International Monetary and Trade Rules and Midwest Agriculture

Report of Seminar Sponsored by M.G. and Johnnye D. Perry Foundation and University of Missouri

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The 1977 UMC-Perry Foundation seminar on agricultural marketing and policy may have been more probing in its topic than any of the series that goes back to 1973.

The 1977 topic relates to the monetary and political influences on international trade in U. S. farm products. The major papers delivered are reproduced here. Also presented is a digest of a panel discussion held the final morning.

One precautionary (and interpretive) note: various speakers touched on developments and prospects in agricultural exports as of the time of the seminar. They differed among themselves to some extent, as is natural. But in addition, by coincidence a shortfall in the 1977 grain crop in the Soviet Union was announced during the seminar. This new datum was variously worked into the statements presented and reproduced here.

UMC-Perry Foundation seminars are held under terms of an agreement between the Perry Foundation and the University of Missouri. The object of the seminars is "to promote the development of information relative to the socio-economic forces that bear on the welfare of family operated farms and ranches, and upon the income to those operators; to disseminate that information widely among agricultural leaders of the nation; and to provide a forum . . . for discussion . . . by leaders of organizations, institutions, and legislators."

The Perry Foundation was established in Robstown, Texas in 1946 as a memorial to members of the Perry family who did much for the agriculture of South Texas. It both sponsors and carries on research in agriculture. The Foundation is dedicated to working toward a prosperous agriculture and the welfare of the people on the land.

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"We cannot continue to live in a society where a few are rich and the rest are poor. Surely, we can leave no more brilliant heritage than the knowledge that we saw the need of our fellow man and worked to save him from disease, poverty and starvation." --Ardeshir Zahedi, Ambassador of Iran to the U.S.A.1

The purpose of the Perry Foundation seminars is to "promote development of information relative to socio-economic forces that bear on the welfare of family operated farms and ranches, and upon the income of those operators; to disseminate that information widely among agricultural leaders of the nation; and to provide a forum for ... discussion... by leaders of organizations, institutions and legislators."

In keeping with that dedication I was asked to prepare comments that would reflect "an expansive view of world affairs."

I consider this to be a delightfully broad mandate. Let me start by sketching the major elements of the international scene, as they appear to an Innocent Abroad, as Mark Twain would have said.

My comments will be relatively perishable, simply because world affairs are changing rapidly. Under these circumstances I will be cautious in crystal ball gazing about international issues. In doing so I will follow Victor Borge's famous pearl of wisdom to the effect that "Forecasting is difficult, especially about the future."

My thesis is exceedingly simple. The way I see the Big International Scene, the major ongoing change is the gradual shift in International Countervailing Power away from the industrial nations of the West towards the so-called Third World. Other names for this process are North-South Conflict, New International Economic Order, Lifting of the Poverty Curtain, Implementation of the Basic Needs Strategy, Confrontation of Developing with Developed Countries, and still more.

In the late 1940s when I was in graduate school at Iowa State College we studied Adam Smith's classic best seller, The Wealth of Nations, first published in 1776, the year of the American Revolution. In the 200 years since then economists have elaborated on, restated, and refined the main concepts contained in that great book: how prices are set; how income is distributed; how the driving power of the "invisible hand" of self-interest makes the economy work effectively; how specialization, called "division of labor," helps increase productivity; why freedom of trade is needed; what the role of the state should be; how taxes can be imposed justly and efficiently... .

Two centuries later we are still at it. Perhaps we have gained a little better understanding of what is involved in trying to achieve more equity in distribution of fruits of socio-economic development, i.e., narrowing the gap between the poor and rich, within the United States as well as internationally. The emphasis is on "perhaps."

*The responsibility for the content of this paper is mine; the views do not necessarily represent policy of the Inter-American Development Bank, or any other public or private institution which is being referred to.

1May 7, 1977 address at Westminster College, Fulton, Missouri, the site of the "iron curtain" speech delivered by Sir Winston Churchill as the 1946 John Findley Green lecturer there.
Looking around, to detect the major global issues I hear disturbing expressions such as Challenge of the South, Blackmail of the OPEC Cartel,2 "Tyranny" of the Majority in the United Nations . . . . In recent months the theme of the New International Economic Order (NIEO) is being inserted often into the debates of the Agenda for World Development.

To orient myself about the main issues before us I consulted the Overseas Development Council (ODC), one of the prestigious U. S. research and education organizations concerned with helping "increase Americans' understanding of the problems faced by the developing countries and the importance of these countries to the United States."3

"Agenda 1977," the fifth annual assessment of relationships between the United States and the developing countries, carries recommendations relating to 13 policy categories. These are:

1. Trade in Manufactures
2. Commodity Issues
3. Indebtedness of LDC's
4. Technology Transfer
5. Energy
6. Oceans
7. Food Insecurity
8. Basic Human Needs
9. Population
10. Human Rights
11. Development Assistance
12. Arms Transfers
13. Organizing for Interdependence

No matter how important these 13 issues are, a short speech could do no more than touch on them "once over lightly" as an advertisement for a well known detergent claims. That will not do. Instead I decided to look for the common denominator in this agenda. Basically I feel that we are at an age best characterized by the ongoing tug and pull between the international haves and have nots. You recognize the idea under the term of Countervailing Power. So I decided to structure the presentation around this concept.

The Countervailing Power Concept

Middle aged listeners may remember that in 1952 a then rather obscure but unusually cocky agricultural economist by the name of John Kenneth Galbraith issued a book called American Capitalism. In it he sketched the concept of "countervailing power," the perpetually shifting balances of power among industrial giants, farm groups, labor unions, and mass retailing organizations versus the federal, state, and local governments that supposedly protect the weak and poor among us. Consumers have recently been added as a significant power bloc.

A good example of countervailing power familiar to agriculture is collective bargaining by farm groups by means of marketing orders authorized by the Agricultural Marketing Agreement Act of 1937. Orders are now in effect for milk and a variety of fruits and vegetables. In short, marketing orders are designed to establish and maintain orderly market conditions. Milk orders establish minimum wholesale prices within a geographic market area called a milkshed. Once an order is established, all producers and distributors are bound by the regulations.

Returning to Galbraith, in 1957 he -- by then a celebrated author -- came out with the "affluent society" idea. He contrasted public squalor with the private plenty.

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3 The Overseas Development Council is an independent, nonprofit, nongovernmental organization funded by foundations, corporations, and private individuals.
surrounding it. He maintained this has been brought about via the "dependency effect," i.e., the capability of major corporations to use aggressive advertising and sales promotion in creating demand for trivial merchandise and services. Public agencies simply cannot match this power of persuasion. Judged by "correct" Galbraithian criteria the consumer is persuaded to do things that are bad for him, and therefore waste national resources.

In 1967 Galbraith was at it again. This time the book was called The New Industrial State. A ray of hope now brightens the "technostructure" concept. The edges of savage jungle instincts in business tend to be blunted by the "educational and scientific estate" which resides at leading universities. With suitable pressure, applied by government, the giant corporation can presumably become more civilized and molded to further the public interest.

The trinity of precursors led to Galbraith's 1973 book, Economics and the Public Purpose. In it Galbraith "put it all together." The conceptual core of the argument is the division of the U. S. economy in two basic sectors: the planning system and the market system. The planning sectors consist of the Fortune 500, i.e., the nation's largest corporations as AT&T, Exxon, Ford, G.E., G.M., IBM, U. S. Steel. Corporate technostructures control the market by systematically creating demand for products, colluding on price setting, generously sharing their disproportionately large incomes with highly unionized labor, and allocating enough dividends to stockholders to keep them quiet.

This view of reality is wide off the mark from the world of the neoclassical economists who at best just admit to the existence of a few monopolistic and oligopolistic enterprises.

On the periphery of the dynamic planning mechanism there is the "market system," i.e., the classic perfect competition, which exists largely in the form of 12 million independent farmers, retailers, and service firms in laundry, repairs, restaurants, health, construction, and small manufacturing. These atomized firms must by and large conform to market forces over which they individually have little or no control. To survive, the entrepreneur must frequently resort to self-exploitation, putting in long hours and yet earning less than his opposite numbers lucky enough to belong to the planned sector of the economy.

As a result the fruits of our economic endeavors, according to Galbraith, are unequally distributed in conformance with the New Testament verse, "whosoever hath, to him shall be given, and he shall have more abundance: but whoever has not from him shall be taken away even that he hath" (Matthew XIII, 12).

Galbraith does not accept Matthew's Chapter XIII, verse 12, but launches the new "socialist imperative." In contrast to "old" socialists -- who would nationalize steel, automobile, chemical, oil, and defense industries -- Galbraith would leave them alone. He would prefer to boost the countervailing power of the neglected sector of our economy: housing, health, arts, distribution, and other essential service industries, which have been left behind in the productivity race because of inadequate care and feeding. In short, new socialism "searches not for the positions of power in the economy but for the positions of weakness."

New International Economic Order (NIEO)

By now question may arise why I tell you about countervailing power within the United States when the topic before us is international. The reason is simple: the struggle along lines of countervailing power on the American scene, so eloquently explained by Galbraith, has now been carried to the international scene. The way I see it we are witnessing nowadays a slow shift of countervailing power away from the industrial nations of the West towards the so-called Third World.

The milestone event seems to have occurred in 1973. In the wake of the Yom Kippur War of October of that year the Organization of Petroleum Exporting Countries (OPEC) embargoed exports. Prices of crude oil have quintupled since then, a dramatic demonstration of the potential bargaining power that developing country exporters, if effectively banded together, can have vis-à-vis developed country clients (buyers).
No matter what skeptics say, OPEC is still going strong, and has set a precedent for other international collective bargaining mechanisms.

Willy nilly, the petroleum issue triggered intensive dialogues between LDCs and developed countries.

Let Carlos Andrés Pérez, President of Venezuela, and a staunch friend of the United States, eloquently explain what this shift of countervailing power implies and what role OPEC intends to play.

Petroleum should serve all civilization and not just the privileged countries of the world. With the government of His [Iranian] Majesty we share the same efforts to preserve and give importance to those basic materials which are indispensable for reorganizing international economic equilibrium.

We continue to be the Countries who have to pay with our natural resources and our labor for mismanagement and welfare of industrialized nations . . .

OPEC ought to intensify its role as a transforming agent of the present international economic order, and as an instrument of the Third World. The fund which has been created for cooperation with Non-Petroleum Producing Countries (NPPC), is not sufficient to meet these ends. Its resources should be increased by using various financial measures. At the same time it is necessary to commit industrialized nations to a vast and efficient plan for development of poor countries. By doing this they will not unjustly compromise the potential development of the OPEC countries, which need the surplus resources their petroleum generates . . .

We should make OPEC . . . a powerful negotiating tool for international justice, and for equity which will correct intolerable situations.

Until now, we, the developing countries, have been the primary supplier of raw materials for the industrialized countries. Now we wish to be the agents of our own development and not the warehouse of resources of unilateral progress of privileged countries.

Never before in history have nations which possess natural resources, joined together in a determined manner to influence world politics such as OPEC.

The price of petroleum cannot be the only common interest among OPEC countries, even though to remain united in defense of the price is both indispensable and essential to the very existence and solidarity of the organization. Global events have become irrevocably linked with the existence of OPEC, playing its role as a vital instrument of the Third World in its controversy with the industrialized world concerning creation of a new international economic order.

Dialogue, and not confrontation, negotiation, and not conflict, are the most appropriate processes for attainment of these goals. The North-South dialogue is an effort in this direction. But negotiation should be accompanied by action. We developing nations cannot simply mold our projects and activities to opinions of the industrialized countries. We have to reach a compromise with industrialized countries, who are not inclined to abandon the privileges which were given them by an economic order designed for their benefit and controlled by them. 4

In short, President Pérez believes that the Poverty Curtain can and should be rolled back. To do that calls for simultaneous action on at least eight fronts: 1) direct attack on mass poverty; 2) adjusting market mechanisms to national objectives, rather than let it be distorted by existing distribution of income and wealth; 3) use institutional reforms for systematic fashioning of suitable development strategies, rather than leave the job in the lap of often fickle price signals coming from free market places; 4) initiate development strategies on basis of human needs, rather than market demand; 5) build development around people, rather than vice-versa; 6) make distribution and employment policies integral parts of productive planning; 7) increase productivity of the poor, by systematically channeling investments towards them; 8) restructure drastically the countervailing political and economic power relationships so as to actively involve the majority of the population in the development processes.

These action areas have been described by Mahbub ul Haq in his 1976 book, The Poverty Curtain.5

Haq's credentials are impeccable, viewed from both the rich and the poor sides of the fence. After "establishment" education at Oxford and Cambridge, he worked in different economic planning jobs in Pakistan. In 1971 he became Director of Policy Planning and Programming at the International Bank for Reconstruction and Development (World Bank) in Washington, D.C.

Haq likes to show how differences in viewpoint cause misunderstandings and prevent establishment of effective dialogue between the poor and rich. Here are a few examples of such conceptual differences:

<table>
<thead>
<tr>
<th>Rich</th>
<th>Poor</th>
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<tr>
<td>1. quality of life</td>
<td>life itself</td>
</tr>
<tr>
<td>2. conservation of non-renewable resources</td>
<td>equitable distribution of resources</td>
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<tr>
<td>3. industrial pollution due to excessive development</td>
<td>pollution of poverty due to inadequate development</td>
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When action priorities of politicians in rich and poor countries are guided by such widely differing criteria, no wonder that the world of the have-nots touch and meet daily, talk at each other, but rarely communicate effectively.

The recent debate about the study, "Limits to Growth," is a classic case in point. It follows in the wake of skepticism about our (and other nations') capacity for unlimited growth.6 The study concluded that man is faced with ecological catastrophe unless zero growth rates in population and industrial production are promptly attained world-wide.


6A May 1977 Harris Poll showed that a significant majority of Americans place higher priority on improving human and social relationships and quality of life than on the traditional push for sustained and rapid increase in the standard of living. It noted:

1. by 79 to 17 percent, Americans place greater emphasis on teaching people how to live more with basic essentials than on reaching higher standards of living.
2. by 76 to 17 percent, people opt for "learning to get our pleasure out of non-material experiences," rather than on satisfying needs for more goods and services.
3. by 59 to 33 percent, a majority stress "putting real effort into avoiding doing those things that cause pollution [over] finding ways to clean up the environment as the economy expands."
4. a lopsided 82 to 17 percent would prefer "improving those modes of travel we already have."
5. by 77 to 15 percent, we prefer "spending more time getting to know each other better as human beings on a person to person basis," instead of "improving and speeding up our ability to
The Zero Population Growth (ZPG) proposal -- which might look to the rich nations as a plausible measure for relieving some of the pressure on non-renewable resources -- promptly caused bitterness and apprehension among have-nots. The latter cannot see how massive redistribution of income could be brought about on a stagnant Planet Earth. When the haves claim that massive population control is needed in the Third World, are they not putting the shoe of responsibility on the wrong foot? After all, the current annual increase of less than 1 percent in the population growth in developed countries places eight times as much pressure on the world's natural resources as the 2.3 percent annual population increase of the Third World. This is simply because each new member of a rich nation enjoys about 20 times the income of an individual in poor nations. It costs our planet about 30 times more to feed a North American than an Indian or Pakistani.

