

Trade and Agriculture: A Governor's Perspective

Governor John Carlin

Several years ago, it would have been unusual and perhaps even out of place for a governor to be addressing a group on the topic of international trade. Trade was a federal issue. Governors dealt with matters inside their borders. Interregional, let alone international, perspectives were seldom of concern.

Today, however, we live in a competitive age with an international economy. Those of us in the states are deeply affected by trade decisions made both in Washington and in other world capitals. We can no longer afford to sit by and let those decisions be made without our input or our action. We may not be able to write trade policy, but we can help influence it by participating in the process and by unilaterally taking actions that accomplish something positive for our states.

We have a responsibility to remind federal policymakers that in a federal system the impact of national policies on states must be considered. As states have struggled with difficult economic times and revenue challenges, governors have become more vocal on national economic policy issues. One issue at the top of the list is trade.

We have found from personal experience that there are world markets to be opened and that we can open them. We can introduce other countries to the commodities, products, and services our states provide.

For example, during the past year alone, governors have led a record number of trade missions abroad. We have met with international leaders in our state capitals and we have heard from the Japanese ambassador to the United States, seven Canadian provincial premiers, and the

chairman of the Commission on Industrial Competitiveness at the National Governors' Association summer meeting.

But above and beyond all this activity, as a governor of a Midwestern state that is heavily dependent on agriculture for its livelihood, I have developed a growing concern about U.S. trade policy and the larger picture of the U.S. economy that it affects.

It is clear that agriculture is suffering because the budget deficit has helped produce not just high real interest rates but an overly strong dollar abroad, thus reducing our competitiveness as marketers of agricultural commodities. In another sense, it is suffering because of a trade policy that has not recognized the new demands of international competition and has victimized our economy as a result. And it is suffering because past mistakes, such as embargoes, have resulted in lost markets.

The bottom line is that we in the Midwest are still waiting for the elusive economic recovery others have experienced. But we are not just waiting, we are also seeking solutions to our economic woes. Insofar as the agricultural economy is concerned, increasing our exports is a marketing goal for us all and much is being done. While additional trade would influence commodity prices, it is not the only answer. That is basically the perspective I want to take as I address the topic of "Trade and Agriculture: A Governor's Perspective."

Specifically, I want to explore two areas. First, I want to examine the realities we must accept as we develop future trade policy. Second, I want to suggest actions that need to be taken at both the federal and state level to improve the agricultural economy and increase our share of world trade in this arena.

First, consider the realities. One of the most important realities we face in considering agricultural trade is that exports today are crucial to the overall well-being of the agricultural sector. We have geared up in that direction for years. Exports account for 25 percent of our agricultural output. One acre out of four of U.S. farmland currently produces for export. U.S. farmers feed millions, and not just in underdeveloped nations. The Japanese, for instance, import over 50 percent of the calories they consume, with 95 percent of soybean and 60 percent of wheat imports coming from the United States.

The result is that agricultural exports are not only vital to the agricultural economy as it is now structured but that grain exports in the past have offset the U.S. trade deficit by as much as one-third. It is also a reality, because of the internationalization of agriculture, that many

look to exports as the panacea for the recent economic crisis in the Farm Belt. But the truth is that it will not and cannot be the Midwest's salvation. There are other realities that prevent that from happening.

One of those facts of life is that we are experiencing a steady decline in markets, and there is little hope of recovering many that have been lost. In 1981, we had 61 percent of the share of total world agricultural markets. That figure has dipped to 50 percent. In wheat exports alone, we suffered a 36 percent loss of the market share between 1981 and 1985. While we used to count on one out of three kernels of grain being exported, that number is steadily being reduced. At the same time, our production has not been curtailed.

And while agricultural commodities once offset trade deficits as much as one-third, the steady decline in markets—at the same time our overall trade deficits have grown—has meant that the overall economy has suffered as agriculture has suffered. This is a reality too few understand, just as too few Americans fully appreciate the total contribution agriculture makes in terms of jobs, general economic activity, and consumer benefits.

But just as making that point clear is difficult, changing the downward trend will not be simple either. We cannot easily undersell our competitors as a way of buying prosperity for our country's farmers. For example, Argentina and Brazil have filled a gap created by our grain embargoes and a deficit-induced strong dollar abroad. Those countries have significant debts, and their agricultural exports are one of the primary means of securing hard cash to pay their debts. They cannot afford to be undersold.

