Comparative Advantage in an International World: The Need for a Realistic Agricultural Policy for the United States

by Orville L. Freeman

The following is an edited transcript of an address presented by Mr. Orville L. Freeman at the Export Conference held at The University of Georgia School of Law on March 30, 1984 and sponsored by the Rusk Center.

Currently, world agricultural markets are in an abnormal state. On a global basis, production has been expanded significantly as our competitors have been favored by excellent yields in the past few years.

At the same time, global demand has fallen sharply because of the world recession. The result is a glut of grain. The total carryover of grain stocks, plus equivalent of idle acres in the United States, has climbed to an all-time high of 283 metric tons or, in terms of world consumption days, to 68 days. For perspective, this carryover compares to 104 days in 1961 when I became Secretary of Agriculture. The problems we face in these terms is thus not a new one.

The immediate result is weak market prices and an acute recession in the agricultural sector of the U.S. economy. Given these circumstances—and they are likely to recur in unpredictable but inevitable cycles—the U.S. must have in place a domestic farm program to support and assist the American farmer. To make the program work experienced and competent management must be in place.

The policy premise for this program is twofold:

First, the production capacity of the U.S. agricultural sector must not be seriously eroded. History has shown that we, at home, and the world internationally, will need American production capacity when global economic cycles emerge from their trough.

Second, and equally important as policy imperative, both fairness and equity demand support by the government of this nation to the farmers who have contributed so much to our economic well-being, and who are uniquely subject to uncontrollable external causes, and, to cyclical movements and global interactions.

Nevertheless a policy and program to accomplish what, for want of a better word, I will call this defensive purpose, must be sensitive to global realities and designed in a fashion that does not result in the United States pricing itself out of world markets.

A Feasible Program

Let me offer some ideas on how I think this can be done and on what it will take to design an agricultural policy for the U.S. that will effectively integrate both domestic and international realities.

On the international front, the U.S. must launch a carefully coordinated, major, sustained, integrated agricultural export offensive. Such an offensive should take advantage of our production superiority, our efficient agribusiness marketing systems, and of U.S. exporters geared to foreign needs. The effort must recognize that demand has leveled off in the industrial countries, and that the developing world, now taking one-third of U.S. farm exports, offers the best opportunities for expansion in the years ahead, if and when those nations again show income growth.

It must be recognized that this offensive will be a different kind of game than we have known in the past, requiring a wider range of skills, resources and initiatives. An exporting strategy based on the notion that it can expand sales simply by writing orders will fail. We will have to do our homework. Americans will have to research potential customer countries in terms of their total requirements. We will have to look at consumer needs and wants, purchasing power, political pressures, the needs for infrastructure such as port facilities and transportation, and customer countries' needs for new production, storage and processing technology as well as farm products. In short, we will

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Agricultural Policy (Cont.)

have to size-up these opportunities in terms of packages that meet the customer's needs.

Happily, the U.S. is solidly positioned to put such packages together and to tie them to a sensible domestic farm program.

Since 1954, and the passage of Public Law 480, this country has on a concessional basis, moved over 100 billion dollars of food and fiber to meet human need, contribute to economic development, and build commercial export markets in developing countries all over the world.

Shipments since 1954 have ranged from 15.3 million tons of grain in 1967 to an estimated 4 million tons in 1983. In the process we have learned how food abundance can be effectively utilized. We have also learned how, if carelessly managed, it can be counterproductive.

An International Initiative

It is my conviction that the time has come to combine that knowledge and our farm abundance into a solid, efficient, international agricultural initiative.

Such an initiative should have four components:

1. Humanitarian. We should reach out all over the world to help feed truly needy people. A major effort with a significant U.S. contribution is now under way in drought-stricken Africa. That effort must be strengthened and expanded. In addition to relief, wherever possible, food aid should be tied into self-help projects focused on improving production potential, aimed especially at small producers.

2. Developmental. The U.S. should expand its economic development assistance program to many more developing countries. Food aid can be used to stimulate agricultural development in developing countries. Food for work programs, building needed infrastructure, can be highly successful if well managed.

