# The Challenge in Building Demand for U.S. Farm Exports

*By Dale E. Hathaway*

I want to concentrate today on an important issue that is virtually overlooked in our current discussions of our agricultural policy: the state of our markets. Most of the commentary on agricultural policy problems focuses on two factors. One is that almost everything that is wrong is the result of our domestic agricultural programs which thus need to be changed drastically. The other is that almost everything that is wrong is the result of unfair competition which should be stopped.

These two factors are not the major cause of our problems in my judgment. Moreover, by concentrating on them we are almost certain to be frustrated and disappointed because we will find that attempts to solve the problem via either or both of these paths will not bring a satisfactory solution. In considering the state of our agricultural markets, I want to step back from individual government programs and talk specifically about markets and what we can do about them.

In discussing the state of our markets, I make certain assumptions which I think are reasonable. One is that the United States is a competitive producer of a wide range of commodities at the farm level and that our internal capability of physically moving products from farm to export is second to none. A second assumption is that our ability to process raw products into more usable products is unsurpassed—wheat to flour, feed to broilers, soybeans to meat and oil, etc. Even so, I will concentrate much of my discussion on bulk commodities because that is where the "farm problem" is concentrated (Table 1). I say this because the decline in value of exports of wheat and products, oilseeds and products, and cotton account for almost all of the $8.5 billion in export value from 1980 to 1985. In terms of volume, 30.6 million tons of the 33.8 million ton decline in export volume are accounted for by grains, oilseeds, and oilseed

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**TABLE 1**
**U.S. agricultural exports by product group, value, and volume, fiscal years 1978-85**

| Product | Fiscal Year 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | Percent Change 1980/85 |
|---|---|---|---|---|---|---|---|---|---|
| | Value in billions of dollars | | | | | | | | |
| Grain and feed | 11.7 | 13.6 | 18.7 | 21.9 | 17.6 | 15.2 | 17.4 | 14.3 | −4.4 |
| Oilseeds and products | 7.5 | 8.7 | 10.0 | 9.4 | 9.7 | 8.8 | 8.8 | 6.3 | −3.7 |
| Cotton | 1.7 | 1.9 | 3.0 | 2.2 | 2.2 | 1.7 | 2.4 | 2.0 | −1.0 |
| Tobacco | 1.1 | 1.3 | 1.3 | 1.3 | 1.5 | 1.5 | 1.4 | 1.5 | +0.2 |
| Fruits, nuts, and vegetables | 1.9 | 2.1 | 2.7 | 3.1 | 2.9 | 2.7 | 2.6 | 2.6 | −0.1 |
| Sugar and tropical products | 0.6 | 0.7 | 0.9 | 1.4 | 0.8 | 0.7 | 0.8 | 0.8 | −0.1 |
| Livestock and products | 2.4 | 3.2 | 3.1 | 3.1 | 3.2 | 3.0 | 3.5 | 3.3 | +0.2 |
| Dairy | 0.2 | 0.1 | 0.2 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | +0.3 |
| Poultry | 0.3 | 0.4 | 0.6 | 0.8 | 0.6 | 0.5 | 0.4 | 0.4 | −0.1 |
| **TOTAL** | **27.3** | **32.0** | **40.5** | **43.8** | **39.1** | **34.8** | **38.0** | **32.0** | **−8.5** |
| | Volume in millions of metric tons | | | | | | | | |
| Wheat and flour | 32.8 | 32.2 | 36.9 | 43.5 | 45.3 | 38.0 | 42.7 | 31.4 | −5.5 |
| Feed grains | 55.5 | 59.5 | 71.2 | 69.1 | 58.2 | 53.8 | 55.6 | 57.2 | −14.0 |
| Feed and fodders | 4.3 | 5.6 | 5.8 | 6.0 | 6.9 | 6.8 | 6.5 | +0.9 |
| Rice | 2.1 | 2.4 | 2.9 | 3.1 | 2.9 | 2.3 | 2.3 | 2.0 | −0.9 |
| Soybeans | 19.7 | 20.2 | 23.8 | 20.0 | 25.5 | 24.5 | 19.2 | 16.6 | −7.2 |
| Vegetable oils | 1.5 | 1.5 | 1.8 | 1.7 | 2.5 | 2.4 | 1.0 | 0.8 | −1.0 |
| Oilcake and meal | 5.8 | 6.2 | 7.6 | 6.5 | 6.5 | 6.7 | 5.1 | 4.7 | −2.9 |
| Cotton | 1.4 | 1.4 | 2.0 | 1.3 | 1.6 | 1.2 | 1.5 | 1.3 | −0.7 |
| Tobacco | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | −0.0 |
| Fresh fruit | 1.3 | 2.8 | 3.1 | 3.4 | 3.1 | 3.0 | 3.2 | 2.7 | −0.4 |
| Animal fat | 1.3 | 1.3 | 1.5 | 1.5 | 1.5 | 1.4 | 1.4 | 1.1 | −0.4 |
| **TOTAL** | **121.7** | **137.5** | **163.8** | **162.6** | **157.9** | **144.8** | **143.6** | **129.0** | **−33.8** |

