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'Blended credit': the wrong way to boost U.S. agricultural exports

by Cynthia Parsons

The failure of the United States to win any concessions from the European Community on agriculture subsidies at the ministerial meeting of the General Agreement on Trade and Tariffs (GATT) which ended in an impasse in Geneva Nov. 30, could be the pretext for launching a trade war that Agriculture Secretary John Block has been threatening since September.

Block's Oct. 20 announcement of a three-year, $1.5 billion "blended credit" program to boost agriculture exports can give only minor help to U.S. farmers, given the current crisis in agriculture; with interest rates and the dollar still high, this program will be able to move only a small portion of the hundreds of millions of tons of U.S. commodity stocks. Since the farm sector, the largest exporting industry in the United States, is "tremendously impatient," Block may well resort to a policy of dumping wheat and dairy products "to show the EC that we can play the game, too," as he stated in a late-September press conference.

The prospect of launching a trade war is the logical extension of the administration's foolishness: obsessive adherence to the dogma of "free trade," as the direct result of the early 1950s decision to abandon the parity policy implemented by President Roosevelt and enforced by Truman during the 1940s. The policy of 100 percent parity for American agricultural products—i.e., government enforcement of price levels, via the crop loan program, adequate to assure producers cost of production and a profit to allow for reinvestment—was responsible for pulling the American farm sector out of the 1930s Great Depression. The policy also laid the basis for the tremendous leaps in output and productivity that began in the 1940s as producers invested in the new chemical as well as mechanical technologies, and began to realize the economies of scale and increase farming intensity with increased fertilizer and other chemical use.

The Eisenhower administration's decision to abandon the parity policy in favor of the "free market," initiated the process of undermining the foundations of American agriculture to the point of creating the explosive financial crisis that exists today.

The EC's Common Agriculture Policy price supports have been the target of the USDA over the past decade, particularly since 1979. Agriculture prices in real terms have decreased steadily since 1950; the U.S. domestic market has stagnated, and developing sector debt has built up to massive levels, making it nearly impossible for those nations to maintain imports. Failure to initiate any kind of long-term, low-interest credit to expand exports to the Third World has reduced U.S. policy to "Europe-bashing." Yet European exports are minimal compared with potential U.S. exports, and in certain key commodities, such as corn, Europe offers the U.S. virtually no competition whatsoever.

The rate of increase of U.S. exports has stagnated since the 1960s. Although an all-time high of 165 million metric tons of grain exports was reached this year, actual earnings fell some 8 percent due to collapsing prices. The administration initially froze the existing Commodity Credit Corporation's direct credit export credit program GSM-5, and increased the GSM-102 export guarantee program by $500 million, under pressure of fiscal austerity. The "guarantee" program merely commits the CCC, an "off-budget" agency, to back up loans for purchase of U.S. products, but the importing nation must generate the actual loan from private sources. The overall effect was that some $2.8 billion sat in the program untouched, and exports slowed.

As a result, the administration has been forced to return to a partial direct-credit program, despite its violation of "free-market" doctrine. Word has it that, in deference to "free-market" rhetoric, it is forbidden to refer to the direct-credit loans as "price supports" at the USDA, although they will function in much the same way as the EC program; an approved term is "export boosters."

The original proposal was for a three-year, $1.5 billion program. The CCC will offer one part direct loan to the purchasing nation, "blended" with guaranteeing four parts of a commercial loan at current interest rates. Seven nations have received credits totaling $440 million: Morocco, Egypt, Yugoslavia, Pakistan, the Philippines, Portugal and Brazil.

Secretary Block stated Nov. 23, announcing the credits to Brazil and Portugal, "These credit packages will open the way for the sale by private U.S. exporters of nearly $65 million of U.S. agricultural commodities that would not have been sold without the new credit program." Yet because purchases must be made in the first year of the three-year program, the boost in exports will be temporary. These sales are all to long-standing U.S. customers, and the near 2 mil-

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lion tons of wheat sold will make scarcely a dent in the 78 million tons the U.S. now has available for sale.