Title 3 of Public Law 480 provides for the U.S. to grant money it receives for agricultural commodities back to the country to finance agricultural development projects with forgiveness of funds if the project is successful. The authority of Title 3 could be expanded to help finance investment by American agribusiness companies in developing countries. The present initiative of the Bureau for Private Enterprise in the AID Agency can make good use of Title 3. It should be given more support and resources.

The Industrial Policy Contest

Our nation is engaged today in a great debate on industrial policy. We are trying to identify what should be the relationship between the government and the private sector as American industry faces new technology, new challenges, and new competition around the world. One can hardly pick up a newspaper, or tune in a television station, without exposure to the question of how to relate government and the private sector as we go forward to meet competition in world markets and successfully accommodate basic structural change.

There is no doubt in my mind that the private sector moves technology to use more efficiently that does the government, and that this is true in developing countries as much as in industrialized ones. Obviously, profit and risk criteria must be met if private agribusiness companies are to invest in the developing world and move modern technology in production and marketing to small farmers in the developing countries. My point here is that identifying these win-win opportunities for private sector activity in the developing world, and encouraging U.S. companies to respond, could and should be an important ingredient of our national agricultural policy. Designed in close cooperation between government and business at the highest level, this kind of global enterprise would have a triple dimension for the U.S.: It would yield profits, build export markets, and make friends in the political arena.

A Grain “SDR”

Another innovative way of putting American food abundance to constructive use in solving pressing global problems would be for the U.S. government to make available to the International Monetary Fund a substantial volume of wheat, in addition to the credit already recommended by the President. The IMF could use this wheat to alleviate the debt loads that now plague many of the developing countries. The wheat could be supplied by the IMF to grain-importing LDCs, with payment negotiated over a period of time at appropriate levels of interest. Such a move would make it possible for hard-pressed LDCs to use foreign exchange they would otherwise spend on grain imports to meet their international obligations or invest in internal growth and development.

3. Marketing-Minded. We must expand our market development activities, coordinating them closely with our economic development initiatives. Since the mid-1950s, the U.S. has run a remarkably successful foreign market development program for agricultural products. It is a cooperative program between the Foreign Agricultural Services of the U.S. Department of Agriculture and some 60 private commodity organizations, ranging from wheat and flour to raisins. The costs of these programs are shared by government and the commodity groups. These market development efforts need to be expanded. They should command top priority and adequate resources.

4. Competition Oriented. The United States must fight unfair trade competition wherever it occurs, particularly in nations that use export subsidies or have erected import barriers for agricultural products. This means developing a long-term strategy to prevent some countries from putting up new protective barriers and getting other nations to reduce unfair levels of protection, such as Japan still has for beef and citrus.

The Author

Mr. Orville L. Freeman is chairman of Business International Corporation. Born in 1918, Mr. Freeman graduated magna cum laude from the University of Minnesota and practiced law in Minneapolis from 1947 to 1953. From 1955 to 1961, he served as governor of Minnesota. In 1961, Mr. Freeman began an eight-year term as Secretary of the United States Department of Agriculture. Since 1969, several international corporations have utilized the expertise and experience of Mr. Freeman in the highest of leadership positions. Mr. Freeman has also actively participated in trade projects between the United States and Japan, India, and Nigeria.
Measures to fight protection and subsidies must be specifically targeted. The U.S. must convince other nations that we are serious about unfair practices and that we will take steps to make these practices so costly that others will be discouraged from using them. Measures the U.S. can use range from instituting countervailing subsidies of our own, to limiting access to the U.S. market if we don't have fair access to other markets.

A Profile of U.S. Agriculture Today

Before I proceed further with my policy recommendations on the domestic side let me sketch for you a concise profile of what American agriculture looks like today. You may find the portrait surprising.

At present, approximately 112,000 farms—five percent of the total number of farms—produce just under 50 percent of the entire output of food and fiber originating in the continental United States. These are operations that had annual sales of $200,000 or more in 1981. It is important to remember that these major producers are mostly family farms, not what we think of as corporate farms. The great bulk, somewhere around 95 percent, are individually owned and operated family farm businesses.