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

products. In other words, 94 percent of the decline in value and 91 percent of the loss of volume are accounted for by the grain-oilseed complex. Indications are that this trend will continue in 1985-86.

## A review of the situation

The U.S. farm sector was internationalized in the 1970s as an increasing proportion of our farm output became dependent upon export markets. The various components of the U.S. agricultural system responded beautifully to growing demand for U.S. exports. Our market share of a rapidly expanding world market for imports expanded rapidly as well, and our exports grew strongly in volume and value. Both the farm sector and related agribusinesses made investment decisions based upon assumptions that the export market growth rate

of the late 1960s and early 1970s would continue.

Suddenly all of these assumptions went wrong. Starting in 1981-82, U.S. exports began to fall in both volume and value, and the end of the fall is not yet in sight. But except for declines induced by weather and payment-in-kind (PIK) in 1983, our farm output has not fallen. The result has been a major overcapacity problem in both the farm sector and in the agribusinesses serving it. The overcapacity in the farm sector has been manifested in falling farm prices and incomes, falling land prices, a farm financial crisis, and sharply rising farm program costs. The agribusiness sector has seen huge financial losses, spectacular business failures, and substantial restructuring of all kinds of agribusinesses from local farm machinery dealers to farmer cooperatives.

Our response to this situation has been to either blame the problem on our farm programs or upon our competitors. I shall attempt to prove that our problem is primarily one of markets and that until, and unless, something improves in that regard, pursuing other issues will prove fruitless.

## Some market concepts

The concept of market is a concept that fits economies with free consumers able to express their consumption preferences within the limits of their purchasing power. However, in the world of internationally traded goods, especially foodstuffs, this concept cannot be easily measured because there are so many interferences between foreign consumers and U.S. exporters, not the least of which are governments.

The best means I think we have to measure a market is utilization. From the point of view of the farmer in Illinois who raises corn and soybeans, he does not care whether the world utilization of feed grains goes up because farmers in Japan feed and market more chickens or because the U.S. AID buys cornmeal and soy oil for foreign emergency food aid. Therefore, I will use utilization statistics as a market measure and avoid some of the problems of certain other measurements.

The link between utilization within a country and its imports is that imports are the difference between utilization and domestic production. Thus, in terms of our export interests the export market is affected by both what happens to utilization and what happens to domestic production in importing countries.

Thus, the key variable to our export markets is world market growth. World trade in different goods grows as the market grows and our exports do especially well when world trade expands. Somehow we tend to believe that our exports are a direct function of foreign crop failures or competitor pricing, but they really are a function of trade growth.

There is also a matter of pricing involved in marketing. Again, we tend to think of affecting markets by varying prices to consumers, but in the case of international trade there is often a government or two between the U.S. exporter and the foreign consumer. Therefore, when we talk of pricing policy we need to be sure who the price changes affect. In all centrally planned economies (CPE's) where exports are a function of the state import agencies, a cut in export price rarely gets passed on to the consumer. Since state trading is used in many market economies also, a high proportion of the world's consumers is isolated from world market prices (and from the individual country's internal farm prices).

