

The 1980s: A Turning Point for U.S. Agricultural Exports?

By Mark Drabenstott

The 1970s were a decade of remarkable growth for U.S. agricultural exports. A near-fivefold increase in farm exports during the decade reshaped U.S. agriculture by boosting farm income, raising farmland prices, and encouraging investments that increased agricultural productive capacity. A growing agricultural trade surplus also became a significant factor in limiting the size of America's rising balance of trade deficit. As a result, agricultural interests generally expected continued rapid growth in the current decade.

Thus far, however, the 1980s have seen growing weakness in agricultural exports. The value of U.S. agricultural exports grew slowly in 1981 and then declined in 1982. The recent weakness has been largely a result of weak economies abroad, large world grain supplies, and a strong U.S. dollar. Weak export markets, in turn, have been a major cause of farm financial stress in the past three years. Therefore, given the importance of these exports to U.S. agriculture and the balance of trade, whether U.S. farm exports return to the rapid growth of the 1970s is of considerable significance.

Mark Drabenstott is a senior economist with the Economic Research Department at the Federal Reserve Bank of Kansas City. Marla Borowski, a research associate with the Bank, assisted in the preparation of this article.

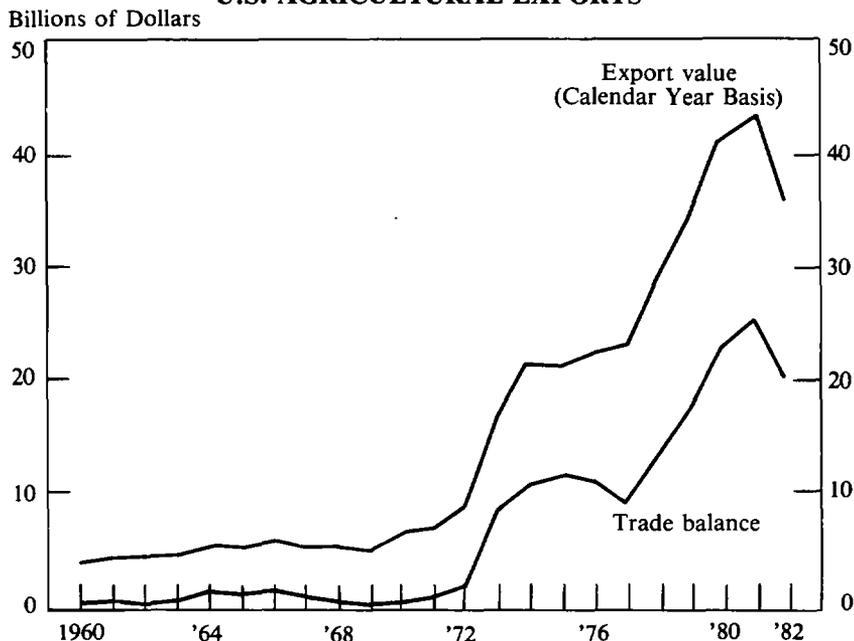
This article examines the probable course of U.S. agricultural exports during the rest of the 1980s. The first section discusses the changing trends in U.S. agricultural exports. The second section examines how a number of market factors have reduced agricultural exports during the past three years. The third section analyzes new market developments and trade policies that might stimulate future exports. The final section draws some conclusions about the future of U.S. agricultural exports and summarizes the findings of the article.

RECENT DECLINE IN AGRICULTURAL EXPORTS

The decline in U.S. agricultural exports in the early 1980s followed a period of rapid export growth in the 1970s. The 1970s produced rapid growth in export value and volume, with most of the growth occurring in grains. The value of farm exports, which totaled \$7.3 billion in 1970, nearly doubled in 1973, the year of the first big Soviet wheat sale (Chart 1). By 1980, the value of U.S. agricultural exports had increased to \$41.2 billion.¹ Export volume had

¹*Foreign Agricultural Trade of the United States*, Economic Research Service, U.S. Department of Agriculture, 1981.

Chart 1
U.S. AGRICULTURAL EXPORTS



Source: Foreign Agricultural Service, U.S. Department of Agriculture.

reached 162 million metric tons (mmt) by 1980 compared with only 64 mmt in 1970. The rapid expansion in U.S. agricultural trade was fueled mostly by strong economic growth abroad, readily available world credit, opening of trade with centrally planned economies, and a relatively weak U.S. dollar.

The markets for U.S. agricultural exports changed significantly during the 1970s. Although Japan and Western Europe remained the two most important markets—accounting for nearly half of U.S. exports—new markets emerged. The fastest growing markets were the Soviet Union, China, Latin America, and Eastern Europe (Table 1). Where the Soviet Union accounted for less than 0.5 percent of U.S. agricultural exports in 1970, it made up 3.6 percent in 1980. Where the United States and China had no agricultural trade in 1970, China had become the biggest single customer

for U.S. wheat by 1980. As real incomes rose in Latin American countries, especially in Mexico and Brazil, these countries developed strong demand for U.S. farm products. Eastern Europe increasingly turned to the United States and others to bolster domestic feed grains supplies.

