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# AGRICULTURE

## its global reach in the 1980's

by Dr. CLAYTON YEUTTER/President  
Chicago Mercantile Exchange

**F**ew topics evoke as much interest today as does agriculture. Or, more specifically, food. The scenario begins in the decade of the 40's, when America's farmers were encouraged to produce massive quantities of food to fight a multi-continent war. Farm prices rose dramatically, presenting a striking contrast to the incredibly low price levels of the depression laden 30's. For centuries, farmers have responded eagerly to price incentives, and World War II was no exception. We fed our own troops, and a lot of others.

American farmers learned their production lessons almost too well in the 40's. Too well for their own good, certainly, as surpluses began to mount in the aftermath of the Korean War. By the mid-1950's, prices had plummeted, and most farmers understood "inelastic demand." But they really did not know what to do about it other than to ask for government help—not a happy solution. Government "assistance" translated into production control programs—remember the "soil bank"—and "ever normal" granaries bursting at the seams.

As we moved into the 1960's, everyone was in distress. Farmers did not appreciate having a massive government bureaucracy following their every move. Nor did they much like being on a government dole, even though many of their urban cousins were in the same situation. Consumers were ambivalent for awhile, but then became increasingly hostile. They had by far the cheapest food in the world, but failed to

appreciate that fact. And, as inflation began to rear its ugly head in the late 60's, food prices began gradually to creep upward. Consumers, in their roles as taxpayers, also discovered that it cost a heap of money to (1) pay farmers not to produce, and (2) store all that excess grain that seemingly would never go away.

As we entered the decade of the 70's, everyone rebelled. The result was a dramatic shift in farm policy, with market forces once again being

given a chance to function. To the surprise of many—especially those in the federal bureaucracy—the market worked. With prices permitted to seek their own levels for the first time in many years, we suddenly discovered that American farmers were efficient, in fact far more efficient than their counterparts elsewhere in the world. Policy makers of the 50's and 60's should have remembered that from World War II, but apparently they forgot.

With a market-oriented farm policy, U.S. agricultural exports began to increase. Just as we started to work off some of our surpluses, the Soviets entered the world market on a grand scale. All of us will remember those days of 1972 and 1973. The surplus disappeared in one fell swoop, and the world began to worry about food shortages rather than food surpluses.

As is often the case, people in the U.S. and elsewhere overreacted to the "crisis" and the food pendulum swung between excess and shortfall during the remainder of the 70's. Both supply and demand were volatile—supply because of the vicissitudes of weather in many countries (especially the Soviet Union) and of demand because of the new entrants in international trade (the Soviet Union, the nations of Eastern Europe, and, occasionally, the People's Republic of China).

The U.S. Congress passed farm bills in 1970, 1973, and 1977, but the basic content did not vary appreciably. All three pieces of legislation had a decided market orientation, backed by strong bipartisan political support.



The highly partisan, and sometimes vicious, farm debates of earlier decades seemed to have passed. Because of the success of our exporting efforts, agricultural policy had moved into the international arena, and other departments of government were now in the act. Even the political figures of other nations examined with care, and forcefully critiqued, the farm and food policies of the United States. As some put it, the Corn Belt had become the world's biggest farm.

We enter the 1980's with a comfortable national reserve of food and feed grains. Some of us would dispute whether the United States should have unilaterally established that reserve, but it is here. And it presently serves an international food security function. Does it perform that function adequately? Will it balloon still further in the coming decade, duplicating the costly and controversial era of the 50's and 60's? Or is the Malthusian era of scarcity and suffering just around the corner, a two-centuries-old prediction finally come true? Let us briefly examine those questions as we look to agriculture's future.

### **The Supply Situation**

In the short run, food supplies should be adequate for our planet as a whole. Most experts expect global agricultural production to increase by 2 to 2.5 percent per year during the decade of the 80's, and that is likely to meet the foreseeable demand. The weather is an uncontrollable variable, however, and we learned during the 1970's that it is possible to have adverse growing conditions in a whole host of countries simultaneously. We also learned that the U.S. is not immune to adversity, notwithstanding our broad-scale use of irrigation. Perhaps the good Lord

occasionally deems it wise to advise us of our fallibility.

In the longer run—two or more decades into the future—food supplies will be determined by advances in agricultural productivity throughout the world. Research and development is necessarily a major element in that picture. (See p. 11 for more about productivity.)