There are several methods of cutting prices, and each has a different effect in terms of marketing strategy. One way of cutting prices is to cut prices to everyone—as though chang-

**TABLE 2**
**Changes in annual wheat and coarse grain use by five-year intervals, 1965-85**

| | World | U.S. | World -U.S. | Central Planned | World -U.S. & CPE's | EC Total | Japan | Com-petitor | All Other | OPEC | All Other |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1965-70 | 147.4 | 13.9 | 133.5 | 68.2 | 65.3 | 9.5 | 5.0 | 7.0 | 43.8 | 4.5 | 39.3 |
| 1970-75 | 72.4 | −9.1 | 81.5 | 31.3 | 50.2 | 4.3 | 3.6 | 1.5 | 40.8 | 5.8 | 35.0 |
| 1975-80 | 186.4 | 14.7 | 171.7 | 98.4 | 73.2 | 2.1 | 5.4 | 5.4 | 60.3 | 12.6 | 70.9 |
| 1980-85 | 113.1 | 30.9 | 82.2 | 28.6 | 50.0 | −1.9 | 2.0 | 4.8 | 48.7 | 8.8 | 39.9 |

ing price support levels or changing exchange rates does. Another way of cutting prices is through the offering of below-market rates of credit to certain buyers but not to others or on certain models at certain times of year. A third type of price cutting is where different prices are charged to different buyers, as under the BICEP program. This causes resentment among the buyers who do not get the lowest prices. In an open pricing system like the U.S. system, it is clear to everyone who is getting a special price. Of course, the ultimate in price cutting is grant-type food aid, which is given on the basis of need of the recipient. In this case, the price is zero to the country but not necessarily zero to the ultimate consumer.

## What has happened to our foreign markets?

Let us start with a global picture and work backward to major markets or types of markets. In doing this there are one or two important things to remember. One is that for most products there are some carryover stocks, held either by governments or by the private sector. Thus, utilization measures the state of market demand and is only constrained by supply in unusual situations. (It may be constrained by supply in the case of individual countries because of government intervention in trade.)

One of the surprising facts about world grain utilization is that it goes up almost every year. In fact, total world grain use has only fallen in three of the last 25 years—in 1963-64, in 1974-75, and in 1981-82. The 1963 decline was due to a large decline in the Soviet crop which was not offset by imports, and the 1974-75 decline was due to a major decline in U.S. output in the absence of ample stocks. As we shall see, the 1981-82 decline had a different cause.

Given the rarity of declines in use, what we are really looking at are rates of gain in use and the extent to which they are the result of trade. Let us examine four five-year periods during a 20-year period beginning in 1965 (Table 2).

There are some surprising results in these figures. One is that until recently (the 1980-85 period) the United States had not contributed to increased world grain use. Now, however, since 1980, the increase in U.S. grain use has accounted for over one-fourth of the increase in worrld use. A second surprise is that the USSR and Eastern Europe have not contributed to increased world grain use since 1975. China increased grain use substantially from 1975-80 by increasing imports, and from 1980-85 use was further increased by expanded domestic output. The European Community (EC) has contributed little to grain

use; in fact, use has remained stagnant in the EC since 1975.

In the 1965-70 period, the centrally planned economies accounted for about as much of the large increases in use as did all of the rest of the world outside the United States. From 1970-75, the centrally planned economies accounted for three-fifths as much expansion as the rest of the world. In the 1975-1980 period, the centrally planned economies were again a source of expanding use, accounting for half the total.

In terms of market growth, this has one very simple straightforward meaning. Since 1975 the growth outside of the United States in the world market for grains has been increasingly in the developing countries. In the period 1965-70, the centrally planned economies were one and a half times as important in growth as the developing countries. The developing countries almost equaled the centrally planned economies in market growth in the 1970-75 period, and they have become the dominant factor in this decade.

**Since 1975 the growth outside of the United States in the world market for grains has been increasing in the developing countries.**

Now let us look at the last five years when things have gone badly for U.S. exports to see if the market problem can be isolated. First, the market growth outside the United States, China, and the European Community is down markedly. Both the China market and the European Community market have been lost to internal production and, to make matters worse, both have now become significant competitors in the export markets for some products. The internal market growth of our traditional competitors (Canada, Australia, and Argentina) also is down, leaving exports to absorb more of their production growth. Therefore, what has happened in that high-growth developing country market becomes even more crucial to us and our export outlook.

## Food and feed use

It is widely recognized that the world market for grain is two markets which interact—the market for grain for food and the market for grain for feed. Some grains are used almost completely in the feed market and some others, notably wheat, are used in both, depending upon the price ratios between wheat and feed grains. However, the relationship between market, incomes, and prices is different. The grain for food market is relatively insensitive to price—food consumption changes little over a wide range of prices. At certain per capita income levels it is sensitive to income—the market expands as income grows—but above certain income levels the direct use of grain for food declines as income rises and a higher proportion of calories comes from poultry, dairy, and meat products.