Spokesmen for the Third World maintain that the rich have many more options for adjustment in consumption. Why not consciously choose to devote less to defense -- a major user of resources and generator of pollution -- and more to social service and leisure activities, which are less resource consuming? If the blight of burning up $350 billion annually in the armaments race were reduced, the rich nations could stop growing in aggregate terms. Yet they could devote the relatively small sums needed to assist genuine development of the Third World, without giving up any part of their affluence. In short, the Third World tells industrialized nations that: (a) they could have the cake and eat it; and (b) countervailing power can be adapted to the job of rolling back the Poverty Curtain in the Third World.

This is by no means futuristic science fiction. In the early 1970s OPEC countries flexed their muscles and showed how to tax developed countries. Practically overnight they started a massive redirection of the flow of economic resources. Since 1973 OPEC surpluses have increased from $6 billion to $145 billion, or 26 times! This new struggle of countervailing power has often come to the brink of confrontation. Yet the New International Economic Order (NIEO) could potentially provide the feedback needed to minimize danger of destructive confrontation, while gradually bringing more equity into the development process. So the argument goes.

In this sense then, NIEO is a continuation of the political liberation movement of the post-World War II years. It therefore cannot be dismissed casually by the rich nations, which must trade off the costs of potential disruptions, caused by confrontation, against benefits of accommodation reached via cooperation.

The Power of Food Diplomacy

In the tug and pull of international countervailing power it used to be fashionable to talk about our tremendous potential "food power."

Two years ago, if reviewing the international scene here in the Cornbelt, I undoubtedly would have started with a dramatic reference to how the United States, an agricultural giant, was awakening from a prolonged "crisis" of too much food. We were then overwhelmed with stories of widespread starvation and hunger throughout the poorer countries. High grain prices on world markets, shortages of food and energy, bad weather and worse policies -- all these were parts of the configuration of events which then paraded across TV screens and newspapers, creating the World-Food-crisis complex.

In 1972-75 it was fashionable to describe food as an invaluable instrument of U.S. diplomacy. Dr. Earl Butz, then Secretary of Agriculture, argued that food had become one of the most useful tools in our diplomatic kit. Newspapers suggested that

6. by 63 to 29 percent, a majority feel the United States would be better served if emphasis were put on "learning to appreciate human values, rather than on finding ways to create more jobs for producing more goods."

7. by 66 to 22 percent, the public prefers to "break up big things and get back to more humanized living over developing bigger and more efficient ways of doing things."

8. by 64 to 26 percent, Americans feel that "finding more inner and personal rewards from work people do is more important than increasing productivity of our work force."
food would prove to be the ultimate weapon in world politics. U. S. State Department officials compared their new food weapon to the Arab oil weapon. CIA speculated that food abundance might allow the United States to regain the primacy in world affairs it had enjoyed at the close of the Second World War, when it was the only nation to possess nuclear weapons. 7

The issue then seemed no longer whether food represented power, but how that power would be used.

Today that food crisis is a has-been. Stories about the world's hungry appear in back pages of newspapers. A number of congressional hearings and special committees and commissions have faded away. The United States has returned to abundance in most grains, and is once again preoccupied with a "crisis" of falling prices.

Last July I attended the 1977 Agricultural Policy Symposium in Washington, D.C. There I listened to a lecture on the failure of food power by Robert Paarlberg from the Center for International Affairs at Harvard University. He is the son of Don Paarlberg, who for many years was Director of Agricultural Economics in the USDA.

Having examined evidence from our grain deals with Russia, Iran, and India, Paarlberg came to the conclusion that (a) even under the unusual 1972-75 conditions of market scarcity, food was not a particularly useful instrument of diplomacy, and (b) food power advocates seriously overstate the diplomatic leverage which the United States, or any other nation, can gain from food abundance.

At the very same symposium Professor Roy D. Laird from the University of Kansas presented a paper in which he equally convincingly came to an apparently opposite conclusion. He maintained that "obviously, the key to food becoming a major tool in our future dealings with the Soviet Union will be quiet, behind the scenes, step-by-step movements, dependent upon a most careful monitoring of the actual situation that develops in the Soviet grain fields and meat centers."

This lack of consensus about the direction in which countervailing power is swinging is typical of the situation. The crystal ball is mighty clouded, and will remain so no matter how much we want to arrive at some clear cut answers.

Looking Towards the 1980s

From the large menu of potential topics I have chosen a few that seem of substantial importance when one looks around the world trying to figure out what impact the goings-on have on our day-to-day lives. I see the world as a huge negotiating table with spokesmen for different interests attempting to hammer out some mode of mutually beneficial coexistence. It is a struggle of countervailing power.

President Carter's Administration assumed leadership at a time of increased understanding both in the United States and abroad that one economic and political world order is ending and another, not yet defined, is beginning. A broad consensus seems to be emerging among leaders of developed and developing countries on at least two issues. First, existing political, social, and economic systems must be reshaped to meet the legitimate needs of industrialized countries, while becoming more responsive to needs and aspirations of developing countries. Second, development in poor

7 The CIA argued as follows: Changes in weather conditions will be more marked in the last quarter of this century, due principally to a gradual but definite cooling of the earth's climate. Greater cold will curtail grain production in the plains around the Arctic, directly affecting the U.S.S.R., China, and Canada. It will affect climate in other parts of the world indirectly through storms, cyclones, floods, heat waves and other disturbances. It will diminish the positive effects of the "green revolution." Damage will be less in the temperate-zone plains of the United States, thereby giving this country a real monopoly of foods needed by mankind, i.e., a real "power of life and death." Similarly, the hunger will not affect all countries equally; rich countries have the wherewithal to buy what they need in world markets. The poor countries, on the other hand, will suffer greatly. Under these conditions, food aid to Third World countries would serve to shore up the United States' declining influence in the area and counteract the social upheavals that might be triggered by hunger. See Central Intelligence Agency (CIA), Office of Political Research, Potential Implications of Trends in World Population, Food Production and Climate, August 1974.
countries must be accelerated in a way that enables the world's most underprivileged billion people to meet at least their minimum basic human needs.

This means that major international shifts in countervailing power will continue to occur. In the early 1970s OPEC showed an astonishingly forceful way. Since then many other commodity groups tried to get on the bandwagon, some more successfully than others. And now the roll-back of the Poverty Curtain is being consolidated into more systematic attempts of developing countries to bring about a New International Economic Order (NIEO).

The way I read the tea leaves, industrial nations do not yet seem ready to embrace the New International Economic Order that the poor countries demand. This does not mean that NIEO was stillborn. The world was not created in one day, nor will NIEO be so. Patience and good will are the major ingredients for gradually reaching accommodations between the North and the South.

Please note that I am saying "accommodation" and not referring to closing the poverty gap. The international development agencies are becoming more convinced that closing the gap between the haves and have not nations -- which at its extremes can actually be as wide as $8,000 per capita of GNP -- is not a realistic objective. Mr. Robert McNamara, President of the World Bank, in his 1977 address to the Board of Governors warned that "for developing nations to make closing of the gap their primary development objective is simply an invitation to needless frustrations." 8

Let me close with an expression of pathological optimism as I look towards the 1980s: (a) we are moving in the right direction towards a workable compromise; and (b), I hope my remarks have provided you with part of the vocabulary needed to follow intelligently the dialogues and perhaps participate in them.

8 See Mr. McNamara's address of September 26, 1977 and David Morawetz, Twenty-Five Years of Economic Development, 1950 to 1975, both available from World Bank, 1818 H. Street, N.W., Washington, D.C. 20433.
During the early 1970s exceptionally rapid changes took place in world agricultural trade--its quantity, value, commodity composition, geographic pattern, and U. S. share. U. S. agricultural exports tripled in value from an $8 billion average in 1970-72 to an estimated $24 billion in fiscal 1977. Higher prices accounted for more of the increase in value than did larger quantities. Wheat and coarse grains each made up about 25 percent of the increase in value, and soybeans about 15 percent.

Of the total worldwide increase in wheat exports during the 1970s, the United States contributed 90 percent, and of the increase in coarse grain exports the U. S. share was almost 80 percent. We now supply about 44 percent of world wheat exports and about 55 percent of coarse grain exports. The U. S. portion of total world agricultural exports has risen from 13 to 17 percent.

Associated with the larger grain trade in the early 1970s was a depletion of grain stocks in the U. S. and worldwide. World year-end stocks of wheat, coarse grains, and rice averaged less than 140 million tons during 1973-76, only 70 percent of the average carryover level of the previous two years. U. S. ending stocks dropped at one time to minimum working levels. As stocks declined the prices of grains and oilseeds were sent into an upward spiral and prices of some livestock products advanced too. For consumers, there was a significant increase in the retail cost of food and in the cost of living. Higher prices and reduced supplies of grain also contributed to a constriction of the flow of U. S. food aid at a time when it was needed the most.

The U. S. balance of payments was aided greatly by the increase in agricultural exports. In 1972, the agricultural trade surplus totaled about $2.5 billion. By 1974 it had reached $12 billion. It remained at that level for two years. The surplus of agricultural trade has helped to offset, in part, the large deficit in the non-agricultural trade account.

Another consequence of the upsurge in agricultural exports was a dramatic decline in cost of commodity-oriented government programs, which dropped from about $4 billion in 1973 to less than $1 billion in 1975.

Some policy consequences of 1972-75 upheavals also were felt. We saw the use of trade controls and "voluntary restraints" on exports by the United States. We saw the United States enter into bilateral trade arrangements to help assure supplies to some of our trading partners and to provide some degree of control over large scale purchases by the Soviet Union. The United States launched a proposal for an international grain reserve system in the International Wheat Council (IWC), as a follow-up to the 1974 World Food Conference, as a means to improve world food security. However, this initial proposal was not acted on by other members of the Council.

Efforts were made to improve the trading environment in the GATT multilateral trade negotiations (MTN), but the negotiations drifted into an impasse largely over procedural issues.

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Third World Reaction

In response to what they believed to be a world economic structure that worked against them, the developing countries sought to reverse the tide. They launched what was termed the "new economic order." One of its main features was a proposal by the United Nations Conference on Trade and Development (UNCTAD) to establish an Integrated Program for Commodities financed by a Common Fund. Essentially the Program would be based on a comprehensive system of international commodity agreements designed to stabilize and perhaps raise the income that developing countries receive from their exports.

Many observers of the trade scene just a year or two ago were predicting dire prospects. They were saying that a fundamental change had taken place in world supply-demand relationships, leading to a much tighter food balance. The situation now appears to have been transitory, as evidenced by the present abundant grain supplies. What may be in store for us, rather than extended periods of shortages or surpluses, is a situation of greater year-to-year variability in trade in response to the effect of weather or world crop production. During the current year we have seen a rapid turn around in the world agricultural situation. As a result of good crops in the world, U. S. grain exports have declined, stocks have mounted, and prices have fallen. The 1976/77 record world grain crop rebuilt stocks sharply. The prospective 1977/78 crop is also above expected consumption, pointing to the largest year-end carryover since 1969/70. The tight world supply situation for oilmeals is also expected to ease further in 1978 largely because of increased oilseed production.

As a result of these developments, U. S. agricultural exports are likely to decline some 5 to 10 percent in value during 1977/78 because prices will be lower and because the volume may slip marginally. Thus, in the near term some slackening could be in store from the unusually high value of exports that was partly caused by temporary factors of weather and changes in trade policies of certain countries. Another reason for caution is that many nations continue to protect their high cost inefficient agricultural producers against more efficient U. S. producers. Also, strong competition can be expected from other exporters.

To these factors which underlie the trade scene I would like to focus my further comments.

Factors Affecting the Trade Outlook

Most of the trade problems of recent years are manifest in the variations in quantities of products that countries bring to or take away from the world market. When these variations are large and erratic, prices react accordingly. On the demand side, we have seen in recent years how a few countries have used world markets as a buffer by going to them for large imports instead of reducing grain consumption or relying on their own grain reserves, thus shifting a large part of the problem of adjustment to others.

On the supply side, instability results when countries bring too much to the market. This happened during the period of grain abundance in much of the 1960s and early 1970s when exporting countries resorted to the use of export subsidies. These actions tended to depress grain prices and reduce incentives for making needed adjustments in agricultural production or entering into more orderly storage programs.

For the United States, what happens in world markets is of great importance. Given our more or less open market policy both shortages and surpluses in the rest of the world have an impact on us. Other countries' policies play a significant role in the level and variability of our trade with the world.

Until recently the Soviet Union was a highly erratic purchaser in world markets, tending to use those markets as a buffer against shortfalls in their own production. Since 1963 the Soviet Union has accounted for roughly two-thirds of the annual fluctuations in world grain production and for over 80 percent of the annual variation in world wheat trade. To deal with the problem of variability in Soviet trade the United States and the Soviet Union entered into a 5-year bilateral trade agreement providing for annual Soviet purchases of between 6 and 8 million tons of grain. Purchases over 8 million tons would be subject to prior consultations. Of course, the Soviet agree-
ment does not assure world price stability since the Soviets could purchase large quantities from other exporters, forcing residual importers to purchase from the United States.

The European Community insulates its agriculture, particularly grains, from world markets by means of variable levies. Exporters such as the United States are thereby treated as residual suppliers. The Community also uses export subsidies in periods of surplus and applies export taxes in periods of shortage. Thus, the Community's policies affect U.S. trade.

Japan controls its food grain trade to protect its rice industry. It regulates the wholesale price of rice and wheat flour to discourage increased wheat consumption thereby, in turn, limiting growth in wheat imports. Japan has also kept internal prices from rising in the same proportion as world prices, thus stabilizing consumption in times of shortage.

During the shortages of a couple of years ago some exporting countries employed export taxes, quotas, and embargoes in order to insulate their domestic market from high prices.

Largely because of these other countries' policies the United States has been forced to bear the brunt of the adjustment burden in periods of tight supplies. The United States tends to bear that burden during periods of abundant supplies also. This is now evident in world wheat markets where competition from other wheat exporters is strong. These countries rely on marketing boards and have complete authority to sell when, where, and at whatever prices they can command. On the other hand, merchandising of grain in the United States is handled by private firms which must compete with the monopoly power of marketing boards. The open marketing system in the United States generously provides price signals to the whole world. Such information can be effectively used by our competitors to adjust their own marketing practices to gain an advantage in world markets.

Given the situation in world markets that I have just described, what are the prospects for agricultural trade in the future and what are some of the international and domestic policy developments which may affect it?