The one ray of hope in the global supply situation is that farmers always respond to price incentives. Many developing countries have not yet comprehended that salient truism and, in fact, follow a policy of production disincentives, rather than incentives. Such a "cheap food" policy may appease consumers in the short run, but it has devastating consequences for the long run. Such foolishness should be abandoned promptly. If the major agricultural producers of the world, developed and developing, will but get their acts together, they can readily add millions of tons of additional food supplies to the world's storehouses during the remainder of this century. But too many of us are spinning our wheels at the moment. We are making progress, but it is nothing to boast about. All of us must begin to do a much better job in our commitment to research, capital formation, and marketplace incentives.

### **The Demand Situation**

The demand for food is a function of (1) population, i.e., the number of mouths to feed, and (2) purchasing power, i.e., the financial capacity to obtain minimum daily food requirements. Both factors have concerned economists and policymakers alike for centuries.

The former—population growth—has stimulated a lot of attention and dialogue, but not much action. The discussion was rather academic until

this century, because until then the world was really quite sparsely populated. But we have added billions of people in the past several decades, more than the number populating the earth in all previous recorded history.

It is also the stuff of which political revolutions are made—hence, the recent interest of many nations in "family planning." Such programs have had only limited success thus far, but there is a glimmer of hope on the horizon. A recent United Nations study indicates that even in the most poverty stricken of nations, family planning is finally beginning to take hold. In addition, young people are marrying at a later age in many countries, and raising large numbers of children just does not seem to have the attraction it once commanded. Because of all this, the rate of population growth in a whole spectrum of nations is beginning to slow. That indeed is good news, though it is no cause for elation. Momentum alone will likely add another two billion children to our global society by the year 2000.

Perhaps the more relevant factor on the demand side is purchasing power. There is already too much malnutrition in the world, much of it due to people not having the wherewithal to buy the food they need. With low income families having more children than the higher income groups, this problem will inevitably increase in importance during the 1980's and beyond. It is a problem of massive proportions, and requires delicate social and economic sensitivities.

The first step in dealing with global malnutrition must be a humanitarian one—i.e., sharing food supplies that are already available. P.L. 480, America's Food for Peace program, is an example of this. Through grants



and long-term, low-interest-rate loans, the United States has used this program to transfer enormous quantities of food to poverty stricken areas of the world. It has been one of our finest contributions to peace and friendship internationally, though our motives have not always been entirely altruistic. P.L. 480 became law in the mid-1950's, the time when our agricultural surpluses became both politically and economically troublesome. The Food for Peace program served as a relief valve for those pressures, while at the same time benefiting thousands of hungry people throughout the world.

In the intervening years, many other developed nations have established programs similar to P.L. 480. In combination, they create substantial purchasing power, thereby moving at least some food from the calorie surplus nations of the world to those with caloric deficits. Unfortunately, these programs also have a darker side. In some cases, the food has ultimately reached the nation to which it was sent, but not the people for whom it was destined. This sometimes occurs because of wasteful handling practices—at the dock or in shipment to the interior of the recipient country. Or it may be due to political graft, with the economic benefits of the program being siphoned off by local or national leaders. In addition, such programs can serve to discourage agricultural production in the receiving nation. Why grow the product if one can obtain it free from a generous donor like the United States?

Despite the problems inherent in such programs as P.L. 480, they have a proper role to play in helping feed the world. They are today an integral part of the international food distribution network and may take on added importance in the near future.

There are better long-run solutions to the global malnutrition problem than producing food in the U.S., Canada, and a few other countries, and then giving it away where it is needed. Purchasing power is indeed created by such programs, but it is artificial and not self-sustaining. It creates resentment in donor nations because of the enormous transfer of wealth that is involved, and in recipient nations because of the psychological (and perhaps political and economic) feeling of dependence that is created.

A better solution is to teach the nations of the world how to produce more food. And also to help them expand their industrial production so that they can be fully integrated into the world economy. In other words, we—and the other developed nations of the world—need to assist in the economic development of our lesser developed brethren. Humanitarianism aside, that is just good business.

As the low income nations of the world begin to move up the economic ladder, they generate purchasing power. It becomes real, rather than artificial; and they start to pay for food, rather than beg for it. That is a lot more self-satisfying for them, and a whole lot more profitable for exporting nations like the U.S.

