

WORLD INFLUENCES ON UNITED STATES AGRICULTURE

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Change has become the watchword, especially economic change.

Never before in history have there been so many people in the world. Never before have the peoples of the world had so high a standard of living. Never have the world's industries had as much capacity to produce what consumers want. Never has the demand for resources been so great.

The change affects us all. It's not just oil and food, although we have certainly had enough headlines on oil and food. It's also timber and metals and energy of all kinds, and phosphate rock and on down a long and growing list.

We're seeing many different items where demand is outstripping supply, many cases of sharp price increases and even shortfalls.

It indicates a basic shift in the demand curve. In most of these shortage situations, it is not a change in the supply situations. In food, we have had bad crop years before. Russia, in 1963, had a bigger relative shortfall in her grain crops than she did in 1972. The difference was that in 1963 she slaughtered livestock, tightened her belt and imported as little as possible. In 1972, she had made a basic change in policy -- a decision to feed her people better. That meant buying massive quantities of grain for food and livestock feed, and that is what she did.

Figure 1 illustrates the drastic variation which occurs in the production of wheat and feed grains in the Soviet Union.

At this point it seems desirable to put the Russian grain purchases in perspective. Some politicians and others have blamed our grain sales to Russia for our skyrocketing food prices and the huge surge in exports. While the Soviets have received the lion's share of attention they by no means accounted for the greater portion of the higher U.S. agricultural export levels in fiscal year 1973. Overall farm export value jumped 60 percent. Forty percent of this increase was due to higher prices. But, the USSR accounted for only 16 percent of that increase compared to 30 percent for Western Europe and 22 percent for Japan.

We had an energy crisis -- in this nation and throughout the industrialized world -- before the Arab oil embargo. We are simply using energy in the world at a rapidly increasing rate. We have far more people bidding for fuel for many more machines than the world has ever seen before. The Arab oil embargo just brought the energy problem to the forefront.

The real difference is not a change in supply, but the change in demand. What's Happening to Demand?

The first thing that's happening to demand is more people.

The population of the world first topped 1 billion about the year 1830. It took from the dawn of man until nearly 2 thousand years after the birth of Christ for the number of people in the world to build up to that point. Disease had a major role in holding population down, of course.

It took 100 years for the world to add it's second billion people, and we reached that mark about 1930.

It took 30 more years to reach 3 billion, and by 1975 we expect to have 4 billion people in the world. We will have added the 4th billion in 15 years.

Obviously, the world today has more mouths to feed and clothe and house.

Even more important than population, however, is the fact that these 4 billion people are living better than people have lived in the past.

The rising standard of living is not just an American phenomenon. It is happening all over the world. Per capita output has been rising around the world - in both the developed and developing countries -- at 3 to 4 percent per year recently. adjusted for both inflation, and for population growth.

The increased numbers of people plus the increased purchasing power equals effective demand. And this demand is being reflected in markets for resource industries like agriculture.

When people get more money, they want to eat better. And this is reflected first of all in the demand for more calories in the diet. As soon as people get enough calories, then they start striving for a better protein balance. In the Orient this may mean more soybeans directly in the diet. More often, this means a demand for meat, milk, and eggs--animal protein--which is produced from grain and oil seeds.

It takes three to seven times the resources to produce the protein from livestock as it takes to produce cereal protein. In other words, a one-pound increase in demand for beef really results in a 7 to 8 pound increase in demand for feed grain.

In collective economies, such as the USSR, People's Republic of China and East Europe, with their strong centralized authority, it is difficult to ascertain real income and to relate it to increased demand. However, if a central authority decides that everyone is entitled to meat once or twice a week, the impact is the same, the broader income distribution is effectively taking place. It appears that such decisions have been made in the Soviet Union and much of East Europe. These developments suggest continued expansion of feed grain demand.

Developed and less developed countries have increased total food production by about the same percentage since 1962. However, because of greater increases in population, the less developed countries are barely able to maintain per capita food production at the 1962 level. The added production is due mostly to increased yields, not bringing new land under cultivation, (Figure 2).

The growth in farm product demand has not come out of the blue. Demand has been growing pretty steadily for a number of years. The demand surged in the past year and a half on bad weather in several important areas, and on the depreciation of the U. S. dollar in international trade.

Figures 3, 4, 5 and 6 show exports and imports of wheat and feed grains from 1962-63 to 1972-73 and forecasts for 1973-74.

