Cost of American ag products in line with competition

(Continued from Page A38)

that I cannot see how we could lose our advantage in agriculture as long as our policies allow the price of this resource to adjust. The adjustment is now taking place, and it's the source of much of the financial distress in the farm sector."

Case for the U.S. Advantage

One way to measure absolute advantage is to compare production costs among nations, according to the economists. They point out that this is a difficult undertaking. Even within the United States, costs of production for individual commodities range widely from region to region and farmer to farmer. In addition, there are measurement problems and conceptual issues of how to figure costs. These difficulties are multiplied enormously when trying to obtain comparable information for other nations.

Despite the problems, Economic Research Service economists were able to develop some data to compare average U.S. costs of production with those of other major exporters for 1980-82. They used variable costs, which do not include depreciation, labor, and land costs.

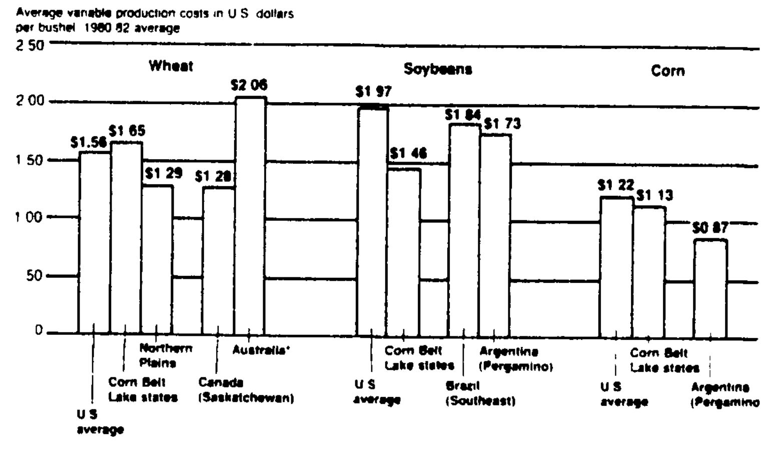
They found, for instance, that the U.S. Northern Plains and Saskatchewan, Canada, had virtually identical average variable production costs for wheat. Average 1980-82 costs were $1.29 per bushel in the U.S. Northern Plains and $1.28 (U.S. dollars) in Saskatchewan. Data for Australia show a national average variable wheat cost of $2.06 for 1980-82, considerably above the U.S. national average of $1.56.

"Thus," they conclude, "neither of our major wheat competitors appears to have a significant cost of production advantage."

Soybean cost comparisons yielded similar results. In the Corn Belt and Great Lakes states, average variable costs for soybeans were $1.46 per bushel in 1980-82, well below the estimated $1.84 cost for southeastern Brazil and the $1.73 cost calculated for Pergamino, Argentina's major corn and soybean growing region.

For corn, the Pergamino region had an average variable cost which averaged 87 cents per bushel over the 1980-82 period. The average for the Corn Belt-Lake states was higher, at $1.13 per bushel, but the difference between the U.S. cost and the Argentine cost had dropped to just 8 cents by 1982.

U.S. Costs of Production Compare Favorably with Costs of Our Major Competitors



*Sample farm that appears to be a national average

Little is known about changes in costs abroad since 1982, except that the subsequent rise in the foreign exchange value of the dollar has probably increased U.S. costs relative to those of our major competitors. A stronger dollar has that effect even without any change in actual production costs within the United States.

Case for a Comparative Advantage

The cost of production comparisons argue that the United States has retained its status as a low-cost producer of grains and oilseeds–certainly in its primary growing regions. Comparative advantage, rather than absolute advantage, however, may be more important in determining actual production and trade relationships.

During the 1970-82 period, it appears that U.S. agriculture widened its comparative advantage compared with other sectors of the American economy and with the rest of the world, say the economists. The productivity of inputs employed in agriculture grew faster here than abroad, while the productivity of inputs employed in other areas of the U.S. economy grew more slowly.

They cite several examples. Average productivity of U.S. farmland, for example, increased 39 percent, versus 27 percent overall in the rest of the world. The average productivity of U.S. agricultural labor rose 97 percent, compared with a 22-percent increase in other countries. The average product per unit of machinery increased here but fell in the rest of the world.

These productivity gains in agriculture outpaced those in other sectors of the U.S. economy. Compared with the 97-percent gain in agricultural labor productivity, the productivity of nonagricultural U.S. labor rose only about 15 percent. Nonagricultural labor productivity growth in Japan, Europe, and Australia was well above the U.S. rate.

In other words, say the economists, the evidence suggests that U.S. agriculture's comparative advantage over other sectors of the economy increased relative to the rest of the world during that period.

None of this, of course, changes the fact that U.S. agricultural exports are severely depressed. Export earnings have tumbled from a record $43.8 billion in fiscal 1981 to an estimated $32.0 billion in fiscal 1985. Volume has dropped more than 30 million metric tons since 1981.

But these findings may help answer another question: Has the time come for the United States to throw in the towel and admit that it no longer has an agricultural sector capable of competing in the world arena?

Not at all, say the economists.

"The adjustments presently occurring U.S. agriculture–lower incomes, slumping land values, and losses in export market shares–are not the result of the inability of the United States to compete on a cost basis with other nations. Rather, the adjustments reflect a decline in the prices and volumes of agricultural commodity exports stemming from the appreciation of the dollar, U.S. and foreign policies, the global slowdown, and debt problems in many major importing countries."

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