Carpenter says exports won't raise farm income

WASHINGTON — A fair commodity price for U.S. farm exports, not volume, is the key to maximizing U.S. farm export earnings, according to several U.S. farm and economic leaders. The Reagan administration's theory of lowering domestic farm prices to stimulate demand for U.S. grain is not realistic and will result in forcing more U.S. family farmers out of business with no resulting trade increase, they say.

"A decline in crop prices will reduce farm total revenues for at least four years before the price decline is offset by higher volume exports...Therefore, dropping U.S. farm prices in world markets would only reduce U.S. farm income since total dollar exports would decline even though additional tonnage was sold at the lower price. The decline in farm income would have to be offset by increased government subsidies or U.S. farmers would continue to go bankrupt," Dr. Ray Daniel, vice president and managing director of Industry and Agricultural Services for Chase Econometrics recently testified before the House Agriculture Subcommittee on Department Operation, Research and Foreign Agriculture.

National Farmers Union President Cy Carpenter said that although the U.S. needs to explore increasing farm exports, "To export our way out of the problem at prices below the cost of production is like borrowing yourself out of debt. It simply will not work."

Carpenter recently discussed agricultural exports with representatives of the European Community, Bulgaria, Japan and others, and reports, "They're confused and frustrated with what we really do have in the way of export policy.

"We need a 1985 Farm Bill that provides for a fair price and resulting income to our farmers, regulates production, and protects our soil and water resources, and does so in a manner that does not expose the budget to excessive costs," Carpenter said.

"We need to sort out what we need in terms of domestic agricultural policy and then an export policy in harmony with our trading partners," he added.

Export Expansion Slowing

At best, USDA projects that U.S. farm exports could expand by 3 to 4 percent a year during the late 1980s, a rate less than half of the expansion rate in the 1970s. That is not enough to improve domestic farm income, according to National Farmers Union Washington Newsletter Editor Milton D. Hakel.

"How the U.S. will fare will depend on the buying power of the developing nations, a return to stability in exchange rates, and a decline in real interest rates. Without such developments, the U.S. appears destined to continue to be the residual supplier in a bearish market into the 1990s," Hakel said. Hakel's conclusions are contained in a paper, "Maximizing U.S. Farm Export Earnings," distributed to every member of the House and Senate Agriculture Committees.

Today, the U.S. market share is slipping. Chase Econometric's study shows that the U.S. market share of feed grains dropped from 64 percent during the 1980-81 crop year to 60 percent in the 1982-83 and 1983-84 crop years. And, Chase said, the U.S. wheat market share dropped from 48 percent in 1981-82 to 38 percent during the current marketing year.

NFU's Carpenter points out that other countries frequently use different production methods that U.S. farmers cannot compete with, and even if they could, the foreign production is frequently subsidized by governments that place a higher value on food production than current U.S. policy does.

For example, he said some competing nations are less mechanized or technologically advanced in their production, something U.S. farmers may be unwilling to go back to. And, he points out, Argentina (a nation that has become a competing force in the wheat market) is offering incentives to place more land in production at the same time that the U.S. must provide for less domestic production in order to manage supplies with demand.

"Strong world trade barriers against U.S. farm commodities also continue to be a problem," according to Chase's Daniel. "For example, over 90 percent of all countries buying grain have either tariffs, import subsidies for their farm products, or import restrictions. Two good examples are the Euorpean Common Market and Japan.

"But, the problem has not been increases in U.S. farm commodity prices, since real farm prices (in 1972 dollars) have actually collapsed to pre-1972 levels. The major contributiong factors to the loss of U.S. farmers' market share in world trade have been record increases in the value of the U.S. dollar, high interest rates, government trade barriers, U.S. government embargos of agricultural shipments into major markets, and higher farm input costs after adjusting for the difference in currencies," Daniel continued.

"Future agricultural export programs should also recognize that a 'free market' for grains is no longer a reality due to grain embargoes, long term grain agreements by competitors, competing government import levies and restrictions, cargo preference requirements, and other noncompetitive market restrictions of governments throughout the world," Daniel said.

International Cooperation

Some leaders agrue for international cooperation to solve problems all exporting nations face.

"A meeting of the world's largest agricultural exporters is necessary to avoid a world commodity price war. We have a choice. We can either all decide we are going to work together and address the problem as a world problem, or we can get into a world price war that is going to just absolutely devastate everybody," Congressman Berkley Bedell, D-Iowa, told farmers March 25.

"A strong argument can be made for cooperation among exporters," Purdue University's Phillip Abbot said in November 1984.

And, the Center for National Policy last February recommended continued international discussion of coordinated national grain reserves. "While progress will likely be slow, consistent support by the U.S. would keep alive the idea of a system which would be of mutual long-term benefit to trading nations," according to the Center.

Monetary Effects

There is a strong monetary argument for fair world market prices for commodities that reflect an average cost of production.

"The overall U.S. trade deficit — a record $123.3 billion in 1984 — appears headed for $140 billion in 1985 and perhaps higher therafter. If either by unilateral U.S. action or by international pacts, prices of farm products in world commerce were raised to fair average cost of production, U.S. farm export earnings would increase by at least $5 billion a year, and the trade balance would improve to that degree," Hakel said.

He predicted that world stocks are likely to be higher than demand for the next several years and that expansion of worldwide demand will be vital to agricultural economic recovery.

"An overall policy designed to enhance agricultural export earnings must address itself to assuring world economic conditions which will maximize commercial demand for farm products, whether domestic or imported," Hakel said. "It must channel world market prices within a narrower range, fair at the same time to exporters and importers; it must provide sufficient farm reserves to constitute a safety factor for nations and consumers; and it must provide an alternative to protectionism by reducing wild fluctuations in prices and encouraging orderly marketing."