The dollar is now truly floating in international trade and its value changes daily. In terms of many foreign currencies such as the Japanese Yen and the German Mark, comparing July 1969 with mid-1973, the dollar had depreciated in value from 20 to over 40 percent. This meant that the price of a bushel of U. S. wheat could go up 20 to 40 percent from 1969 levels before foreign buyers felt any price impact at all.

Another significant factor in this new ball game is the complete turn around in the philosophy of agricultural programs in this country. After 40 years of increasingly heavy government involvement in agriculture Congress and the Administration are making very rapid progress in getting the government out of agriculture. The first substantial move in this direction came with the Agriculture Act of 1970 - and the Act of 1973 completes nearly an 180-degree turn in the thrust of farm programs.

For all practical purposes, the government does not own any commodities. The government is no longer a major factor in the commodity market. For years much of the developing and

developed world has operated on the presumption that reserve stocks were only an ocean voyage away. However, in the past 18 months, the USDA has sold its huge stocks of wheat and feed grains and is out of the storage business. This has brought instant recognition of the possibility that future access to our stocks may be limited for there's far less political justification both to rebuild U.S. surplus stocks and to grant concessionary access to them.

It is quite evident that the burden of carrying the world's food and feed reserves will be shared more equitably in the future. The American miller and the Dutch soybean crusher know now that nobody else is going to guarantee their supplies for them. U.S. exporters know that they can't rely on CCC stocks or on export subsidy to provide working stocks and price protection. If they want to sell grain they'll probably need to own more grain than in the past. Food importing nations are taking new interest in building reserves to protect their peoples' food supplies. All of these interests have a new incentive in sharing the costs -- and advantages -- of reserves.

That's why the Japanese are buying cotton from the 1975 crop, and the Taiwanese have signed 3-year commitments with exporters for grain and soybeans. That's why U.S. farmers are getting more and more forward bids for production.

One tangible benefit for U.S. farmers is that during future periods of stock-building, these buying interests will be competing for stocks. In the past, they have let the stocks flow into the CCC at support prices.

Access to supplies will be a more important part of future trade negotiations. The world is facing a demand explosion, with more and more people bidding for the available supplies of farm products, timber, energy, minerals, chemicals and all kinds of resources. Export embargoes and rationing of export supplies are becoming as bothersome as tariffs and import levies. Open trading is the fairest way to share these scarce resources, and while little attention has been given to supply access in the past, this could become one of the more important items of negotiation in the future.

In the space of less than two years, American agriculture has attained a new stature in the public mind, and it has entered the big leagues in international trade.

Anyone who has read a newspaper or looked at television over the past year, can confirm that the consumer has, at long last, discovered agriculture. It has been a shock for the consumer to discover that his food supply does, indeed, come from somebody's farm, and that the farm supply is neither inexhaustible nor instantly renewable. But the shock has come, and, whether he is for agriculture or ag'in it, I don't think the consumer will ever take agriculture for granted again.

A second aspect of the past couple of years in agricultural trade has been what I perceive as a growing awareness of the importance of agriculture in this country's foreign relations.

For years after World War II, U.S. agriculture's main role in foreign affairs was to provide the food aid that offered devastated countries a measure of stability while economies were rebuilt and governments restored. That has changed. Economies in much of the world are strong and growing, and, with some painful exceptions, the sustenance rations of the post-war era have given way to better diets -- less starch, more protein.

Consumer pressures for better eating are strong and growing in these prosperous societies, and they are forcing governments to turn increasingly to other countries to meet demands that their domestic agricultural systems can't supply.

In this situation, the international role of U.S. agriculture, as the world's leading supplier of a number of basic agricultural commodities, has changed from one primarily of aid to one of trade -- of providing what we might call standard of living insurance to foreign societies, rather than life insurance, which it did so well with the massive food aid of the forties and fifties.

The final aspect of this remarkable period for agriculture is perhaps less understood, but it is no less important, than its role in filling our supermarket shelves and undergirding our foreign policy.

I am referring to the growing significance of its contributions to the nation's balance of trade. Agriculture has consistently shown a trade surplus - close to a billion dollars or more every year since 1961. Last fiscal year's exports produced a record agricultural contribution of \$5.6 billion to the U.S. trade balance, at a time when non-agricultural trade was showing a deficit or more than \$9 billion. If this trend continues, we will pile up an international trade surplus in fiscal year 1974 of more than \$10 billion. The U.S. had an overall trade surplus in 1973 for the first time in several years because of agricultural exports.