At the other end of the scale are the large majority of farms, 1.7 million of them, comprising 71 percent of all economic units classified as farms by the USDA. These are generally small farms, frequently worked part time, with off-farm income covering a major portion of the family living expenses. These 1.7 million farm units, with annual farm sales of less than $40,000 dollars, produce only 12½ percent of total United States output.

The final feature of the profile consists of the medium-sized traditional family farms. These make up a little less than one-fourth of all farms, some 580,000. They are predominantly family-owned and operated with the owner-operator engaged full-time in farming pursuits. Sales run between $40,000 and $200,000 dollars annually. In the aggregate, these medium-sized farms produce 38½ percent of the output of U.S. agriculture.

So we have three general classes of farming enterprise that are different in size, productivity and income requirements. How then should a comprehensive, national farm program relate to each of these three groups?

A Three-Pronged Approach

Let us consider first the largest farms—the five percent that produce approximately 50 percent of the total output. According to a number of studies, these farms have cost structures that allow them to be profitable. They have, in recent years, benefitted greatly from government programs, but there is considerable question as to how important those programs really are to the continued economic viability of these larger farms. They could probably make it on their own.

The small farmers, too, are economically strong, albeit in a different way. Because their off-farm earnings are sufficient to fully offset the small losses of income from farming, these small farmers are relatively well off in economic terms, and apparently satisfied with their ability to live in rural areas and pursue farming as a secondary, part-time, or in some cases "hobby" operation.

The middle group, however, is in a different situation. Recent research by Texas A&M University covering cotton farms in Texas' southern high plains, clearly suggests that government farm programs have been of major benefit to these medium-sized farm operators. The Texas study found that, without a program along the lines of the farm program of 1981, only 42 percent of the medium-sized traditional family farms would survive over the next decade. In contrast, the Texas A&M study found that 98 percent of the smallest farms would be able to survive for 10 years without any program. And the largest farms—those over 4,400 acres—would survive without any government programs. I think we can conclude that it is this middle category of farms where a long-range farm program is needed, perhaps desperately needed, for economic survival.

No Change

Let me stress in this context that I foresee no drastic alterations in this profile. All the evidence from agricultural scholars concurs that, for the foreseeable future, the composition of the U.S. agricultural sector will remain much as it is now.

The real question, therefore, is how can a program or programs be developed to meet the economic, social and cultural conditions of these diverse groups?

I have already cited evidence that the small producers, the large number of "farms" that produce very little and make little income or perhaps negative income from farming, would survive without any programs. National agricultural policy can do little to help or hurt this group of farmers. However, state programs in the areas of education, health, medical service, roads, schools, etc. are important to the economic and social well being of this group of nearly two million American families.

The group of large farmers would also do well without federal farm programs. These are educated, innovative producers, well-financed, efficient, highly mechanized. They can compete effectively in both domestic and world markets. They are fully poised to take advantage of the food requirements of the world for the remaining years of this century.

The needs of this group will be best served by constructive trade and macroeconomic policies. These producers will benefit from government development efforts to stimulate the national economies of the world so that there is capability to purchase the needed food commodities, including those produced in the United States. Export credit assistance efforts; export market development assistance; sensible, consistent international trade policy; stable and reasonably valued currency; good infrastructure in the way of transportation and port facilities—these are the policies that will benefit this group of highly efficient farm businessmen. Domestically, they need some assistance from public institutions in research, and a stable, economic climate of growth.

There is, however, one additional policy element to be considered for these large farm producers. However well-trained, educated, financed, mechanized and efficient, they are still subject to the vagaries of nature. And because their market is international, they are also subject to global uncertainties and shifts in economic and political climate.
Agricultural Policy (Cont.)

These factors, coupled with the large capitalization and credit requirements of farms with sales of 200,000 dollars or more, subject these larger farmers to a much higher level of risk than many other businesses. Long-term policy should therefore provide a way to cushion the risk faced by this very important part of our productive economy.

At a minimum, a long-range farm program should provide a market clearing non-recourse loan program for the large producers. This loan program would enable them, in periods of extreme adverse conditions, to assures orderly marketing and some degree of risk-sharing with the public. Such price support loans could be based on a three-year or five-year moving average of the market prices or some significant percentage of that level.

