Research Department
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The Grain Drain

Echoes of the 1972 Russian wheat deal were heard in Washington last week when unexpectedly large grain orders from the Soviet Union and other customers led the Administration to impose a limited system of controls over large grain-export sales. The plan involves advance approval of all single sales of more than 50,000 tons of wheat, corn, sorghum and soybeans—or weekly sales to a single customer of more than 100,000 tons of any of these products—and it is designed to alleviate domestic supply shortages and to dampen the upsurge in food prices.

The flurry of export orders came at a time when harvest prospects for two vital feed crops, corn and soybeans, had already turned sour under the impact of a "triple whammy"—spring floods, summer drought, and now a September cold wave which brought killing frost in its wake. With adverse weather developments offsetting the effect of a sizable expansion in acreage, total crop production this year may fall more than 7 percent below the record 1973 level, and the feed-grain and soybean harvests may fall 18 percent and 19 percent, respectively, below year-ago figures. The importance of these figures is underlined by the fact that the U.S. accounts for one-half of global feed-grain exports and four-fifths of soybean shipments.

Because of the worsening crop situation and export-demand pressures, harvests of major crops may be no more than adequate to keep supply pipelines filled at the end of the 1974-75 crop season. Besides, the adverse price effects of this situation have recently been hidden by the softening of livestock prices, brought about by farmers liquidating herds and rushing grass-fed and lightweight animals to market. These livestock cutbacks could mean shortages and higher prices of meat sometime in 1975.

Case for controls

When a sharp increase in export demand followed on the heels of the reduction of crop prospects, the case for export controls suddenly appeared more plausible than it had previously seemed. By late September, corn export orders reached 1.1 billion bushels, half again as much as earlier official projections, while soybean shipments in September alone reached 18.2 million bushels, more than three times the size of September 1973 shipments. The continuation of those export trends would mean the complete depletion of the nation's grain stocks before the end of the 1974-75 crop season.

Against this background, the Administration asked the cooperation of our major trading partners, such as Japan and Western Europe, to reduce import requirements 10 percent from the pace of the last year —and then followed up last week with the limited controls over grain exports. Some analysts would go even farther, however, and impose mandatory controls over all such exports. They claim that the objective of domestic food-price stability should override any obliga-

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tion to meet foreign demand—whether for consumption, stockpiling or speculation.

According to this view, the level of world grain stocks is now so low that it makes the market extremely vulnerable to weather and market uncertainties. Since our livestock-feeding operations are now subject to a severe cost squeeze, a further reduction of grain and soybean supplies could create havoc for the farmer as well as the consumer. Among other reasons, historical evidence suggests that price instability is a major inhibitor of the expansion of agricultural output. The liquidation of cattle, hogs and baby chicks not only means a direct income loss in agriculture, but also a diminishing ability for the industry to produce in the future.

In this situation, the argument goes, the lack of controls would tend to destabilize the market, destroy farmers' incentive to produce in the long run, and thereby hinder the fight against inflation. At the same time, in order to ensure the overall efficiency of the economy, the allocation of our limited supply of grains and protein materials would appear necessary as a means of providing sufficient amounts for domestic consumption and operating inventories.

Case against controls

In contrast, most agricultural analysts claim that export controls in the long run would penalize both the farm economy and the nation's balance of trade, even though food prices would be forced down in the short run. USDA officials cite last year's unfortunate experience with soybean export controls, which damaged the nation's reputation as a dependable supplier of farm products yet failed to create any noticeable improvement in domestic supplies or prices.

The U.S. for decades has had a comparative advantage in agricultural production, so that both the nation and the rest of the world gain as U.S. farm exports increase over time. The agricultural sector is our largest single export industry, accounting for nearly 25 percent of total export earnings. A large and growing overseas market for U.S. farm commodities is thus essential to the health of the farm economy at home and to the support of the dollar abroad.

In the critics' eyes, export controls may encourage other nations to expand their agricultural sectors in order to achieve self-sufficiency, but may also discourage American farmers from expanding, and thus could lead to no net increase in world production. And although controls could shield U.S. consumers from relatively minor inconvenience in the short run, they could simultaneously accentuate food shortages in poorer countries.

Another difficulty is that the U.S. adoption of export controls would encourage other countries to follow the same path. Indeed, export controls at this time would violate the "standstill agreement" negotiated among the major industrial nations in June to bar export (or import) controls for a year's time as a means of providing a breathing spell to deal with the oil crisis.

Some implications

The present atmosphere is somewhat different from the 1972-73 period, when government policy aimed at "supply adjustment" by putting idle land back into production in anticipation of a record harvest. Today, especially in view of severe weather problems, the strategy seems to rely upon "demand adjustment" in hopes that foreign customers will reduce purchases and that U.S. farmers will cut back feeding operations. Fortunately, world crop prospects are generally favorable; grain production outside North America may approach last year's record level, in contrast to a more than 22-million ton reduction currently anticipated here. In these circumstances, our foreign customers should have less difficulty cooperating with U.S. requests for purchase limitations than during the 1972-73 period.

A paradoxical development in this period of shortages and controls is the possibility of an abundant near-term meat supply, because of the present buildup of cattle herds and breeding stock on the farm. In view of the feed shortage, farmers may be tempted to feed for shorter periods or slaughter low-grade and underweight animals directly from the pasture. If they did so, they could ease the current pressure of domestic demand on feedgrain and soybean supplies, but at the cost of sharply reducing meat supplies—and fueling inflationary flames anew—after mid-1975.

In the 1970's, many countries are trying to export their domestic inflation to other countries by placing controls on their exports, just as —in a symmetrical yet lamentable fashion—they attempted in the 1930's to export unemployment by placing controls on imports. After World War II, the world erected a set of international rules and institutional arrangements, embodied principally in GATT—the General Agreement on Trade and Tariffs—to outlaw import controls. These arrangements have proved successful, so that there have been no major trade wars on import controls. But since no rules were created to deal effectively with export controls, little could be done to stem the proliferation of such measures in the past several years. In this as in other areas, increased international consultation would be desirable to limit the damage from worldwide crop difficulties.

This may be a golden opportunity for the world leaders who will assemble in Rome next month for the first World Food conference to look carefully into food production and consumption patterns in developing countries, in addition to the security of world food supplies. The usefulness of policy decisions will depend upon equitable and efficient food distribution within needy countries, as well as on the availability of farm inputs and the diffusion of modern farm technology in both developed and developing countries.

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