Farm exports, by keeping the dollar strong, are lowering the cost of living for everyone in the nation. Without exports, the cost of many of the things we buy would be higher -- if we could get them. We import things like coffee and bananas and tin because we cannot produce them ourselves. We import things like oil because we do not produce enough. We import many other things because we can buy them more cheaply overseas. Without the foreign earnings from our farm export sales, we would not be able to import many of these things. Our cost of living would go up while our standard of living went down.

I expect American farm exports to continue making a major contribution to our balance of trade. These exports will help hold down our cost of living by strengthening the dollar.

Floating exchange rates or the complete lack of structure in international monetary affairs have tended to exaggerate day to day fluctuations in grain prices. We have seen this happen constantly since last spring. It is important to understand that while heavy grain buying can occur at a time when gold prices advance sharply and the dollar weakens, this buying is temporary in nature and does not change total supply-demand figures. The weakness in dollars does not increase demand but only precipitates early decisions to buy so that it appears that additional demand is caused by weakness of the dollar. But actually what is happening is that foreign buyers are using grain purchases as a vehicle to sell deferred dollars in anticipation of further dollar weakness. Conversely, it is conceivable that when dollars strengthen other factors may sell grain to establish a dollar receivable.

In a period of strong demand for commodities and great uncertainty over the value of money, there are compelling reasons to obtain claims upon commodities vis a vis holding currencies. We are bound to see basic commodities used with increasing frequency as vehicles for exchange positioning rather than for their end use value.

I am very pleased to see that my colleague, Bob Sargent, will follow me to discuss the outlook for potatoes. This is a time when producers need the best market information available so that they can make profitable selling and buying decisions.

