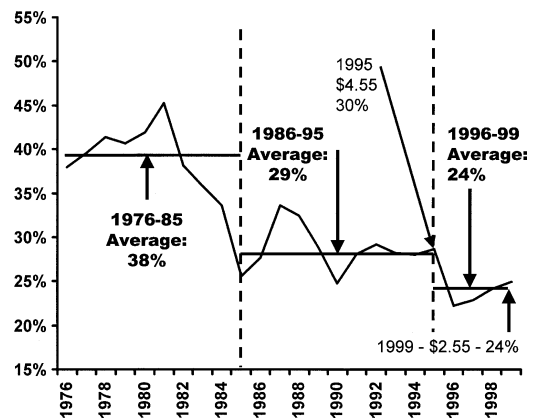
Corn



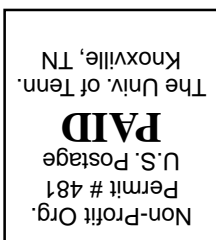
Soybeans



Wheat



Source: USDA



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other nonessential item; it is quite another to depend on another country for something that must be consumed everyday to sustain life. As difficult as it may be to accept, in the case of food related products, price advantage often loses out to political and non-price considerations.

Exports and Imports Are Greatly Affected By Political And Non-Price Considerations

Governments of nearly all countries intervene in farm markets. For many countries, especially those that have experienced food shortages, wars, and other instabilities, short-term economic distortions caused by market factors are dwarfed by longer-term considerations. These may include the preservation of the country itself, domestic tranquility, and economic and political independence.

The WTO and other trade organizations will have some successes in freeing trade. Freer trade should be actively pursued and yet it is probably naïve to think that these countries will implement a wholesale withdrawal of support for their farm sectors. When it comes to food and those who produce it, it is very likely that countries will use traditional means as well as imaginative new ways to protect the availability of one of the most basic requirements for life and those who produce it.

Therefore, there seems to be no reason to believe that the U.S. is about to begin a sustainable export boom in the near future. An increase in exports is unpredictable since each of the last three booms involved significant political events and/or decisions.

There also is no reason to believe that, by following a low price policy, the United States will be any more successful in the future than it has been in the past in recapturing export levels and export shares like those generated at the height of the last boom. Finally, just as is true for domestic supply and domestic demand, the nature of export demand for food and agricultural products is different from the nature of demand for products that are not essential for life.

We Welcome Your Input

Are there policy issues you would like to see APAC address? Please contact APAC's director, Darryl E. Ray, at:
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Include a daytime telephone number or email address and we may contact you about addressing your concerns in a future issue of Policy Matters.

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