Likewise, the European Community has invested heavily in agricultural export programs. We cannot expect them to make unilateral changes that allow us to jump in and reclaim markets they have assumed.

In fact, we must admit that our competitiveness as a world trading partner has been declining steadily in the aggregate for the past two decades. It is unrealistic to believe that our trade deficits and, in some cases, lower productivity than that of our trading partners are a result of their actions. We must assume some of the responsibility and seek solutions based on our past errors.

John Young, who chaired the President's Commission on Industrial Competitiveness, told the nation's governors in August that we are experiencing problems because international trade has not been a national priority. Until we take a comprehensive look at trade policy and

accept the fact that our unilateral trade actions hurt us, we will inflict damage that is irreparable.

For too long, those of us interested in agricultural trade have viewed the European Community as a trade enemy. But after visiting with representatives of the European Community while in Europe last month, I have come to realize they take a similar view of us.

While there, I had an opportunity to talk with Graham Avery, who will be on your program tomorrow, with Frans Andriessen, the Commissioner of Agriculture and Vice-President of the European Community, and with Jacques de Bohan, an agricultural cooperative leader in France. In those discussions, I learned there are many parallels between our agricultural sector and their agricultural sector. Both are sophisticated and tend to overproduce. Their subsidies are as important to maintaining their agriculture as our subsidies are in maintaining ours.

If trade is to make a positive contribution to this **nation's** economy, we must seek solutions based on realities. The bottom-line reality in terms of our competitors is that they are not going to go away. We have to find ways to share the world market more profitably. And that can be done only by taking a new approach to all U.S. trade policy. Because we have become less competitive, we have chosen to protect rather than to compete. It is time we get beyond the political rhetoric on both sides of the trading game and lay the cards on the table objectively and honestly.

So what specifically must we do? At the federal level, we must revamp our total trade policy with the notion that we are going to have to compete. Protectionism will not serve us in the long term.

We need to take a look at our organizational structure for developing trade policy and search for a better mechanism than the splintered approach we take now. This would benefit agricultural as well as overall trade.

We also need to look at trade legislation as well as the programs tied to it to make sure we remove obstacles that prevent our taking full opportunity to compete. This is important whether we are talking about export financing or better information about foreign markets.

The world economy is interdependent, and it is time we operated on the international scene with an acceptance of that fact.

The time is ripe. The pressure is growing in this country to do something about our trade deficit and our growing agricultural surpluses. At the same time, there is mounting concern in the European Commu-

nity, for example, about their costly agricultural programs and how much longer they can afford them. There is no doubt that dialogue rather than controls could profit both sides. And because we have mutual concerns, I believe we would profit more by working together than by casting aspersions each other's direction.

Likewise, the total trade policy impacts on each individual commodity or product. That is why **talk** of a free market for agriculture is nothing more than talk. When textile quotas with China affect wheat sales, there is no free market. And when Congress approaches trade policy from the perspective that 'you buy more from us or we will buy less from you,' there is no free market.

It is clear that a strong, comprehensive trade policy developed through international give and take can help agriculture, but that is not enough. We need a healthy agricultural economy so that development of future agricultural trade policy does not have to take place with the view that it must be the bailout strategy.

A healthy agricultural economy will not exist unless there is a significant reduction in the deficit. As long as the dollar remains overly strong, we cannot be competitive **with our** agricultural products. In fact, all export industries will benefit from deficit reduction. And their subsequent contributions to an improved economy will have a spill-over effect on agriculture.

Fortunately, there is a growing consensus that deficit reduction must be a top priority in Washington. John Young's commission made that point clear. The nation's governors have supported that policy position for the past two years. Even Secretary of Agriculture Block stated as much in a speech at the Kansas State Fair in September.

But despite that consensus, nothing seems to be happening. We elected a President in 1980 who campaigned on a balanced budget platform. Five years later, we have that administration asking for the debt ceiling to be raised to **\$2** trillion. That is hardly deficit reduction, much less a balanced budget.

We have a Congress that says it wants to balance the budget, but even the latest scheme to do so, the Gramm-Rudman Act, has target dates that will postpone most actions until after the 1986 elections. If that is the case, we are at least two years away from any kind of relief that will affect international markets. **U.S** agriculture cannot afford to wait that long.

