Three centuries of agricultural exports: When they’re hot, they’re hot and when they’re not, they’re not

As we look at the Phase 1 trade agreement between the US and China that is expected to be signed sometime on or after January 15, 2020, we want to begin with a brief overview of the history of US agricultural exports.

In the early 17th century, tobacco smoking became fashionable in England so farmers in Colonial America received favorable prices for all that they could produce. The prices were so profitable that colonial farmers increased production to the point where 40 years later the price had dropped to a point well below the full cost of production. In response some of the American colonies enacted production restrictions on their farmers in hopes of increasing the price.

A similar story can be told for both indigo and cotton production. By the 19th century, the production of cotton in the colonies exceeded the amount that English cotton mills could weave into cloth and market. As a result, a once profitable crop was being produced at an extremely low price for lack of a profitable alternative crop for some of cotton’s acres.

In the mid-19th century as a sea of men flooded California in search of gold, some ended up in the Central Valley as farmers where they raised wheat on the flat fertile land. Their market was England and Europe and the prices were good, despite significant shipping costs. And then farmers in Argentina began to grow wheat, and with lower shipping costs the California wheat market collapsed.

Regular readers of this column are familiar with the agricultural boom of WWI and a bust that subsequent to the signing of the Armistice. A farm depression in the 1920s was followed by the Great Depression in the 1930s. WWII triggered an increase in production followed by a slow slide in agricultural prices into the 1950s and beyond.

The Soviet Union’s purchase of US wheat in 1972 triggered a surge in optimism about agricultural prices and farmers were encouraged to plant fencerow to fencerow by a former Secretary of Agriculture. They did and the price spike turned once again into a slump that resulted in the farm crisis of the 1980s.

In the early 21st century, the combination of the adoption of the Renewable Fuels Standard—increasing the use of corn to make ethanol to nearly 6 billion bushels—along with below trendline yields in 2010 and 2011 ahead of the 2012 drought across a wide swath of the corn belt doubled and tripled corn prices only to see them plummet in the century’s mid- to late-teens.

It is our observation that exports have been the great hope and great heartbreak of US agriculture while steadily growing domestic demand has been ignored.

When faced with a new source of demand for one or more agricultural products, US farmers have repeatedly shown the ability to increase production to meet the new demand to the point of overproduction and falling prices. Export demand is ephemeral depending on the needs of others. Historically, long-term high levels have not been sustainable.

While we don’t want to minimize the importance of the trade agreement with China; we think a little restraint in expectations is in order.

- We have been told to expect $50 billion in agricultural exports to China; the largest sales to China was $26 billion in 2012.
- The bulk of Chinese soybean demand for US soybeans has been to feed hogs. Currently the Chinese hog herd has been decimated as the result of the spread of African Swine Fever, tempering any increase in the need for soybeans.
- In recent years China has increased its imports of US ethanol to be mixed into its fuel supply, but there are indications the increase could taper off.
- Lastly, there is a glimmer of hope among US producers that China might increase its imports of US pork but that will likely not be a long-term source of demand.

The thing that is the long-term source of increasing demand for US agricultural products is domestic demand. Perhaps then we should design our production systems and agricultural policies to meet this demand at a profitable price and treat exports for what they are: "icing on the cake."

Policy Pennings Column 1010

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 256, January 17, 2020

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