The market for grains for feed is highly responsive to income because almost all poultry, dairy, and meat products require some grain to produce. Thus, the income-related response to consumption of these items is directly reflected in increased use of feed grains.

Market growth outside the United States and the CPE's in the context of food and feed shows some interesting patterns. In the rapid growth period of the late 1960s, food use grew more rapidly than feed use—and almost all of the growth in food use was in the developing countries but only one-third of the growth in feed use was there (Table 3). That pattern persisted during the 1970-75 period,

**TABLE 3**
**Changes in annual use of grain for feed by five-year intervals, 1965-85**

| | World | U.S. | World -U.S. | Central Planned | World -U.S. & CPE's | EC Total | Japan | Competitor | All Other | OPEC | All Other |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1965-70 | n.a. | 12.1 | n.a. | n.a. | 27.3 | 8.7 | 4.4 | 4.8 | 9.4 | 0.4 | 9.0 |
| 1970-75 | n.a. | −15.4 | n.a. | n.a. | 23.1 | 0.6 | 2.6 | 2.2 | n.a. | 1.5 | 16.2 |
| 1975-80 | n.a. | 7.9 | n.a. | n.a. | 39.7 | 0.9 | 4.3 | 4.2 | n.a. | 5.8 | 24.8 |
| 1980-85 | n.a. | 20.4 | n.a. | n.a. | 24.2 | 1.9 | 1.0 | 4.5 | n.a. | 8.5 | 8.1 |

except that the developing countries suddenly became the main source of growth in feed use while continuing their dominance in growth in feed use.

Starting about 1975, the world grain market suddenly changed in a major way. For the first time in two decades the world markets for feed use of grains started to grow faster than for food use of grains (Table 4). This was largely due to the surge in growth of feed use in the developing countries, which along with China also accounted for almost all of the growth in the food use market.

In the period since 1980, we can begin to see what has happened to our markets. The market growth has slowed appreciably and a major portion of the slower growth occurred in the feed market. The feed market in the EC went from slow growth to negative growth. The growth in the Japanese markets fell to one-quarter the level of the previous five years and was the lowest in 25 years, and the growth rate in non-OPEC developing countries fell drastically to late 1960's levels.

The contraction in market growth is our overall market dilemma. Our market in the centrally planned economies essentially stopped growing in the late 1970s, except for China. China, however, has been amazingly successful in increasing domestic output and thus to fill its needs while reducing imports. Thus, the imports of the centrally planned economies now depend largely upon the extent of the Russian crop shortfall.

The EC has developed a policy which accomplishes what is hard to do: They have brought their total grain use to a negative growth rate, meaning that as internal production rises an increasing share of it must find a market outside the EC.

It is not surprising that the rate of growth of food use of grain is declining in Japan. It is somewhat more surprising to find the growth rate in feed use declining to the lowest level since the 1960s. Part of the answer, however, may be Japan's increased imports of beef which slowed the growth rates in their domestic beef and dairy industry.

But the biggest decline in market growth for food use is in OPEC, which has been a significant factor in the growth of world market for food grains. But, most important of all is the sharp drop in the non-OPEC market growth of lesser developed countries (LDC's) for feed grains, which fell by more than one-half.

## Can we get markets to grow again?

Let us examine the major markets of the world to see what might be done to make them grow again. At this point, we will talk about U.S. government policy, about U.S.

**TABLE 4**
**Changes in annual use of grain for food by five-year intervals, 1965-85**

| | World | U.S. | World -U.S. | Central Planned | World -U.S. & CPE's | EC Total | Japan | Competitor | All Other | OPEC | All Other |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1965-70 | n.a. | 1.8 | n.a. | n.a. | 38.1 | 0.8 | 0.6 | 2.1 | 34.6 | 3.3 | 31.3 |
| 1970-75 | n.a. | 6.4 | n.a. | n.a. | 27.1 | 1.6 | 1.0 | 0.7 | n.a. | 4.1 | 21.1 |
| 1975-80 | n.a. | 6.7 | n.a. | n.a. | 33.5 | 1.3 | 1.1 | 1.2 | n.a. | 6.8 | 23.1 |
| 1980-85 | n.a. | 10.4 | n.a. | n.a. | 25.8 | −1.1 | 1.0 | 0.3 | n.a. | 0.3 | 27.3 |

agricultural policy, and about private sector U.S. policy.

