# Commentary on 'Enhancing Competitiveness: U.S. Agricultural Policy"

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My comments consist of ten observations that I make briefly and to the point. For the most part, they do not take issue with Mr. Lyng's presentation. I will stress, however, how little is known for certain about the foreign world where trade in farm products is concerned.

First, I draw on my long association with farm programs, which began in August 1933 as I worked for the Agricultural Adjustment Administration. As early as the 1930s I heard a number of the objections to programs that are commonplace today and are included in Mr. Lyng's remarks. We were told early that we were pricing ourselves out of the world market, and that our price supports were supporting not only our own farmers but farmers all over the world. I do not suggest that these observations were entirely wrong then, nor are entirely wrong now. But they become a sort of chant, a litany.

Second, the big world outside our national boundaries carries an air of mystery. We understand trading on our own soil, but that big murky void'out there" is hard to fathom. Moreover, it is often thought of as a big black hole into which all our surpluses can be dumped and our problems resolved. George Peek had such an idea in 1922. The export debenture proposal was circulated in the 1920s. I even think export-PIK has a little of that philosophy in it—the idea that the foreign world can somehow be induced to take our surplus products.

Third, we do not know much about the coefficients of demand and supply in world trade in commodities. Any intrepid economist is at liberty to advance his own estimates, confident that they cannot be refuted. A wide range of figures is being bandied about. I am not sure it is useful even to try to compute elasticity estimates. Data of that kind fit our market but may have little validity on the world scene.

Fourth, lacking a clear understanding of the trading world, we draw our favorite mental pictures. I am pleased that Mr. Lyng does not use the term, "world market." I wince whenever I hear it. I use the language of economists to remind that it is not possible to extrapolate from the micro to the macro. The experience of the Andersons, Continental, and Cargill in rivalry for grain sales is germane with regard to current transactions but does not tell us much about the makeup of, or evolutionary trends in, world trade. In the compass of our planet there is no "world market" as the equivalent of the Kansas City Board of Trade.

Fifth, I have become impressed with how politicized world trading is. Almost every country maintains a capacity to influence the terms of trading—buying and selling. Few countries really trust open market pricing as a world equilibrating instrument, and certainly not in a market-clearing sense.

Sixth, Mr. Lyng asks that farm exports not be "used as an instrument of foreign policy: then quickly adds an exception. In my judgment, he should add lots of exceptions. We do use export trade as an instrument of foreign policy. We deal differently with our good friends than with our lukewarm friends or our non-friends. We are not likely to offer export-PIK to Mr. Khadaffi. Nor, for that matter, are we likely to use our power in soybean trade to grind Brazil into the dust, nor our power in feed grains to turn the vice tight against Argentina, a nation struggling with democracy. We would address trade problems more usefully if we would be honest about the political element. It is there.

Seventh, do our price supports impede sales? Sometimes. How much? No one knows. But for any analysis, we must first convert the support price in dollars to the equivalent in the appropriate foreign currency. In the last few years, support prices have not been the impediment of first importance. That unwelcome status attaches to the exceptionally high exchange value of the U.S. dollar, and to the overblown size of the 1983 PIK program. (I did not object to PIK, but I said then, and say now, that it was too large.)

Could we sell all our stuff at a sharply reduced price? Only if our competitors did not reduce price alongside us. Do we want to start a world fire sale? I do not think so.

My next comment does not quite fit the above sequence but I endorse fully Mr. Lyng's concern about quality standards. For five years, I was economist for the Agricultural Marketing Service. I remember vividly how embarrassed I was that my administrator should take so much heat when he tried to tighten standards for export grades. The exporting companies, including cooperatives, violently opposed any change.

Ninth, my mental picture of world trade is one of price leadership. In my judgment, the United States exerts price leadership for corn and soybeans. We establish the price. Other countries only nibble at the edge. For rice, my guess is that we have relatively little influence. I cannot decide where we stand with regard to wheat. The wheat trade seems to defy rational characterization. This means we have a considerable latitude in pricing policy for feed grains and soybeans, little for rice, and some degree of influence in wheat.

And finally, the really central part of the world topic—the one genuine verity—is that making export pricing hostage to internal price supports is a major obstacle, and the more so insofar as we try to choose the price supports to conform to goals of income for farmers. One way to dig out of the dilemma is to end all commodity price supports. That will not happen.

I must insist that the matter cannot be resolved by legislating support and release prices every four years—or even every year. Two years ago, the proposal was advanced that an export authority be set up to play the game of world trading. It would not be tied closely to price supports. It would be free to two-price, and it would require considerable funding. The proposal has not been discussed lately, but I regard it as an idea whose time will eventually come.

With or without an export authority, any program must include provisions for year-to-year carryover stocks. Radical notions are sometimes advanced, calling for an end to all Commodity Credit Corporation storage. That would be a calamity. Only the government is in position to keep a reserve stock on hand as a way of guaranteeing continuity in our ability to send our farm products overseas.