Figure 1

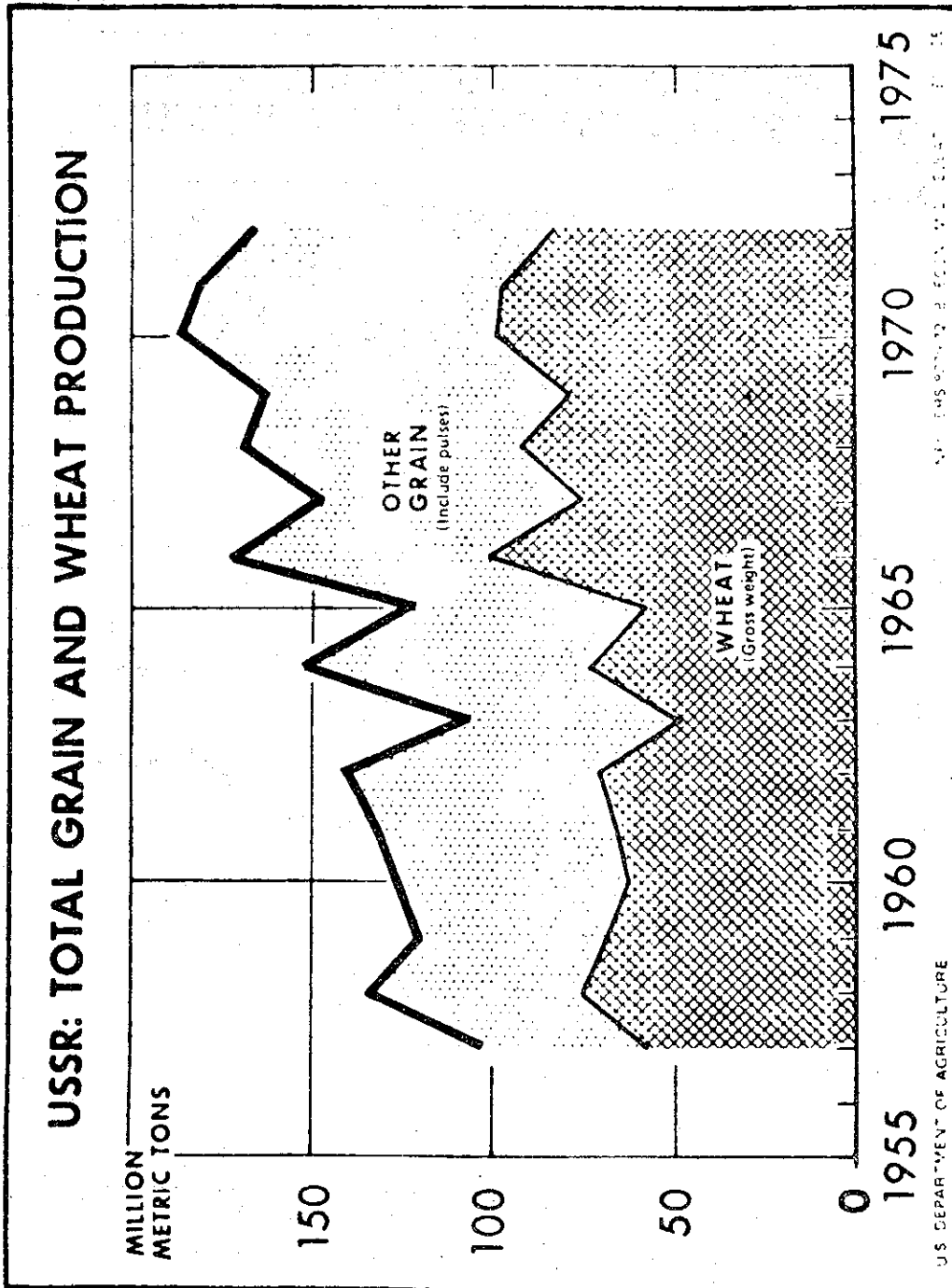


Figure 2

