U.S. Agricultural Exports—
A Boon to Farmers

By Marvin Duncan and Blaine Bickel

Agricultural exports have become more important to both the farm and nonfarm sectors of the U.S. economy in recent years. Population and income growth, weather, and decisions of foreign governments have increased demand for U.S. agricultural products; but the availability of unused capacity in American agriculture has lessened the impact of such demand growth on U.S. consumers. Export sales provide markets for increasing proportions of U.S. farm production, as well as providing additional jobs and economic activity in the nonfarm sector. Agricultural export earnings continue to make important contributions to the U.S. balance of payments. Farmers and ranchers in the Tenth Federal Reserve District are even more dependent on export markets for continued prosperity than are those in the United States as a whole.

HISTORICAL PERSPECTIVE

Important Legislation

In 1954 the U.S. Congress passed the Agricultural Trade Development and Assistance Act (Public Law 480), as a partial solution to two related problems—large price-depressing surpluses stored at high cost to the Government and a shortage of international purchasing power (dollars) in foreign nations needing U.S. farm commodities. Though the act was primarily perceived as a means for disposing of unwanted surpluses, it soon evolved into an important humanitarian and market development tool. Early recipients of food aid such as Japan and Spain, and more recently some of the Arab countries, have become important commercial customers for U.S. agricultural exports.

When a 1966 crop failure in India raised the possibility of mass starvation, the United States felt obligated to offer assistance despite relatively low grain stock levels—at the time the United States had less than a year’s supply of wheat on hand. The Food for Peace Act of 1966 and amendments to Public Law 480 placed new emphasis on using U.S. agricultural products to relieve hunger and malnutrition abroad. Greater assistance was made available to recipient countries committed to improving their own agricultural productivity. Recognizing that the long-run solution to hunger problems involved not only food aid, but also improved production capabilities in the
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developing countries, the United States shifted its policy emphasis from surplus disposal to economic and market development.

Prior to 1966, Public Law 480 shipments accounted for about one-third of total U.S. agricultural exports. That contribution declined steadily through the 1960's and dropped below 4 per cent in 1974. Public Law 480 shipments have been made under three different titles, of which Title I is most important. Over 82 per cent of all Title I shipments were made for foreign currency, prior to discontinuance of this section of the act at the end of 1971. Presently, Title I sales are either for dollar credit with repayment periods of up to 20 years or for convertible local currency credit with a maximum repayment period of up to 40 years. Title II exports are for donations through voluntary relief agencies. Title III provides for the Secretary of Agriculture to barter or exchange agricultural commodities owned by the Commodity Credit Corporation for strategic materials, though the authority has not been used since 1968.

Growth of Export Sales

Over the years, efforts at building commercial export markets for U.S. agricultural products have proved successful. Agricultural exports grew from approximately $3.2 billion in 1955 (with approximately one-third outside of specified Government programs) to $9.4 billion in 1972 (with almost 88 per cent outside of specified Government programs). The agricultural industry looked forward to export sales in excess of $10 billion in 1973. However, the confluence of a number of factors in 1972—both anticipated and unanticipated—pushed 1973 agricultural export sales to $17.7 billion and has held them at close to $22 billion each year since. Concurrently, the proportion of sales under Public Law 480 and other specified Government programs declined substantially as previously indicated. Chart 1 illustrates the growth of export sales as well as the marked shift toward commercial sales.

FACTORS IN THE GROWTH OF TRADE

The more important reasons for the sharp increase in demand for U.S. agricultural exports in 1973 are related to increasing population and income, exchange rate adjustments, weather, and efforts by foreign governments to upgrade their citizens' diets.

Population

Steadily increasing world population— at about 2 per cent annually in recent years—has been putting additional pressure on world food supplies. During 1970-73, annual rates of population growth in developed countries typically ranged from .3 to 1.3 per cent—the U.S. annual growth rate was ,9 per cent. Rates of increase in underdeveloped countries were substantially larger during that period—India had a 2.1 per cent annual rate of increase and Pakistan's was 3.6 per cent.