It is now recognized that the outlook for U.S. agricultural trade is uncertain. Economists' earlier confidence in their ability to predict trade turned out to be unwarranted, and no one seems over-confident now. The world market for major agricultural commodities is inherently unstable, not only because of fluctuations in supplies due to weather, but also because the effects of fluctuations in supply are absorbed by only part of the world. The future size of buffer stocks and their management are uncertain (I will return to this). Also, the increased importance of state trading countries, especially the Soviet Union and the PRC (Peoples Republic of China), which can quickly shift their trade posture, has increased the possibility that combinations of weather conditions and policy decisions could quickly shift the world agricultural situation from surplus to shortage, or vice versa.

We should recognize that there are some important differences in the agricultural situation now compared to a few years ago. The shift from fixed to flexible exchange rates should add some stability to the trading system. On the supply side, the cost of production of agricultural products has increased somewhat owing to the higher prices of petroleum, which enter into the costs of fertilizer, fuel and other inputs. Some evidence, though inconclusive, suggests that yields of major crops in the United States may be leveling off. The implication is that for some of the major crops technology may offer less potential for yield increases in the future than occurred in the past. Slowed-down growth in production could have some restraining influence on the rate of growth of U.S. agricultural exports in the future.

On the demand side, the increased wealth of petroleum exporters created by higher oil prices and accompanying injury to economic growth in many petroleum importing countries could have a net negative effect on the growth in demand for U.S. agricultural exports. Nevertheless, we do expect further growth in per capita incomes around the world, leading to continued expansion in the demand for livestock products and feed grains.
Adding to complexity in the agricultural trade outlook is the possibility that international negotiations in the MTN, UNCTAD, IWC, and other international forums will bring some changes in the institutions of world trading.

What may be the results of these international negotiations?

International Policy Developments

Multilateral Negotiations. The current MTN round began in September 1973. Little progress has been made in negotiating reductions in tariffs or nontariff barriers, largely because of different stands taken by the United States and its major agricultural trading partners regarding negotiating objectives and procedures. However, in July the President's Special Trade Representative reached an understanding with European Community officials on the steps that must be taken to bring the MTN to a conclusion in 1978.

In the negotiations the United States has sought to secure greater access for its agricultural exports and to expand trade flows, by means of various trade-liberalizing measures including reduction or elimination of tariffs, and codes to govern the use of export subsidies. In contrast, the EC, Japan, and others have sought to deal with agricultural trade through such regulatory mechanisms as international commodity agreements. The EC has been adamant in its stand that its Common Agricultural Policy will not be the subject of negotiations.

In the MTN, the United States can continue to push for greater trade liberalization in traditional markets, but there may be limits to potential success of this option. Another approach would be to agree to measures (such as binding levels of protection) to allow our trading partners more latitude for adjustment in consumption and production when extreme conditions arise. Another option would be to seek to preserve the present size of the market through some type of minimum import commitment. Finally, an option which might be pursued simultaneously with the others would be to concentrate on expanding markets in Eastern Europe, the Soviet Union, and the developing countries, where markets might grow more than in other regions.

International Wheat Council. Talks are again underway in the IWC to develop a new wheat agreement, inasmuch as the present agreement will expire in June 1978. An IWC meeting was held in June 1977 to discuss the future plan of work. Two more meetings are called for the purpose of defining elements of a new agreement. The full Council was due to meet in late November to determine whether there is sufficient basis for convening a negotiating conference.

The United States has stated its support for a new agreement based on these concepts: (1) an international system of nationally held reserve stocks designed to moderate price swings, (2) agreement on measures to facilitate adjustment of consumption and production in response to extreme variations in world supplies, (3) special measures to contribute to the food security of developing countries, and (4) continued efforts to reduce barriers to grain trade.

It is too early to forecast the outcome of any negotiations. Questions that will need to be resolved deal with, among other topics, (1) the degree of price discipline under which the agreement will operate (the United States has stated its opposition to rigid minimum/maximum trading prices), (2) the price levels to be used for accumulation and release of reserves, (3) the size of reserves, (4) how obligations will be shared, (5) how non-participants will be treated, and (6) what to do about a new Food Aid Convention.

Other Multilateral Commodity Agreements. Since World War II, international commodity agreements for agricultural commodities have been set up only for wheat, sugar, coffee, olive oil, and cocoa. Most of these have had limited success in meeting their objectives. Most commodity agreements today perform only technical, statistical, research, and consultative functions. The only operating agricultural agreements that provide some degree of price discipline are those for coffee and cocoa.

The United States currently is a member of the coffee and wheat agreements. As mentioned, we are seeking a new wheat agreement. We have also participated in developing a new sugar agreement, which was provisionally agreed to in October. The Sugar
Agreement provides for establishing buffer stocks and export quotas as the primary mechanisms for stabilizing prices within an 11 to 21 cent range.

UNCTAD in its Integrated Program for Commodities has proposed agreements for some 17 commodities of which 12 are agricultural. Also under consideration is a common fund to finance the operations of these agreements if they come about. There is some doubt whether this whole package can or will be negotiated.

Bilateral Trade Agreements. Another international development that deserves comment is bilateral trade agreements. These can take several forms but are most frequently based on a multiyear commitment by an exporting country to supply an importing country specified quantities of a particular commodity over time. Price terms are usually not prespecified.

The United States has several bilateral trade arrangements, but only the Soviet grain agreement has binding aspects. On the other hand, other major exporters have increased their use of formal bilateral agreements. Major importers, including Japan, the EC, the centrally planned countries, and a number of developing countries also participate in bilateral trade agreements and other types of preferential trade arrangements.

Compared with multilateral agreements, bilateral agreements are sometimes easier to negotiate and administer, and they can, in certain circumstances, be used as an effective competitive tool. They also can provide additional information on trade intentions of importers. On the other hand, if pursued to the extreme, bilateral agreements could create a complex and inefficient world trading system.

Because of the nature of its marketing system the United States has had to rely on non-binding agreements. However, if more binding agreements were pursued, the United States would likely have to stand ready to back up private trade commitments. Ample commodity reserves would then be necessary.

Domestic Policy Developments

The new Food and Agriculture Act of 1977 provides for loan rates over the next 4 years designed to keep the United States competitive in world grain markets. Setting high price supports could price the United States out of foreign markets. The loan levels on wheat and corn are $2.25 and $2.00, respectively.

In late August, a comprehensive plan was announced to place 30 to 35 million tons of food and feed grains in reserve prior to the beginning of the 1978/79 marketing year. Under the plan the program for farmer-owned wheat and rice storage announced in April would be expanded to include 17 to 19 million tons of feed grains. Establishment of the reserve is expected to reduce the inflationary effects of a poor crop in the future, and it might facilitate steady expansion of grain exports.

Also instituted in late August was a decision for a 20 percent set aside on 1978 crop wheat. A feed grain set aside decision was still pending in early November. Apparently stocks are now adequate to meet U. S. domestic and international commitments. A further buildup of stocks would no doubt reduce incentives for other nations to participate in an international grain reserve system and would also likely reduce incentives for developing countries to take steps to increase their own food production and thereby reduce the incidence of hunger and malnutrition.

I have tried to summarize the nature of the trade situation we are faced with today. There is a lot of uncertainty regarding the effects of weather, policy developments, and the economic conditions on U. S. agricultural trade. The challenge for the United States is to develop an overall export strategy such as to expand markets and at the same time reduce the volatility of trade. It would appear to be in the U. S. interest to try to obtain multilateral arrangements for a wider sharing of adjustments in periods of shortage and surplus—arrangements that will also lead to freer trade and expanded U. S. exports, and to safeguarding the food security of developing countries.

Because many trade issues concerning centrally planned countries are not easily dealt with in multilateral forums, some kind of bilateral arrangement with these countries could be considered. Certainly, U. S. bilateral trade and aid arrangements with respect to the developing countries could be expanded.
What I would like to do is address my subject, as the title suggests, by taking the view, as best I can, of a commercial trader. I don't actually do that work myself directly, but I am close to commercial traders and have been so for a good part of my career. Taking that view, I want to go through how we look at the world currently and what are the fears or concerns and optimisms of the future. I will touch briefly on five general areas, beginning with the U.S. economy and the economies of other key countries in the world. I will follow with the current status of international trade and what the choices are for the future. Because I am not an expert I will only mention international finance and events since 1973 relating to petroleum and energy costs, including results to date and implications for the future of world economy, trade, and finance. And finally, I will suggest some implications for political stability that are of concern to a commercial company such as ours and, I believe, to agriculture generally.

Policy choices available in these five areas of economy, trade, finance, energy, and politics may be characterized as being essentially offensive or defensive. By offensive I mean those policy choices that strike at the fundamentals of the problem where they exist. By defensive I have in mind policy choices that tend to shift the problem to somewhere else or someone else without solving it.

On the world economy front, only slow recovery is underway from a general recession. The United States is recovering faster than most other developed economies. However, the rate of recovery is slower in the United States than we think necessary and it is much slower in the other developed economies than we think desirable. It is too slow also in many, if not all, of the developing economies.

The United States is running a substantial budget deficit in an effort to stimulate and finance further growth in our economy. We are doing that against the two conflicting concerns that the public has with regard to management of the economy: unemployment on the one hand, which is high relative to what we've had in the recent past; and inflation on the other hand, which is lower than what we've had in the recent past but still worrisome and still cumulatively substantial.

Basically, our view of the world economic situation is one of inadequate aggregate demand. Purchasing power is not increasing fast enough to bring about the kind of economic growth rates that would seem to be called for in relation to the prevailing level of unemployment, or even seem possible without inducing excessive rates of inflation. It is also our view that private investment in the world economy is slack. There simply is not as much private investment taking place as would seem to be called for. A lack of confidence seems to permeate the current economic climate for private investment.

International trade is growing but unevenly among different categories of countries. Most of the oil importing developed countries are running trade deficits. Nearly all the non-oil developing countries likewise are running trade deficits. Trade surpluses are being achieved by a few oil-importing developed countries such as Germany and Japan. A few developing countries such as Brazil are running balanced trade accounts. These three countries, however, are managing their trade accounts by restricting imports and subsidizing exports to some degree or other.

The U.S. has a balance of payments deficit but it is not nearly as big as the trade deficit. The explanation lies largely in OPEC countries' deposits. The OPEC countries have surplus oil money above what they use to buy imports. Also, there's a limit to how much they can absorb in imports because of the relatively small size of their economies. They have scarcely any place to put their surplus money except into Western Europe and the United States, mainly into New York and London banks. So on the current account for balance of payments, the United States is not showing up nearly as badly as the trade account would indicate.
From the standpoint of U. S. exports, our strengths on the export side are really in agricultural products and in capital goods. Agricultural products are affected in a significant way, I think, by the general level of economic growth, but it's also a weather trade. Whether crop production internationally is up or down is an important determinant of how much U. S. agricultural trade we're going to have.

With regard to economic growth and trade in farm products, here are some relevant data. They apply to coarse grains. In 1961-67, when grains were surplus and prices low, coarse grain consumption in the world increased at an average rate of 2.8 percent. In 1967-73, when the world economy was in excellent shape, growing at a very satisfactory rate, the annual gain in consumption was 3.8 percent, substantially higher. Then, during 1973-77 the consumption increase fell to one-half of one percent, way down. Higher grain prices rationed demand to some extent but we also went through the most severe world recession since the 1930s. One effect, retarded consumption of livestock products, was reflected in the extremely slow, almost nonexistent increase in world coarse grain consumption.

We may conclude that the level of growth in the world economy has an important effect on U. S. agricultural trade. It also bears on our other export strength area, capital goods, which is now influenced by the slack in private investment previously mentioned.

With regard to imports into the United States (all products), because our economy is now growing faster than most others we are a better market than other developed economies for all kinds of imports. This exacerbates our trade deficit. It is bringing pressures for trade protectionism paralleling that now existing among many of our trading partners.

What are the policy choices for ourselves and for our trading partners on the economic and trade fronts? Policy choices on the economy bear heavily on those for trade. To return to offensive-defensive terminology, offensive economic policies embrace the tools of monetary and fiscal measures that attack the root of the problem -- inadequate aggregate demand and slack private investment. We are tending to follow those policies with deficit spending, perhaps tax cuts, and monetary expansion to expand demand and stimulate investment.

Several other key economies are approaching their economic problems differently. They are for the most part refusing to stimulate their economies through fiscal and monetary measures. I have in mind principally West Germany and Japan. By managing their trade accounts, they are running large trade surpluses that are yielding for them a lower level of unemployment and a smaller economic budget deficit than we are experiencing. They are basically running large trade surpluses by refusing to import as much as their economies could absorb and at the same time giving extra stimulation to a high level of exports.

Offensive trade policies that are available to various nations are trade liberalization through tariff reductions, agreements to ease non-tariff barriers, and trade practice codes that would increase international competition, efficiency and growth. The defensive choices are the opposites: increased tariffs and non-tariff barriers, export subsidies, and import moratoriums -- which would invite reactions of countervailing duties, import quotas, further increases in tariffs and barriers, inefficiency, higher costs, and slow growth.

Trade liberalization is being pursued in the multilateral trade negotiations and the United States is trying to exercise leadership there. Defensive policy actions are being taken unilaterally by both our trading partners and ourselves (the United States is not entirely consistent in its behavior). These actions include orderly-marketing agreements, increased duties, tougher non-tariff barriers, and others. They are appearing especially in Japan, Europe, and Latin America.

For the future, I would characterize the commodity agreement proposals in the North/South talks and the multilateral trade negotiations as essentially defensive in that they would be constructed to mask the real economic situations that otherwise would govern trade. Such agreements could be disruptive to the world economy if they should result in tight commodity cartels such as OPEC's in oil.
Moving on to international finance and energy, I recall that immediately following the OPEC oil price skyrocketing of 1973 many observers of the financial scene could not see how the oil importing world could get through the years ahead without international financial chaos. The financial strains and shifts following the OPEC oil price increases have been managed -- managed well, I believe -- by the International Monetary Fund and other world banking institutions. It required a much greater increase in international liquidity than we usually see in a short period of time. But the positive offensive move of greater lending facilities at the IMF was made. Having learned from that experience, we know that new additional facilities are needed to further finance the trade deficits of the non-oil developing countries. The alternative is to put them into a different and separate international economy that can only bring world political trouble.

The world successfully absorbed the OPEC oil inflations and has bottomed out of the resulting recession. The question is, can we and the rest of the world absorb another large oil price increase should it come? Maybe we can, but if so the difficulty and disruption would be even greater than before. Hopefully, we may not have to worry about another significant jump in oil prices. The Arab oil rich countries now have substantial deposits and investments in Western Europe and North America. If they appreciate that another significant oil price increase could wreck the economies where they have put their money and made their investments, they certainly would realize that such an action would rapidly depreciate their deposits and scuttle their investments.

Beginning with the belief that we can depend on stable oil prices in the future, I am basically optimistic about the world economy and international trade and finance. There seems to be a reasonably good chance that we and our major trading partners can be persuaded to rely on macro monetary and fiscal policies to stimulate our economies so as to increase employment and investment and expand trade. Through multilateral and bilateral trade negotiations we have good prospects of persuading our trading partners to apply restraint with respect to trade distorting measures such as export subsidies and non-tariff barriers -- by which they could seek to "export" their unemployment and financial, industrial and agricultural adjustment problems. There are good signs that additional international monetary facilities will be forthcoming and that the Development Banks will also be able to increase their lending to the most seriously depressed economies.