In a sense, our failure to act on the deficit is another form of protectionism because our deficit affects international exchange rates. And

whether protectionist policies are overt or result from domestic fiscal policy, the result is the same—we are not enhancing our export position in the world.

The dollar is not the only issue regarding agricultural exports. Reliability is another. We need to remove agriculture to every extent possible from the arsenal of foreign policy weapons. As we have found from past experience, in both Republican and Democrat administrations, embargoes are not an effective tool. In fact, we have inflicted more damage on our farmers than we have on those we sought to reprimand.

And when we think about reliability as suppliers, we cannot limit our thinking to interruptions in supplies because of foreign policy decisions. We must also be concerned that our dependability is not impaired by our production methods. We need a farm policy that allows us to protect our soil and water resources and ensures that we will be a reliable supplier not just today but 30 or 40 years down the road.

The importance of this factor in trade became clear to me when I met with agricultural leaders in Japan, a country that relies heavily on our food exports. They were not worried as much about embargoes as they were that we were allowing our cropland to be damaged to the point we could not meet their future needs—a slant on soil and water conservation that we do not traditionally think of.

But regardless of what we do with agricultural trade or reliability factors, we cannot overlook the impact of overall farm policy on farmers' ability to compete and profit. If a farm policy is not framed to allow some stability for the producer, it will be difficult, if not impossible, to compete in the export markets.

For too long, our farm policy has been short term and often crisis oriented. Personally, I believe no farm program can work for a capital-intensive, export industry if it does not provide for stability and long-range planning capability. Under current practices, many programs simply do not have an opportunity to be effective before they are changed.

Agriculture is the only major industry that government does not allow to plan for its future. It used to be we had a four-year farm program, but as you know, in recent legislation—with the discretionary power given to the Secretary of Agriculture—we have had in essence a year-by-year policy. And the prospect for getting anything better out of the 1985 Farm Bill is fading rapidly.

We need to have a policy that allows for planning confidence. When General Motors invests to build an auto plant, executives do not have

to worry or wonder about reauthorization of federal industrial policy every one, three, or five years. Those executives have some degree of stability from government policy. They know, to some degree, what the chances are of making a profit on their investment. If they did not, we would not have had eight months of drama surrounding the Saturn plant decision. There might not have been a Saturn plant at all. Likewise, the oil industry does not have to sit around and wait for the oil depletion allowance to be renegotiated every four years.

But the farmer, at best, has to wait every four years for Congress to recreate the wheel—never knowing whether it will be a square wheel or round one—even though the previous model might have worked pretty well. The fact is that farmers cannot make sound economic decisions when there is no certainty in our policy. And over a period of time, this inability has ~~taken~~ its toll not only on agriculture but on agribusiness and this country's economy, and it will continue to take a toll.

Therefore, Congress must take the time to step back and look at the big picture of **agriculture** to determine what is best for all commodities, for agri-related businesses, for consumers, and for trading partners. The question, of course, is can it be done under our current system of developing farm policy? I say no.

That is why for the past two years I have been advocating a new approach to the development of farm policy that would establish a nonpartisan, broadbased commission to make recommendations. Such a commission has been recommended in the form of legislation in both houses of Congress. If such a commission becomes a reality, we stand a better chance of creating a climate in which long-term policy can be developed and in which the big picture of agriculture, including the export side, can be considered.

It is my belief that the development of a stable and reliable farm policy is one of the major contributions the federal government can make to improve our position in the international arena. Unless we have an agricultural sector that is healthy, we cannot take a realistic view of the role of trade in that sector.

As a footnote to what the federal government can do to improve agricultural trade, I would suggest that the federal government update the practices of the U.S. Department of Agriculture. We produce **high**-quality products and a wide variety of agricultural commodities. Unfortunately, we are not always successful in realizing the full potential of our production.

For example, a new variety of wheat, **ARKAN**, was developed in

Kansas. This variety combined the characteristics of hard red winter wheat and soft wheat for a more resilient, higher yielding product. The federal classification process, which utilizes visual classification, resulted in **ARKAN** sometimes being classified as a soft wheat, thereby reducing its value. The outdated and archaic federal inspection process has, in this case, hampered our farmers' ability to benefit from technological advances. In fact, such federal policies have inhibited our sales potential abroad.