Increased Per Capita Income

Concurrently, rising income levels around the world enabled countries to express their growing need for food as effective demand in the marketplace. With few exceptions, countries' per capita gross domestic product increased substantially from 1960 to 1973. Per capita gross domestic product in the developed market economies in 1973 was three times as large as in 1960, and in the 1970-73 period was growing at 4.1 per cent annually. Substantially less economic growth occurred in developing market economies, although the 1972 per capita figure was almost twice as large as in 1960, and in 1970-73 was growing at 3.2 per cent annually—about the same as in the

1965-70 period. Average annual gross domestic product growth per capita for the centrally planned economies slowed to 5.2 per cent in 1970-73 from 6.4 per cent in 1965-70, but there was still substantial annual economic growth.

**Exchange Rate Adjustments**

United States agricultural exports increased from $7.8 billion in fiscal 1971 to $21.6 billion in fiscal 1975. A portion of this increase can be attributed to currency value adjustments and movement toward floating exchange rates, which made U.S. agricultural exports more competitive on world markets. The exchange rate adjustments resulting from the Smithsonian Agreement caused, for fiscal 1971, an average decline of 5.7 per cent in the price of U.S. agricultural exports to foreigners. (This agreement also raised the price of agricultural imports to U.S. citizens an average of 1.3 per cent.)

More significant for future trade growth than the one-time influence of the Smithsonian Agreement was the 1973 decision by major

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trading partners to float their currencies against the dollar, resulting in continuous currency value realignments. As a result, between January and July of 1973, the U.S. dollar’s value dropped markedly on world exchange markets—making U.S. products less expensive to trading partners. For example, German importers paying 3.2 Deutsche Marks for one U.S. dollar in January were able to purchase a dollar in July for only 2.3 Deutsche Marks—an effective price reduction of 28 per cent for U.S. products. The converse situation occurs when U.S. dollars strengthen relative to other currencies—U.S. products then become more expensive to trading partners.

Although export volume for all U.S. agricultural products will likely increase as effective export prices decrease, soybeans and products, citrus fruits, cotton, and livestock products stand to gain most while food and feed grains benefit the least. Most major food and feed grain importing countries insulate domestic prices of these commodities from world prices through a variety of trade barriers—such as the European Economic Community's variable import levies. Thus, effective price reductions resulting from exchange rate adjustments may not be passed on to consumers in importing countries.

Weather

Certainly, the vagaries of weather have had an effect on U.S. agricultural exports during the early 1970’s. Reductions in gross agricultural output, largely weather related, affected about one-fourth of the developing countries in 1971, followed by 40 per cent in 1972 and 33 per cent in 1973. About half the Western Hemisphere and South and East Asian countries experienced production decreases in 1972, while about half the African and West Asian countries experienced decreases in 1973. World agricultural production in 1974 was at about the same level as in 1973. The average rate of expansion in agricultural production during 1971-74 was only 1.5 per cent per year for developing countries, well below rates of population increase in most of these countries. World agricultural production increased at an annual rate of 2.1 per cent during the same period.6

Better moisture conditions in Southeast Asia and Africa enabled many developing countries to increase their food supply in 1975. The U.N. Food and Agriculture Organization has projected a further increase for 1976—7 per cent over 1975—in world production of wheat and coarse grains.

Upgrading Diets

Decisions by centrally planned economies to upgrade their citizens’ diets necessitated large food and feed grain imports by these countries. Five-year plans calling for increased meat production resulted in not only higher average import levels, but also sharply higher imports in years of production shortfalls—in part, to meet ambitious livestock production goals.

In the past decade imports of wheat and feed grains by the centrally planned economies as a proportion of total quantities moving in world trade have increased from 10 per cent in fiscal 1967 to 25 per cent in fiscal 1976. Chart 2 illustrates these trends in world wheat and feed grain trade. In fact, some 90 per cent of the variability in world wheat and feed grain trade in recent years is traceable to changes in import and export levels by one country—the U.S.S.R.

United States agricultural exports to members of the Organization of Petroleum Exporting Countries (OPEC) totaled $1.7 billion in fiscal 1975—more than 4.5 times the 1971 value. Since grains and preparations, and


Federal Reserve Bank of Kansas City
oilseeds and products made up 92 per cent of the value of 1975 trade, its importance to the Tenth District is readily apparent. These OPEC countries have used their newly acquired wealth—from oil exports—to upgrade the diets of their citizens. Nowhere is this more evident than in the Arabian Peninsula, where agricultural imports in 1975 were double the 1972 value and U.S. agricultural exports have tripled since fiscal 1973 to $168.7 million in fiscal 1975.