If we fail in any significant way in any of these endeavors, we have to expect that the resulting protectionism, isolationism and stagnation will bring radical political change in many countries.
First a word about the role of my USDA agency. The Foreign Agricultural Service carries on activities in market development, foreign commodity analysis, and trade policy. In our work in foreign commodity analysis applied to grains, we monitor all the countries in the world that are important to the U. S. grain trade -- important as competitive suppliers or import buyers. Individual situations are aggregated to describe the world situation including production prospects, consumption needs, and import demand.

Much has been said today about the shaky financial situation of a number of countries from the developing world, as it may bear on their import demand in the future. We tend not to bring this consideration into our analysis. When we look at the 1977-78 marketing year for an individual country we make the best assessment of the import needs or export availability. The one overriding factor that is always considered on the import side is that if one commodity ranks high on the shopping list of just about every developing country in the world, that item is food. A lot of countries have severe financial problems, but if they were not to import food they would have worse problems.

I will present just enough numbers to set a context for the volume of U. S. trade. Somewhat apologetically I use the almost universal unit of metric ton. For the current 1977-78 year, the July-June total world trade in grains is estimated at about 150 million tons. This is a new record, 5 million tons larger than each of the last two years. Of this the estimated U. S. share is almost 80 million tons -- a little over 50 percent. The previous record U. S. export volume was 78 million tons in 1975-76.

The overriding factor right now in the grain market is of course the increased grain stock level in the world. The stock for the end of the current year -- not a fixed point in time such as mid-next-summer but the end of the current marketing year for various countries -- is projected at about 165 million tons. Of that total the United States will be holding around 76 million tons. This would be roughly a 60 percent increase for the world total stock level in the last two years.

Despite the larger stocks we are looking at a prospective new record for grain exports, as I said above. I'll try to be a little more specific about this outlook.

A front page headline that appeared this past Sunday in the Washington Post stated, "Meat Lines A Symptom for Poland." These 6 simple words headlining a paper that is political in a political town and not at all oriented towards agriculture carry a message about long term demand for U. S. grains that far outweighs the over-supply situation that we are facing just now in this country. Poland and other countries need grain to produce meat.

I refer to the U. S. situation as over-supply at the moment; yet even this year when there have been few major crop losses in the world, production and utilization for the world as a whole are nearly in balance. Trade projections as of October 20 indicated production at a level only about 10 million tons higher than utilization; and the changing Soviet situation will likely reduce that figure. In certain areas we have a continued build up in stocks, in other areas a small draw down. The key point, however, is the fact that we are looking at a balanced utilization in a good world crop year.

Questions may be raised as to what might upset this balance -- what has happened in the past, what might we expect in the future? Several events of the 1970s brought wide swings in the world grain situation and outlook. Production shortfalls in the Soviet Union; monsoon failures in Asia (twice); drought in Europe in 1976. Events of

Note: the original text was modified slightly to take account of announcements of the Soviet grain harvest made at the time of the seminar. -Ed.
these kinds, recurring alone or in combination, would again have a substantial impact on grain trade in the world.

A few more data will outline the situation. World grain production set a record in 1976 of 1,103 million tons. The 1977 crop was estimated October 20 as 1,085 million tons. The latter figure, to repeat, would draw down the margin of production over utilization from 55 million tons last year to less than 10 million tons in the current year. New Soviet data could erase the latter figure.

A year in the future, grain consumption could easily reach 1.1 billion tons. Can the countries demanding this grain meet their needs through increased production? In many cases it is unlikely that they can. The United States and other suppliers may experience increased demand -- one that the United States will in fact meet.

All this brings our attention back to Poland where livestock production has not been able to keep pace with demand for meat. A major factor is a stagnation in grain production roughly the last 5 years. Poland's grain imports those 5 years have averaged roughly 5 million tons a year. Even at that volume, available grain has not been enough to maintain Poland's livestock numbers at desired levels. Much of Poland's grain imports came from Western countries, especially in years when the Soviet Union was unable to provide a normal inflow of grain, because of its own short crops.

Insufficient domestic production and increased demand for livestock products are problems not only of Poland, nor only of the Bloc countries, but serve to illustrate why the future for U. S. grain exports seems reasonably bright.

When we think of food use in this country we tend to have a biased view. In the United States and for that matter all the developed world, any increase in income tends to go towards a new car, an extended vacation or whatever, and one of the last things we tend to buy is more food. In the developing world, however, any increase in income will most likely be spent on either changing the diet, such as adding more livestock products, or just increasing the basic diet of the individual.

At this seminar and elsewhere much is said about the developing world. It is inaccurate to generalize about the developing world, because even within the category we find a wide range of economic situations. In order to justify my confidence in U. S. grain exports in terms of the developing world I will describe briefly a couple of likely future grain situations in the world which will tend to illustrate the two ends of the spectrum in the developing world.

Starting at the lower end of the developing world, when we think of food shortages a country that quickly comes to mind is India. The bulk of grain production in India occurs in the fall during the monsoon season and the outturn of that crop, primarily the coarse grains and rice, is totally dependent on whether the monsoon season is favorable. This is true of other countries in South Asia as well. Three monsoon seasons in Asia in a row have been quite favorable and as a result, India has made an about-face from the normal position of a large importer to that of an exporter this year. India will likely export about 1½ million tons of grain this year, some of it to the Soviet Union.

Burdensome grain stocks are a large problem in India and a lot more serious problem there than here because the country does not have storage capacity to hold the grain. Estimates are of a 15 percent loss of grain that has been stored in the open the last two years.

Wheat production has increased rather rapidly in India. New high yield varieties, primarily Mexican, have lifted the country to a point where production supplemented with imports of 5 to 7 million tons annually has usually met basic food needs. To

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1 Data on the announcement relative to the 1977 grain crop in the Soviet Union were a crop of 194 million tons that included 90 million tons of wheat, 90 million of coarse grains, and 14 million of miscellaneous grain including pulses. The Soviet goal was 213 million tons; but the 194-million-ton crop is the fourth largest on record. Soviet import requirements show a parallel jump from an anticipated 13 million tons (U. S. estimate) to a possible 20-25 million.
maintain the 1976-77 per capita grain consumption level in 1981, India will need to produce 122 million tons of grain, compared with 111 million tons in 1976-77 -- a year of a very favorable monsoon. It is possible that India can produce 122 million tons of grain in 1981, given a favorable monsoon, but more likely is that India will return soon to the traditional role as an importer of about 5 million tons of grain annually.

One misunderstanding about India is worth noting. It is the idea that India is a poor country and her grain needs will have to be met with "give-away" grain. In the 1960s much P. L. 480 grain was of course destined for India. The P. L. 480 program of the United States has been cut back considerably from those years when we had an oversupply. About the time the cutback occurred India's needs were growing; and in 1974-75 India was the largest commercial purchaser of U. S. wheat in the world. A country that we think of as being very poor and unable to purchase commercially made grain purchasing one of its high priorities. India's foreign exchange position currently is such that the country could in fact purchase commercially again if the grain were needed.

As a passing comment, in a country such as India increased import demand is usually expressed as demand for wheat. Wheat is a food grain, as is rice. For much of the world we talk mainly about wheat and rice. Allegedly, the relationship in Asia has been this: when the Asian rice crop is bad, wheat imports pick up, and when the rice crop is good we cannot expect a strong wheat market. In a recent study we found that Asian rice producing countries are steady wheat importers regardless of rice crop shortfalls. On the other hand, as their own domestic production of rice falls shorter of meeting their entire food needs, wheat imports are steadily increasing to meet the food gap. This is a trend that will likely continue in the future. So in the poorer developing countries, we feel we are looking at strength for U. S. wheat exports.

At the opposite end of the developing country spectrum, and rapidly expanding as markets for U. S. farm products, are the Mideast countries. These are "developing" countries with high income, received from oil. Those countries have already made very substantial increases in their wheat imports as increased incomes improved diets in the area. However, the development there that is probably the strongest argument for increased U. S. grain exports is the increased demand for livestock products. These products are eggs, meat, milk, butter, and others. Increased demand for these products has been seen in the past in other countries, notably Taiwan and Korea, and our experience has been that those countries increased considerably their purchases of U. S. feed grains.

Grain production capacity in the Mideast is extremely constrained because of shortage of water. We therefore foresee a strong market in the Mideast for U. S. feed grains. An example of potential is the case of Iran. In 1970-71 we exported 23,000 tons of U. S. feed grains to Iran; two years ago our exports were about a half million tons; now they are approaching one million. This is the type of trade prospect that we can expect in developing countries that have sharply rising incomes.

World consumption of feed grains by livestock slowed the last few years. Our forecast for 1977-78 based on indications received from individual countries is for as much as a four percent increase in livestock feeding. Four percent amounts to an increased demand for 15 million tons of grain for feeding, worldwide, this year.

With regard to the developed countries such as Japan, a category that accounts for 60 percent of U. S. farm exports, we feel that grain exports to these markets will continue to grow. The growth rate will not be as fast as that of developing countries. Nor will export trade to developed countries increase as fast for grain as for some other farm products. We have seen a change in the mix of agricultural products sent to developed countries, a change away from the raw materials such as grain.

Now to conclude, some individuals may think that we are seeing the beginning of a new world grain situation such as we had in the late 1960s, one of chronic over-supply in the world. Others would say that this may be the last time we will have over-supply as world food needs increase. I'm sure everyone at this seminar has his own opinion with regard to U. S. grain export prospects and the likely food balance in the future. For my part I would take you back to the Washington Post headline. As long as we see headlines such as "Meat Lines A Symptom for Poland" we can remain optimistic about the potential for expanded U. S. exports of grain.
PROSPECTS FOR AGRICULTURAL TRADE IN
OTHER THAN GRAIN PRODUCTS

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There is a tendency to think of U. S. agricultural exports only in terms of grains. Grains account for a little less than half the total value of exports. All other commodities considered together not only exceed grains in value but have become increasingly important in recent years. These other commodities accounted for 61 percent of total export value in 1976-77 compared with around 58 percent 10 years ago.

In 1976-77, if exports of other than grains had not increased so much, total exports would have shown a substantial decline instead of a $1 billion gain.

Manifestly, foreign developments bear observing because they have a strong influence on the domestic agricultural and food situation. U. S. agriculture has always depended greatly upon the foreign market as an outlet and, reciprocally, many foreign markets have depended upon us as a reliable supplier of food and fiber products. This interdependence has been driven home dramatically especially since 1972.

Currently about 100 million acres of cropland are required to meet the demand overseas. This is an increase from 30-40 million in the early 1950s. In 1976 the production of 1 out of every 3 and 1/3 acres harvested in the United States ended up in the foreign market. About one-fifth of cash receipts from farm marketings stem from export sales (when exports are valued at the prices that farmers receive). Nearly two-fifths of cash receipts from crops come from overseas sales.

In the current year over half our wheat, rice, and soybean production is being marketed overseas, along with around two-fifths of the tobacco, cotton, and tallow, and one-fourth of the corn crop.

U. S. agricultural exports reached a record high of $24 billion in fiscal 1977. This 7 percent increase over the previous year is attributable to higher prices and larger quantities of soybeans and cotton. Gains were substantial also in value of animal feeds, hides, fresh fruits, vegetables, and fats and oils.

Feed grain exports in 1976-77 totaled slightly above the record 50 million tons of 1975-76 but lower prices caused their value to drop around $600 million. Wheat exports fell around a fourth in volume and nearly two-fifths in value.

Exports increased this past year to Western developed and developing countries. Exports to the former rose one-sixth as Japan, Canada, and Western Europe all increased their purchases of U. S. farm products. The nearly $400 million increase for Japan's buying reflected substantial resurgence in economic growth and was small relative to that country's enormous trade surplus of over $10 billion with the United States. Drought-reduced production caused Western Europe to increase its farm imports substantially, from the United States and other suppliers.

In most of the centrally planned countries nearly ideal growing conditions boosted crop production. U. S. exports to the USSR dropped sharply and those to Eastern Europe decline somewhat less.

Agricultural production is generally favorable this year in both the USSR and Eastern Europe. However, the Soviet grain crop did not turn out as large as expected.

Developing countries are an important market for American farm products, buying a total of $11 billion in fiscal 1977. This was an increase of 6 percent. Our exports have been increasing substantially to many of the fast growing developing countries such as Korea, Taiwan, Singapore, Mexico, and North Africa. In the past year India and several other South Asian countries reduced their imports from us as the result of good food grain harvests. However, India shifted to buying more cotton and more vegetable oils.
The OPEC countries are becoming a significant market for U. S. agricultural exports. They took $1.6 billion in 1976-77. A substantial part of this increase was in high-valued prepared foods such as poultry meat, fruits, vegetables, and a host of other prepared items.

This brief review of last year's exports provides a point of departure for examining some of the problems and opportunities faced for the coming year. The final outcome of 1977 world crops, especially those yet to be harvested in the southern hemisphere, will have a strong influence on our exports in the next year. The sluggish world economic outlook adds an element of uncertainty on the demand side.

On balance, it appears that the value of U. S. agricultural exports is likely to decline by 5 percent or more in fiscal 1978. Lower prices for grains, oilseeds, and cotton are expected to account for most of the decline. The export tonnage may not change much from last year's 100 million tons. Somewhat smaller shipments of feed grains, tobacco, animal fats, and oils are expected, but more wheat and soybeans may be sold.

First, a brief further word on the world economic situation. The economic performance of the developed countries, aside from the United States, has been disappointing. The Organization for Economic Cooperation and Development (OECD) has lowered its estimates for the rest of 1977, and little improvement is expected in the early part of calendar 1978. The OECD characterizes the post-recession recovery as modest and hesitant.

The economic growth of OECD countries from July 1976 to June 1977 was only 4 percent. The United States, Japan, and Germany had the best records. The rate for July-December 1977 was forecast at 4½ percent, with Japan doing best. Western Europe was seen likely to hold at under 3 percent through the first half of 1978. Countries such as Norway and Greece are continuing to lag.

A principal reason for this sluggishness stems from the slow growth in capital investments. Low or fluctuating industrial production, continued large price increases and persistent unemployment mark most developed countries. In France, the United Kingdom, and Canada the unemployment rate increased in 1977; elsewhere it remained stagnant. Even in West Germany, which has a better economic growth and trade picture than most, unemployment stands at 4 percent -- a high level for the German economy. No substantial improvement in unemployment is expected within the next 12 months in most countries. Policymakers face the dilemma of the need to stimulate demand and capital investments without fueling inflation.

World economic problems have been manifested recently in balance of trade difficulties for many countries. For example, the United States has been expected to have a trade deficit of $25-$30 billion in calendar 1977, and a significant deficit also in 1978. Only Japan has shown a big trade surplus.