Another significant problem is our apparent inability to deliver the quality of product our customers thought they were purchasing. Buying teams from countries throughout the world have told me that the product delivered was not the product they paid for.

Some say the problem is with the federal grading process. Others say it is a misunderstanding with buyers. Regardless of who is causing the problem, we must do all we can to correct it because the rule in all commerce is 'the customer is right.' In this time of intense competition for agricultural trade, we cannot afford to be lax in our concerns for customer satisfaction.

Further, there should be a concerted effort to actively promote our agricultural products abroad. While we have often concentrated on grain sales, there are other commodities that can be introduced to our trading partners if properly promoted. The concept of "value-added" products gives us the opportunity to export our labor value as well as our product value. The fact is, we can market our finished or processed products as effectively as our raw commodities if we give priority to such an approach. The time is right for the federal government to become active in more than grain and flour deals and begin promoting crackers and corn chips.

Additionally, because we have competition, we can no longer expect foreign buyers to come to us. We have to be more aggressive in marketing our products. Times have changed, and unless our promotion strategies change with them, we will be left further and further behind. Those statistics I cited previously about our lost markets will only continue to become worse.

As we become more aggressive as exporters, states will play a more active role on the international trade scene. Today, there are many avenues open to states for involvement. For instance, states must take advantage of their land grant products, for it is true that the promotion of value-added products can begin at the state level even easier than at the federal level. Research can ensure that we continue to maintain quality

products for export.

A relatively new idea is enhancement of trade through state export-financing programs that provide incentives for local producers to become involved in trade. Cooperation between agriculture and economic development departments in the states can make this type of system more effective.

Along with financial support, those new to the international trade arena need education programs to learn how to become active exporters. Here, governors and state government can play a significant role.

We can also play a major role in export promotion. We are integral to opening doors with potential trade partners by participating in trade missions and indicating state support for private sector endeavors. Governors can gain entrance to chambers that business representatives often cannot enter on their own.

Cooperation is the key, and governors can be the catalyst in coordinating the efforts of the research community, businesses, and state government in developing products for trade and in promoting them.

Trade is no longer the exclusive province of the federal government. Just as there must be cooperation by those within a state to make the system work, there must be cooperation between the federal and state levels. As I said at the outset, governors are becoming more vocal on fiscal and trade issues. And unless they continue to do so, the types of suggestions I have made today will not reach the corridors of Congress where action must take place.

This country does not need to be at a competitive disadvantage in the world. As I was told by a Japanese businessman at an economic development conference last week, the United States has some natural trading advantages that our competitors do not have. We have an abundance of land, water, air, and minerals—the raw materials of production—as well as relatively inexpensive utilities to enable us to produce. We have excellent research facilities both in our universities and in the private sector. We have a stable governmental system. In short, we are still a land of opportunity.

What we do not have is a policy either for trade or for agriculture that allows us to take advantage of our natural competitive edge. Part of our problem is attitudinal—we produced superior products for so long that we are unaccustomed to being challenged. We have not adapted to the changing needs and demands in the countries where we do business. We have not looked to see what we can do to tailor prod-

ucts to their needs. Instead, we have tried to get our trading partners to adjust to what we are producing. That approach simply will not work today.

If we are again to be successful as exporters, we must accept the fact that change is inevitable. We should take a serious look at recommendations made by such groups as the President's Commission on Industrial Competitiveness. We must acknowledge, as this program does today, that both the federal and state governments have a role to play in international trade. And where agriculture is concerned specifically, we must be realistic about the limitations trade will play in solving our financial crisis.

This country still has the seeds for greatness. But those seeds can be nurtured only if we accept the harsh realities of the climate in which they must grow and develop a means for them to adapt to the climate. They can be nurtured only if we apply the proper mix of policies that allow us to be competitive. There are no quick fixes. Just as we cannot rush a crop, we cannot expect overnight solutions. We must take actions today that are farsighted.

We can restore our agricultural trade and reduce our balance-of-trade deficit overall if we acknowledge that the economy in which we operate is now a world economy and act accordingly.

I want to believe that we will find the leadership from individuals, such as those of you present today, to act on those realities. It is important for the future of U.S. agriculture that we find a way to be competitive. It is even more important for our nation's economy that we once again become competitors.