Impact of the 1970s rise in exports

Rapidly expanding exports had an historic impact on America's farms. As grain exports became increasingly important to American farmers—accounting for 43 percent of the grain produced in 1980, compared with only 16 percent in 1970—farm income rose from the levels of the 1960s. Net farm income averaged \$23.1 billion in the 1970s compared to \$12.4 billion in the 1960s.² In real terms (1967 dollars) net farm

² *Economic Indicators of the Farm Sector*, U.S. Department of Agriculture, 1981.

income averaged \$14.9 billion in the 1970s, compared with \$12.8 billion in the 1960s (Chart 2). Along with higher farm income, expanded exports brought greater volatility to farm prices and incomes. Farmland values rose at unprecedented rates, registering the sharpest rise in real value for any decade of this century. Encouraged by higher incomes, low real interest rates, and expectations of continued export growth, farmers made large investments to increase their productive capacity.

While escalating oil prices contributed to a mounting U.S. trade deficit during the 1970s, agricultural trade became increasingly important as a source of trade surplus. From less than \$2 billion in 1970, the agricultural trade surplus grew to \$24 billion in 1980 (Chart 1). With a trade deficit of more than \$25 billion in overall merchandise in 1980, agriculture's contribution to the U.S. trade balance was significant.

Official U.S. policy in the 1970s encouraged agricultural exports. Stimulating exports was considered appropriate because of the benefits to both farmers and the country's balance of payments. Farm policy generally encouraged fencerow-to-fencerow production, while trade policy promoted free world markets and increased exports to centrally planned countries.

Expectations for the 1980s

Farmers and policymakers alike expected the strong growth in agricultural exports to continue in the 1980s. Farmers bought more land and equipment to boost production and improve profits. The resulting strong demand for farmland and farm machinery helped to boost prices for both. As the decade began, farm policy was still directed toward full production, with strong export markets seen as the cure to the grain surpluses and low commodity prices of previous decades.

Continued growth in farm exports was generally expected. Typical of the optimistic

Table 1
U.S. AGRICULTURAL EXPORTS
VALUE BY REGION
FISCAL YEARS 1970 AND 1980

Region	1970		1980	
	Billion Dollars	Percent of U.S. Exports	Billion Dollars	Percent of U.S. Exports
Western Europe	2.369	35.2	12.569	31.0
Eastern Europe	0.133	2.0	2.449	6.0
U.S.S.R.	0.017	0.3	1.457	3.6
Asia	2.452	36.5	14.298	35.2
Japan	1.089	16.2	5.775	14.3
China	0.0	0.0	1.957	4.8
Other	1.363	20.3	5.506	16.1
Canada	0.767	11.4	1.830	4.5
Africa	0.229	3.4	2.277	5.6
Latin America	0.649	9.7	5.482	13.5
Oceania	0.056	0.8	0.189	0.5
Other	0.050	0.7	—	—
Total	6.721	100.0	40.43	100.0

Sources: U.S. Department of Agriculture, Outlook for U.S. Agricultural Exports, November 17, 1980, and U.S. Foreign Agricultural Trade Statistical Report, Fiscal Year, Washington, D.C., December 1971.

forecasts was a consensus report by the Agriculture Council of America suggesting that agricultural exports in the 1980s would continue the growth of the 1970s. The report said that the "dramatic growth in U.S. agricultural exports during the 1970s was not an aberration from a normal trend but was an unambiguous indication of increasing global food and fiber interdependence."³ It concluded that "U.S. agriculture will have the opportunity to maintain and further expand its export markets in the future."

Performance in the early 1980s

Agricultural exports have been a disappointment in the early 1980s, however, compared with both the trend of the 1970s and the expect-

³ Agriculture Council of America, *U.S. Farm Export Strategies for the Eighties*, Washington, February 1981.

tations that were common when the decade began. Growth in the value of exports slowed below expectations in 1981, with \$43.3 billion in final sales. Exports decreased to \$36.6 billion in 1982, and export volume also declined. The first year of a decline in value since 1969, 1982 marked an abrupt end to the expansion in exports that dominated U.S. agriculture throughout the 1970s.

Declining farm exports reduced agriculture's contribution to the U.S. balance of trade in 1982. After peaking at a surplus of \$26.6 billion in 1981, the agriculture balance of trade dipped to \$21.4 billion in 1982. As the overall merchandise trade balance widened to \$26.1 billion, agriculture's contribution to the balance of trade declined with other sectors.