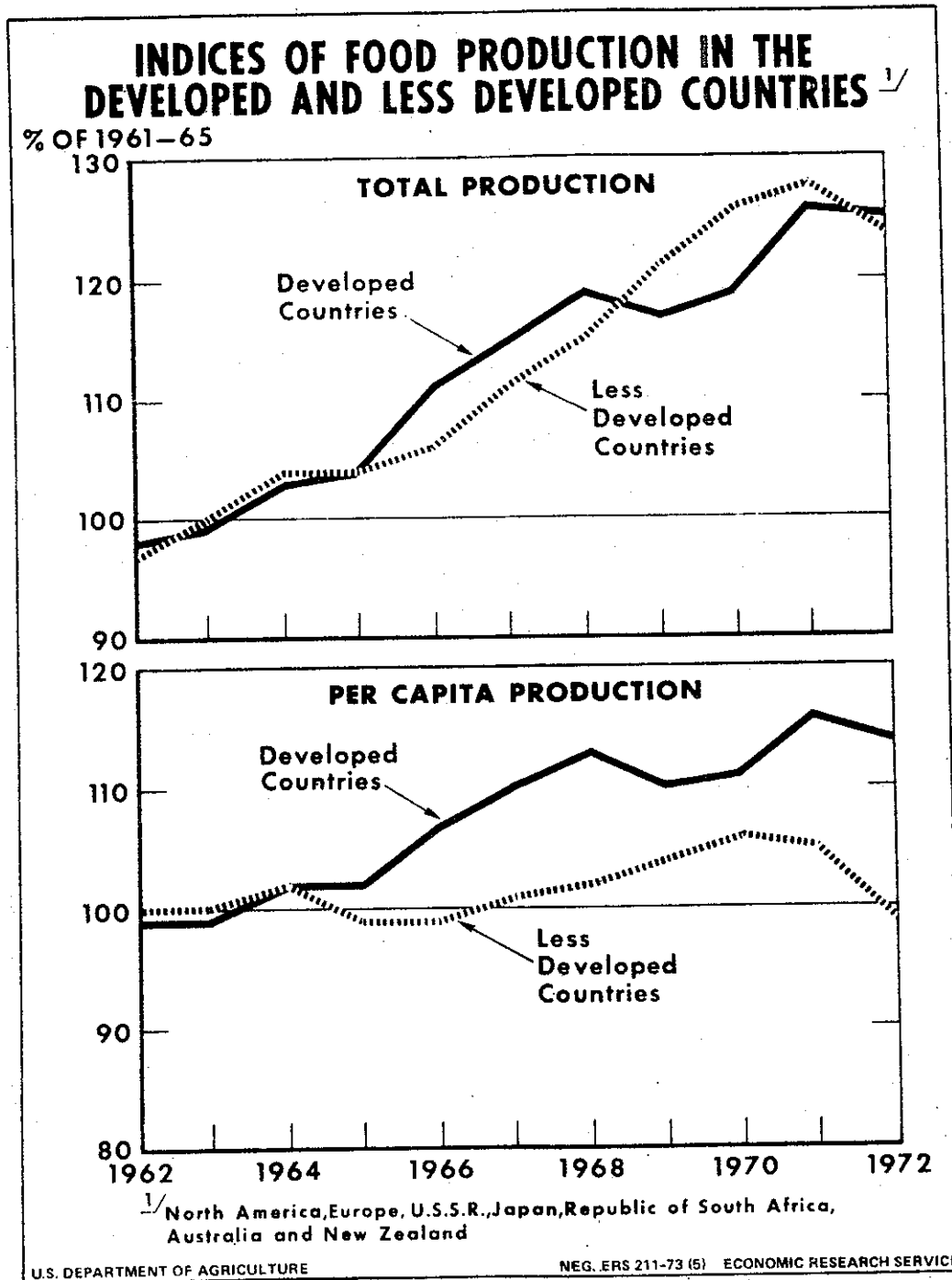
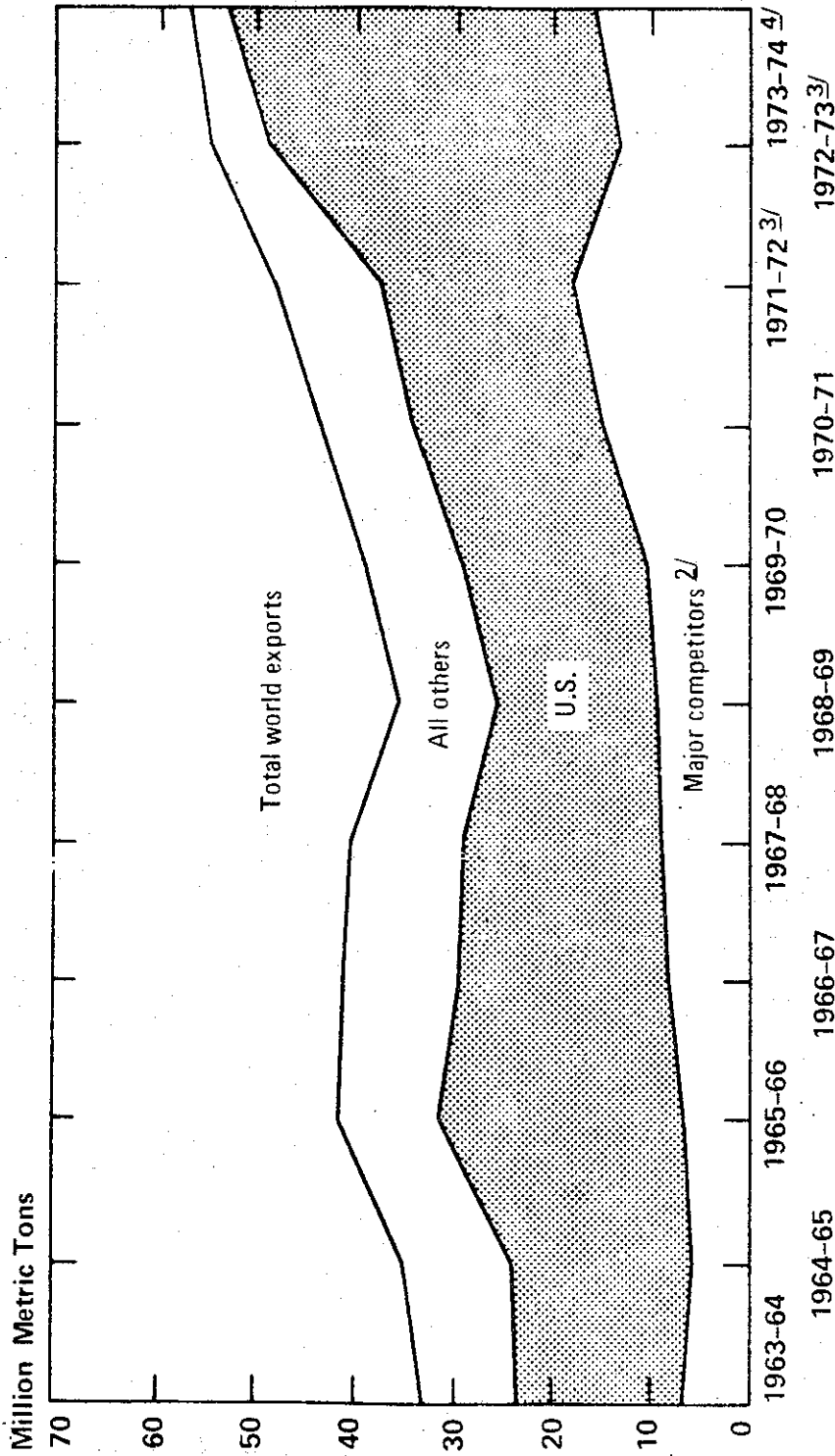


