It is good to have this opportunity to discuss with you some vital issues of international trade in farm products. We all have an interest in the international exchange of goods and services - some as producers of commodities for export, others as producers of commodities which compete with imports, and all as consumers who gain from the efficiencies of international specialization of labor and resource use.

First, I will discuss some historical views and practices of international trade, followed by a review of trends in our export trade relative to domestic production. In conclusion, I will outline policy actions that could be taken to promote foreign trade expansion.

Trade Barriers are of Ancient Origin

International trade barriers date back to the dawn of commercial history. The great Greek reformer Solon had legislation passed in the Sixth Century B.C. forbidding the export
of wheat and most other agricultural products in order to provide lower food prices to the poor city dwellers and improve the quality and quantity of food on the home market.\textsuperscript{1} The Roman conquests were often followed by treaties which provided for indemnities of farm products for extended periods. Nevertheless, the Roman government did at times take measures to prevent the export of precious metals and limit competition from foreign producers.\textsuperscript{2}

With the rapid development of an exchange economy in the Seventeenth and Eighteenth Centuries, the Mercantilism doctrine emerged which proposed that international trade be used to promote national power. These views held that precious metals were the basis of a strong state and that a so-called "favorable" balance in foreign trade was the best means of obtaining such metals. The execution of policies designed to provide the so-called favorable balance encouraged a host of government regulations, duties, and bounties. As an example, Oliver Cromwell's Navigation Acts in the 1600's prohibited foreigners from bringing into England any goods that were not the product of their own country.\textsuperscript{3} The essence of the doctrine was that one should patronize home industry

\textsuperscript{1} Fritz M. Heinichelheim, \textit{An Ancient Economic History}, (A.W. Sijthoff's Uitgeversmaatschappij N.V.) Leiden, 1958, p. 286.


\textsuperscript{3} Haney, p. 142.
and that trade each year should always balance in one's own favor.

In the late 1700's and early 1800's, classical economists, especially David Ricardo, pointed out that international specialization of labor offers the same opportunity for welfare gains as domestic specialization. In the British House of Commons Ricardo contended that it was sound policy to admit the freest competition with every branch of industry and with all the world. The writings of Ricardo and Adam Smith were a major factor in the establishment of commercial freedom in England by Prime Minister Sir Robert Peel during the 1840's. 4/

A plateau in free trade was reached about 1850 and was maintained until about World War I. Despite the appeal of economists and other social libertarians, our own trade policies along with those of other nations became more restrictive following the war. Since that time, no nation has been willing to counteract this trend with domestic and international policies conducive to free trade.

Trends in United States Foreign Trade

This nation's exports of merchandise as a per cent of goods production* has generally trended down since the late 1800's. Merchandise exports averaged 10.4 per cent of production from


* gross national product less services.
1869 to 1901, 9.7 per cent from 1901 to 1911, 7.7 per cent from 1922 to 1931, and 5.1 per cent since 1950. Merchandise exports averaged only 2.6 per cent of production during the depression years of 1932-39. Although the 1960-69 merchandise exports average of 5.2 per cent of production was slightly above the 1950-59 average of 4.9 per cent, the gain is probably attributable to a higher proportion of merchandise exported with governmental assistance.

In the early decades of our nation, farm products were the largest portion of our exports. Such products accounted for more than three-fourths of our exports in the 1870's, over one-half in the early 1900's, and more than one-third in the early 1930's. In the five years from 1965 to 1969, however, they accounted for only about 20 per cent of the total and only 16 per cent when foreign aid is excluded.

Commercial farm exports have trended upward since 1955. From an average of $2.5 billion per year for 1955-59 inclusive, such exports rose to an average of $5 billion for the five years ending in 1970. Nevertheless, these exports currently are a smaller per cent of farm output today than in the 1920's or in the Great Depression of the early 1930's. In the five years 1965-69 these exports accounted for 12 per cent of domestic cash farm receipts, compared with 21 per cent in 1920-24, 16 per cent in 1925-29,
and 14 per cent in 1930-34.