Weakening farm exports also had negative effects on the farm sector. Net farm income in current dollars peaked at \$32.4 billion in 1979 and was followed by three years of low farm earnings (Chart 2). Soft export markets have resulted in growing grain surpluses and low commodity prices which, in turn, have been a primary cause of low farm income levels. Declining agricultural exports, moreover, have reduced the demand for farmland and contributed to a decline in farmland values. Agribusinesses have felt the effect of declining agricultural exports both in lower sales of agricultural equipment and supplies and in reduced volume of grain shipments. On balance, declining exports have transformed U.S. agriculture from a period of increased investment in production and strong farm income to a period of excess capacity and farm financial stress.

SOURCES OF THE DECLINE

Several factors have combined to reduce U.S. agricultural exports in the early 1980s. These factors are a weak world economy, world debt problems, a strong exchange value of the

dollar, export competition, and trade barriers. This section examines how these factors have contributed to a reduction in agricultural exports.

Weak world economy

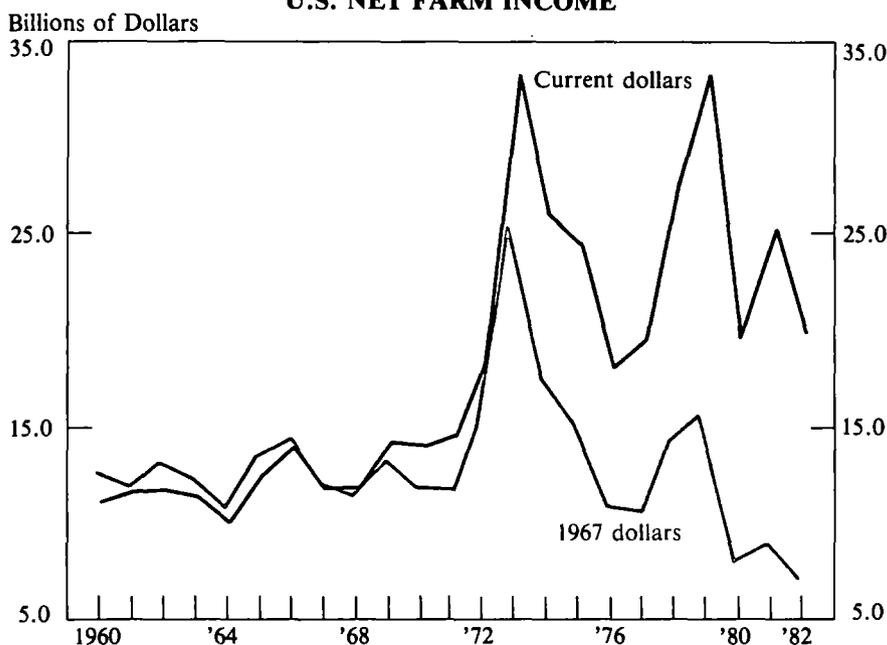
The global recession that accompanied the U.S. business downturn has slowed the growth in world food demand. Total world demand may decline for the first time in nearly a decade in 1983. The total gross domestic product (GDP) of countries in the Organization of Economic Cooperation and Development (OECD) declined last year for the first time since the 1950s. The world recession followed a decade of economic growth when OECD nations increased their GDP an average of 14 percent a year. Where total world trade in wheat and coarse grains increased an average of 7 percent a year in the 1970s, the world recession has held the growth in total trade in these commodities relatively flat for the past two years.

World debt problems

The difficulties many developing countries are having meeting their foreign debts have further curtailed their ability to import food. Less developed countries, which accounted for more than a third of U.S. farm exports in 1981, increased their foreign debt 54 percent between the yearends of 1979 and 1982.⁴ Mexico and Korea, for example, which together accounted for 11.2 percent of U.S. agricultural exports in 1981, increased their combined foreign debt from \$53 billion to \$124 billion between the end of 1979 and the end of 1982. In the face of high real interest rates, low commodity prices for their exports, and declining world economic growth, many less developed countries (LDCs) have coped with a growing debt burden only by rescheduling debt payments. These countries

⁴ Organization for Economic Cooperation and Development, *External Debt of Developing Countries, 1982*.

Chart 2
U.S. NET FARM INCOME



Source: U.S. Department of Agriculture.

borrowed heavily in the 1970s to increase their food imports, but as they have rescheduled their debts, less credit has been extended to them recently.

Exchange value of the dollar

A strong dollar over the past two years has had some negative effect on agricultural exports. From its lowest point in 10 years in the third quarter of 1980, the dollar appreciated more than 40 percent against a market basket of 10 foreign currencies to its highest point in 12 years by the fourth quarter of 1982 (Chart 3). This strength of the dollar has weakened foreign demand for U.S. farm products, especially in low and middle-income countries that have been having balance of payments and foreign debt problems.