Figure 3

FEEDGRAINS 1/ : Major competitors, 2/ U.S. and total world exports, July-June, 1963-64 to 1972-73 and forecast for 1973-74



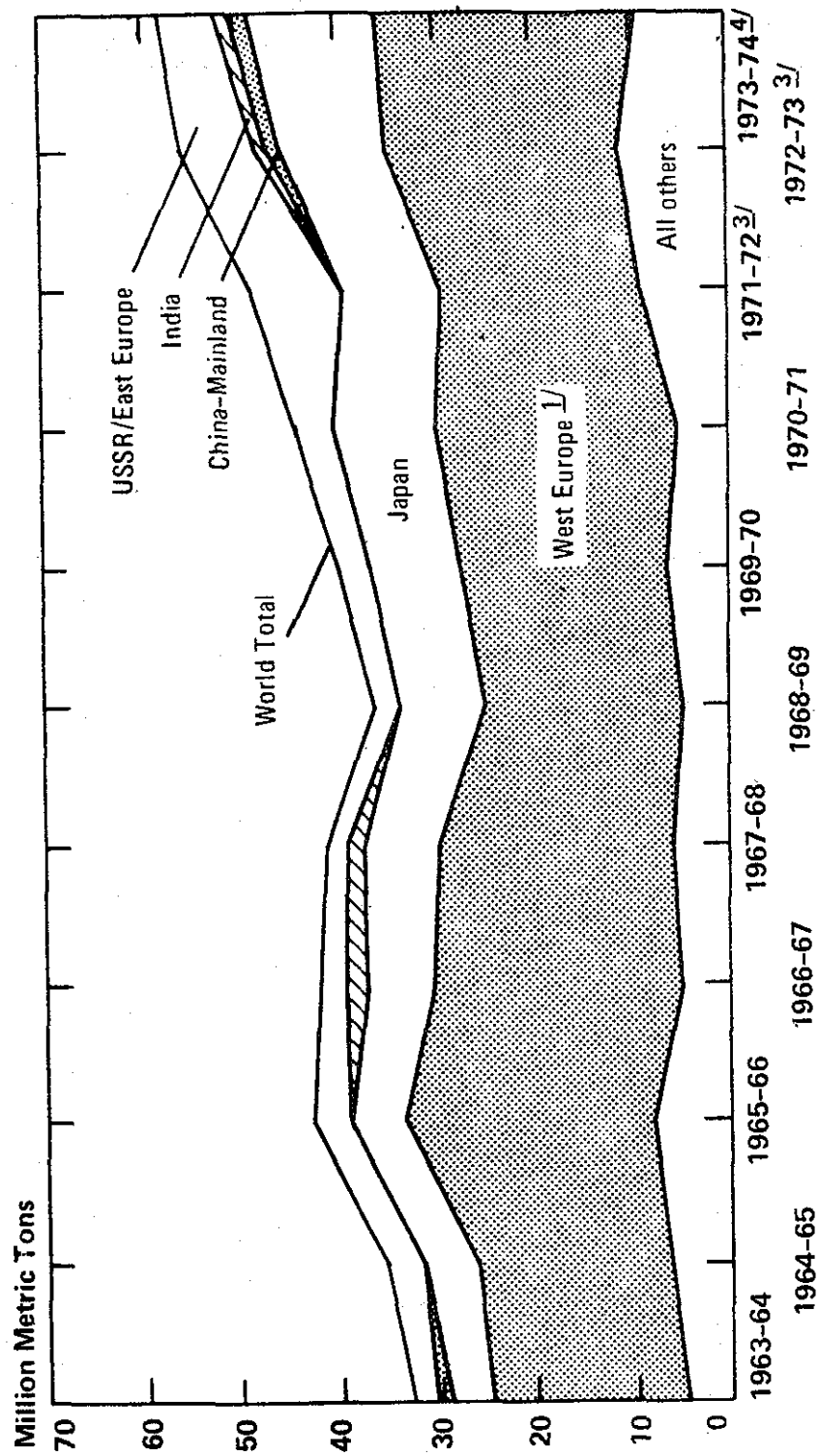
1/ Rye, barley, oats, corn, and sorghum

2/ For Argentina, corn and sorghum; for South Africa, corn; for Thailand, corn; for Australia, sorghum and barley; and for Canada, barley.