### *The centrally planned economies*

In my view, the United States has overrated these economies as a growth market in recent years, especially the Soviet Union and Eastern Europe. Moreover, we vastly overrate our effect upon their internal policies.

One of our mistakes was to believe that the Soviet Union and Eastern Europe made a fundamental policy change regarding dependence on outside imports in the late 1960s and early 1970s. In retrospect, what they actually have done is to use imports to compensate for domestic crop shortfalls, not as a method of substantially increasing total grain utilization and meat consumption. In other words, they have not made use of imports to increase the rate of growth in consumption as China did in the last half of the 1970s.

China did use imports to increase domestic consumption during the 1970s, but now has replaced imports with domestic output. As domestic use grows in China, as it will with higher consumer income, China likely will withdraw from the world feed grain export market and eventually return to imports to sustain domestic poultry and livestock expansion.

It appears there is little we can do which will cause the Russians, East Europeans, or Chinese to change their basic strategies regarding imports. Price cutting will save the Soviets some foreign exchange, but it is unlikely to get them to buy more. The one exception to this is Poland, which might return to its "import now and default later" policy of the late 1970s if the West would provide the credits for grain imports. However, it is not clear that Poland would revert to a policy of domestic poultry and meat production based increasingly upon imported grain.

### *Japan*

Japan is a case where there is not much we can do to increase our market, but many things we can do to hurt it; we could lose our dominant market share of that grain market.

We can lose that market if, as many now want, we impose heavy trade penalties on the Japanese economy to offset our immense trade deficit with them. This is not to say that we should not demand that Japan open its domestic markets to U.S. products. Of course, in the case of beef this cuts two ways, since if we sell more U.S. beef we will sell less U.S. feed grains and soybeans. (Since the United States is more efficient in providing beef, total world demand for grain will decline.)

Japan does not need either credit or lower

**TABLE 5**
**Population and GNP per capita, 1980, and growth rates, 1965-84**

| Country Group | 1980 GNP (billions of dollars) | 1980 GNP 1980 Population (millions) | Per Capita (dollars) | Average Annual Growth of GNP Per Capita (percent) 1965-73 | 1973-80 | 1981 | 1982 | 1983* | 1984† |
|---|---|---|---|---|---|---|---|---|---|
| Developing countries | 2,059 | 3,119 | 660 | 4.1 | 3.3 | 0.8 | −0.7 | −0.1 | 2.1 |
| Low-income countries | 547 | 2,098 | 260 | 3.0 | 3.1 | 2.0 | 2.8 | 5.2 | 4.7 |
| Asia | 495 | 1,901 | 260 | 3.2 | 3.5 | 2.5 | 3.4 | 6.0 | 5.3 |
| China | 284 | 980 | 290 | 4.9 | 4.5 | 1.6 | 5.8 | 7.6 | 7.7 |
| India | 162 | 687 | 240 | 1.7 | 1.9 | 3.5 | 0.4 | 4.2 | 2.0 |
| Africa | 52 | 197 | 270 | 1.3 | 0.0 | −1.7 | −2.6 | −2.6 | −1.5 |
| Middle-income oil importers | 962 | 579 | 1,660 | 4.6 | 3.1 | −0.8 | −2.0 | −1.6 | 1.1 |
| East Asia and Pacific | 212 | 162 | 1,310 | 5.6 | 5.7 | 3.7 | 1.9 | 4.5 | 3.4 |
| Middle East and North Africa | 25 | 31 | 830 | 3.5 | 4.3 | −2.5 | 2.6 | 0.5 | −1.3 |
| Sub-Saharan Africa | 26 | 33 | 780 | 2.0 | 0.5 | 4.1 | −4.8 | −5.4 | −5.4 |
| Southern Europe | 214 | 91 | 2,350 | 5.4 | 2.9 | 0.2 | 0.3 | −0.5 | 0.2 |
| Latin America and Caribbean | 409 | 234 | 1,750 | 4.5 | 2.9 | −4.1 | −4.8 | −4.5 | 1.1 |
| Middle-income oil exporters | 550 | 442 | 1,240 | 4.6 | 3.1 | 1.5 | −2.3 | −3.6 | 0.1 |
| High-income oil exporters | 229 | 16 | 14,050 | 4.1 | 6.2 | −1.1 | −7.8 | −14.1 | −6.4 |
| Industrial market economies | 7,477 | 714 | 10,480 | 3.7 | 2.1 | 0.7 | −1.0 | 1.5 | 4.3 |

*Estimated.
†Projected.