This is not just an economic theoretician's dream. There are plenty of examples to illustrate the point. The classics of recent years are undoubtedly Korea and Taiwan. Both were flat on their backs when they sought our aid two to three decades ago, the victims of major wars. We helped with P.L. 480 and in many other ways. So did other nations. And the Koreans and Taiwanese helped themselves, too. They are diligent, hard-working people. The results: their economic growth rates since

then place them among the highest in the western world. Agricultural production in both nations is far beyond what it was when their economic resurrection began. And, more importantly from our standpoint as an agricultural exporter, food imports today far exceed those which prevailed in the grant and aid days. Today, both nations are billion-dollar-per-year customers, cash on the barrelhead.

What an impressive story, and what a worldwide impact there would be if, politics aside, the Korea and Taiwan experiences could be duplicated over and over again in the 1980's and beyond. Some nations are well on the way to doing just that, but we could provide more of a boost than we are doing today. It is crucial to our own farm economy that we do so. As importing nations develop their economies, they inevitably upgrade their diets, and this generates the demand for still more imports. As exporters, we become the chief beneficiary of that new-found purchasing power.

Summarizing the demand side of our equation, the experts say it will increase globally by 2 to 2.5 percent during the coming decade. Since that will be in balance with expected food supplies, malnutrition in the 80's will be a distribution problem, not a production problem. For the longer term, however, the keys become population growth and purchasing power. American farmers will be better off if the world has more of the latter and less of the former.

### International Trade

Some nations are simply better endowed to become major agricultural producers than others. Japan, for example, can never hope to be self-sufficient in food. The U.S., in



contrast, is doubly self-sufficient and more. As we move into the 1980's, the contrasts, the production differentials between exporting and importing nations, are likely to become even more pronounced. Putting it another way, international trade in agricultural products will increase. Stating it still another way, it *must* increase or malnutrition in the Third World will become calamitous, leading to political revolution.

Here, then, is a brief summary of what will likely be traded, and where.

The big ticket items for American agriculture will continue to be feed grains (corn and sorghum) and soybeans. That is particularly true for the long term, in response to the economic development process mentioned earlier. "Eating better" throughout the world is synonymous with increasing protein levels in the diet, and that, in turn, is synonymous with higher consumption levels for meat and poultry products. Most nations have at least some roughage (grass, hay, and a host of other substitute products) available for their livestock and poultry populations; but not many have sufficient grains and poultry supplements for the desirable "finishing" rations. That is where corn, sorghum, and soybean meal come in, and the U.S. is in an enviable position as the world's leading supplier of those products.

We will not, however, have those markets entirely to ourselves. Brazil already has become a major competitor in soybeans; and Argentina, with soils and climate similar to ours, is rapidly expanding production in all these commodities. Many other nations are significant producers, too, though not at the efficiency level our farmers have reached. With sufficient price incentives, that situation could change, and there may be more players in this market by the decade

of the 90's. The need for the U.S. to maintain its competitive edge in agriculture is very real.

In the coming decade, the food grains, wheat and rice, also will be big-ticket items. Few people realize that we are one of the world's major rice exporters. They are well aware of our wheat exports, of course, the early Soviet purchases of that product

"Farming ... ultimately depends on the weather. We may till, fertilize, breed new plant strains, invent new machines, but if the rain does not fall or if freezing winds blow, all our ingenuity and labor will go for naught."

ROBERT CLAIBORNE / author

having received tremendous media attention.

Wheat and rice are staples to billions of people today. As the global population continues to increase, they will inevitably play that role in the future. This means that they must also be the staples of food aid programs, as they have been for many years. It is only when a Third World nation begins to emulate the experience of Korea and Taiwan that it becomes genuinely interested in importing feed grains and soybeans. Until then, the interest on behalf of many of its people is survival—on the most basic of diets—and that calls for wheat or rice.

Since the demand for food grains

will be huge for decades to come, America will have an opportunity to move its wheat and rice into the world market. But it will be a much more competitive arena than with feed grains and soybeans. Wheat and rice can be grown in dozens of countries throughout the world. The "miracle varieties" have dramatically enhanced rice yields, and hybrid wheat soon will become commercially viable. Therefore, global production levels of both these foods could increase very substantially in the 1980's and beyond. I will not be a "bushel of wheat for a barrel of oil" environment. We will have to work hard just to sustain our position internationally—and even harder to enhance it.