An additional idea, which deserves further study and consideration, is the possibility of providing a mechanism whereby these large producers would have both the legal and economic ability to limit their production in periods when favorable weather conditions and unfavorable market conditions have combined to produce excess supplies. I have in mind a system in which, under a government-run and sanctioned referendum, large producers of the major commodities could vote to decide if they wanted to have mandatory acreage and production adjustments so as to maintain a reasonable supply-demand balance. There would be little or no expenditures of funds by the public to carry out such a program. It would provide the economic and legal mechanisms to avoid wasteful and economically disruptive short-term surplus build-ups.

Finally, and undoubtedly the most difficult challenge, is the effort to devise a sensible program to deal with the medium-sized family farmers. I believe we need to offer these farmers some system of income transfer protection, perhaps similar to the existing target price concept. A scheme could be developed that would assure these farmers a return from the marketplace, and from the farm program, that would enable the most efficient of them—and this would be a majority—to continue to be viable contributors to our society. Not incidentally, such a program might well include a requirement that the farmer follow sound soil conserving practices.

Dealing fairly with these farmers is important to the national welfare, not only because they produce nearly 40 percent of our total food and fibre output, but also because they are a vital part of the social and cultural fabric of rural America and, indeed, the nation. A modest expenditure of well under one percent of the national budget could, in my judgment, be justified to protect and preserve this important part of our society.

Looking Back—And Forward

Twenty-three years ago, John F. Kennedy named me U.S. Secretary of Agriculture. I was privileged to serve in that capacity for eight years. Then, the importance of agriculture to the well-being of the people of the United States, and of the world, did not receive priority attention. Today, as we approach the mid-point of the decade of the 1980s, the critical importance of agriculture, if mankind is to advance toward its goal of human betterment, is universally recognized. The time has come for this country, as the leader of the free world, to put in place a sound agricultural policy, and to give the highest priority to carrying it out—at home and around the globe.

The Georgia Society of International and Comparative Law

The Georgia Society of International and Comparative Law is looking forward to another active academic year. Several scholars and practicing attorneys will speak to the Society including Dr. A.O. Adeke, the Legal Adviser of the International Atomic Energy Agency, and George O’Haver of Coca-Cola Japan.

The Society will actively participate in the U.S.-Japan Trade Study Group Workshop to be held at The University of Georgia on November 5-6, 1984 sponsored by the Mitsubishi Bank Foundation and the Rusk Center.

Thirty student members of the Society attended the Eleventh Annual International Law Weekend sponsored by the Washington Regional Council of International Law Societies on October 12-13, 1984.

For further information on future activities of the Society, contact: Miriam Hollar, President, Georgia Society of International and Comparative Law, The University of Georgia School of Law, Athens, Georgia 30602.
Governor Joe Frank Harris recently announced that investments of new and expanding international facilities during the first half of the year totaled $330 million dollars or more than twice the international capital investments for all of 1983. The total international capital investment in Georgia now stands at more than three billion dollars. Georgia now has 781 foreign-owned firms.

The Georgia Department of Industry and Trade released figures showing that 35 new facilities were located in the state during the six month period. Twelve of the new firms were manufacturing concerns which created 1,931 new jobs in the state. Expanded facilities accounted for another 1,126 new jobs, for a total of 3,257. Employment by international firms grew by 435 percent from the first half of 1983.

Currently, the nations with the largest capital investments in Georgia are Canada with $952 million dollars, the United Kingdom with $691 million dollars, the Netherlands with $510 million dollars, Japan with $405 million dollars and West Germany with $119 million dollars.

Two West German firms are building manufacturing plants in Georgia to produce fiber-optics tubing and specialty clays. Heraeus-Amersil Incorporated will make an initial investment of between five million and 10 million dollars to build a plant in Buford with more than 40,000 square feet of space. The plant which will manufacture wave-guide quartz tubing used to make optical fibers is scheduled to open next summer. Hans W. Barbe Chemische Erzeugnisse GmbH will build its first United States manufacturing facility in the Flowery Branch area of Hall County. The plant which will be operational by the end of this year will produce specialty clays used to manufacture radial tires.

The Georgia Department of Industry and Trade announced the new investments and noted that the companies chose Georgia because of transportation considerations, operations costs, the growing Southeast market, and the availability and reliability of electricity and raw materials.