Oil exporting countries can be expected to become increasingly important markets for U.S. agricultural exports. A significant trend has been the shift of these countries from foreign aid recipients to commercial markets as they have begun to receive oil revenues. For example, the United States exported $1.9 billion in Government aided sales and $2.7 billion in commercial sales to Indonesia, Algeria, Iran, Columbia, and Tunisia between fiscal 1955-75. In fiscal 1974 and 1975 U.S. commercial sales to these countries totaled $1.7 billion and Government aided sales only $86 million.

**CHANGING PATTERNS OF WORLD AGRICULTURAL TRADE**

The U.S. share of world trade in agricultural commodities, as recently as 1968-72, was 13.2 per cent—a modest growth from the 1951-55
countries have accounted for most of the growth in U.S. wheat exports.

Looking at different data, less developed countries have become more dependent on the agricultural exports of developed countries since 1955. Moreover, an even greater increase in dependence (from 17 per cent to 40 per cent in that time period) has occurred for centrally planned countries. While the less developed countries' share of world grain exports declined from 23 per cent to 12 per cent, their share of grain imports from the developed countries increased from 57 to 78 per cent between 1956-60 and 1972-73. Centrally planned countries have over that same period of time become almost totally dependent on developed countries for their imported grain supplies. In 1956-60 these countries received 77 per cent of their grain imports from intraregional trade (trade among themselves). That proportion had shrunk to 14 per cent by 1973, with 82 per cent of their grain imports originating in developed countries.

IMPACT OF AGRICULTURAL EXPORTS ON THE UNITED STATES

Agricultural exports make important contributions to various sectors of the economy. Farmers rely on exports for a significant portion of their cash receipts, and many nonfarm workers are employed directly or indirectly in assembling, processing, and distributing agricultural products for export.

Farm Sector

The benefits from agricultural exports are not evenly distributed among states or farm regions. Alaska received no income that could be attributed to exports in fiscal 1975, while Rhode Island and New Hampshire received only $600,000 and $1,000,000 respectively. On the other hand, Illinois and Iowa each derived about $1.7 billion from exports, Kansas and Texas about $1.3 billion each, and California $1.1 billion. The next three states—each with approximately $900 million in exports—were

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### Table 2
**Agricultural Exports by Tenth District States**, Fiscal Year 1975
(Millions of Dollars)

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<td>909.9</td>
<td>49.4</td>
<td>543.9</td>
<td>42.9</td>
<td>3,905.1</td>
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*Estimates based on each state's share of total production.
†Amount is for entire state, though only a portion of the state is within the Tenth Federal Reserve District.

**SOURCE:** Foreign Agricultural Trade of the United States, U.S. Department of Agriculture.

Minnesota, Nebraska, and Indiana. With the exception of California, where many specialty crops are grown, each of the leading states is noted for the production of wheat, feed grains, or soybeans. A look at the composition of total agricultural exports from the United States reveals why these states led in income from farm exports. Grain and oilseed exports made up nearly three-fourths of total farm exports in each of the last 3 years.

One measure of the importance of exports to the farmer is to express income from exports as a percentage of farm income. Cash receipts from farm marketing are used to indicate farm income, since cash receipts comprise a major portion of farm income and such data are available by states. Table 2 summarizes the value of exports by commodity, and exports as a per cent of cash receipts by Tenth Federal Reserve District states.