The OPEC countries, by contrast, were expected to produce a surplus of $63 billion in 1977. Those countries have been investing most of their money in short-term capital and U. S. government securities. U. S. balance of trade problems with OPEC countries have not been solved.

Developing (non-OPEC) countries have had a substantial trade deficit with both the developed countries and OPEC, and it is almost certain to continue.

The slow growth in real GNP in countries that are our major markets will affect our export trade in 1978 and later by limiting the increase in import demand expected from those countries. The Economic Research Service's analytical model for grains, oilseeds and livestock indicates that a decline of one percent in economic growth abroad is associated with a 0.5 percent reduction in the trade value of grains and oilseeds. An equal rise in real GNP seems to show a trade gain of a little more than 0.5 percent.

Foreign demand for oilseed and products in the 1977-78 marketing year is expected to bounce back sharply. Prospects for increased world feed production along with lower prices have encouraged livestock producers around the world to expand their operations and feeding rates. World high-protein meal production is forecast to increase to over
78 million tons, 11.6 million tons above the reduced 1977 volume and 5.4 million tons above the large 1976 output.

The increase in world oilseed production is a welcome development after the sharp declines in 1976-77 such as the 18 percent drop in the 1976 U. S. soybean crop. The Indian peanut crop declined and the Nigerian peanut crop remained small. The Soviet Union had a very poor sunflower crop in 1976, and Peruvian fishmeal production in 1976-77 fell sharply. In contrast, though, Brazil and Argentina expanded soybean production in 1976-77 to a record 12 and 1.4 million tons, respectively. The West Malaysian palm oil output continued upward.

Oilmeal consumption dropped about 2.5 million tons in 1976-77 as the result of reduced supplies. Only the sharp draw-down of U. S. stock permitted consumption to remain at a relatively high level. The United States and European Community reduced consumption but Japan increased slightly.

Consumption of vegetable oils remained relatively stable in 1976-77 as increases in developing and centrally planned countries offset declines in the developed ones, especially the United States.

Carryout stocks of oilseeds were low at the close of 1976-77. However, prices of oilseeds, meals, and oils declined throughout the summer months of 1977 in anticipation of bigger oilseed crops in the United States and elsewhere.

Brazilian soybean production is estimated at a record high of around 13 million metric tons and Argentina's a record 1.8 million tons. In addition, Canadian rapeseed, Indian peanut, and Soviet sunflower crops are up substantially in the 1977-78 season. Peruvian fishmeal may decline further to around 400,000 tons. Overall, the tight supply situation of 1976-77 is expected to ease in 1977-78.

Foreign oil meal output is expected to be up by just over 3 million tons in 1978 from a year earlier, accommodating the normal increase in foreign meal consumption of 2.5 million tons; also stocks may rebuild following their depletion in 1976-77.

U. S. exports of soybeans in the marketing year are expected to increase 1 million, to 16.6 million tons. Substantial gains are expected in shipments to Western Europe and Japan. The USSR and Eastern Europe will also probably be good markets for U. S. soybeans and soybean meal. Some further gains in shipments are expected to the faster-growing developing countries.

The outlook for cotton is for a sharp gain in world production, a modest rise in world demand, and an increase in world stocks to a more comfortable level. The 32.5 million hectares of cotton worldwide are an increase of 6 percent over 1976-77. World production is projected at 63.7 million bales, up 10 percent. This forecast is based on the generally favorable weather conditions in most northern hemisphere producing countries, even though lower prices may discourage producers in southern hemisphere countries.

World consumption of cotton in 1977-78 will depend heavily on economic developments in industrialized nations. In most of 1977 limited supplies and high prices contributed to retarded consumption. This fall, prospective slightly higher economic growth plus expected larger cotton supplies should result in an upturn in textile demand and cotton use in 1978. World consumption of cotton is forecast at 61.4 million bales in 1977-78, about equal to 1976-77 but 1 percent below the 62.1 million record of 1975-76.

The recent drop in cotton prices has made cotton more competitive with manmade fibers. Cotton prices have fallen steadily since the mid-March 1977 peak; U. S. SLM 1-1/16 cotton was selling in Asia during the last of September for about 57 cents per pound. Polyester staple fiber was being sold for export in East Asian markets for as low as 40 cents per pound, but quotations for domestic production for internal use ranged from 52 to 54 cents per pound in Western Europe to around 60 cents in Japan.

World cotton stocks August 1, 1977 were estimated at 18.8 million bales, down 1.4 million from 1976 and the lowest since 1962. An increase of around 2.5 million bales is anticipated during 1977-78.
World cotton trade for 1977-78 is forecast to increase modestly from 1976-77's preliminary total of 18.0 million bales. U. S. exports in 1977-78 are likely to total around 4.6 million bales, down slightly from last year's 4.8 million.

The United States is a large net importer of beef and veal. For calendar 1977 the expected total imports of 1,272 million pounds of beef and veal subject to the meat import law are down a little. Less prepared and preserved beef has been brought in. Many exporters have sold meat to other countries because U. S. prices have been relatively low.

Total world production of beef and veal in 1977 will probably total close to last year's 40 million tons. World cattle numbers reached a record in 1975 but have been declining in most countries the past 2 years. During the liquidation the slaughter rate for major exporters and importers has been about 31½ percent of inventories, up sharply from the very low 26 percent in 1972 but still below the over 33-percent rate of 1963.

The past few years have been unfavorable for the world's cattlemen. Prices have fallen to below the cost of production for many producers.

In Australia, beef production in 1977 will approach 2 million metric tons, a record and 5 percent above 1976. Herd liquidation is now underway and will likely continue in 1978. Australia's 1977 exports are expected to total 675,000 metric tons, about 100,000 tons above a year before. Record purchases were made by the USSR and Eastern European countries. Australia has also been suffering from drought, compounding problems faced by cattlemen there.

Beef production in Argentina for 1977, at about 2.7 million metric tons, is 2 percent below 1976. In April-June poor pastures led to heavy culling of cows and weak prices, but prices later increased about 20 percent. Beef exports are estimated at 530,000 tons, the same as in 1976. Argentina has been hit hard by the loss of the European Community market, but this is offset by increased exports to the Middle East, Brazil, USSR, and several Western European countries.

The EC is a pivot area for world beef and meat trade. Changes in its production and import policies can have a significant influence. The Community's own beef and veal production is said to be cycling downward, as a 4 percent drop to 6.3 million tons in 1977 may be followed by a small reduction in 1978. However, pork and poultry production are increasing.

Economic difficulties in the United Kingdom and Italy have curtailed beef consumption there and stocks have increased. EC beef intervention stocks now total over 300,000 tons, discouraging more imports in the next year. Tight import restrictions may make it nearly impossible to send beef to the EC. As cattle prices there remained below 90 percent of the guide price throughout 1977, 114 percent of the basic variable levy was applied to beef imports beginning in April.

In the Soviet Union 1977 meat production was forecast at 14.5 million tons, up 8 percent. Livestock numbers and meat production have increased as the result of generally favorable feed conditions and incentive policies.

The Soviet Union's beef imports in 1977 are a little above the 359,000 tons of 1976. Also, the quality is better (boneless instead of bone-in).

It is difficult to forecast USSR imports in 1978 but with meat production increasing, less may be imported. Because meat production is down in Eastern Europe, USSR imports from that region may be reduced.

The United States does not export much meat, yet total exports of animals and products, $2.6 billion in 1977, surpass the $2.2 billion imported. Highly specialized markets have come into being for a number of animal byproducts. Some top quality cuts of beef are exported for the hotel and tourist trade.

Pork is marketed in rather substantial quantities to Canada and Japan. In 1977-78 pork exports to Canada should about equal 1976-77. Little change is expected in pork sales to Japan.
Increased world production of fats and oils in 1977-78 will result in more competition for U. S. animal fats (mainly lard and tallow). With lower prices and reduced volume, the value of such U. S. exports may be down by $100 million in 1977-78. Foreign demand for U. S. animal fats has gained sharply in recent years. U. S. tallow has been in plentiful supply and is one of the most economical fats available on the world market.

Exports of hides and skins totaled around $850 million in 1976-77. Foreign demand has picked up sharply in the past few years because of somewhat improved economic conditions and a change in styles to the "natural look" that utilizes more leather goods. Fewer hides and skins have been available from other major exporters. Many countries have restricted exports of raw material such as hides and encouraged the exports of finished products instead. For example, Brazil and Argentina have restricted exports of raw hides and skins but have increased exports of shoes, leather coats, and suede leather goods. With a downturn in world beef production, fewer hides may be produced next year and prices may be up enough that the value of U. S. hide and skin exports may increase again.

U. S. exports of poultry and products are a success story. Exports rose to a record high of around $300 million in 1976-77, compared with around $50 to $60 million in the early 1970s. The main product is chicken meat, mainly broilers and broiler parts. The Middle East and Persian Gulf have become important outlets, with the Far East and Nigeria also growing fast. U. S. producers have the ability to handle large orders and to supply quality product on a continuing basis. The record 35,000-ton sale of whole broilers to Iraq is a good example.

Exports of fruits, nuts, and vegetables have risen consistently in recent years. They hit a record $1.7 billion in fiscal 1977. This group contains hundreds of commodities that are marketed in diverse foreign outlets. Exports have increased 14 percent per year during the past 10 years. The growth has been especially fast in sales to Canada and the Far East. Exports to Europe have not done as well. The closeness of Canada and our competitive prices have always provided an advantage in our neighbor's market. Overall, Canada accounts for around two-fifths of U. S. total exports of these products. A study recently released by the Canadian tariff board has recommended higher tariffs for many products we export to them; if tariffs are increased, our trade will be affected adversely.

The Far East is now a market for over $300 million worth of fruits, nuts, and vegetables compared with only $68 million 10 years ago. Japan is our top market for lemons and grapefruit and has been a growing market for many other fresh and prepared products as well. Other Far Eastern countries such as Hong Kong, Singapore, Korea, and Taiwan have shown a marked increase in recent years. These countries could become more important in the future.

Our market for fruits, nuts, and vegetables in Europe has dwindled in recent years. At one time we had over 90 percent of the canned peach market in West Germany; our share is now less than 5 percent. At times we make large shipments of some items to Western Europe to make up production shortfalls. Potatoes last year, and apples this year, are good examples. Competition from Greece has stiffened and that from Italy is beginning to increase. If Spain should also become a member of the Community, our exports of almonds and other California-type products would probably suffer from preferences extended to Spain. Exports to the Mideast have increased but this market is still very small.

Tobacco exports did remarkably well in 1976-77 considering the competition and foreign trade restrictions faced by U. S. tobacco in principal foreign markets. Exports may total slightly over 650 million pounds at a value of around $1 billion, gains of 8 percent and 17 percent respectively. Exports to the United Kingdom, the top overseas market for U. S. tobacco, declined substantially in 1976-77 because of the U. K.'s economic problems and also because of greater use of lower priced tobacco from the developing countries associated with the European Community. The Community's tobacco policy discriminates against high quality and high priced tobaccos that are main exports of the United States. Nevertheless, U. S. exports to most other EC members were maintained or increased in the past year. They were up sharply to the fast growing developing countries in the Far East. In addition, exports rose to Egypt and some other African countries.
Many developing countries are promoting tobacco production as a cash export crop. The U. S. share of the world tobacco market has declined rather sharply in the past few years. Foreign production has accounted for most of the increased tobacco used. Also, although world cigarette consumption has increased about 3 percent annually, the amount of tobacco used for cigarettes has gained less. New technologies in production and greater use of filter tips have required less tobacco per unit of product.

The volume of U. S. tobacco exports may drop by about 10 percent in 1977-78 because of increased foreign competition. The U. S. supply situation is rather tight for the better quality tobaccos that move in the export trade.
AGRICULTURAL EXPORTS AND FARM POLICY

President Carter said in a news conference in Washington on October 28, 1977 that his Administration is launching an intensive effort to promote U.S. agricultural sales abroad.

Let us hope that he means it. Continuously growing exports of farm commodities are absolutely essential for a healthy American agricultural economy in which American farmers earn a fair return on their investment as well as a fair return on labor and management devoted to farming.

From mid-1972 through mid-1976 U.S. agricultural exports tripled in value and doubled in volume. In 1976-77 their value increased only 6 percent, and some predictions are for a drop in value of 5 to 10 percent in 1977-78. If the reduction occurs it will be the first in nine years.

It is clear from these figures that the earlier momentum of continually growing export sales of U.S. farm commodities has been lost. The loss in momentum is partly responsible for today's lower prices for many U.S. crops.

In today's world, a strong, continuous export movement is essential if American farmers are to receive decent prices for their crops. American agriculture has reached a stage of development where crop production from one out of every three acres harvested in the United States is exported. As other speakers at this seminar have pointed out, the United States exports a large part of its wheat, rice, soybeans, cotton, and feed grains.

Perhaps it is too much to expect U.S. agricultural exports to grow at an annual rate equal to the 30 percent annual average that began in the summer of 1972. It is not unreasonable, however, to expect them to grow at a rate of 10 percent per year. They must grow 5 to 6 percent a year in value merely to stay even with inflation in today's world.

The present administration in Washington is struggling to find a balance among the conflicting policy goals that have dominated U.S. farm policy-making for the past 40 years, namely, a satisfactory level of farm income, reasonably stable food supplies and prices, and freedom of individual decision-making for farmers. These goals cannot all be maximized at the same time in a farm economy dependent on exports.

The past administration emphasized farm income and individual decision-making in its farm policy. It resulted in record farm income during 1973-75 and a withdrawal from dependency on the government farm programs that had dominated American agriculture for decades.

The emphasis on farm income and individual decision-making added to the volatility already present in farm commodity prices and food prices. Farm and food prices earlier were being pushed up by weather, international exchange rate adjustments among national currencies, and general inflationary pressures stemming from large government budget deficits.

The new administration has opted to emphasize stability, particularly price stability, rather than farm income and individual decision-making. The latter two are bound to suffer when there is so much emphasis on stability. They have to suffer in an agricultural economy so dependent on exports.
The value of U. S. agricultural exports must also decline under a policy with so much emphasis on stability. U. S. agricultural exports rose to a high level during the past five years partly because of the sharp increase in the unit values of the farm products being exported.

Unit values of U. S. agricultural exports will decline if the United States carries large stocks of grains and oilseeds for reasons of stability. These stocks will drive down prices on the domestic market and therefore reduce export values.

A healthy export situation is crucial for American farmers, but exports cannot do the job alone. Today's lower crop prices are due partly to developments in the domestic feed economy.

By past standards, there has been underconsumption of grains and oilseed meal in the domestic feed economy during the past two marketing years. In the 1976-77 marketing year just ended, the United States fed about 128 million metric tons of grain and oilseed meal to livestock. This was nearly 30 million less than the average annual quantity fed during the period from the summer of 1971 through the summer of 1974. The average annual quantity fed during that period was 156 million metric tons.