3/ Preliminary

4/ Forecast

FEEDGRAINS 1/: Imports by selected areas of the world and world total, July-June year, 1963-64 to 1972-73 and forecast for 1973-74

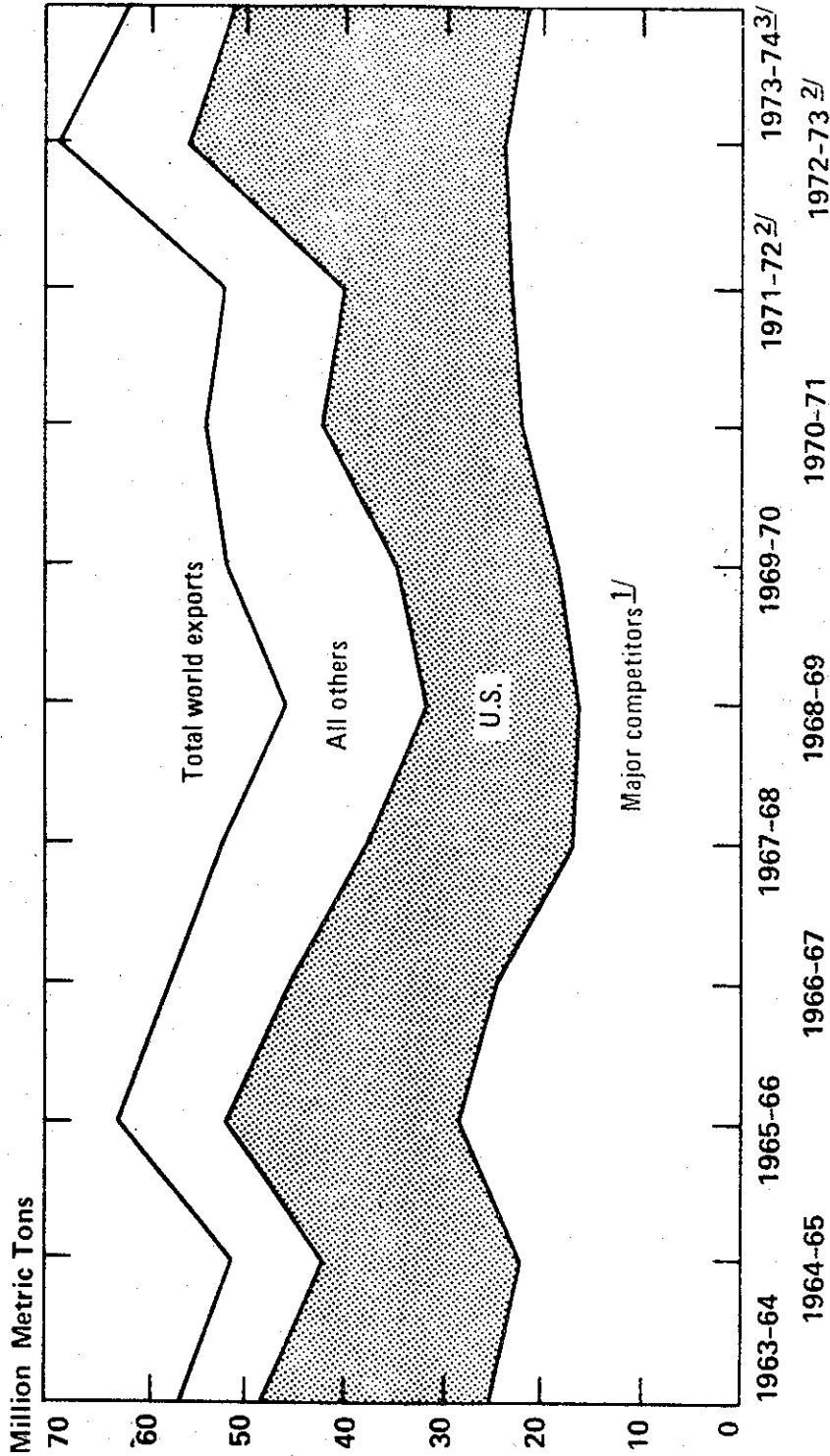


1/ Rye, barley, oats, corn, and sorghum
 2/ Excludes intra-EC trade
 3/ Preliminary
 4/ Forecast