An increase of the monetary value of the program is under consideration. In August, another $500 million was allocated to the loan guarantee program for the 1983 fiscal year, but as this fund remains untouched, it may be incorporated into the "blended credit" program.

Once the immediate surge in exports levels out in the second and third years of the blended credit program, the program will do little for U.S. agriculture exports. Most of the developing sector is excluded from the program by one entry requirement: that the importing nation is paying its debts. A USDA spokesman for International Trade Policy responded to the question of whether Poland and Egypt would benefit from the new program, by saying that Poland would not be one of the countries since "the East bloc countries were a bad credit risk, but Egypt had been paying". Under such "conditionality" large potential markets in Africa, and most Ibero-American nations, are inaccessible to American farmers. As a Cargill Corporation spokesman commented, while the program will be "helpful" to those nations that can already afford to buy U.S. products, "if the nation could not afford to buy anyway, it would not help them."

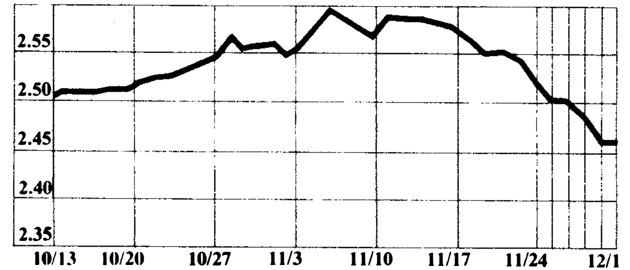
With the exclusion of the Third World, few markets remain, outside the Soviet Union and China, that could make any significant dent in U.S. supplies. A second requirement of the blended credit program, that the importing nation already have Most Favored Nation status, will exclude the Soviet Union. And although President Reagan stated that any sales to the U.S.S.R. would be guaranteed, the Soviets have not responded. While Secretary Block offered the Soviets 23 million tons of grain since the United States extended the grain agreement, it appears that the Soviets will not buy even as much as the 14 million tons they took last year. The agreement only requires that the Soviets buy 6 to 8 million tons in the period between Oct. 1, 1982 through Sept. 30, 1983. The reworded agreement, issued Sept. 30, assured the Soviets contract sanctity for 180 days on any purchases over the 8 million ton limit made before Nov. 30, but guarantees nothing after that. At a Nov. 29 press conference Block refused to extend the deadline date.

Soviet imports of U.S. grain have fallen from a 1979 high of 78 percent of their total imports, to 30 percent in 1982. Since December 1981, they have made new purchases only from Canada and Argentina, with whom they have long-term agreements.

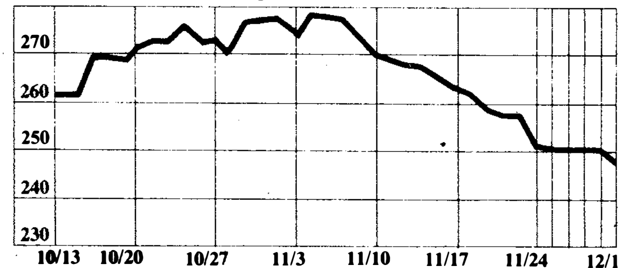
Should rumors of a trade deal between France and the Soviets prove true, the United States will be left with little recourse under current credit policies than to begin dumping. France has reportedly been pressuring the EC to arrange a major cut-rate grain deal with the Soviets. If the United States decides to dump grain and dairy products, it could well undercut the EC, but only to the end of launching a trade war that will further collapse world trade levels.

Currency Rates

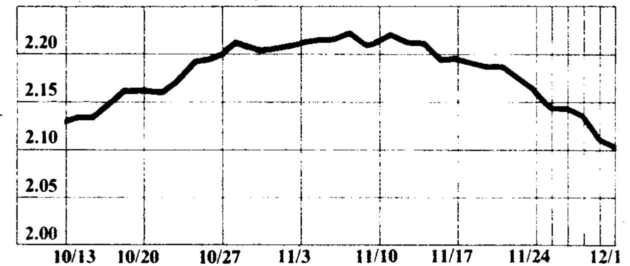
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing