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The Farmer's Interest in Exports

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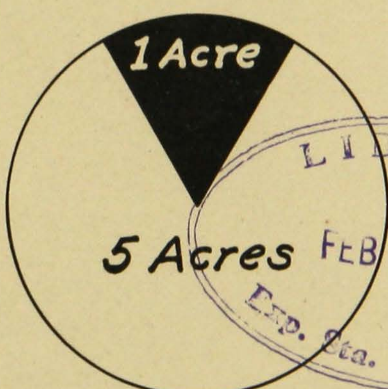

About one acre out of every six in crops in the United States, from 1920 to 1930, was used in producing exports.

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THAT export markets are important for the American farmer is shown by the fact that during the period 1920 to 1930, about sixty million acres of crop land were being farmed to supply foreign markets. This means that one out of every six acres of crop land depended on foreign outlets.

The importance of export markets varies with different commodities. Fully half of the cotton crop normally is exported. Wheat, pork, lard, barley, tobacco, and rice are among agricultural exports. Farmers who raise these products naturally are interested in exports. But producers of butter, cattle, poultry, wool, flaxseed, and other commodities consumed at home also are interested. If exports fall off, the tendency is to shift to products for the home market, with added competition for domestic products.

THE NATURE OF TRADE

Why does trade exist? If each individual were entirely self-sufficient, there would be no need for trade. Each would produce only for his own use. Existence for some people might be possible on this basis under a cave-man mode of living. But such a state of affairs is unthinkable in modern times. One man may prefer to farm; another may prefer to be a storekeeper; a third may be a better mechanic than he is a farmer, and so on. It is clear that we produce more, and consequently have more, by specializing than by trying to produce all our own needs. Trade is the exchange of products. Without trade, specialization would be impossible.

Regions as well as individuals find it advantageous to specialize. Minnesota has advantages in dairying and hence leads in butter production. Trading makes cotton goods available for the use of Minnesota farmers even tho they do not grow cotton. As we look about, we find regions, like individuals, tending to specialize in producing those things for which they are best suited. The corn belt, the cotton belt, wheat areas, and dairy regions are illustrations. Detroit is the center of the automobile industry; Pittsburgh is the center of the steel industry; Minneapolis is known for its flour mills.

The same is true among countries. The United States does not produce its rubber, coffee, tea, and silk; it gets them from countries suited to their production. It is of advantage to have specialization by countries as well as by individuals and regions. International trade, however, is necessary for such specialization.

Trading is carried on in terms of money. Without money, its present development would have been impossible. However, money is merely an aid in trading in goods and services. The exchange of goods and services stands out clearly in international trade because monetary systems are national, not international, and the currency of one country is not used generally for buying goods in another. We see that goods and services are traded when we realize that exports and imports tend to balance each other when all items are considered. Gold is used for international settlement to some extent, but goods and services are commonly paid for with other goods and services. Payment of interest and debts tends to be made in the same way. One important fact is that imports pay for exports. Stated in another way, imports make exports possible.

The relative advantages of different countries would determine production, if free interchange of products were permitted. But various interferences with the free flow of trade have been set up. The tariff is the most common method of restricting international trade. For this reason, the tariff must be considered by producers interested in export markets.

The farmer may be told that because the tariff is levied on imports, not on exports, it has no effect on exports. This is not so, for two important reasons. One is that because imports make exports possible, a tariff which restricts imports thereby restricts exports. The second is that no country has a monopoly on the use of the tariff. Tariff restrictions of one country may encourage other countries to retaliate. As a consequence, those producing for export may find their markets restricted as a result of attempts to protect domestic producers.

TARIFF ARGUMENTS

Because of the important place of the tariff in international trade, we are justified in reviewing briefly some of the claims that have been advanced in support of the policy of protection.

Our early development of protection was closely concerned with giving assistance to "infant" industries and with bringing about diversification in our industries. New industries may have high operating costs until they are well established. The argument is that giving protection to such industries is desirable in that it helps them through the high-cost period until they are able to stand on their own feet. Use of the tariff for this purpose may assist in speeding up the development of a new country. It should be appreciated that this reasoning does not justify support of any and all industries, but only of those that may reasonably be expected to take care of themselves, once established. Nor does it justify continued protection for such industries. As far as this country is concerned, it is now well developed industrially and its activities are diversified, so tariffs for this purpose are not so important as they once were.

When a country exports more goods than it imports, it is said to have a "favorable" balance of trade. If its imports are greater than its exports, the balance is called "unfavorable." These terms seem to indicate that exports are more desirable than imports. Many apparently believe that a country cannot be prosperous if its balance is unfavorable. This is a mistaken notion. Unfortunately, however, such a belief lends support to the idea of restricting imports and encouraging exports.

It is impossible for all countries to have a favorable balance because the exports of one country become the imports of another. A country may export more goods than it imports because it is in debt to other countries. Its exports not only pay for its imports but also make interest and debt payments. Likewise, another country may receive more goods than it ships out because it is a creditor country and has payments coming to it. It may also be a country which performs shipping and other services for which it receives payment. It is not a disadvantage for such a country to have an unfavorable balance of trade; it is a natural situation.

Before the war, this country, as a debtor nation, exported more goods than it imported. We came to look upon our favorable balance of trade as a natural and desirable situation. This it was as long as we were a debtor country. But the war changed our status from a debtor to a creditor nation. This has a vital bearing on our export trade and foreign debt situation and will be referred to later.

Protection has been urged on the grounds that it helps a country build up its gold supply. The reasoning is that if exports are not paid entirely by imports and services, there will be a transfer of gold to make up the balance. Gold is useful as a monetary base and for industrial purposes. When a country has an adequate supply for these purposes, it is not desirable to add to that supply, particularly if this leads to monetary instability in other countries.

High wages and a high standard of living are frequently used as arguments for protection. The thought is that protection enables employers to pay more. As we look about, however, we see no direct relationship between the wage rates paid in an industry and the amount of protection it receives. We also find high wages serving as both cause and effect. Thus, protection may be sought so that high wages may be paid, and it may be sought because wages are high. Wage levels in general are due to things other than tariff protection. They are affected by the output of labor, by the way in which it is used, and by the availability of resources for production.

FARMERS AND THE TARIFF

Farmers frequently have been urged to support tariff protection for manufactured goods on the ground that such protection creates home markets for farm products. Increased industrial production, by increasing the number of consumers, is expected to provide outlets for the products of the farmer. Altho industrialization has been hastened by tariff protection, it has not reached the point where the domestic market can use all of the output of the farms. There is no indication that it will reach that point, at least not for a long time. In view of the improbability of the domestic market soon being able to take all farm products, the farmer must include in his consideration of the home market argument the restricting effect of import duties on exports. He also must remember that protection, where effective, raises costs of the protected goods to him and to other consumers.

Protection has been urged as a measure of national defense. The idea back of this is that the less we rely upon other nations for essential goods, the better off we will be in time of war, when outside sources of supply may be cut off. This is a preparedness argument rather than an economic justification for a tariff. If protection is established on such grounds, its cost should be counted as part of the cost of preparation for war. In view of the existing diversification of industries and resources in the United States, this argument does not justify general, high import duties. The part which tariff and other trade restrictions may play in bringing about international conflicts is a consideration not to be overlooked.

One difficulty in getting a clear picture of the effects of the tariff is that attention usually is centered upon certain rates in which a person is interested. One cannot get a complete picture of the tariff by thinking of its results in raising the price of a specific commodity such as butter, flaxseed, or wool. Higher prices may represent greater return for that product to its producer. They also represent higher costs to the consumer. Tariff protection is not limited to producers of butter, flaxseed, and wool. It extends to a wide range of products. The net result of the tariff to any individual therefore involves both a calculation of added income and added outgo. Some receive net benefits; that is, their income is increased more than their outgo. Some have their benefits balanced by their added costs. Still others have their benefits more than counterbalanced by the burden.

The farmer concerned with export outlets has to take another item into consideration. This is the effect that restricting imports has upon exports. He should remember that imports make exports possible. Nor does his interest in the tariff stop there. No country has the exclusive right to collect import duties. Raising our import duties against products coming from other countries encourages them to do the same thing to us. In an effort to help one set of producers who sell on the domestic market, we may harm other producers who sell part of their products abroad.

Tariff and other trade restrictions that make it difficult to export products from this country have been a factor in causing some American manufacturers to establish plants in foreign countries. This method of escape from tariff restrictions is not open to agriculture because the farming industry cannot locate branch farms in other countries. Moreover, the establishment of foreign branch factories to escape trade restrictions is not without restricting effect on the domestic outlet for farm products.

Tariffs and trade restrictions have assumed increasing importance in international relations since the war. The United States increased tariff rates in an emergency act in 1921. Further increases were established in 1922, and the act of 1930 brought added protection. The United States has not played at this game alone; many other countries have done likewise. Interferences with the flow of goods across international boundaries have not all been in the form of tariffs. Various devices, such as import quotas, import licenses, foreign exchange control, surtaxes to offset depreciated currencies, and preferential tariff agreements, have been brought into play to restrict or re-direct the flow of goods in international trade. Many of these restrictions have been imposed during the last year or two. It is evident that a desire to protect domestic producers is only a partial explanation of the origin of some of these restrictions. Additional explanation is found in the monetary situation of various countries during this period.

Much discussion has taken place as to who is to blame for the decided trend toward economic nationalism, represented by these restrictions. It is not the purpose here to enter that field. Locating the blame serves no particular purpose except as it may aid in providing the remedy. The real need is for a recognition of what has taken place and for the development and application of needed remedies.

EFFECT OF INTERNATIONAL DEBTS

The picture of the present status of international trade is not complete unless it is recognized that international debts and weakened monetary systems play an important part. The war changed the financial relationships of countries. The United States, for example, changed from a debtor to a creditor nation in a relatively short period of time. Had this change come as the result of natural growth and development, our production would have become adjusted accordingly in the process. As it was, our production was based on a debtor position in which it was natural for us to export more goods than we imported. As a creditor nation, we should import more goods than we export.

Few questions have been more generally misunderstood than that of international debts in this period. The common line of reasoning in this country has been that the debts which are due us from other countries are just debts and that we are therefore entitled to payment. It is pointed out that the United States government floated bonds to provide these loans, and if they are not repaid, the retirement of the bonds will represent an addition to the tax burden of our own citizens.

We need raise no argument about these contentions. They may be accepted without in any way solving the real question of how the payments are to be made. Too often it is assumed that all that is needed is for debtor countries to collect sufficient taxes and to pay us from these collections. The real problem comes in the transfer of those payments. We have no use for payments in the form of pounds, francs, or marks. The only acceptable international money is gold, and the debtor countries do not possess sufficient quantities of gold to make extensive payments in that form. A considerable part of the world's monetary gold already is in our possession.

Insistence on collection and extensive restriction of imports are contradictory. The only available method of extensive payment is in the form of goods. Such payment can be accomplished only if we are willing to have imports of goods exceed exports. Our tariff policy since the war does not indicate any willingness to accept payment in the only form in which it can be made. This discussion is concerned with the facts of the case; it is not in the nature of argument for or against cancellation.

But it is legitimate to ask what this has to do with exports. Simply this, that if imports are limited, exports likewise are limited. Furthermore, if some of the imports pay for debts, they cannot also pay for exports. Debt payments made in gold do not create exports. The international debt problem is brought into this discussion because it is definitely a part of the international trade problem.

One country after another in recent years has experienced difficulties with its monetary system. Most countries have been forced off, or have gone off, the gold standard. Depreciated currencies consequently have entered the situation. Countries have been eager to sell abroad, and to buy as little as possible, to strengthen their monetary situation. One consequence has been that higher import duties have been urged in the United States in the belief that countries with depreciated currencies would throw their products on our markets. Agricultural products have not experienced this feared competition. Agricultural exports, however, have experienced added difficulties in finding outlets abroad because of the situation. The solution evidently is not one of higher protection; it is one of reestablishing monetary systems.

REESTABLISH AGRICULTURAL EXPORTS

What shall be done about it? Shall the farmer be concerned only with trying to get some improvement in the domestic situation? Shall agriculture endeavor to make the drastic readjustment needed to take it out of the export market? Or shall the farmer insist that every possible consideration be given to reestablishing export markets for his products?

Farmers unquestionably have important domestic problems requiring attention. Debt readjustments are an illustration. Ways of improving the domestic market deserve fullest consideration. Space does not permit their discussion here. This much may be said with respect to them, however, that it would be extremely unfortunate if attention to domestic problems should cause us to lose sight of the need for attacking problems of foreign trade. The farmer has too much at stake in foreign markets to permit this to occur.

For agriculture to withdraw from the foreign market, entirely, would involve an extremely drastic curtailment of production in some lines. It would mean taking some land now in farms out of use. Either the number of farms or the average output per farm would have to be reduced. To accomplish the former, other opportunities would have to be made available for the operators of the farms to be abandoned. The latter would tend to reduce the long-time returns from farming.

Sudden restoration of foreign trade is too much to expect. The adjustments needed are complex and their consequences, not immediate. In view of this fact, some temporary production curtailment to permit disposing of accumulated stocks seems advisable. It would be highly desirable to have similar readjustments made in other countries in order that the result may not be merely a withdrawal from foreign markets by this country, while its competitors take over the markets.

The farmer is justified in demanding consideration of ways and means of reviving foreign trade. Recovery at best may be slow. The rate of recovery may be speeded up if the countries of the world meet the situation frankly and adopt policies that will hasten recovery of trade. Farmers and citizens, in general, may well interest themselves in these questions and urge prompt action to bring about the desired result as quickly as possible.