Furthermore, without governmental subsidies commercial farm exports would have been lower in recent years. Such assistance included barter shipments for United States Government agencies, extensions of government credit and credit guarantees, sales of government-owned commodities at less than market prices, and payments to exporters in cash or in kind. We view these practices as "dumping" when other nations export products to us under similar conditions.

The decline in foreign trade relative to gross national product in recent decades may reflect three factors - the changing structure of national production, the faster growth of the United States economy compared with the rest of the world, and the more extensive use of restrictive trade policies in this and other nations. The structure of production has changed over the years from an agricultural economy to one largely based on manufacturing. This trend toward greater diversification of output has reduced our dependence on foreign trade. Also, the fact that our total growth has been somewhat faster than the rest of the world indicates that other nations had slower growth in demand for imports and output of exports. This has led to a relative decline in our export trade. But of greater significance than either the changing structure or our faster growth has probably been the increased protection of
domestic industry.

Protection: Major Trade Restraint

Protection of domestic producers from foreign competition has been a major political issue throughout our history. In our nation's infancy, tariffs were levied in preference to domestic taxes. Later, tariffs were raised to protect our so-called infant industries from foreign competition. Between 1865 and 1935, our average rate on dutiable imports never fell below 39 per cent, except for the period during and immediately following the First World War when the Underwood Law in 1914 imposed an average rate of 29 per cent on dutiable imports. At this time other nations had a very small output of civilian goods for export. 5/ In 1923 under the Fordney-McCumber Law, the average rate was again raised to 39 per cent, and in 1930 under the Hawley-Smoot Law, it was increased to 53 per cent.

Since the Reciprocal Trade Agreements Act of 1934, the nation has pursued an announced policy of "freeing" international trade. Numerous tariff reductions have been negotiated. Nevertheless, duties have often remained so high and other restrictions so effective that export trade has not increased relative to domestic production.

Protection Now Through Nontariff Barriers

While tariffs have traditionally been the chief means of protecting domestic producers from foreign competition, other protective devices have been used increasingly by industrial nations in recent years. These include import quotas, domestic subsidies, bilateral trade agreements, import licensing, and domestic monopolies operating under governmental authority. In some instances, the restrictions have involved special legislation. In others, informal agreements have been sufficient to limit trade to arbitrarily determined levels. With the aid of one or more of these measures, nations can maintain tariff duties at relatively moderate levels and still protect producers from foreign competition. A reduction in tariff rates may thus have little meaning since real legislative barriers to trade often remain unchanged.

Our country has not been innocent with respect to the use of these nontariff protective devices. Even in agriculture, which has such a large stake in free trade, we have established highly protectionist policies. We have sugar import quotas which, based on New York wholesale prices, cost U.S. consumers an additional 22 cents for each five pounds of sugar purchased.6

We have subscribed to international trade agreements which set

minimum prices on coffee and wheat, thereby limiting trade in these commodities. We have meat import quotas which provide limits on imports of beef. A cotton export subsidy, designed to offset the trade retarding features of our domestic prices support program, has often been sufficient to permit exports of cotton to Japan and imports of goods made from the cotton to the U.S. for sale in competition with our own mills. In order to avoid excessive disruptions from such competition, however, we have a tacit agreement with the Japanese to limit cotton goods exports to the United States. Such tacit arrangements are apparently preferred to formalized legal actions, but if they are equally effective in reducing trade, they are likewise equally effective in reducing welfare.