Source: *World Development Report*, World Bank, Washington, D.C., 1985.

prices to buy U.S. farm products. All that lower grain prices accomplish is that Japan's balance of payments is improved.

Income growth and changes in habits have driven changes in Japanese food consumption and are likely to continue to do so in the foreseeable future.

### *The developing countries*

Developing countries have become the main source of growth in world use of grains now that growth has faltered. Why is this so and what might we do about it?

The sharp decline in growth rates of grain use in developing country markets has been caused by the major slowdown in economic growth in most of those countries as a result of a series of external circumstances (Table 5).

The story of developing countries is somewhat akin to the story of U.S. agriculture over the last five years. It goes back to the mid and late 1970s. The problem started with the first oil shock of 1973, which created huge OPEC balance-of-payments surpluses and threw the foreign accounts of the oil-importing developing countries into huge deficits.

But since commercial banks had huge amounts of OPEC money to recycle, they were willing to make huge loans to developing countries, and this capital flow was used to offset the non-oil LDC deficits. Non-oil LDC external debt rose from $130 billion in 1973 to $612 billion in 1982. These new loans were in dollars, were relatively short term, and had floating interest rates tied to U.S. prime rates or LIBOR. Then, all of the things that might go wrong did. The United States and Western Europe entered the worst recession in history and total world trade fell for the first time since World War II. Real interest rates rose as the monetary authorities slammed on the brakes to halt inflation. The value of the dollar rose sharply and world commodity prices plunged.

Thus, huge debts were rising in non-dollar terms, real interest rates were rising, and export earnings and debt-servicing ability were falling. In 1981, Poland was the first to admit it could not service its debt. The world financial structure trembled when Mexico joined in August 1982, followed shortly by Brazil.

As country after country joined the list of those unable to service their debts, the International Monetary Fund and the bankers holding the loans began to impose tough economic conditions on these borrowers as the price of extending loan periods and deferring interest payments. Those conditions almost always included: 1) reduced imports, 2) increased exports, and 3) reduced domestic government spending and lower budget deficits. Not surprisingly, the result was recessions and stagnant or falling real per capita incomes in countries which had enjoyed high rates of real per capita income growth in the 1960s and 1970s. And these are economies which have no safety nets for the poor and/or unemployed.

Then, to further confuse the situation, many of the oil exporters also got into trouble beginning in 1983. They, too, had gone on a borrowing binge in the heyday of OPEC power, and when world oil markets in the United States, Japan, and Western Europe contracted, many or most of them also began to face the same problems as the oil-deficit countries. Venezuela, Nigeria, and Indonesia joined the list of countries with huge debt problems. The World Bank now estimates that the total debt of developing countries was $895 billion at the end of 1984, up from $610 billion in 1980.

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**The problem with our markets in the developing countries seems relatively easy to understand but may be very difficult to fix.**

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Given all of this, it is not surprising that the market growth in feed grain markets in these countries has dropped sharply. The only surprise is that the growth in OPEC countries has not slowed as much as might be expected. The food grain market growth in those countries has continued, but a good share of the improvement has been due to the increased output and consumption in India and thus has not led to increased trade.

Thus, the problem with our markets in the developing countries seems relatively easy to understand and may be very difficult to fix. Market growth has stopped because real income growth has stopped and many countries are having serious balance-of-payments problems. Both of these need to be considered because each creates its own problem.

The balance-of-payments constraint created by the external debt problem puts a limit on the amount a country can import. That constraint can and has been reduced by the use of CCC export credit. However, that does not

remove the internal income constraint, which means that the internal market for the products may not exist unless the importing government subsidizes internal food consumption. But one of the demands of the International Monetary Fund and foreign lenders is that these governments reduce or end their consumer food subsidies. Thus, additional CCC credit, including intermediate credit, does not solve the problems unless there is excess demand internally for food despite the lower incomes.