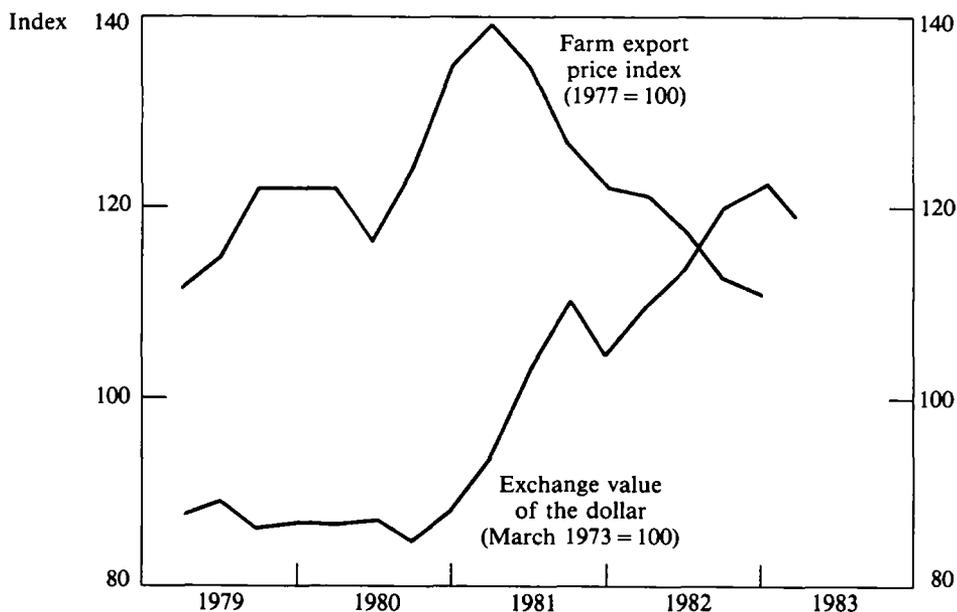
Although U.S. farm export prices have fallen steadily over the past two years as a conse-

quence of large domestic grain supplies, appreciation of the dollar has at least partially offset the trade advantages of lower prices. From a peak in January 1981, the index of farm export prices declined 28 percent to a two-year low in January 1983 (Chart 3). The decline over this period was offset to some extent, however, by a 29 percent appreciation in the dollar. Thus, the dollar's rise in value blunted some of the competitive gains in world markets that might have been expected from falling U.S. farm prices.

Export competition

Grain exports from the United States have met stiff competition from other exporting countries in recent years. As a result of the competitive trade measures employed by these countries, the United States has lost some of the large market share that it had built up in the

Chart 3
FARM EXPORT PRICE INDEX
AND WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



Sources: U.S. Department of Agriculture and *Federal Reserve Bulletin*, Board of Governors of the Federal Reserve System.

1970s. Following a decade of rapid export expansion, the United States controlled more than 58 percent of all world wheat and coarse grain trade by fiscal 1980. In fiscal 1983, the United States will probably control about 51 percent.⁵ This seven percentage point drop in market share amounts to some 14 mmt of grain valued in today's market at more than \$5 billion.

The four main export competitors to the United States—Argentina, Australia, Canada, and the European Community (EC)—have increased grain production in the past decade in response to high U.S. and world grain prices. Nearly all of the increase has flowed into the world market. Wheat and feed grain production in these countries totaled 150 million tons

in 1970 (Chart 4). In 1982, combined production had climbed to 220 million tons. Where they harvested 62.3 million hectares in 1970, they harvested 73.9 million in 1982. Canada, in particular, has rapidly expanded agricultural production, boosting harvested hectares by two-thirds between 1970 and 1982. It more than doubled the wheat area it harvested.

Canada, Argentina, and the EC have significantly improved their shares of the world grain market in the past three years (Table 2). Canada, to regain the market position it held a decade ago, has aggressively marketed its grain at competitive prices and with below-market credit terms. Argentina, where surpluses have been growing, has sold grain at below world market prices. Large agricultural surpluses have been building in the EC in recent years as a result of high domestic farm support prices. To reduce government-held commodity stocks, the

⁵ "World Grain Situation and Outlook," *Foreign Agriculture Circular*, FG-4-83, USDA, January 1983.

Table 2
WHEAT AND COARSE GRAIN
WORLD MARKET SHARES

(July/June Marketing Year)

	1970-71	1979-80	1982-83
United States	38.9	58.2	51.4
Canada	15.5	10.6	13.5
Australia	11.6	10.2	4.6
Argentina	9.2	6.1	10.3
European Community	5.8	8.9	13.2
Others	19.0	6.0	7.0

Source: U.S. Department of Agriculture, *Foreign Agriculture Circular*, FG-1-83, January 17, 1983, and FG-12-73, October 26, 1973.