Livestock feeding fell sharply in the United States beginning in the fall of 1974 as a result of the very short corn crop harvested in the United States that year. The quantity of grain and oilseed meal fell to 118 million metric tons in 1974-75, with most of the decline being in that fed to cattle and hogs.

Feeding picked up the following year when U. S. corn production recovered, but not to the pre-1974 levels. The amount of grain and oilseed meal fed in 1975-76 was 132 million metric tons, over 20 million tons less than the annual average during the early 1970s.

The higher feeding rate in 1975-76, coupled with record exports of grain, soybeans, and soybean products, resulted in a total usage that year about equal to the levels of the early 1970s when domestic feeding was high, but exports much lower.

Despite a record U. S. grain crop and lower prices, domestic feeding declined in 1976-77. The decline was about 10 million tons of grain and oilseed meal. The decline in livestock feeding in the United States in 1976-77 seems puzzling in view of the much larger grain supply and lower grain prices. But the decline is understandable when consideration is given to several developments in the U. S. economy since the autumn of 1974.

The most important was a slowdown in the U. S. economy in 1975. The slowdown cut consumer spending and affected demand for meat, particularly fed beef. Consumers ate a record amount of meat in 1976, for example, but the types and cuts were considerably different from those in the early 1970s.

A second development was a loss in consumer confidence. With today's higher energy costs and the recent experience of both rampaging inflation and economic slowdown, consumers are reluctant to return to their consumption patterns of the early 1970s. They remain cautious buyers today. They are uncertain about the future economy, and generally have not recovered the confidence of the early 1970s.

It seems unlikely that U. S. feeding rates will return anytime soon to those of the early 1970s, particularly those for beef cattle. This means that continued expansion of U. S. exports of grains and oilseeds is extremely important to American agriculture.
THE SOVIET UNION AND THE GRAIN TRADE

This has been an exciting day for American agriculture. Earlier today, Leonid Brezhnev, President of the Soviet Union, announced that the Soviet grain harvest this year was 194 million metric tons. This is 30 million tons less than last year's record Soviet crop of 224 million tons, and 19 million tons below the 1977 target of 213 million tons. It is also 21 million tons below the U. S. Department of Agriculture's latest estimate prior to Mr. Brezhnev's announcement.

Today's announcement by Mr. Brezhnev has important implications for American farmers. It means that U. S. grain exports will be higher in 1977-78 than the USDA has been estimating. It means U. S. grain prices will be higher this marketing year than most people have been anticipating. It means that the Carter administration probably will not have a land set-aside program for feed grains in 1978.

Although this year's Soviet harvest is not a disaster by any means, it does mean that the Soviets probably will import at least 20 million tons of grain during 1977-78. In fact, most people in the trade believe that the Soviet Union has already purchased at least 20 million tons of grain from the world market for 1977-78 delivery. It is doubtful that Mr. Brezhnev would have made today's announcement if the purchases had not already been made.

At least two-thirds to three-fourths of the Soviet purchases will need to come from the United States if they are of this magnitude. The Soviets cannot get the grain elsewhere, particularly if they want feed grains.

Soviet purchases of U. S. corn for 1977-78 delivery may well exceed 10 million metric tons, or 400 million bushels. The Soviets took about 10.5 million tons of U. S. corn in 1975-76 following the Soviet Union's disastrous crop of 1975.

The Soviet Union has already purchased substantial quantities of wheat from Canada and Australia for 1977-78 delivery, and is scheduled to receive 1.5 million tons of wheat from India as part of a repayment of a loan that the Soviets made to India several years ago. Therefore, Soviet purchases of U. S. wheat for 1977-78 shipment may not be far above the minimum of 3 million tons provided in the U. S.-Soviet Grain Supply Agreement of 1975.

The Soviet Union undoubtedly will be using the grain that it is importing for consumption this year rather than for building of stocks. This year's shortfall in Soviet grain production more than offsets the gain in stocks that occurred this past year as a result of the record Soviet grain harvest in 1976.

Grain consumption in the Soviet Union is expected to be at a record level in 1977-78. The Soviets have done an amazing job during the past twelve months in rebuilding their swine herds and poultry flocks that were cut back severely following the disastrous Russian harvest in 1975. Poultry numbers are up almost 20 percent over a year ago. Hog numbers are up 13 percent.

Today's news from Russia means that world grain production in 1977-78 will be significantly lower than had been estimated, and that world grain stocks at the close of 1977-78 will be below rather than above those at the year's beginning. The U. S. Department of Agriculture has been estimating that world combined stocks of wheat and feed grains next summer and fall would likely equal those at the same time of year in 1972. This no longer seems likely unless world grain consumption in 1977-78 is substantially below that now anticipated.

Some people in the grain trade are saying that U. S. corn exports may go as high as 1.8 billion bushels in 1977-78, surpassing the record of 1.7 billion bushels set in 1975-76. At present, an estimate of 1.8 billion bushels appears a bit over optimistic since U. S. corn exports to the European Community will be down substantially from the record set this past year. The import levy now being charged on corn being imported into the European Community is equivalent to $2.70 a bushel. This is an extremely

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1A 10 percent set-aside was announced a few days after this talk was delivered, but with the proviso that it could be withdrawn after January 1. -Ed.
A high levy and will drastically cut European corn imports in 1977-78, including those from the United States.

The United States should get some additional benefit from the disappointing Soviet harvest, however, through larger U. S. grain exports to other communist countries in Eastern Europe. Poland already has announced it will need record quantities of imported grain in 1977-78 as a result of its own disappointing harvest, and it is now unlikely that the country will get all the grain from the Soviet Union that had been anticipated. East European imports of grain from noncommunist countries this year may be nearly as high as the record of the past year.

There is as yet no confirmation that the Soviets have purchased soybeans for import in 1977-78. This is disappointing in view of the Soviet Union's tremendous need for protein concentrate to balance the high-energy rations that it is now feeding its livestock and poultry. The Soviets need to use more soybean meal if they are to get maximum benefit from the grain they are importing and using for feed.

Admittedly, price may be a factor in that no Soviet purchases of soybeans have yet been confirmed for 1977-78 delivery. At present, corn and other feed grains are much cheaper than soybeans and soybean products in both the United States and international markets. This is true despite prospects for record world supplies of protein meal in 1977-78. Of course, as of now the record soybean crop produced in the United States this year is not harvested. Ultimately, world supplies may not be as large as anticipated earlier, particularly if rain continues to delay the soybean harvest in the mid-South as well as in the Corn Belt.

The Soviet Union also apparently has a better sunflower seed crop this year than during the past two years. This year's crop will likely fall far short of the Soviets' goal of 7.6 million metric tons, but will be better than the crops of only about 5 million tons during each of the past two years.

In recent years, Soviet utilization of grain for livestock feeding has been one of the most dynamic elements in the world grain economy. During the past five years, Soviet utilization of grain for livestock feed has averaged 20 million metric tons more per year than during the previous five years. The Soviet Union accounted for 40 percent of the entire increase in grain fed to livestock during this period. The Soviet Union is now second only to the United States as a user of grain for livestock feed. It is far above the European Community, and is approaching a level equal to that of all Western Europe.

Today's news from Moscow and its implications clearly illustrate that Russian grain buying is a dominant factor in today's world and is likely to remain so for many years to come.
Previous speakers have noted the weaker conditions now prevailing in farming as world markets are once again burdened by large grain supplies. This situation, coming after several years of strong markets for farm products, is reminiscent of previous turnarounds in the farm economy following shortage — in 1971 after the Corn Blight of 1970, in 1967 after the Indian near-famine of 1965-66, and in 1955 after the Korean conflict.

The question everyone is asking is whether anything in the world situation has fundamentally changed since those previous episodes. Are economic conditions in farming now returning to those of 1971, 1967, or 1955? That is, are we due once again for persistent surpluses and depressed prices? And if so, what is the significance to agricultural policy?

Recent Trends in Agricultural Conditions

A brief comment on trends of the 1970s will set the stage for our looking forward.

Five years ago (July 1972) U. S. agriculture became our nation's number one growth industry, not in the traditional meaning of rapidly increasing production but in the sense that market demand suddenly began to press against a relatively fixed supply of basic farm commodities. Farm prices rose, farmers' incomes doubled, and asset values tripled. Rural towns blossomed as billions more dollars flowed into rural banks.

In the nation's capital, administration of farm policies slowly began to change. Shortages of grain and other food products restricted the actions of policymakers in the Departments of State, Treasury, Commerce, and Defense. Previously, abundant food supplies had allowed almost unlimited freedom in policy decisions involving food.

Four years after the beginning of the latest period of tight demand-supply balance, the situation reversed. Already with the ending of the Vietnam involvement rice stocks had begun to increase, but the clincher was the large 1976 wheat crop. It added to stockpiles, brought downward pressure on prices, and created a new environment in which, once again, overall economic policy was more important to agriculture than agricultural policy was to the nation. Farm spokesmen began to note the change, to speak more softly, and to mend fences with their traditional supporters.¹

¹As my opening lines suggest, this sequence is not new. In this century farmers have gone through several periods of rising income followed by an economic recession for farm families. The most recent experiences do not change the picture of the basic economic environment of farmers. Instead, they remind how fundamental it is. Three features are the following:

One, instability of farm prices continues. For reasons that are complex, farm prices remain subject to great variation, as the 1972-76 experience vividly illustrates.

Two, farmers still lack market power. Most farmers still face a seller's market when they buy and a buyer's market when they sell. To state it another way, they take the price offered in the market when they sell and pay the price set by the seller when they buy.

Three, farmers still face unpredictable hazards of weather in their annual production. This element of risk, particularly characteristic of organic (biological) production, makes agriculture distinct from industry and commerce.
Table 1. Trends in American Agriculture During the 1970s

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*Preliminary.  
**Forecast.

Source: U. S. Department of Agriculture.

Development of Major Policies Affecting Agriculture

Against this background of four years of rollercoaster conditions in U. S. and world agriculture national policymakers began developing a number of new national policies in 1977. Addressed were policies related to world economic growth, international trade, energy supplies, and domestic growth and employment. The most important policy to farmers, of course, was a new farm program that Congress ultimately completed and the President approved. The new farm program will be very important in coming months as surpluses press down on farm prices and incomes. In addition, though, several world-oriented policies will be important.

World Economic Growth. One of the major factors influencing the future of U. S. agriculture is world economic conditions. As agricultural exports now provide about one-fifth of the cash receipts of U. S. farmers, what happens to the economic growth rate of other countries is of major importance to agricultural exports and to farm income. Fortunately, the major industrial countries have experienced a slow but steady economic recovery so far in 1977. Real economic growth in the developed countries was around 4½ percent, up from 3½ percent in the last half of 1976. Continued economic expansion in West Germany, Japan and the United States improved the buying power of countries that sold raw materials to them, thereby adding some strength to world demand for grain and other farm commodities.

Unfortunately, world economic prospects for 1978 are less optimistic despite major efforts of the Carter Administration here and governments of Europe and Japan. A recent OECD report suggests that falling growth rates in member nations could lead to rising unemployment in Western Europe in 1978. A recent report from the United Nations is even more pessimistic, warning that the world faces a recession in 1978 unless the developed nations take immediate steps to stimulate faster growth in their economies. It was this set of prospects that caused the Carter Administration to push West Germany and Japan to beef up their economies. Both nations have been reluctant to do so, preferring instead to depend on expanding their exports to the United States where growing incomes have created new consumer demand. However, in the United States total imports have exceeded exports, and the growth rate of the U. S. economy has begun to slow. Further, exchange rates between the dollar and other currencies have recently shifted in a way to discourage imports from both Germany and Japan. Both nations have found it necessary to reexamine their economic policies. 2 Whether Japan

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2The examination was not exactly of their own free will, as the National Journal
and West Germany will step up their economic growth rates is uncertain but what is
certain is that if they do, the influence on U. S. agricultural exports will be
positive -- perhaps not a major influence, but at least positive.

International Trade Negotiations. A second factor that will affect future pros-
pects of farmers is the current round of trade negotiations that is underway in
Geneva (GATT). This round was initiated with grand goals: to free up world trade,
and to reduce national trade barriers -- both tariff barriers (as variable levies) and
nontariff barriers (as import quotas).

Unfortunately, progress to date has been stymied by efforts of the European
Community to protect its millions of small farmers with its so-called Common Agricul-
tural Policy. The CAP maintains extremely high support prices for its farm products.
To protect its domestic market against lower cost imports, tariffs equal to the
difference between its support prices and world prices are levied on imports. In
essence, it works out that the cheaper others sell to them, the higher is their
variable tariff levy on imports.

If the trade negotiations are to move forward Europe must come to grips with the
conflict between its domestic internal farm support policies and its international
agricultural trade policies.

The United States is not free of a similar conflict between domestic farm poli-
cies and international trade. Two examples come readily to mind. We have policies
that limit imports of both dairy products and red meats. Both sets of import quotas
are opposed by nations that export these commodities. The European Community opposes
the dairy controls and Australia opposes the beef import quotas. In the trade negotia-
tions Europe and Australia undoubtedly will push to reduce these barriers.

What bears watching is that U. S. negotiators do not allow European interests to
bring soybeans under their system of variable levies. To do so could mean that our
markets for soybeans could become restricted just as our wheat and feed grain markets
are now restricted. We can only hope that the Administration's negotiators will see
the seriousness of this issue and take major action to fight any restrictions on
imports of U. S. soybeans. Given the rising costs of the petroleum we import, and the
need to keep agricultural exports large to pay for it, it seems essential to prevent
any further erosion of our export markets.

International Commodity Agreements. A third policy area of importance to farmers
is the development of international commodity agreements such as the International
Sugar Pact and the International Wheat Agreement. The new Administration has expressed
optimism from time to time that such agreements could help stabilize the prices of
basic commodities such as sugar, coffee, metals, and the food grains. To some extent,
international agreements probably are a positive influence. For example, even though
the Soviet Union had a very large grain harvest in 1976, amounting to some 220 million
metric tons (80 million above their poor 1975 crop), the Soviets purchased nearly
8 million metric tons of wheat, corn and soybeans from our 1976 crop. These purchases
were made under the five-year Grain Agreement signed earlier by the Soviet Union, and

pointed out in its August 27th issue. It noted that after

"failing to persuade its partners, the United States resorted to tougher
tactics. In late June and early July, Treasury Secretary W. Michael
Blumenthal critically commented on the values of the mark and the yen,
causing (or contributing to) a flurry of hectic buying and selling on
foreign exchange markets. The dollar depreciated.

"Both Germany and Japan now are reported to be preparing expansionary
economic programs, but if Blumenthal's tactic nudged them in that direc-
tion, it did so at a cost. The Germans particularly were outraged at
Blumenthal's analysis, considering it a violation of an unspoken etiquette
that finance ministers do not tamper with each other's currencies in
public. Even The Economist, which said the readjustment was needed, called
Blumenthal's approach 'monumentally untactful'."
Besides the Russian Agreement, the United States also has agricultural trade understandings with Japan, Israel, Poland, and the German Democratic Republic -- as well as a diplomatic agreement with Romania. These countries are large buyers, taking about 20 million metric tons annually, or one-fourth of all U. S. agricultural exports. Continuing these purchases is essential to a strong farm economy in the United States.

