

Commentary on "The Imperative of Successful Competition"

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Undersecretary Amstutz has provided a good description of how the United States got into its currently depressed agricultural export situation. He stresses heavily the need for the United States to become more competitive in world markets and argues that doing so will require more market-oriented domestic programs. Negotiating fair trading rules is also important in his view. If these two things are done, U.S. exports will grow.

This is a very benign conclusion that tells us nothing about the nature and magnitude of the problems facing American agriculture and the government officials with responsibility for implementing agricultural policies and programs. It is this set of issues I want to address.

My basic thesis is that becoming more competitive in world markets is a necessary but not sufficient condition for eliminating surplus production capacity within the next five years. U.S. surplus capacity is huge and consists of two parts. One is the visible surplus in the form of large stocks, projected to be nearly as large or larger for most commodities at the end of the 1985-86 season than at the end of 1982-83 (pre-PIK year). The other is our ability to produce much more every year than we can use at home or export.

I have projected to the end of the decade planted acreage required for major crops under the following "optimistic" assumptions:

- Normal weather and growing conditions around the world.
- World agricultural trade growth at slightly less than one-half the rate in the 1970s, compared with declining trade during the first half of the 1980s.

- The United States, following policies that make it fully competitive in world markets and our regaining our past share of these markets by the end of the decade.
- The rate of growth in crop yields being generally only one-half the historic rate.
- Stocks of major commodities being gradually reduced from currently large levels to desired levels by the end of the decade.

The results of these assumptions are fairly impressive. U.S. agricultural exports would grow at annual rates about the same or even faster as those in the 1970s through a combination of regaining market share and modest growth in world trade. Between 1985-86 and 1989-90, for example, wheat exports would increase from 1,050 to 1,605 million bushels, or by 11 percent a year. Corn exports would increase from 1,625 to 2,240 million bushels, or by about 8 percent a year. Soybean exports would increase from 675 to 925 million bushels, or by 8 percent a year. And cotton exports would increase from 3.5 to 7.2 million bales, or by nearly 20 percent a year.

Equally impressive is that this robust export growth would still leave the United States with substantial excess production capacity by the end of the decade. In 1981, a record 376 million acres were planted in all major crops. The required plantings in 1986 under our projection scenario would be 322 million acres, 54 million acres below peak plantings and 2 million acres below 1983, the year of the PIK program. By 1989, required plantings would increase to 353 million acres but would still be 23 million acres below the peak level of 1981 (Table 1).

TABLE 1
Area Planted Scenario
(In Million Acres)

	Actual				Projected				
	1981	1982	1983	1984	1985	1986	1987	1988	1989
Corn	84.2	81.9	60.2	80.4	83.2	72.0	74.7	76.4	77.3
Sorghum	16.0	16.0	11.9	17.2	17.8	14.1	15.8	16.0	16.2
Oats	13.7	14.0	20.3	12.4	13.1	12.0	12.6	12.7	12.7
Barley	14.3	9.5	10.4	11.9	13.1	10.4	10.3	10.4	10.5
Wheat	88.9	86.2	76.4	79.2	75.8	71.5	73.7	77.9	79.3
Soybeans	67.8	70.9	63.8	67.7	63.3	58.3	63.7	67.5	71.3
Cotton	14.3	11.3	7.9	11.1	10.8	8.4	8.6	9.2	9.8
Rice	3.8	3.3	2.2	2.8	2.5	2.3	2.4	2.5	2.6
Other*	73.0	73.5	70.9	74.1	72.1	73.0	73.0	73.0	73.0
Total	376.0	366.6	324.0	356.8	351.7	322.0	334.8	345.6	352.7

*Flaxseed, peanuts, sunflower, dry edible beans, potatoes, sweet potatoes, and sugar beets: harvested acreage for rye, hay, tobacco, and sugar cane.

If the assumptions are too optimistic, which I suspect they are, the excess capacity problem is larger than I have projected.

Becoming more price competitive in world markets and regaining our fair share of these markets, however desirable, are weak tools for solving our surplus problems. Price competition will affect output in countries where prices are directly linked to world markets, as for example, Canada, Australia, and Argentina. However, the behavior of many major producing and consuming regions of the world is not influenced by world prices. For example, Secretary Amstutz points out that while wheat production in the United States declined between 1980 and 1984, production in the rest of the world increased by 65 million metric tons. It is noteworthy that China, India, and the European Community account for all of this increase. Furthermore, it is doubtful that wheat production and consumption in these areas will be responsive to world prices in the foreseeable future.

The fundamental problem facing U.S. agricultural exports is slow growth in world trade. Secretary Amstutz has discussed the reasons for it. The potential for trade growth lies mainly with the developing countries. The United States can do two things to speed growth and development in poor nations and U.S. agricultural exports to them.

One is to use our economic assistance and agricultural export programs more effectively. Rather than promoting individual export programs, U.S. assistance should be packaged to meet the developmental and financial needs of individual developing countries. The numerous agricultural export programs at our disposal need to have a stronger economic development focus that will help build markets for the future. This approach involves a great deal more coordination among U.S. foreign assistance and export programs than now exists.

The other imperative for the United States is to keep our markets open to exports from developing countries. Secretary Amstutz has stressed the importance of comparative advantage in trade. Our comparative advantage lies mainly in the production and export of basic food and feedstuffs, such as wheat, coarse grains, and soybeans. The developing countries have a comparative advantage in producing other agricultural products and a variety of manufactured goods. Overall, it is harmful to our agriculture when the United States restricts imports from developing countries, such as sugar and textiles. We are on weak ground when we ask other countries to be less protectionistic while we continue to protect many of our own markets from import competition.

When all is said and done, the United States will have to control production of major crops for a number of years to avoid raising havoc with either the budget costs of farm programs or the financial condition of farmers and the businesses that serve them. A measured approach is in order, an approach that provides as much policy and program certainty as possible to help people plan for the future. Crash programs to deal with a long-term problem should be avoided. These approaches usually end up being counterproductive, undermining our competitive position in world markets when we reduce output too much, as we did in 1983. On the other hand, allowing stocks to increase further also has a high price and is also to be avoided.

In summary, becoming price competitive is important. But it is also of great importance to the United States to figure out how to use our agricultural resources and economic assistance to stimulate world economic growth, especially in developing countries, and world agricultural trade.