EC has offered generous price subsidies for farm exports and, in most cases, has sold at below world market prices. The cost of this two-pronged subsidy scheme—keeping domestic farm support prices high to encourage large food supplies and offering large subsidies to sell surplus commodities on world markets—is very high. In 1982, for example, the EC spent \$7.3 billion for domestic price supports and an additional \$5.6 billion for export subsidies.⁶

Trade barriers

Agricultural exports from the United States have been disadvantaged in the past three years by trade barriers in world markets. These barriers primarily consist of a growing number of bilateral trade agreements between export competitors and food importing nations, Japanese food import barriers, and a system of variable levies on EC food imports.

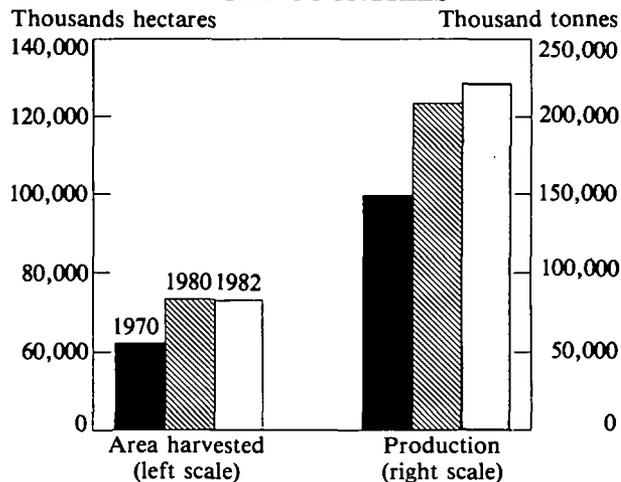
The amount of world-traded grain covered by bilateral agreements has increased considerably during the past few years. Since June 1980, the amount of grain covered in bilateral commitments has increased from 21.9 mmt to

⁶ Foreign Agricultural Service, U.S. Department of Agriculture.

more than 32.8 mmt. More than two-thirds of this increase comes from export competing nations having locked in larger shares of the Soviet grain market. Over the same time period, the total number of bilateral trade agreements between export competitors and major world food buyers has increased from 24 to 35. Most of the new agreements have been signed by Argentina, Canada, and the EC, particularly the French.

The increase in bilateral trade agreements carries significant ramifications for the United States. Coming in the wake of the USSR grain embargo, the new agreements are evidence that the United States has lost a major share of the Soviet grain market. Moreover, the declining portion of world grain trade not covered by existing trade agreements magnifies the U.S. role

Chart 4
WHEAT AND COARSE GRAIN
PRODUCTION BY COMPETING
EXPORT COUNTRIES*



Source: Foreign Agricultural Service, U.S. Department of Agriculture.

* Argentina, Australia, Canada, and European Community.

as residual supplier to world grain markets. When world grain demand is weak, as it has been for the past two years, the United States is forced as residual supplier to hold a larger share of a growing world grain surplus. In fiscal 1982, the United States held more than 60 percent of the world's grain reserves, compared with only 45 percent in 1970.

Japan is the biggest buyer of U.S. farm products—more than \$6.5 billion in 1981—but it remains a market with numerous barriers to entry. Japan maintains both import quotas and tariffs that affect U.S. farm products, notably beef and citrus. The Japanese government levies a 25 percent ad valorem tariff on imported beef. Since this tariff usually leaves the cost of imported beef still below domestic beef prices, additional tariff surcharges are assessed to bring prices of imported beef up to domestic beef prices. Citrus imports face high and seasonal tariffs in addition to quotas that limit imports during periods of peak demand.

Japanese barriers to food imports reflect domestic pressure to protect Japanese food producers. The farm lobby is prominent in Japan's legislative body, with the result that food import barriers change slowly and only in response to considerable pressure. Japan and the United States undertook trade negotiations in October 1982 to discuss Japanese food import restrictions, but no significant progress has been reported so far.

In addition to subsidizing its own agricultural exports, the EC imposes variable levies on agricultural imports. The levies, intended to protect European producers from low world prices, are adjusted daily with the extent of the adjustment determined by subtracting the world price for a commodity from the EC's set threshold import price. On a recent day in February of this year, for example, a levy of \$107 per ton was placed in U.S. soft red wheat to bring the Rotterdam price of \$159 per ton up

to the EC threshold price of \$266 per ton. Of U.S. farm products, wheat and feed grains are the two most affected, and the levies amount to a substantial price penalty for U.S. grains. In the case of wheat, for example, the variable levy recently has averaged nearly 70 percent of the U.S. price at delivery in Rotterdam.⁷

AGRICULTURAL EXPORT ISSUES IN THE 1980s

The disappointing performance of U.S. agricultural exports in the 1980s has brought several policy issues to the fore. The basic question these policies try to address is how farm exports can be stimulated in a world grain market characterized by the factors discussed above. Consumers have sometimes argued against increased farm exports on the basis that exports tend to raise domestic food prices. As noted earlier, however, stimulative export policies were pursued in the 1970s on grounds that expanded foreign markets for U.S. farm products provide a long-term cure to farm sector ills while offering significant benefits to the U.S. balance of trade. Expanded farm exports also create nonfarm employment opportunities.