A significant portion of Tenth District farm income is dependent on agricultural exports. In fiscal 1975, 19.2 per cent of U.S. farm exports were produced in the District, compared with 15.2 per cent in fiscal 1970. This increase in relative importance is largely due to the increased export of wheat and feed grains in recent years. Exports represented 25.7 per cent of the District's cash farm marketings in fiscal 1975, which was more than twice the 12.1 per
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cent contribution 5 years earlier. On a
commodity basis, almost two-fifths of all U.S.
wheat exports came from the District—Kansas
alone produced over 18 per cent of the total
value of all wheat exported during fiscal year
1975. Other exports that made important
contributions to District farm income include
hides and skins, lard and tallow, meats and
products, feed grains, vegetables, and
soybeans. Exports produced on Kansas farms
totaled only $314 million in fiscal 1970, or 16.5
per cent of cash receipts. Five years later,
Kansas farmers received more than one-third of
their total cash receipts from exports. In other
District states, exports expressed as a
percentage of cash receipts during fiscal years
1970 and 1975, respectively, were Colorado, 6.3
and 15.5 per cent; Missouri, 13.6 and 26.1 per
cent; Nebraska, 13.1 and 22.5 per cent; New
Mexico, 4.8 and 8.9 per cent; Oklahoma, 11.0
and 30.0 per cent; and Wyoming, 2.2 and 12.4
per cent. Agricultural exports contributed just
over $1 billion to the District's farm income in
fiscal 1970. Viewed in relation to the current
$3.9 billion contribution, income from foreign
sales has grown from the status of a bonus to
that of an indispensable component of farm
income in only 5 years.

The same can be said for the nation as a
whole, even though the growth rate has been a
little slower than that of the Tenth District.
Agricultural exports—at $6.6 billion—made up
13.3 per cent of U.S. cash receipts in fiscal
1970, compared with 22.5 per cent in fiscal
1975. The agricultural export market is now of
vital importance to the U.S. farmer, absorbing
the production from more than one-fourth of
his cropland. During fiscal 1976, the United
States expects to export almost 60 per cent of
its wheat crop, about half of its soybeans, 40
per cent of its cotton crop, and about a fourth
of its corn.

The growth in foreign demand for
agricultural products has been a major factor
in pushing net incomes of U.S. farmers to
record high levels in recent years, but it has
also significantly increased price fluctuations.
U.S. markets react sharply to changes in
foreign crop reports and decisions concerning
imports by planned economy countries. These
price swings directly affect the incomes of crop
producers in the United States, and are
particularly disruptive to domestic livestock
producers. Thus, greater dependence on export
markets has increased the level of risk facing
U.S. agricultural producers.

Nonfarm Sector

In addition to the direct benefits farmers
receive from foreign sales, farm exports make
important contributions to many U.S.
industries and to the economic health of the
nation. Farmers' expenditures for such inputs
as machinery, fuel, and fertilizer stimulate
economic activity in manufacturing, transport-
ation, and other business areas. And as the
extra income derived from exports is spent, the
benefits are distributed throughout the
economy. While 1974 agricultural exports at
the port of shipment had a direct value of $22
billion, input-output model analysis indicated
about $43 billion in total business activity was
required to produce the exports themselves and
to provide supporting goods and services. Thus,
the necessary supporting activity generated an
additional $21 billion worth of output—70 per
cent of which accrued to nonfarm sectors. The
additions amounted to $6 billion in the farm
sector: $2 billion from food processing; $2
billion from trade and transportation; $5
billion from manufacturing; and $6 billion
from other services. Specifically, each dollar
of farm exports in 1974 generated an additional
96 cents of goods or services in the U.S.
economy.

The far-reaching impact of agricultural

9 Gerald Schulter, ’’Impacts of Agricultural Trade on Food
and Fiber Sectors of the U.S. Economy.” Agricultural
Outlook. U.S. Department of Agriculture, Economic
exports is further illustrated by the number of jobs that are dependent on that activity. In addition to the estimated half million farmworkers required to produce the raw farm products for export, the Economic Research Service estimates that more than 650,000 nonfarm jobs were directly or indirectly related to the export of farm commodities. Of these nonfarm workers, 300,000 were employed in the trade or transportation industry, 100,000 in manufacturing, 50,000 in food processing, and 200,000 were engaged in other services.

**Balance of Trade and Payments**

The increase in agricultural exports in recent years has also had an important impact on the U.S. balance of trade. As seen in Chart 3, the nonagricultural balance of trade maintained a relatively high surplus until the late 1960's. During 1971-74, increased imports of various types of machinery, oil, steel, chemicals, and consumer goods contributed to increasingly larger deficits in the trade balance for nonagricultural items, but the major factor was higher petroleum prices. Nonagricultural imports increased from $61 billion in 1973 to $90 billion in 1974, with more than half the increase due to higher oil prices. The nonagricultural trade deficit reached a high of $14.7 billion in 1974. However, a substantial increase in exports, combined with a decline in imports during 1975, resulted in a reversal of
the recent trend and left the nonagricultural sector with a trade deficit of only $2.3 billion.