The University of Georgia's International Trade Development Center (ITDC), a component of the Small Business Development Center, experienced an increase of 19 percent in the number of firms applying for export counseling in 1983. The ITDC utilizes various contacts and resource persons to prepare a tailored export market plan for the small company seeking to expand business through international markets. The lumber industry was targeted by the ITDC and has since shown significant increases in sales and investments.

Florida recently failed to repeal its controversial unitary tax on multinational corporations; consequently, Georgia could have an edge in attracting international industry. The unitary tax allows Florida to tax multinational corporations on a portion of their worldwide profits. Foreign investors and multinational corporations have expressed strong opposition to the tax scheme. Governor Joe Frank Harris has declared that he will oppose any such tax system in Georgia. The unpopular unitary tax could discourage investors from entering the Florida market which means that Georgia is relatively in better shape to compete with Florida in obtaining these investments.

Currently, the Georgia Department of Industry and Trade operates offices in Great Britain, France, West Germany, Belgium, the Netherlands, Luxembourg, Denmark, Italy, Ireland, Switzerland, Sweden, Norway, Greece, Spain, Finland, and Austria. The department works with an annual budget of approximately $150,000 dollars as compared to the millions of dollars in investment recruited by the office. Since 1973 when then Governor Jimmy Carter sent a state representative to Europe to lure investments to Georgia, the department has had enormous success in attracting overseas investments. The Georgia Department of Industry and Trade credits the arrival of the Atlanta airport as an international gateway and the change in the laws to permit foreign banks to come to Georgia as milestones in the growth.

The Georgia Department of Industry and Trade will host a booth at the Seoul International Trade Fair '84, scheduled for September 16 through October 2. The Department will represent 14 Georgia manufacturers seeking sales in Korea.

The Cobb International Center, a division of the Cobb County Chamber of Commerce, has promoted business with Korea. Cobb County is also home for the Korea Trade Center-Atlanta, which displays and promotes Korean products available for the United States market. According to Allen Judd, president of the Korean/American Business Promotion Association of Georgia, there are more than 400 Korean businesses in metro-Atlanta and 14,000 Koreans in the metro area.

A newly formed Atlanta-based barter company has experienced enormous success and is now actively investigating opening international trade offices in certain South American cities. International Interchange Corporation went public on April 18 of this year and has since experienced substantial increases in the value of its stock.

International Interchange has nine offices in Georgia, Florida, and South Carolina and plans six more offices in the Southeast. The barter company has amassed thousands of clients interested in trading everything from bulldozers to dental treatment to one-hour photo service. The company is actively pursuing the South American market because many third world businesses have plenty of goods to offer for sale but cannot obtain American dollars. The barter system could facilitate exchange of American products and services within these third world economies.
Rusk Center Activities

The Center conducts research, presents conferences, promotes teaching, and provides information concerning international and comparative law. Through these activities, the Center seeks to place scholarship at the service of the decision makers, including governmental officials and private sector leaders; to provide a sound basis for policy judgments for the improvement of the lives of the people of the State of Georgia and the nation; to increase international understanding; and to contribute to the solution of problems and issues of international significance.

The Activities of the Center include the following:

Professor Yoshi Eizumi of Aoyama Bakuin University in Japan arrived to be a Rusk Center Scholar-in-Residence for 1984-85. Professor Eizumi will work on research projects in the area of international private law and comparative civil procedure.

On November 5-6, 1984, the United States-Japan Trade Study Group will meet for two days of discussions. The public is cordially invited to participate.