This section examines alternative policies the United States can use to stimulate agricultural exports. The alternative policy courses can be categorized as three types: market development policies, free trade policies, and trade assurance policies.

Export market development

Development of new markets for farm products is a traditional way of boosting agricultural exports. The Foreign Agricultural Service of the U.S. Department of Agriculture, in cooperation with agricultural export businesses, has facilitated foreign market

⁷ Foreign Agricultural Service, U.S. Department of Agriculture.

development for more than two decades. Past efforts have been successful in building large markets for U.S. raw grain products and cotton. The market development challenges of the 1980s appear to be livestock exports and value-added exports.

Livestock exports, including dairy and poultry, have made up only a small proportion of total farm exports. In 1982, for example, livestock exports totaled \$4.2 billion, accounting for only 11.4 percent of total farm exports. Total livestock exports have grown rapidly, however, from a small base of \$865 million in 1970. As a result of this growth, the United States has become a net exporter of livestock products.

Further expansion of livestock exports will require that foreign restrictions on meat imports be removed and further mechanisms be developed for exporting live animals. Meat exports from the United States face a variety of import tariffs and quotas in foreign markets. Progress in negotiations for the relaxing of these restrictions has been slow. Many countries, both developed and developing, promote their domestic livestock industries, preferring to import feed grains rather than meat. Even with lower trade barriers, U.S. meat producers may not be able to compete effectively in all foreign markets because of the low-cost rangeland available to many meat importing developing countries that are expanding their meat production. Poultry products from the United States, on the other hand, may prove to be quite competitive in world markets.

Live animal exports for herd development could become a strong export item for the United States in coming years. The United States has made significant advances in animal genetics that are increasingly in demand by developing countries wanting to improve their livestock herds. The United States exported more than 400,000 head of live breeding stock

animals in 1982. These shipments, to more than 75 countries, were in contrast to only 230,000 head in 1979.⁸ Much of the rapid growth in breeding-stock exports has been made possible by the increased use of air transportation, which is cost effective and minimizes animal fatigue. Development of animal handling facilities near airports, such as at Kansas City, could open the way for continued rapid growth in live animal exports.

Value-added agricultural exports present a formidable challenge to market development in the 1980s. Value-added refers to raw agricultural products that are processed before export, such as wheat flour. Less than a third of the agricultural exports in the 1970s were value-added products. Despite efforts to boost foreign sales, demand for these products has been weaker than demand for raw grain and cotton. Many food importing countries, especially less developed countries, prefer to develop their own food processing infrastructure, thus providing additional domestic economic activity and employment. While foreign sales of value-added products may be stimulated by export subsidies, demand for the products is not likely to grow rapidly because of competition from food processors in major grain importing countries.

The United States will continue to pursue foreign market development. A major food export trade fair to be held in Atlanta this year will promote the development of farm export markets. Although such actions could improve exports, other policy choices open to the United States are more likely to affect future exports.

Free trade policies

This country has argued for free world agricultural markets for the past decade.

⁸ *Foreign Agriculture*, Foreign Agricultural Service, U.S. Department of Agriculture, November 1982.

American farmers stand to benefit from a free trade policy because they can produce at lower cost than most of their competitors. This comparative advantage of U.S. farm products depends on domestic price supports not being placed too high relative to world prices. Farm commodity support prices become capitalized into farmland values. When support prices are high relative to world commodity prices and lead to increased farmland values, production costs in the United States rise and effectively reduce the competitiveness of U.S. farm products in world markets. A free trade policy, therefore, basically states that encouraging free world markets while producing at comparatively low cost should ensure large export markets for the United States.

To pursue a free trade policy, the United States must address three issues. It must continue efforts to remove existing world trade barriers. It must encourage world economic growth, especially in developing countries, where potential demand is greatest. And it must keep its own support prices low enough to maintain a competitive stance in world markets.

The multilateral General Agreement on Tariffs and Trade (GATT) has been the main vehicle for U.S. agricultural trade negotiations. The United States has participated in two principal types of GATT discussions. The major multilateral trade talks that are occasionally held, such as the Kennedy and Tokyo Rounds, have been largely successful in lowering world tariffs. Food import tariffs, however, may not have been affected as much as other world traded goods. The United States also has engaged in negotiations under GATT auspices to redress unfair trade barriers and practices, such as EC export subsidies, but limited results have been achieved thus far. To lower foreign food trade barriers, the United States may have to relax some U.S. import barriers as a quid pro quo. Many argue that GATT has been unable to

bring discipline to the current world agricultural markets that are encumbered with bilateral agreements, trade subsidies, and credit guarantees. The United States remains committed to trade negotiations through established GATT mechanisms to resolve trade disputes. If progress remains limited, however, the United States increasingly may turn to competitive trade measures of its own in an attempt to make trade discussions more effective.