As a result, the only true solution is to get higher income growth in these developing country markets. But, that is not so easy and it is not entirely within our control. There are, however, a number of things within our control which would help: First, some additional approaches to reducing the drag on these economies created by their debt burdens. They might include writing off some of the debt, changing the terms of the debt (which also writes down its value to the lender), and other measures to change its terms. Second, reduce

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the value of the dollar. Since the debt is largely denominated in dollars, this would reduce the local currency costs of debt servicing. Moreover, since the price of oil is also denominated in dollars, it would cut the local currency cost of oil imports for oil-importing countries. Third, reduce U.S. interest rates, which reduces the cost of debt servicing. Fourth, maintain an open market for the exports of these debt-burdened countries. The recent moves to restrict imports of shoes, textiles, steel, etc., all will reduce the export earnings of the developing countries and their ability to maintain debt service and grow again. Fifth, develop public and private measures that will increase flows of new capital to developing countries.

Some or all of these are very complicated economically and even more difficult politically. There appears to be increasing agreement that balancing the U.S. budget would be a major step to bring down interest rates, lower the exchange rate, and stop the drain of world capital into the United States. However, achieving a balanced budget has proved to be beyond our political grasp. Ironically, one of the increasing strains on our federal budget is the cost of federal farm programs that offset the adverse price and income impacts of our declining foreign markets.

### *Low-income developing countries*

Most of the market growth in the last decade has been in the middle-income developing countries—now called the newly industrialized countries (NIC's). But there is another group of poorer developing countries which have not done well, including most of Africa south of the Sahara. In almost every country in this vast region (outside Nigeria), real per capita income has declined, food production has declined, and per capita food supplies have declined.

This painfully obvious situation has led some persons to suggest we ought to use much larger amounts of our surplus grains to push forward on a massive food-for-development program. However, this view is misleading because it represents a misreading of the conditions that made it possible for some large amounts of food aid to be used effectively in the 1960s and 1970s.

The USDA now estimates that 69 developing countries will require some 11.4 million tons of food above their normal commercial imports to maintain consumption at current

levels.[1] However, in 1984-85, donor countries will ship an estimated 11.7 million tons of cereal food aid, surpassing for the first time the 10 million ton target set by the World Food Conference in 1974. The USDA also estimates that an additional 19.4 million tons of food would be required to bring all of the people in these 69 countries up to a minimum nutritional standard. However, this figure is down sharply from 26 million tons a year earlier. Much of the decline is due to improved conditions in India.

India's situation illustrates part of the problem. India will be a net exporter of food grains this year because its surplus stocks are too high. Yet there are clearly large numbers of people in India with inadequate income and, therefore, inadequate diets.

We could and should increase the use of food aid to reduce the still widespread malnutrition in many developing countries. But the solution to the problem is more nearly a food stamp program than a food aid program. As we saw in the 1960s and 1970s in some countries, there is a limit to the food aid which can be absorbed in a country without destroying local agricultural markets and incentives. We probably are pushing close to that limit in some African countries now, despite the continued prevalence of hunger and malnutrition.

The concept of food aid as a development tool, as contrasted to strictly famine relief, has worked in the past. However, it requires some conditions which do not appear to exist in many of the poorest countries, especially in Africa. First, food aid requires a stable functioning government with a reasonable degree of honesty and efficiency. Second, it requires a minimum infrastructure to move products to and from the population—roads, railroads, trucks, etc. Third, it requires an indigenous management capability to plan and execute development programs. Fourth, it helps if you have a disciplined, literate population.

**Most of these countries need more and better capital investment in people, research stations, transport facilities, manufacturing, structure, etc.**

The two best examples of food aid contributing to economic development are the cases of Korea and Taiwan, countries with all of the above characteristics and more. Because most poor countries lack one or more of these characteristics, it is unrealistic to assume that they will become the Koreas of the 1990s. This does not mean that we should abandon the idea; it merely means we should view it with caution and approach it on a case by case basis.

Many very poor developing countries also face burdensome external debts, but they were too poor to get commercial loans, so much of it is owed to bilateral and multilateral lending institutions. In many ways, this can be handled easier than the problems of the NIC's.

The main need for many of these countries is an increased flow of multilateral and bilateral development aid. But development aid is not very popular these days in the United States or in other developed countries wrestling with domestic budget deficits. As a result, development assistance is declining in real terms at a time when income growth in poor countries is lagging and private capital from around the world is flowing to the United States to finance our budget deficit.