The agricultural balance of trade has not registered a deficit since 1959. Exports have risen faster than imports, especially during the 1973-75 period, to a surplus of $12.6 billion in 1975. Overall deficits were posted for 3 of the 5 years during 1971-75, however, because the agricultural surplus did not offset the nonagricultural deficit. The total trade balance was in deficit $3.0 billion in 1974, but due to improvement in both the agricultural and nonagricultural sectors, the 1975 trade balance was a $10.3 billion surplus.

Comparing total exports and imports of agricultural commodities is the conventional method of measuring the agricultural trade balance. A different method is to compare total agricultural exports to competitive agricultural imports. On this basis, the $15.7 billion surplus in 1975 indicates that U.S. exports are doing quite well compared with similar products produced abroad and imported into the United States. Another comparison can be made between commercial exports (commodities sold for dollars rather than sold under government-financed programs) and total imports. The phenomenal growth of dollar sales in recent years compared with imports pushed the commercial agricultural trade balance to $10.9 billion in 1975. Finally, commercial exports can be compared to competitive imports to measure the performance of U.S. commodities sold for dollars against imports of commodities that are competitive with those produced in the United States. This indicator shows a highly favorable farm trade balance of $14.0 billion in 1975.

Since the balance of trade is the difference between the value of merchandise imported and exported in a year, it is one component of the balance of payments which measures the exchange of all goods, services, and capital. Agriculture's contribution to the 1975 balance of payments was $20.9 billion after adjustments for the effects of noncommercial exports.

Benefits Versus Costs

Certain costs, as well as benefits, have accrued to the nonfarm sector during the 1972-76 period of rapid agricultural export expansion. Food has become more costly in real terms to the U.S. consumer. The food component of the Consumer Price Index (CPI) in January 1976 was 52.7 per cent higher than the 1971 average level. The CPI for all items increased 37.4 per cent and average hourly earnings per production worker on private, nonagricultural payrolls increased 37.6 per cent during the same period. However, when measured over a longer period (from 1967 to January 1976) increases in food costs and hourly earnings were approximately equal—80.8 per cent and 79.8 per cent, respectively. It is important to note that U.S. food price increases during the period of rapid agriculture export expansion have been less than in most other industrialized countries.

CONCLUSION

United States agricultural exports have increased at a faster rate than even the most optimistic observers would have projected prior to 1972. Since 1972, export sales have continued at high levels with the U.S. Department of Agriculture projecting a record tonnage for all agricultural exports during fiscal 1976—104.87 million metric tons. American farmers have responded to increased demand for their products and the resultant higher product prices by increasing production markedly. Corn production in the United States has increased from 4,103 million bushels in 1965 to 5,737 million bushels in 1975. Wheat production has increased from 1,316 million bushels to 2,134 million bushels, and soybean production from 846 million bushels to 1,521 million bushels during the same time period. These production increases have permitted the growth in export marketings with only
moderate real increases in U.S. consumer food costs since 1971. U.S. food expenditures, as a per cent of disposable personal income in 1975, were 17.1 per cent—somewhat greater than in the 1971-74 period, but less than in any year prior to 1971.

The proportion of U.S. agricultural production exported and the new capital investment by farmers to meet expanded market demand for farm products have focused public attention on U.S. agriculture's increased reliance on export markets. These markets are needed to maintain continued economic prosperity for farmers, as well as for those who provide farm inputs and processing and marketing services. Consequently the Multilateral Trade Negotiations presently being conducted under the sanction of the General Agreement on Tariffs and Trade (GATT) take on added importance—as does trade policy formulation by individual governments, the United States, or its trading partners. Since an estimated two-thirds of U.S. agricultural product exports are subject to some form of restriction in foreign markets, reduction of these barriers can benefit U.S. farmers. Barriers to trade of all types should be relaxed so the principles of comparative advantage and market pricing can operate, signaling market demands to the world's farmers. U.S. farmers have demonstrated their ability to compete under such conditions, and can be expected to realize additional income opportunities if they can gain access to new and expanded markets.