However, one can also raise questions about the development of more international agreements. History suggests that such agreements are not very successful in stabilizing international commodity prices. Other analysts have described the 40 year experience with International Wheat Agreements as disappointing (5). Past wheat agreements worked well when least needed but when markets were faced with surpluses, the wheat agreements were ineffective in maintaining prices. It seems likely that a traditional international wheat agreement would work similarly in the current surplus situation. It also seems doubtful that an International Sugar Agreement can adequately replace the price support program set up in the new farm bill; but an answer to this question awaits future developments.

Overall, international grain agreements generally run counter to this nation's long support for greater flexibility in domestic and international trade policies. In fact, many analysts argue that our commercial farmers -- the 6 percent who sell 60 percent of all farm output -- have more to gain from flexible trade policies than from binding international trade agreements that allocate fixed market shares to different exporting countries. While these commercial farmers are not now experiencing a decline in export markets such as to alert them to the issue, events could sharpen their awareness in the next few years.

International Grain Reserves. Another policy area that has strong international ties but holds much domestic interest is a system of international grain reserves. The current interest in this issue is a direct outgrowth of the grain shortages of 1972-75. Those shortages were mainly a result of weather-related shortfalls in grain production but in the minds of many international leaders, U. S. government policy on stockpiles was a major factor.

The details are familiar: U. S. grain stocks hit their peak in 1960 when the United States carried over some 85 million tons of feedgrains and almost a billion and a half bushels of wheat. From 1960 until 1972, U. S. farm policies were directed toward reducing those stockpiles and lowering the public costs of grain storage. The downtrend in stocks was moderate from 1960 until 1966. Then crop failures in India required that country to import massive tonnages of grain.

That sudden claim gave many world leaders a scare and raised questions in the United States about the policy of holding land out of production to reduce stocks. In turn, the government relaxed acreage control programs and stocks of both food and feedgrains increased quickly. The swiftness with which stockpiles were rebuilt came as a surprise to many people and confirmed the academic view that U. S. farmers had large amounts of unused production capacity. That experience led to the further view that U. S. agriculture could quickly replace any reduction in grain stocks and, therefore, smaller stocks would adequately protect grain markets. On the basis of this belief, government policies between 1968 and 1972 were designed to lower stockpiles further and to transfer the smaller quantities into private hands without cost to the government. These policies set the scene for 1972.

The change after 1972 was primarily a change in weather but it was intensified because the world was holding smaller stockpiles. At least, this is the viewpoint held by many U. S. policymakers. This viewpoint was the driving force behind the U. S. proposal at the World Food Conference in 1974 to build a 60 million ton world food reserve. The proposal, with the quantity reduced to 30 million tons, was placed before the International Wheat Council. The IWC took no action but more recently the Carter Administration recommended to Congress that a special international emergency food reserve of up to 6 million tons of grain be established. According to a White House news bulletin (6), this reserve would only be released as non-commercial food aid for world nutrition assistance and to meet U. S. obligations under a proposed international reserves agreement.

While an international grain reserve has received considerable attention in the media, it seems reasonably clear that it differs little from a domestic grain stockpile.
Nor would its impact on grain prices be greatly different. The hard fact is that any grain stockpile influences farm prices, positively during their removal from the market and negatively during their release onto the market. Even when the stocks are released into the non-commercial market, that is, to feed people who might otherwise face starvation, they replace commercial stocks and current production to a significant extent. This is true because starvation has become unacceptable in today's world; even the lowliest consumer living in conditions of misery in Calcutta commands enough attention of the western world press to assure himself of food during world shortages. He must be fed, whether it comes from an emergency reserve or from commercial purchases. To the extent it comes from emergency reserves, it won't come from current production. The existence, therefore, of an emergency reserve will influence future upturns in grain prices, in terms of both timing and magnitude. The farmer who plans his farming enterprise to take advantage of another 1972 shortage could be in for a disappointment.

The Current Approach to Solving Farm Problems

These several important policy issues -- world economic growth, international trade negotiations, and grain reserves -- are only a few of the factors that will determine the future wellbeing of our farm population. Another ingredient is the human decisionmaking element. In general, a serious assessment of likely decisions by current agricultural administrators is impossible. It is possible, however, after several months of experience with the Carter-Bergland Administration, to discern some response patterns to key problems.

First, it seems clear that this Administration places more emphasis than the previous one did on governmental programs as a key source of information for farmers' decisions on what to produce. In the process, less emphasis is given to the marketplace. At least, this is what the new farm program with its revised acreage control features appears to mean. Under the new program, a farmer has a substantial financial incentive to look to the programs for guidance in calculating how many acres of each crop he wants to plant. By the time he decides his best combination based on the new program provisions, he will find it exceedingly complicated to give separate consideration to potential trends in market prices. The result, it seems clear, will be a less market-oriented approach to farm decisionmaking.

Second, the farm disaster programs appear to be in for a change. In the past they have been operated fairly loosely. Timing and speed of response to disasters was a matter of the priority given such programs and the desire to have farmers utilize them. The current administrators appear determined to improve on this situation. Secretary Bergland has characterized the disaster programs as a "disaster" and Deputy Secretary White has suggested that that description is too kind. There is a concerted effort, it appears, to improve the terms of the government's response to the needs of rural residents who experience a natural disaster. This seems to imply that the current Administration's policies may prove to be more people-oriented and less commodity-oriented than those of earlier years.

Third, it seems clear that the 1972-75 world food shortages made a deep impression on even the most marginally-interested national policymaker. There is a new recognition of the importance of food, of a strong agriculture, and of agricultural research and extension. This recognition tends to create a positive frame of mind for congressional and presidential responses to agricultural problems. One example was the ease with which a farm bill passed Congress. That surprised many observers but perhaps it should have been expected. The past few years gave many policymakers second thoughts about national priorities. The basics of life -- food, energy and employment -- appear to have taken on higher priorities compared to the more luxurious issues -- cleaner air, purer water, and less noise. Whether or not it is a good reordering of priorities is a question best left for historians. But it seems clear there has been a reordering of national priorities. It also seems clear that the new priorities will have an influence on future policy decisions.

A Forward-looking Food Policy

As you may have gathered by now, I view farm and food policy today as a complicated business. It has in fact always been so, but the added dimension of larger international markets has increased the complexity. This point is vividly illustrated by the concentration in this seminar on financial, political and economic aspects of
international trade. It is illustrated also by the experience of the last few years when agricultural exports tripled in value. As the quantity of farm products did not even double, higher prices account for most of the higher value. The higher export prices had the important effect of increasing the value of domestic sales too. So farm producers gained doubly.

The Issue of Growth. As agricultural exports are now so important, a basic issue in a forward-looking food policy is how to continue that stream of benefits. To do so probably means several things. One, it means that our international agricultural trade policies must be negotiated with special care. It becomes critical, for example, that in our negotiations with other countries U. S. negotiators have a solid understanding of agricultural issues. We no longer can afford the luxury of allowing the negotiations to be conducted in a traditional manner, that is, by diplomats, without the aid of trained agricultural advisors.

In the past, our domestic agricultural policies were developed by the U. S. Department of Agriculture. To the extent that we had an international export policy, it was largely a product of negotiations carried out by our State Department, although we mostly depended on a free market type of policy. A simple free-market orientation, in view of the complicated international food environment we face today, raises some questions.

For example, the Japanese currently import U. S. wheat at about $3 per bushel. The Japanese internal price support program sets the price at about $6.50 per bushel. To keep our imports from driving down their domestic prices, the Japanese place a tax of about $3.50 on each bushel of imported wheat. During the last marketing year, the Japanese imported 116 million bushels of U. S. wheat and even though world prices were higher than now, the Japanese derived tax revenues of around $300 million from U. S. wheat imports. Likewise, the European Economic Community imported nearly 70 million bushels of wheat in that year. It likewise levied a tax. In recent months the tax has been averaging above $3 per bushel. The tax probably yielded $200 million in the last year. Together, the EEC and Japan have netted around a half billion dollars of revenue that American farmers worked to produce. Such policies raise serious questions about our continued support for, and insistence upon, an international free market for our farm products.

The Issue of Equity. Beside the necessity of protecting our growth market for agricultural products, there is a need to develop policies that are equitable within the agricultural sector. Several different features may be named.

First is the balance between the crop and livestock sectors of agriculture. Agricultural production is made up of both a stock and a flow activity. Production of crops is primarily once-a-year with supplies stored at harvest and metered out over the marketing season. By contrast, livestock production is flow with year-round feed requirements and year-round marketings. To keep a reasonable balance between crop and livestock production, the two have to be reasonably well coordinated. If this is not done, as happened during the feed shortages of 1974-75, the results can be economically disastrous to livestock producers. Their costs can be raised to such extreme levels that they are bankrupted even as grain producers are rewarded handsomely.

(Later, cut-back livestock enterprises can exaggerate grain price reaction when crops are larger.)

This particular reality requires special handling by policymakers. While the details of such policies are complex, they obviously involve adequate storage of grain supplies to cover sudden shortages. If small grain stocks are desired, then some earmarking of them for domestic markets may be useful. What this really means is that for equity to be achieved between the crop and livestock sectors, a careful balance must be struck between domestic demands and foreign markets for U. S. grain supplies. In the current surplus situation, it is a moot issue but the next era of scarcity will certainly raise it again. A forward-looking farm and food policy will have to face this issue.

Second, the traditional question continues about how farm programs affect the structure, ownership, and intergenerational transfer of agricultural assets. For some years, the criticism has been leveled that our farm programs favor larger farms. This
public criticism resulted in Congress's placing a ceiling on government farm program payments in 1970. The ceiling was lowered in the 1973 farm bill and raised in 1977. Absence of any sizeable government payments in the past few years largely accounts for the 1977 increase.

But the basis for the earlier criticism, that these payments allowed larger farms to buy out and take over land and other assets of smaller farms, remains valid. This is illustrated by data from the U. S. Department of Agriculture. Today, 6 percent of all farms (155,000) account for 60 percent of total farm production. In 1960, it required 15 percent of all farms (600,000) to produce that same 60 percent.

Most of the sharp increase in the size of larger farms occurred between 1960 and 1970; since then, little change has taken place in the size of our largest farms. It seems that the higher incomes of recent years encouraged smaller farms to continue production and discouraged larger farms from taking them over. Whether the return of surpluses, set-asides, and government payments will allow this more stable situation to continue is doubtful. But it would seem that government programs could be structured to be at least as equitable in this respect as the free market of the past few years.

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<th>Net Income Per Farm</th>
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years. If so, perhaps further concentration of agricultural assets under the control of fewer and fewer families could be discouraged. At the very least, this issue will almost certainly be a part of future farm program discussions.3

The Issue of Economic Security. Finally, let me raise another issue that is almost certain to be addressed further in coming years. We know it today as crop insurance and disaster programs. Essentially, however, it is protection of the farm family against both natural and economic disasters. Government programs have covered natural disasters reasonably well since 1973. They have covered economic disasters generally less well. Both protections are required if the average farm family is going to have a reasonable degree of economic security.

The question for future farm policy is what mechanism or type of program is best suited to achieve this purpose. As usual, there are no black and white answers. Some advocates argue that the Federal government should provide payments to protect farmers against both economic and natural disasters. Presently, this is done to a considerable extent but with respect to natural disasters, there are advocates of the concept of expanded crop insurance to cover major losses with premiums paid by farmers. One reason for the support for crop insurance is the experience of the summer of 1977 when 2,100 of our 3,100 counties in the United States were declared disaster counties (with farmers eligible for special credit programs) at the same time that grain harvests were of record size. This experience has raised considerable question about how programs to protect farmers against natural disasters should be implemented. One argument has run that counties should not be declared eligible for disaster aid until the harvest season has been completed. This could remove some of the recent problems of these programs.

Perhaps, though, at some point in the future we will turn toward a combination program to cover both economic and natural disasters. Such a program could be set up to ensure some minimum level of income for farm families. If a farm family suffered a large loss from some natural or economic disaster, that could be covered under an income security program. But if a farm family already had income above the minimum level, it would be ineligible for further payments even if a minor disaster occurred. Such a change in current programs could remove the criticism that large government payments go to farmers who already have incomes from the market place that exceed the national average family income. Undoubtedly, arguments would be brought forth in opposition, particularly from farming operations that currently earn large incomes from the market and are eligible also for large amounts of government payments under either disaster or other payments. But payments are almost certain to receive wide public attention in coming years, creating pressure for change.

3In the Food and Agriculture Act of 1977 Congress addressed the issue indirectly.

SEC. 102. (a) Congress hereby specifically reaffirms the historical policy of the United States to foster and encourage the family farm system of agriculture in this country. Congress firmly believes that the maintenance of the family farm system of agriculture is essential to the social wellbeing of the Nation and the competitive production of adequate supplies of food and fiber. Congress further believes that any significant expansion of nonfamily owned large-scale corporate farming enterprises will be detrimental to the national welfare. It is neither the policy nor the intent of Congress that agricultural and agriculture-related programs be administered exclusively for family farm operations, but it is the policy and the express intent of Congress that no such program be administered in a manner that will place the family farm operation at an unfair economic disadvantage.

(b) In order that Congress may be better informed regarding the status of the family farm system of agriculture in the United States, the Secretary of Agriculture shall submit to Congress, not later than July 1st of each year, a written report containing current information on trends in family farm operations and comprehensive national and State-by-State data on nonfamily farm operations in the United States. The Secretary shall also include in each such report (1) information on how existing agricultural and agriculture-related programs are being administered to enhance and strengthen the family farm system of agriculture in the United States, (2) an assessment of how Federal laws may encourage the growth of nonfamily farm operations, and (3) such other information as the Secretary deems appropriate or determines would aid Congress in protecting, preserving, and strengthening the family farm system of agriculture in the United States.
Conclusions

In the past decade world markets for U. S. agricultural products became an increasingly important source of farm income, and world events took on an increased importance for American farmers. Events halfway around the globe today may set the prices of major crops next summer. Foreign policies of the Federal government may have as much influence in some years as does the existence of price and income support programs. U. S. agriculture is today truly an international operation.

Keeping abreast of international events has become as much a part of good management practices as listening to noon-day markets was two decades ago. As farms grow in size, the world shrinks; hopefully, the human mind can cope with both. It will not be easy, though.

The development of forward-looking farm policies will not be easy either. In my mind, such policies contain three elements. One is room for more growth in farm markets and particularly export markets. Second is an added measure of equity to ensure that policies favor all sizes of farms equally without regard to region or commodity. Third is economic security for farm families to protect against economic dislocation of agricultural production. The latter may be difficult to achieve in the current environment of budget deficits and high levels of urban unemployment.

