

# American farmers still competitive on world market

WASHINGTON — Amid all the reports of falling U.S. agricultural exports and declines in our market shares, trade analysts of USDA's Economic Research Service offer a bit of reassurance.

It is not the kind of news that promises immediate gratification because it speaks mostly about the potential, rather than the present ability of American farmers to compete. The economists argue that although several factors are hampering farmers in current competition for world markets, the underlying advantage of U.S. agriculture appears to remain intact.

"The United States has not become a high-cost or inefficient producer," they insist. "And thanks to major agricultural productivity gains since the early 1970's, we have not lost our fundamental comparative advantage." This advantage exists because of abundant natural resources, highly skilled farmers, advanced American technology, relatively efficient markets, and a well-developed infrastructure of support industries for agriculture.

A few definitions are needed to closely follow their analysis, which appeared in a recent issue of the Agriculture Department's FARMLINE magazine:

**Absolute advantage** is a statement about production efficiency—about who can produce a commodity at the lowest cost. Several nations, for instance, have a cost advantage over the United States in the production of sugar.

**Comparative advantage**, a more complicated concept, is a measure of relative efficiencies among different production sectors here and abroad. If one country can produce oil with fewer resources than it can produce cars and another country produces cars less expensively than oil, economic theory suggests that each country should specialize in the good it can produce the cheapest rather than

trying to be self-sufficient in both oil and cars.

This is true, analysts say, even if one country has the ability to produce either good more cheaply than the other country. When countries concentrate their productive resources in areas of comparative advantage, overall output of all products should be greater and prices will be lower.

**No Guarantee of Competitiveness**

**Competitiveness**, however, is an altogether different story from absolute or comparative advantage, and the distinctions are important. Competitiveness, the economists explain, is a fluid condition that relates mainly to price. Even a high-cost producer can quickly become more competitive in trade by subsidizing the price of its exports.

Similarly, the competitiveness of a low-cost, highly productive nation may deteriorate rapidly

because of unfavorable fluctuations in currency exchange rates, because it supports its prices above market levels, or because of the aggressive trade policies of a high-cost competitor.

There is no doubt, the analysts say, that U.S. competitiveness in agricultural markets has been hurt, at least temporarily. The reasons include the global recession of recent years, large debts in less developed countries, the appreciation of the U.S. dollar, and farm policies here and abroad.

The encouraging news is that damage to the competitive position of the United States can probably be reversed. A sustained decline in exchange rates, a stronger recovery in the world economy, or adjustments in U.S. farm and trade policies could all help put U.S. exports back on a growth track.

The loss of an absolute or

comparative advantage in agriculture could have much deeper, longer term implications. At its worst, it might suggest that the United States would have to gradually relinquish its status as the largest exporter of farm products, retreat from world markets, and invest those resources elsewhere.

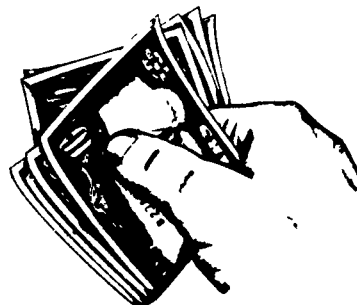
That is not what anyone expects. "When the production of watches, cameras, and stereos moved to lower cost overseas locations, resources in those industries

shifted elsewhere, into computers, software, and so on," says USDA economist Alan Webb. "Agriculture's chief resource, land, is not nearly as flexible."

Much of our farmland, he points out, currently has few alternative uses. "We might see some land taken out of crops, but, basically, the price of land should eventually adjust to ensure U.S. competitiveness in agriculture. We are so richly endowed with farmland

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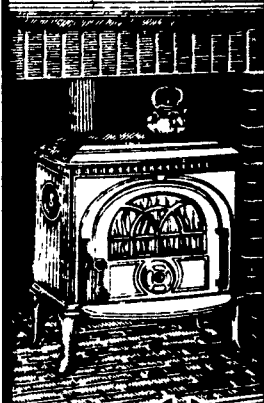
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