To benefit from free world markets, the United States must also pursue policies that strengthen world economic growth. Developing countries, with rapidly growing populations and moderately growing incomes, are the primary growth market for U.S. farm exports in the 1980s. These countries depend on trade within a strong world economy for the foreign exchange necessary to purchase food imports. Macroeconomic policies that promote economic growth in the United States and abroad, therefore, will be important to farm export growth in the remainder of the 1980s. Foreign aid grants and economic development assistance programs also may eventually produce larger markets for U.S. farm exports, even though they represent a current cost to taxpayers. In addition, food aid programs under Public Law 480 have been an effective means of helping other countries and also opening the door to expanded agricultural trade. Many countries that once were large recipients of food aid—Spain and Brazil, for example—have since become large commercial buyers of U.S. farm exports.

Keeping domestic price supports competitive in world markets is the final piece of a free trade policy. Even if the United States succeeds in freeing world markets through trade negotiations, and if the world economy is restored to healthy growth, the United States could be at a competitive disadvantage because of pricing its farm products above world price levels. When U.S. farm price supports are too high, they pro-

vide a world price umbrella that allows foreign farmers to increase production above their normal levels. Many analysts contend that as U.S. farm price supports ratcheted upward during the 1970s, with a significant increase in the 1981 Farm Bill, they encouraged an increase in world production and effectively priced U.S. grain out of much of the world grain market. The problem was compounded by the price subsidy measures used by the EC and others. Thus, adherence to a free trade policy may include the possibly painful decision to lower U.S. farm price supports to a more competitive level in world markets.

Trade assurance policies

To restore some of the eroded U.S. share of the world market, many in the farm community advocate trade assurance policies that would respond to foreign competitors. The primary trade assurance options that have been considered are export subsidies, export financing, and bilateral trade agreements.

Export subsidization would call for the United States to offer price subsidies on farm exports to make them more price competitive in world markets. Proponents of this policy argue that the only way to establish fair markets is to respond in kind to foreign competitors. The United States, in an effort to compete with EC export subsidy measures, recently concluded a subsidized sale of 1 million tons of wheat flour to Egypt, a market previously supplied by the French. Growing sentiment for trade assurance policies could lead to further price subsidy measures. A variety of export Payment-In-Kind (PIK) programs have been proposed.

Export subsidies may increase exports. These gains, however, will be earned at a high cost. The subsidized sale to Egypt illustrates the high costs of export subsidy programs. Valued at \$155 million, the transaction may take a total subsidy of \$135 million.⁹ Moreover, the subsidy

cost likely will rise because of cargo preference legislation, which requires half of the flour to be transported in U.S. ships. Nor is it clear that the United States can use subsidies without engaging the EC and other exporters in a trade war. Should such a trade war develop, costs of a subsidy program would increase and grain importing countries would be the real beneficiaries.¹⁰ Pursuit of such a policy course would effectively give the United States a dual subsidy scheme, both domestic and foreign, such as in the EC. The combined cost of such a policy is very high and the American public might not be willing to bear the cost.

The United States has also used a credit guarantee program to boost export sales. The latest credit program enacted by Congress is a blended credit program that provides loans to foreign buyers of U.S. farm products at below market interest rates. Under the program, \$350 million in interest-free loans will be provided to foreign buyers in fiscal 1983, in addition to \$1.4 billion in U.S. government commercial credit guarantees. The end result is a one-fifth reduction in the effective interest rate on the \$1.75 billion available. The blended credit legislation has received strong support in Congress and can be expected to continue.

A new long-term grain agreement with the Soviet Union also has strong support in the farm community. A five-year agreement with the Soviets expired in October 1981 but has twice been extended for another year. Signing a new long-term agreement is fraught with

⁹ *Milling and Baking News*, Vol. 61, No. 49, January 25, 1983.

¹⁰ A distinction can be drawn between a trade war in terms of subsidies and a trade war in terms of trade barriers. Under a subsidy trade war environment, costs for exporting nations rise, but little adjustment in trade relationships results. With trade barriers, the volume of world trade declines and significant distortions in trading patterns likely will occur.

political ramifications for the United States and the Soviet Union. Recent negotiations have not resulted in any progress toward a new agreement. The Soviets may have cooled toward a new agreement because of surpluses in world grain markets and because they have been successful in signing long-term agreements with Argentina, Canada, and the European Community. Whether a new grain agreement is signed between the two countries is far from certain at present, but both countries seem willing to continue extending the old agreement.