Finally, I'll close with a partial answer to my original question. Has the world changed in terms of U. S. agriculture? My general view is that it has not. Agricultural producers still must face economic cycles due to weather, lack of bargaining power, and the basic instability of farm prices. Certainly in this sense not much has changed. But today we do at least have periods of prosperity when farm families fare better than average. In this sense some things have changed. But it's still up to the individual farm operator to take advantage of the opportunity. That hasn't changed.

References


Summary of a panel participated in by Walter Goeppinger, National Corn Growers Association; Dale Lyon, Kansas Farmers Union; Everett E. Peterson, Extension Economist, University of Nebraska; Rudie W. Slaughter, Jr., Economic Research Service, USDA, and University of Missouri; and Leo V. Mayer. Moderated by Harold F. Breimyer.

Question: Even though surpluses are reappearing for some grains during the 1970s we have seen a concern that the world food balance has moved toward scarcity. Has there indeed been a change in the world food balance?

Slaughter: Over the long run population will press on food supply, even to the point that food supply puts a limit on population growth. But there will be many ups and downs. We'll have surpluses and scarcities with a bias toward scarcity.

Goeppinger: I agree. The downs (in price) will be times of struggle for farmers to stay solvent and continue to produce.

Lyon: Mr. Slaughter may be right but I am concerned that the tight fit will leave farmers without adequate income. What good will that do for family farm agriculture and for keeping our ability to supply food to the world?

Peterson: I too look for an inbetween situation, with times of surplus and times of scarcity. Our policy with regard to production control and income supports ought therefore to be flexible, so that we can respond to strong demand when it appears but also cut back when more output is not needed.

Question: Does the steady siphoning of petrofunds (exchange paid to OPEC for oil) pose a threat to maintaining international demand for U. S. farm products? Or will needs for food be met somehow, irrespective of the monetary and credit picture?

Peterson: We sometimes hear that even though balances of trade are askew the OPEC countries are putting their funds in European and U. S. banks and they in turn are lending the money out. Maybe this stream will keep things going but I think it is risky. Some Latin American countries are shaky and some New York banks were too a couple of years ago. There are potentials for dislocations. OPEC countries don't have enough people to buy products to offset losses elsewhere. If Europe and Japan get into serious economic trouble, they will move toward self sufficiency and put our exports in jeopardy.

Lyon: My guess is that even if a country such as Peru goes bankrupt the government there will have to find a way to feed the people. I happen to think that international trade in agriculture is more related to the number of stomachs in the world than any other single factor.

Goeppinger: I think we will have a shift in the pattern of world trade, as some nations get richer and others poorer, just as it has been in the past. I remember how poor a market Spain was but our exports of corn to Spain have grown from zero to 160 million bushels. I disagree with the statement that the Middle East doesn't hold much potential because of a lack of population. People are there and they are going to raise their standard of living very rapidly. I think that building a higher standard of living throughout the world, if there is no war, will add to international trade -- trade in agricultural products and in other products too.

Slaughter: If the countries of the third world learn how to enter into commodity agreements or otherwise protect their interests in the way OPEC has done, they will buy more U. S. farm products.

Peterson: I can't agree with the optimism expressed about demand for U. S. farm products. I believe that the impact of higher cost of oil and other basic resources to Europe and Japan is going to have an adverse effect on export demand for our farm products. And one reason the OPEC countries will not buy such huge quantities from us is that they are using their exchange to buy the means to develop their own agriculture.
Question: Leo Mayer suggests that the grain exporters of the world ought to get together and refuse to ship to countries that, by applying a high import tax, in effect deny us access to the demand their consumers express. How can you take into account all the delivery prices, transportation costs, quality differences, and such?

Mayer: We have had differential prices for wheat in this country and I believe that international communication has improved enough that we could work out the technique. Of course, the ultimate objective would be to get Japan and the EEC to bring their internal prices down and let us have access to a higher volume of trade.

Question: How can you address trade with the third-world LDCs (less developed countries) without recognizing that there are two tiers of trade there -- commercial trade with the thin layer of high income people, and a big need for food for the poor people, who will be able to buy it only if a lot more is done to bring about their economic development?

Peterson: We ought to be more concerned for human beings but the record is pretty clear that we are a lot more generous when we have a couple of billion bushels of wheat on hand than when we run short, as in the mid-1970s. And I don't believe our production will increase so fast that we can ship food to a growing number of poor people without changing our own diets. Also, I doubt our taxpayers will be willing to finance a lot bigger food shipments.

Lyon: I think our entire international trade policy is based simply on commercial trade. At this seminar I have heard almost nothing said about people being involved. I don't think we should use poor nations just as dumping ground for our surpluses. My organization believes that part of our international trade policy ought to be to help those nations increase their basic income so that they can purchase American farm commodities but also so that they can better the position of everyone in the world.

Slaughter: I do not believe it is necessary to put improvement of trade and economic development in conflict. We might get obsessed with trade at the expense of development but the two are not mutually exclusive options. Both can be done together.

Question: To what extent are other policy issues such as nutrition, food chemicals, environmental controls, and such a handicap in enacting price and income legislation?

Mayer: In my observation those other issues have not had much bearing on commercial farm policy. Also, in the last few years Congress has developed better methods, such as through the hearing process, for overseeing those other issues without entangling them with price and income policy.

Goeppinger: We get concerned too easily about ability to pass farm legislation. I have been involved in the passage of farm laws since 1957. I believe we got an excellent farm law from this session of Congress. Some parts might not be construed as in the best short term interests of consumers. But every Senator has pressure on him from agricultural interests. And besides, even though government in general is concerned for inflation we haven't done a bad job in showing that most of the inflation in food is not in what the farmer gets.

Question: If there are to be efforts to use buffer stocks to smooth out fluctuations in consumption and price, what is the best course -- to go it alone, or try for some kind of international sharing?

Lyon: Our organization has long supported grain reserves, just for that purpose. I was intrigued with Mr. Goodman's statement that under an international grain agreement the exporting countries could share not only the cost of keeping stocks but the management of production. That is, if we have to reduce production Canada and others would do so too. My only concern is that we should make sure that grain reserves do not turn into low prices for the family farmer, even if we have to separate trade policy from price and income policy. I think that
because of our productivity and as humanitarians we as a nation ought to be the leader in world food trade.

(Unidentified): It might be hard to get other exporters to join in international cooperation because they have often been able to exploit the situation we create as the world's biggest grain exporter. A few years ago we sold ourselves short but a lot of the other nations were not short. If half of the world is organized to protect itself from impacts of world surpluses or shortages, making the impact on the other half (including us) twice as large, what should be our strategy? If we just try to insulate too we make things even worse. It seems to me the food exporting nations will have to work out some kind of arrangement. They have to be specific about how to do it. If there is to be a buffer stock, will it be for natural or man-made disasters, or for commercial trade? Or maybe there should be two or more stocks. If we are talking about a buffer stock for international relief purposes, that is something else again.

Lyon: My gracious, we have over half the export supply of grain in the world. We ought to be the leaders in creating an international grain stock, an international supply management program, and an international pricing system for the American farmer.

Slaughter: Farmers are touchy about low prices and consumers about high prices and I postulate that governments everywhere will take action to keep prices at the farm from going too low and prices to consumers from going too high. A case can be made that appropriate moderation increases the social welfare even though it can work against some interests at one time and other interests at another time. Grain price moderation may not help grain producers but it helps consumers and livestock producers. In the long run there is no substitute for a buffer stock for moderating prices. The cost of a buffer stock can be estimated. It may be impossible to estimate the cost of export embargos, which, in effect, convert our exports into domestic buffer stocks; but I am sure it is very high. Furthermore, the cost of grain export embargos falls heavily on grain producers who receive little if any benefit. If we have a specific objective for the buffer stock, we can compare the benefits with the costs.

Goeppinger: I feel about buffer stocks the way Slaughter does. It is like a grocery store; there must be something available on the shelves if we are going to sell. And the world no longer looks on us as a residual supplier but as a continuous supplier.

Slaughter: Someone said that an objective of the buffer stock is to keep farm incomes high. It will fail right there if that is the objective. If the value of grain under a stock program is so low that the price is not satisfactory to farmers another means will have to be sought for income protection.

Breimyer: A basic principle is that if supply and demand are so out of balance that incomes are kept low, price supports cannot be used to lift incomes very much. Either production must be controlled or direct Treasury payments resorted to.

Question: Are present support prices fair from the standpoint of keeping our exports high?

Slaughter: "Fair price" is a medieval concept without economic content. We can talk all we want to about a fair price but a commodity is worth what it can be sold for. The cost of production is not involved.

Lyon: There is an overriding factor, and that is how people are affected. You have to consider what is fair to the people who do the work. I don't know exactly what the price of wheat ought to be. But in my opinion, we don't have a satisfactory world trade unless we get a fair return to the person who produces the goods. In my opinion an international arrangement has to include prices. I happen to be one of those birds who doesn't believe that the cost of land has anything to do with the cost of production. Land is a permanent asset; it doesn't go away.
Mayer: Many serious problems now face agriculture. Energy is one; we haven’t touched on it. Balance of payments is another. It is essential that the nation be informed about what it means to lose international competitiveness in textiles, electronics, and other products. Keeping agriculture competitive is a serious matter. The 1977 farm bill is satisfactory but I doubt we have made a real national reassessment of food and farm policy. This seminar and others like it are valuable in helping to start national dialogue.

Slaughter: I want to amplify the point made by Dr. Mayer and others that export of primary agricultural products has become critical. That kind of dependency is what we usually associate with underdeveloped rather than developed nations! It is absolutely crucial that we create an image of a dependable supplier of grain to the rest of the world; that is, the storekeeper philosophy.

It is not likely that firms will keep as large an inventory as would be in our national interest. Firms seeking to maximize the benefits of an inventory will equate marginal return from inventory with the marginal cost of inventory. Costs of inventory include interest, risk premium, and opportunity cost. All of these are probably higher for firms than for society. If so, then the inventory held by firms will be less than society should hold to maximize inventory net benefits. In addition, maximization of foreign exchange earnings from our grain exports will also require the ability to price discriminately to our several customers. Such ability will require more government involvement in our grain trade than we are presently accustomed to. Further, as brief summary:

* Too high food prices and too low farm prices cause trouble for governments. Governments will do what they deem appropriate to avoid them, bringing about price moderation of some kind.
* Grain price moderation in the U.S. hurts grain producers but helps livestock producers and consumers.
* In the long run there is no substitute for buffer stock and commodity price moderation. In the U.S. our exports constitute a domestic buffer stock when we use export embargoes to limit prices.
* Export embargoes are very costly and the cost is extremely hard, if not impossible, to estimate.
* The cost of an explicit buffer stock can easily be estimated.
* A buffer stock without a specific objective is nonsense.
* The expected value for attaining a specific buffer stock objective can be estimated.
* The contribution of the marginal increment of the buffer stock toward the achievement of the buffer stock objective can be estimated.
* We should pay not less than the marginal value of the buffer stock for acquisitions and we should charge not less than marginal value for sales from the buffer stock.
* A buffer stock so managed will not become burdensome because as the size of the stock increases the marginal value decreases and acquisitions will be self limiting.

Goeppinger: The first point I want to make is that we ought to think much more seriously about what we are doing to our land. Nothing has been said in this conference about the importance of our greatest natural asset. It's the land, and we are mining it at a rate which is far beyond what is a reasonable manner of good stewardship.

Another point relates to feeding the world and the debates about feed grains and livestock. Of course feeding grain to livestock loses nutrients. It also is true, as everyone knows, that livestock consume cellulose that the human body cannot transfer into energy or growth. But there are fabricated foods that can be supplied to other countries that are cheap and nutritious. One is CSM, composed of corn and soybean products, some powdered milk, and vitamins and minerals. One pound will support a man at work for a day.

Regret has been expressed here about how Japan and Europe protect their agriculture and charge consumers more than they pay for what they buy from us. People in those countries have been through war periods and they have concluded that they are going to keep their small farmers going, as an insurance policy. They are not going to abolish their high price supports in order to buy cheaper from outside the country.
Lyon: I agree with Mr. Goeppinger that Europe and Japan are not going to end their farm price policy to please us. I don't blame them for doing as they are. They are defending the place of their smaller family farmers. They are not going to stop doing that and I don't believe we should keep telling them to change.

I want to send our food abroad and I want it to reach poor people and not just those who can buy in commercial trade. But I object strongly to any suggestions that we ought to sell at prices so low that our farmers are not rewarded fairly.

I have expressed support for buffer stocks even though I admit that they sometimes seem to hurt farmers' prices. But I disagree strongly that stabilization prices have to be low. They can be at any level we choose to set them. Buffer stocks have to be planned, as Dr. Slaughter said, according to what we want them to do and with regard to the cost and benefit. They can be operated so that they don't depress farmers' prices if we just set them up that way.

Peterson: Agricultural exports will continue to be an important source of foreign exchange earnings for the United States and of income for American farmers. However, the high level of 1973-75 will be realized only in times of short grain crops in Russia, China, and South Asia. Japan and the EEC will continue as major U. S. markets but lowering their import barriers would not result in much increase in our exports to them. The United States should attempt to work out a grain trade policy agreement with Canada, Australia, and other grain exporters to minimize cutthroat competition in years of large supplies. Serious consideration should be given to methods of strengthening our bargaining position vis-à-vis purchasing agencies of importing nations such as Russia, China, and Japan.

Low incomes and the impact of higher prices for petroleum and other natural resources will prevent "third-world" countries with large populations from becoming important commercial markets for U. S. food products. In periods of large U. S. grain supplies American farmers would welcome an expanded food aid program. But concessional sales and donations are unlikely to become as large as in 1954-72 because many LDCs, including India, have increased production and because U. S. taxpayers are disillusioned. However, food will be made available to alleviate human misery from natural or man-made disasters.

Enthusiasm for national and international grain reserves has subsided. The United States has again assumed the role of residual supplier to the world.

For the next 5-10 years, the flow of petrodollars to OPEC will probably not seriously disrupt international trade, finance, and currency relationships because these funds are being reinvested by European and U. S. banks. However, overextension of credit in politically unstable areas could result in serious trouble for large international financial institutions, with world-wide economic repercussions. Adequate risk insurance should be provided by governments and international organizations.

The 1977 farm act seems to provide some income protection to farmers yet allow the Secretary of Agriculture to maintain our competitive position in world markets, stabilize our livestock economy, assure ample domestic food supplies, and avoid excessive stocks. The trend toward fewer and larger commercial family farms will resume unless we adopt a policy, like EEC, of retaining people on farms via heavy subsidization.

The 1977 Act shows that the non-farm public will accept income transfers to agriculture in return for abundant food supplies at reasonable prices plus support for domestic food assistance programs for low-income people. Attitude surveys show that urban consumers do not blame farmers for high food prices.

Finally, we affluent Americans are living in a "fool's paradise" in regard to energy and other natural resources. We are still obsessed with growth mania and enamored with the throw-away society. A little time remains for developing more realistic perspectives -- to rethink our goals, to reorder our priorities as to consumption, research and development, and to reassess our role on this shrinking planet.