Figure 4

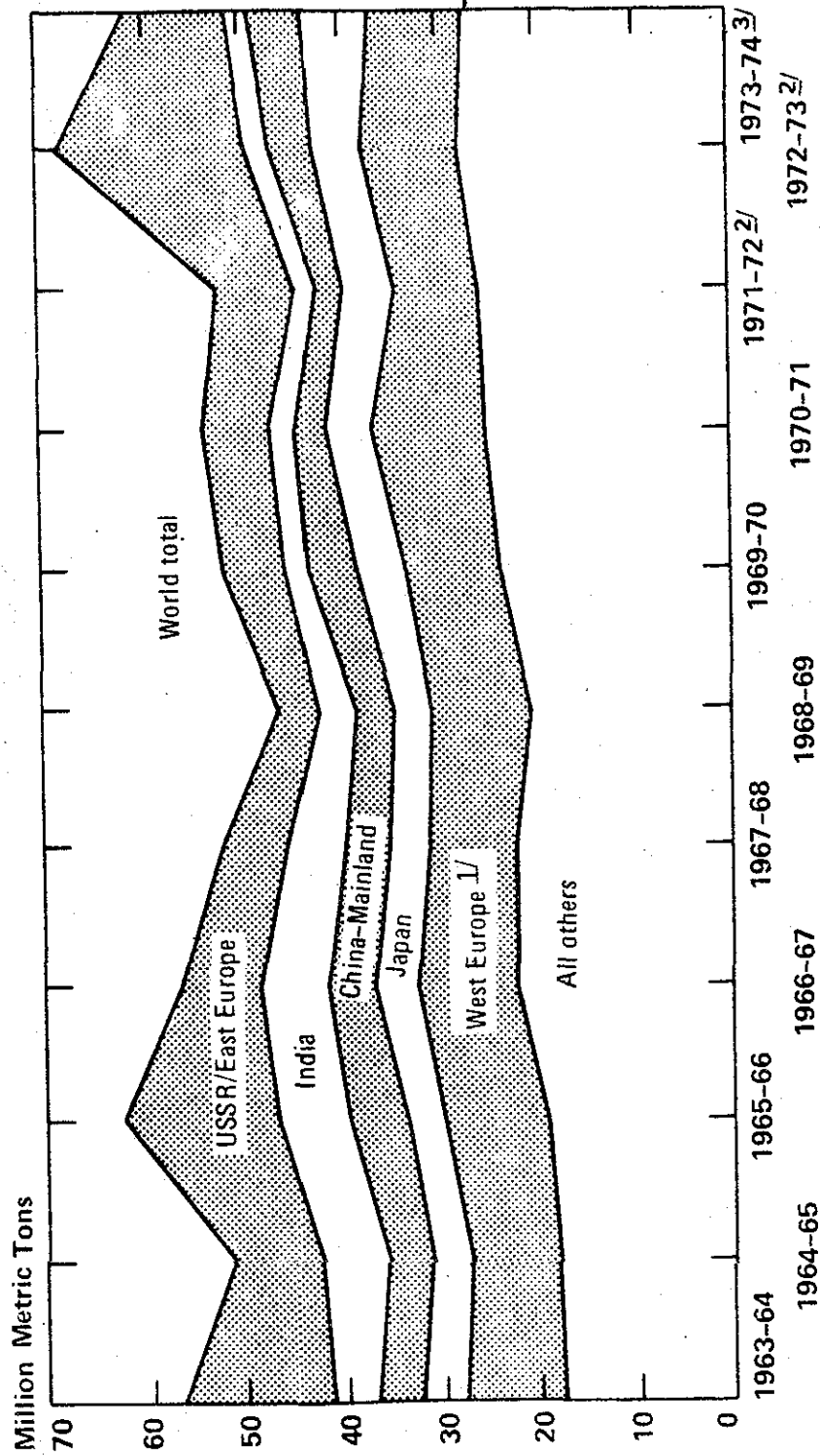
Figure 5

WHEAT AND FLOUR: Major competitors,^{1/} U.S. and total world exports, July-June, 1963-64 to 1972-73 and forecast for 1973-74



^{1/} Canada, Australia, and Argentina
^{2/} Preliminary
^{3/} Forecast

WHEAT AND FLOUR: Imports by selected areas of the world and world total, July-June year, 1963-64 to 1972-73 and forecast for 1973-74



1/ Excludes intra-EC trade
 2/ Preliminary
 3/ Forecast

Figure 6