Tentative Schedule

November 5
Morning—9:00-12:00
An Introduction to the Framework of Japanese Trade Law—Mitsuo Matsushita—Professor of Law, Toyko University
Comment—Gabriel Wilner—Professor of Law, The University of Georgia School of Law

Direct Investment in Japan—Yoshihiro Endo—Associate Professor of Law, Chiba University
Comment—Allan D. Smith—Attorney at Law; Kilpatrick & Cody; Atlanta, Georgia

Afternoon—2:00-5:00
Liberalization of Service Trade in Japan—Yutaka Hori—Attorney at Law; Ohsuga Iwasaki, Homma, and Hori; Tokyo, Japan
Comment—Miriam Hollan—Student, The University of Georgia School of Law
Trade Policy of the Liberal-Democratic Party—Masahiro Fukushima—Lecturer, Teikyo University
Comment—Carol Fekete—Student, The University of Georgia School of Law

November 6
Morning—9:00-12:00
The Relationship between Cabinet and Diet in Trade Problems—Norio Okumiya—Lecturer, Fukuoka University
Comment—Eileen Golden—Student, The University of Georgia School of Law
Import Restrictions in the Japanese Distribution System—Sachio Sugimoto—Research Student, Graduate School, Sophia University
Comment—John H. Steed—Attorney at Law; Powell, Goldstein, Frazer, and Murphy; Atlanta, Georgia

Afternoon—2:00-5:00
Discussion and Remarks by Workshop Cochairmen—Thomas J. Schoenbaum—Dean Rusk Professor of Law and Executive Director, Dean Rusk Center, The University of Georgia School of Law—Mitsuo Matsushita—Professor of Law, Tokyo University—Selichi Mitani, Mitsubishi Bank Foundation

The Japanese program will be repeated on November 8-9 in New Orleans.

The Director of the Center gave a speech entitled “Liability and Damages for Discharges of Oil and Hazardous Waste From Vessels” at the annual meeting of the American Bar Association on August 7, 1984.

Professor Charles Debattista of Southampton University, England will give a minicourse on comparative commercial law in April 1985.

Professor Roger Blanpain of the University of Leuven, Belgium will give a minicourse on comparative labor law in March 1985.

Mr. George O’Haver, Vice President and General Counsel of Coca-Cola Japan was a scholar-in-residence from October 7 through October 14, 1984. Mr. O’Haver spoke on the “Role of a Multinational Company in Japan.”

The Center and the Law School sponsored a seminar program of study of the law of the European Economic Community in Brussels from July 5 to July 23, 1984. Professor Gabriel Wilner was the director of this project.

The Center, together with the Georgia Center for International Business, will cosponsor a program on “Exporting Forestry Products,” to be held in Brunswick, Georgia on November 2, 1984.

The Georgia Journal of International and Comparative Law

The Georgia Journal of International and Comparative Law publishes writings of scholars, practitioners, and students on topics of both private and public international law. The Journal is designed to be of value not only to specialists in international and comparative law, but also to practitioners who are confronted with the increasing frequency of international issues in local practice.

In Volume 14, Issue 1, the Journal will initiate an emphasis on international trade law with the publication of an annual survey of recent developments in trade. Volume 14, Issue 2, will include a special section on the law of foreign sovereign immunity in the United States. The third issue of Volume 14 will be devoted entirely to trade law and will include selected papers presented at the Exporting in the 80s Conference which the Rusk Center co-hosted last spring.

Publication of Volume 14, Issue 1 is anticipated this fall. The Georgia Journal is published at The University of Georgia School of Law, Athens, Georgia 30602, U.S.A. Telephone: 404-542-7289. Subscriptions, inquiries, and manuscripts should be sent to the above address.
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American Bar Association
Section of International Law and Practice

The American Bar Association/Section of International Law and Practice is offering its second annual scholarship sponsoring a student member of the Section at one of the two summer sessions at the Hague Academy—one session on public international law and the other session on private international law. Each session is comprised of seven courses taught by renowned scholars and leaders in the field of international law. Participants represent over 80 different nations.

Last summer, Mr. Dennis Terez, a second year student at the University of Michigan was awarded the first annual scholarship. Mr. Terez attended the session on private international law.

The annual scholarship consists of $1,000 which covers airfare, tuition and room. Students applying for the scholarship must be members of the Section of International Law and Practice and the Law Student Division. Selection of the scholarship recipient will be based on the following requirements: a formal piece of writing in the international law area, a short statement of interest in international law not exceeding 500 words, two letters of recommendation, a resumé, and a law school transcript.

Applications must be submitted by January 15, 1985. The scholarship recipient will be announced in April. For information or submission of an application, contact: Miriam A. Hollar, 215 Meadowview Road, Athens, Georgia 30606.

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