Discussion

Benjamin S. Jaffray*

It was a great privilege for me to accept the invitation of Marv Duncan to participate in this important symposium sponsored by the Federal Reserve Bank of Kansas City. I am especially pleased to fill the role of discussant for the paper you have just heard presented by Til Gaines, who is one of the outstanding banker-businessman economists of the day.

For several years I have had the opportunity of knowing Til and of reading his comments and analyses. Til's paper provides an excellent overview of the international financial system, how it works, and the potential it has to serve the international trading community. The somewhat staggering figures he related on the absolute level of international trade and especially its growth in the last five years clearly emphasize the importance of this activity.

There is little I can add in terms of specific comment on Til's presentation. I would, however, like to focus somewhat on our agricultural exports and the various agricultural export credit alternatives available to support them.

It is not news to anyone here that as a country today we face many problems; the dollar has been falling in relation to other currencies, notably the deutsche mark, Japanese yen, and Swiss franc, our trade deficit is climbing, and there are signs that there is a serious rekindling of inflation and inflationary expectation. There is concern about capital formation, business incentive, and, indeed, the fragility of our economic and business systems.

However, one of the bright spots on the horizon and one of the greatest opportunities to contribute to a stronger national economy is in the area of the expansion of our agricultural exports. This activity is responsive to the problem of low farm prices, our balance of trade, and the strength of the dollar and inflation, and whatever impact there might be on food prices in this country is usually exaggerated. It is also important to remember that agricultural production represents a renewable resource.

For perspective, reflect for a moment that in 1977 our agricultural exports reached a record high of $23.7 billion and the $10.2 billion export surplus in farm products certainly prevented the U.S. trade balance from slipping to an even greater deficit. In 1955, U.S. grain exports were 550.0 million bushels. That figure increased to 1.4 billion in 1969 and to 3.4 billion bushels in 1977. Sixty per

*Vice President and Treasurer, Cargill, Inc., Minneapolis.

cent of U.S. soybean production, 40 per cent of U.S. wheat production, and 27 per cent of U.S. coarse grains production were exported last year. The production of one out of every three acres in the continental United States is sold abroad.

These figures indicate that the United States has achieved a fantastic record in agricultural exports. Although a recent issue of *Business* Week characterized many U.S. industries as reluctant exporters, this description certainly does not apply to the agricultural sector.

Specifically, what is the role of credit in supporting our agricultural exports? As Til Gaines pointed out in the conclusion of his remarks, there is no real shortage of credit now or should there be in the future, provided, however, that the export or the project to be financed has solid economic merit and assuming that the recipient of the financing is credit worthy. Agricultural exports can usually be imminently financed by the commercial sector if effective title is held by a responsible and credit qualified borrower. There is, however, a philosophical question whether or not it makes sense for the commercial sector to continue to finance the commodity much beyond point of consumption — especially in a developing country. The challenge is that the greatest need for credit to finance the purchase of our agricultural exports emanates from the developing areas of the world which, for a variety of reasons, often fail to qualify for commercial credit.

Given the nature of the world market for our agricultural exports and credit qualification considerations of recipient countries, it is clear, therefore, that the financing of agricultural exports involves, to a unique degree, governmental policies and programs.

A good deal of our success in the expansion of agricultural exports since World War II derives from the use and liberalization of agricultural credit programs. Our leading competitor countries, Canada, Australia, and the European economic community, all have instituted credit programs to facilitate agricultural exports. These credit programs range from short term facilities at commercial rates of interest to very soft loans or outright grants. A complicating factor is that many of these competitors operate through governmental and quasi governmental marketing agencies capable of committing substantial governmental financing.

Since the U.S. grain export system is handled through private channels, governmental financial assistance has taken more visible forms.

The most important source of credit for agricultural exports has been the Commodity Credit Corporation through a program known as GMS-5 and a program more familiar to most of you, Title I of Public Law 480. Don Paarlberg mentioned that Public Law 480 sales have totaled $25.0 billion since the inception of this program. Both GMS-5 and Public Law 480 have been modified to provide more flexibility with respect to repayment provisions and interest rates and will continue to be important vehicles in the future.

There is a need, however, to develop international credit programs to bridge the gap between short term commercial financing and GMS-5, currently limited to three years, and long term credit available under Public Law 480.

Til Gaines alluded to balance of payments financing. It is important to note that 'our agricultural credit programs, whereas primarily designed to expand agricultural exports, also provide important benefits related to balance of payments considerations. Many recipients of Commodity Credit Corporation credits — especially Eastern Euorpean nations — are being encouraged to buy U.S. agricultural commodities through programs designed to ease their balance of payments pressures. In the case of Title I, Public Law 480 shipments, recipient countries can use the proceeds from Public Law 480 internal sales to finance development projects. This concept, of course, is close to "project financing" discussed by Til Gaines. In addition, in recent years Public Law 480 programs have been modified to insure that development and nutrition projects undertaken with Public Law 480 funds benefit the poorest of poor within recipient countries.

There is a nationally constituted task force composed of people from both the private and public sectors evaluating Public Law 480. This group will probably conclude that such directions should be continued and enhanced by a substantial expansion of Public Law 480 food shipments and by making extended commitments to recipient countries, which should encourage these countries to plan development projects more intelligently. This type of financing is beyond the scope of regular commercial financing, but it obviously plays a vital role in agricultural exports, serving not only the interests of the United States but also the long range interests of the recipient consuming countries.

American use of agricultural export credits has also been linked to market development considerations in building a future commercial demand base. One of the principal arguments for the creation of governmentally supported international trade credits is not so much to compete with other exporting countries but to encourage growth in the overall demand base, a substantial share of which growth should be captured by the United States. Last year, the United States accounted for about 50 per cent of world agricultural exports.

Given the prominence of the government in financing U.S. agricultural exports, there is the existence of or the threat of accompanying governmental restriction on export financing. A case in point is the issue raised by Title IV of the Trade Act of 1974, what has become known as the Jackson-Vanik Amendment. This amendment denies the extension of export credit to centrally planned economy nations having discriminatory emigration policies. The protection of civil rights intended by that amendment is, of course, a worthy goal, but the fact is that credit programs have never been an effective lever on the civil rights actions of foreign countries. I believe there is an overwhelming consensus of those involved in international trade that we could be more persuasive on such issues as civil rights with countries who are full trade partners.

Another threat to the effectiveness of our agricultural export credit programs is to make the extension of such credit contingent on the use of expensive U.S. flag ships. In the case of Public Law 480, the requirement can be 50 per cent. The current five-year Soviet Agreement requires that at least one-third of Soviet purchases from the United States must be shipped on American flag vessels. The rates, however, on these vessels are two or three times higher than on foreign flag vessels. We are, therefore, giving our worldwide competitors a tremendous advantage in trading with the Soviet Union.

This is not to say that the U.S. Merchant Marine is not important and, indeed, it may need subsidizing. The issue, however, is whether the U.S. farmers should be forced to pay that subsidy and whether or not our agricultural export activity, so important in so many respects, should be burdened by this provision.

No country in the world has the combination of resources that the United States has and can devote to the expansion of world agricultural trade. There are terribly important and complex economic, social, and political issues confronting the agricultural sector. These issues can be met without compromising the advantages and opportunities we have in world agricultural trade.

The United States has the ability to produce to meet our own needs, to provide realistic reserves, and to fill expanding demand abroad. The vital link between our productive capacity and a good share of that demand is effective and appropriately structured international credit programs.