**Domestic Subsidies Restrictive**

Production controls and subsidies are also important in limiting foreign trade. For a number of years the British have subsidized their farm sector. This leads to excessive labor in agriculture which, in effect, limits their imports and our exports of farm products. These workers could earn more in nonfarm pursuits, and under free trade conditions the British would export more nonfarm products and import more farm products, thereby enhancing total production and welfare.
Our own domestic farm programs likewise inhibit world trade. Our restrictive farm programs have probably offset the advantages gained from the reduced tariff levies since 1934. Farm production control and price support programs initiated in the mid-1930's have contributed to higher farm production cost and higher prices for domestic farm products. Our farm products have become less competitive in world markets. But worse, from a long range view, our policy of arbitrarily pricing at higher than free market levels has led to a loss of confidence in us as a long-run supply source. This move from competitive to arbitrary pricing indicated to our customers abroad that our export prices would be in excess of free market prices. Higher export prices in turn led to higher food and fiber costs in the importing nations. Their costs of imported food thus hinge on the decisions of our price making authorities, who are likely to be more influenced by political pressures at home than by supply and demand forces.

It is my conclusion that the predominant political forces in most nations today do not want increased foreign trade. Large gains in trade temporarily upset markets and cause changes in resource use. Some hardships occur for the relatively less efficient industries in the short run; these losses are more than offset, however, by gains in the relatively more efficient indus-
tries and among all consumer groups. In the longer run, all groups gain from the greater efficiency of international specialization. But to date, neither this nation nor other nations have indicated a willingness to adopt policies that will assure these major gains at the expense of minor adjustments among the less efficient producer groups.

Restrictive Arguments are Fallacies

In recent decades arguments advanced for protection-ist practices include:

1. Large imports lower domestic prices and incomes.
2. It is unfair to domestic labor to compete with producers under "sweatshop" conditions abroad.
3. Imports are not a reliable source of vital products, such as food and critical defense items.
4. Excessive imports damage vital defense industries, which are necessary for survival.

Implicit in each of these arguments are the beliefs that import restrictions aid certain producer groups or that some products are vital to national survival and we cannot afford the risk of relying on imports exclusively for these products.

7/ Humphrey, Chapter 7.
The argument that import restrictions aid some producer groups is true only in the short run. Under free trade, real gains accrue to all groups in the long run, as labor and other resources adjust to new supply and demand conditions. Furthermore, these restrictions which aid inefficient producers in the short run reduce the welfare of the rest of the nation.

Increased agricultural exports are a potential source of major welfare gains from free trade. Such exports to Western Europe, for example, will first cause a reduction in prices of European farm products and a reduction in food costs to European consumers. European farm incomes will decline, providing incentive for farm workers to seek higher paying jobs in the non-farm sector. The larger and relatively more efficient nonfarm labor force will achieve more efficient output of nonfarm goods and services, thus lowering costs and prices. Exports of these products to the United States will increase. These greater efficiencies in their nonfarm sector are accompanied by efficiency gains in the farm sector where only the most efficient workers have remained. A larger volume of all products will be available at lower prices, enhancing real incomes and welfare.

On the American scene, the larger volume of farm exports will tend to increase domestic farm prices and incomes. This will attract new resources into agriculture from other sectors until returns to resources in all sectors are again equal. The
larger imports of nonfarm products by the United States will tend to reduce demand for domestic nonfarm output. As in Europe, after adjustments are made, the increased efficiencies will provide more goods and services to our people.

The argument that imports from low cost factories abroad are unfair to labor is similar to the farm import argument. Import restrictions shield workers in our less efficient industries in the short run but, at the same time, injure workers in our more efficient export industries. Exports will decline along with imports because export accounts over the long run must be settled through imports. On the other hand, once workers and other resources have adjusted to free trade markets, greater supplies of all goods and services are available, and the benefits of greater production efficiency accrue to all.

Most major countries subscribe to the vital industries argument for protection of domestic producers who are assumed to be essential for national survival. England, for example, has in the past attempted to maintain domestic food production at about 50 per cent of domestic usage. This practice originated from a lack of confidence in imported supplies at critical periods, such as during wartime blockades. Many other nations, including
our own prefer to maintain sufficient resources in these so-called vital sectors in order to provide a minimum level of output in case of loss of supplies, such as petroleum and sugar in the United States.