THE FUTURE FOR AGRICULTURAL EXPORTS

The 1980s may well turn out to be a decade of weak growth for U.S. agricultural exports. A sluggish world economy, a slow return of developing countries to financial strength, ample world food supplies, and relative strength in the dollar—all these point to slow growth for farm exports for the next few years. Weaker-than-expected farm exports have significant implications for America's farms. Without strong export markets, farm income is not likely to return to the halcyon levels of the 1970s in the near future. Grain surpluses will almost certainly continue to pose a major farm problem, pointing the way to land retirement programs, such as the PIK program. As a result, farmland values are not likely to post the strong gains they showed in the 1970s.

The slow world recovery that may occur will hold back growth in world food demand for the next few years. The United States is expected to lead a world recovery in 1983, followed by the western industrial countries. According to an OECD forecast, however, economic growth of the OECD countries may average only 1.5 percent in 1983. Since developing countries, which are a primary market for U.S. farm exports, are expected to lag behind the rest of the world in recovery, foreign demand for world traded

grain will likely remain weak over the next few years.

Debt problems will continue to plague developing countries until the world economy recovers and commodity prices rise. Given the magnitude of the debt problem and the prospect of a slow world recovery, some developing countries may need four to six years to work through their debt rescheduling problems. Unless the current reduction in credit available to LDCs is offset by more credit guarantees from the United States and other grain exporting nations, world debt problems will continue to limit food demand for several years.

The strength of the dollar continues to reduce demand for U.S. farm products. Although the dollar has depreciated somewhat since the fourth quarter of 1982, it remains stronger than the exchange value that prevailed throughout most of the 1970s. The response of U.S. agricultural exports to further weakening in the dollar is uncertain. A weaker dollar probably will not improve U.S. exports to the EC, where fluctuations in exchange rates are countered by variable levy tariffs on such major items as wheat and feed grains.¹¹ Nor would Latin American countries, which effectively peg their currencies to the dollar, be more likely to increase imports from the United States. On the whole, a weakening in the dollar would probably provide a boost to foreign demand for U.S. farm products, although a weaker dollar by itself is not likely to restore strong farm exports.

The policy course the United States takes will have a significant effect on the path of farm exports for the rest of the decade. A free trade policy combined with the development of foreign markets would likely expand export markets, but only gradually. If the United

¹¹ This statement does not apply to soybean exports, which are not subject to an EC variable levy tariff.

States adheres to a free trade policy, it may have to critically examine its farm price supports to determine if current supports allow the United States to be competitive enough in world markets. A free trade policy also suggests that short-run expansion of farm exports will depend on a stronger world economy.

Trade assurance policies are viewed by many as offering more potential for short-run improvement in agricultural exports. But, these measures may prove costly and the prospective market gains may be illusory. Export subsidies, which appear to be gaining support precisely because of their potential for short-run market gains, impose heavy costs and they also raise the risk of market confrontation with other exporting countries. If exporting nations engage in confrontational measures to compete against one another, short-run market gains might not hold up in the longer run. Export credit subsidies might result in expanded export expansion with less danger of encouraging a trade war atmosphere. A new long-term agreement with the Soviets would be the trade assurance policy with the least budget cost, but the political cost could be high.

SUMMARY AND CONCLUSIONS

The decline in U.S. agricultural exports in recent years has been caused by various factors. The weak world economy has limited growth in world food demand and mounting debt problems have hampered export sales to developing countries. The strong dollar has raised the price of U.S. farm products to foreign buyers. Finally, the United States has faced stiff export competition and some trade barriers in world

grain markets.

U.S. agricultural exports likely will not return to a strong rate of growth in the near future. Slow world economic recovery will limit improvements in world food demand. The current debt problems of developing countries may be resolved only over a period of years. Although the dollar may weaken relative to its 1982 level, it will likely remain fairly strong by historical measures. The United States will continue to encounter strong competition from other exporting nations in addition to some trade barriers in world markets. On balance, U.S. agricultural exports probably will feel the effects of some negative market factors in 1983 and for a few years afterward, but a recovering world economy may offset some of these factors as time goes on.

Although a number of factors point to weaker growth for agricultural exports, the world food supply and demand balance is a relatively fragile one. If growth in world food demand increases as the decade unwinds in response to growing world population and stronger economic growth, the United States could reenter a period of strong farm exports. The United States has remained the dominant supplier of world food products throughout the period of strong world demand in the 1970s and the period of weak demand so far in the 1980s. With a return to strong world demand, U.S. producers could supply large quantities of farm products to world markets. How well farm exports perform during the rest of the 1980s depends, however, on prudent export policies now and U.S. prices that are competitive with the rest of the world.