In summary, many poor countries have a sizable poor population with inadequate diets. The United States could do better on food aid

[1] World Food Needs and Availabilities, 1985, Economic Research Service, U.S. Department of Agriculture, July 1985.

both for emergency and development purposes. But apart from the continuing crisis in Africa, most of these countries need more and better capital investment in people, research stations, transport facilities, manufacturing, structure, etc. Some, but not all of this, could come from food for development. But to do that without the necessary underpinning in other development aid invites other problems.

I know of no good estimate of how much more grain could be used if we expanded food aid to improve nutrition and increase development. However, it does not even come close to the 18 million tons per year decline in growth in grain use we have seen in the world outside.

## Price cutting and building markets

Cutting prices is a common marketing device. It can have one or all of several purposes. Across-the-board price cutting can expand the total market and may be a good strategy regardless of what competitors do. It is an especially good strategy if you can pick up market share because your competitors cannot or will not match your price cuts.

There are several methods of price cutting. One is an across-the-board cut, such as we would achieve today if we sharply lowered our support prices. However, that may cost total revenue in some markets that do not respond to price cuts and there may not be enough market gain elsewhere to keep income up.

Another price-cutting method is selective cuts using subsidized credit, special export pricing, etc. This has the advantage of being able to target markets where you may both expand total use and pick up market share.

In price cutting, it is important to look at whose price is cut. Is it the price to the ultimate consumer or just to a government import agency that then charges consumers the same? The latter would be the case for the Japanese Food Agency, which buys all Japanese wheat imports, and perhaps true in almost every country that imports through a government agency. Therefore, price cuts will save the purchaser's foreign exchange but may not expand the underlying real market at all. Therefore, given the structure of world wheat markets where 90 percent of the imports are through governments, price cuts are not likely to expand the market much.

Price cuts which actually reach the consumer would probably expand the feed grain market most if they are passed on to the consumers. Since less of the world's imports are controlled by governments, we could expect some market expansion there.

Will price cuts be matched by competitors? I would guess they would have to be and that any pickup in market share will come slowly as competitors find it less profitable to continue to expand output. Our own domestic experience with lowering prices to reduce farm output is not very comforting in that regard: Land prices tend to lower more than output.

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**The best and least expensive way to do across-the-board price cuts is by lowering the value of the dollar.**

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Therefore, the best and least expensive way to do across-the-board price cuts is by lowering the value of the dollar. That produces no pain on the federal budget or on the domestic farm producers but it has all the positive effects wanted abroad in terms both of markets and competitors.

If the dollar exchange rate cannot be lowered, the next best strategy is the use of targeted subsidized credit to both expand markets and improve competitive position in those

markets. The BICEP program apparently had this same concept in mind, but it has not yet been a smashing success and might even give price cutting a bad name.

Because of the way both world consumers and producers are heavily isolated from international agricultural markets, I would predict that price cutting will prove a disappointment to those who believe it will substantially expand markets. Just for the record, it should be noted that the traded real prices of wheat, rice, cotton, sugar, and corn have all fallen appreciably since 1980. Despite all this, the U.S. rate of use is one of the few which has increased.

## Summary and conclusions

Think how much different this world of farm exports, farm income, and farm programs would appear today if world markets were 80 million tons a year higher than they are now and if much of the market growth which has occurred had not been met from increased domestic output in China. We probably would have a far different view of our domestic farm programs and our competitors.

This loss of market growth has occurred in the face of falling real prices of our exported products. Unfortunately, it also has occurred at a time when both the European Community and our competitors have increased output at rates which far exceed their internal market growth. Thus, we have intense competition for nearly stagnant import markets. This competition is one in which farm incomes and various treasuries are both suffering.

We have focused on the competition and have paid almost no attention to the problems of market growth, but as almost any business can tell you, when markets are shriveling and overcapacity is growing things are tough.

We should do more to stimulate market growth than we are now doing. It will require at least selective price cutting, but mainly it involves getting the economies of the developing countries and Eastern Europe growing again. We cannot do much about how they handle their internal affairs, but we should be able to do something about ours. How we handle our internal affairs affects the world economic scene within which these markets must grow. In this matter, as in many others, the famous saying of the cartoon character Mr. Dooley would seem to apply, "We have met the enemy and they are us."