Protective practices lead to the inefficient production of these products and the wasteful use of resources. They cause increased taxes for defense purchases and higher prices for the consumer goods output of such industries. Methods of modern warfare have made these long-run safety measures obsolete. Nations now have the power to destroy one another long before supplies of such critical products are depleted. Furthermore, if nations did more trading with one another and were less self-sufficient, we might have fewer wars.

From the standpoint of U. S. agriculture we look abroad at rapid growth of Western European nations and see great opportunities for farm commodity exports, provided these nations will only open their trade doors and invite us in. It is my conclusion that we have not earned the right to this market. Despite our numerous pronouncements, our policies have not contributed to two-way trade. We have done little to merit Western European confidence in us as a source of vital products at competitive prices. Our domestic pricing and production control policies in agriculture are not conducive to free trade. A recent
study by the University of Illinois found that Illinois farmers favor foreign trade but prefer to restrict beef and ham imports. This view demonstrates the fact that we have not consistently thought out a free trade policy.

Although the arguments are overwhelming in favor of more trade between nations, I am quite pessimistic about its future course. Forces tending to reduce welfare through trade barriers are better financed and more powerful than the forces active in promoting welfare through freeing trade channels. As an indication of the power of protective groups, about 590 import quota proposals were introduced in the last session of Congress prior to the end of August. One bill was appraised by the New York Times as the "most protectionist and reactionary trade legislation in forty years." Signs admonishing us to purchase American goods and protect American jobs can be observed daily. Even agreements on quotas are looked upon as favorable to free trade in lieu of more rigid restrictions. Only the textbooks and economic libertarians are available to point out the gains from free trade, and few are shouting the story to the general public. Decade after decade those few who are vitally interested in the

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welfare of all the people have been doomed to repeatedly roll the stone of free trade ideals uphill, and as the stone appeared to reach the top, down it tumbled to the bottom because of undermining operations such as import quotas, domestic subsidies, and vital defense industry protection practices.

SUMMATION

In summary, there are few who deny the gains from greater exports, but powerful groups fear a rise in imports. Both exports and imports enhance welfare. The removal of trade restrictions would be especially beneficial to United States agriculture. We have a major comparative advantage in the production of farm commodities. Under free world trade policies and free domestic producing conditions, world-wide food prices could be lowered, and world diets improved.

The Reciprocal Trade Agreements Act, the recent Kennedy Round, and numerous other acts were designed to achieve free trade objectives. Proposed modern liberal policies, however, are often followed by restrictive actions more typical of earlier ages. In practice we still follow the outdated theories of the Mercantilists of three or four hundred years ago.

Most of the arguments used against free trade practice are not applicable to modern world conditions. The implied
disruptions in local industries are generally overstated and are often excuses for maintaining resources in inefficient lines of production. Current unemployment, labor restraining, and other social programs minimize hardships to the labor force resulting from the change. Little capital loss would likely occur because of the high rate of normal obsolescence due to technological change. The vital industries argument is no longer applicable, since, in case of all-our war under modern conditions, no industry is secure regardless of where it is located. All-out wars are likely to be of shorter duration than formerly. Furthermore, freer trade practices may reduce the chances of war.

The United States should take the lead in dropping trade barriers and adopting a consistent trade policy. Real accomplishments will require more than the rhetoric of recent decades. We should move toward the elimination of programs which reduce world confidence in us as a supplier and buyer of merchandise. There is no point in reducing trade barriers only in sectors where no potential trade exists. We must be willing to reduce barriers that permit increases in imports. This will require opposition to the power of inefficient producer groups who have made their short-run interest paramount to the welfare of the nation. We must be willing to dismantle our inefficient production controls in agriculture, thereby assuring
foreign consumers that our farm products will be available at competitive prices. A move toward free trade is a move toward less Government control of prices and production and greater reliance on market forces for resource adjustment.

These moves toward fewer restrictions are counter to general legislation which temporarily aids the few but reduces national welfare. Their adoption can reverse the current trend of domestic industry protection, increase exports of agriculture and other efficient industries, and improve the welfare of both our own citizens and those of the rest of the world.