There will be ample export opportunities in other agricultural products, too, some of which have yet to whet our interests. Meats fall into that category, where we have a quality product duplicated nowhere in the world except on a small scale. As the world becomes more affluent, meats could present a substantial volume, high-margin market for us. Cotton should do well if fashion trends continue to emphasize natural fibers, and if high energy costs enable it to remain competitive with synthetics. We also have a number of specialty products—fruits and vegetables, nuts, and others—that are carving out impressive niches for American producers.

Where will the product go? Who will emerge as the Koreas and Taiwans of the 1980's? What export volumes can we expect by 1990?

First of all, we must remember that our most dependable markets are in the developed world, particularly Japan and the nine nations (soon to be 12) of Western Europe which compose the European Economic Community. Our agricultural exports



## MARKETS

to that group of nations have expanded gradually but significantly over the past decade, and there is no reason to expect them to do otherwise in the 80's. They are truly the foundation of our export business.

Lest we search too far in the distance, we must also remember that we have major markets close to home: Canada and Mexico. Amplifying our economic relationships with those two countries ought to be high on our priority agenda for the coming decade. Canada and Mexico are already solid customers of ours, in both agricultural and industrial goods. But the trade numbers are almost nominal compared to what they could be 20 years from now. Both nations have a wealth of resources. As they accelerate development of those resources in the coming years, their trade volumes will inevitably increase. Among these three nations of the North American continent, the trade numbers can, and should, be almost mind-boggling. It is in the best interest of their peoples that they reach such levels.

Agriculture will be a major component of trade expansion in North America. Though we compete with Canada as an exporter of wheat and a number of other products, that country is a significant market for many food items that cannot be grown in its relatively cold climate.

Mexico hopes to achieve self-sufficiency in food, but that is no more than wishful thinking in the short run, and perhaps even in the long run. Our neighbor to the south will need vast amounts of American food products to satisfy the consumer demands of a booming, energy-driven economy with a burgeoning population. As noted earlier, food demand is a function of population and purchasing power. In the next

couple of decades, Mexico will have a lot of both, and much of the food to meet that demand will logically come from the U.S. Both nations should be preparing their internal transportation systems to satisfy that need, or we may miss a mutually advantageous business opportunity laden with political and social consequences for each of us.

For sheer growth potential one must, of course, look to the Orient. With countries such as Japan, the People's Republic of China, Korea, Taiwan, Malaysia, Indonesia, and the Philippines as potential customers, and with Hong Kong and Singapore being two of the world's most imaginative trading centers, the marketing opportunities are awesome.

So why are we not already doing more in the Far East? There are lots of reasons, steeped in tradition, language, culture, distance. But all those hindrances can be overcome, and a golden opportunity awaits those with the skill and patience to penetrate the markets of Asia.

Finally, one must add a word about the Soviet Union and Eastern European markets that were opened to U.S. farmers in the 70's. Those markets are now jeopardized by the strain in relationships between the U.S. and the Soviet Union, and the accompanying embargo of January, 1980. Without seeking to debate the foreign policy implications of Soviet actions in Afghanistan and our response, I would only say that our long-term interests are better served if such nations have become more, rather than less, dependent on us for their food and other needs. An expansion of international trade contributes to that relationship; a contraction denigrates it. Therefore, I would hope that in the future we can once again meet our basic foreign policy and military objectives vis-a-

vis the Soviet Union, while also significantly expanding agricultural trade with it and Eastern Europe.

### Agriculture—A Growth Industry

If we do what I have just outlined, U.S. agriculture will clearly be a growth industry in the 1980's. Exports are the key, and a healthy export economy will mean a healthy domestic agricultural economy. The two go hand in hand. Without the former, we will never enjoy the latter.

What will the numbers be in 1990? Several agricultural economists are projecting approximately \$100 billion in farm exports, as compared to \$40 billion presently. That is a phenomenal increase, though it must be modified by one's assumptions concerning the inflation rate during the intervening period.

Inflation aside, we should be able to sell an enormous physical volume of goods in the 80's, far beyond even the impressive successes of the past decade. The essential elements:

- Maintaining and enhancing our competitiveness as a producer.
- Fostering the economic development of potential importers, thereby helping them to become paying customers.
- Identifying the markets with greatest growth potential, by nation and by product.
- Selling in those markets with skill and cultural sensitivity.
- Developing a transportation system that will move the product to port and destination efficiently and with minimal loss in quality.

If American agriculture will do these things, it will be a rewarding decade for U.S. farmers and a comforting decade for consumers the world over. ▲

*Dr. Yeutter is former Deputy Special Trade Representative and former Assistant Secretary of Agriculture.*