Farmers and the Trade Debate: An Opinion Piece

America's farmers should be very concerned about the prospect of losing significant export markets in the coming years and the resulting impact on their economic well-being. The talk during the presidential campaign of pulling out of trade agreements or worse, slapping tariffs on imports to fix the trade imbalance, to create jobs, or to eliminate the budget deficit is based on junk economics. It naively ignores the realities of the international marketplace and, importantly for American farmers, fails to recognize the consequences of such actions for U.S. exports.

Agricultural trade is never totally predictable. Some years we export more than others, either due to the weather here and abroad or to the forces of supply and demand. These are natural fluctuations to which farmers can generally adjust, albeit in some cases with assistance from the government. But the overall trend in farm exports has been remarkably positive, growing by 160 percent since the beginning of this century -- a period during which some 17 new U.S. trade agreements were negotiated. Exports now stand at $133 billion and account for 35 percent of farmers' cash receipts. All 17 of those trade agreements resulted in increased U.S. farm exports to the partner country. We now export more of some commodities, dairy and pork, for example, to countries with which we have free trade agreements than to the rest of the world (over 150 countries) combined.

Older farmers will recall the impact on their bottom lines of losing exports, not as a result of natural events, but due to government-imposed export embargoes. Their response was "never again" and they worked to pass legislation that would prevent such measures in the future. Younger farmers have seen the effect on them of lost exports due to port strikes and slowdowns. But none of these self-inflicted blows would come close to the consequences of retaliation by trading partners in response to unilateral U.S. restrictions on imports of their goods.

We cannot blithely assume, as some seem to, that countries will not retaliate against us because they would presumably fear additional counter-retaliation by the United States. Anyone experienced in the world of international trade knows that retaliation, whether overt or otherwise, is inevitable and that farm products would be at the top of each country's hit list. It's worth noting that the U.S. has challenged numerous Chinese trade practices through the

World Trade Organization's dispute settlement system and won nearly all of them. China's response has invariably been to accept the outcome and avoid WTO-sanctioned counter measures. But China did retaliate when the U.S. imposed tariffs on its tires, which it saw as a politically motivated action. The product it hit was U.S. chicken.

Could the government step in and offset income losses by producers when countries react against our exports? Although support programs already exist for some commodities, they are not designed to handle a situation of this type and potential magnitude. And such programs would do nothing to help the large portion of export dependent sectors that receives no such support. These include pork, beef, poultry, fruits and vegetables, nuts and processed foods. Moreover, it would be hard to argue that farmers should receive such bailouts when it the manufacturing sector would not. In any case, the cost of such a program would be prohibitively expensive, even assuming Congress could enact it in a timely manner.

About one-fifth of our agricultural production is exported and for some commodities the share is half or more. What happens to the output that can no longer be exported? Does the government buy it and store it in an effort to keep prices up? Farmers understand, even if politicians don't, that commodities in storage still overhang the market and weigh on prices, because eventually the product has to be sold (generally at a discounted price). And where and at what cost would these products be stored? For perishable goods this notion doesn't work at all.

China and Mexico seem to be the main targets of the anti-trade campaign rhetoric by one candidate, but other countries, including Japan and Korea, have been mentioned. It happens that those four countries are among our top five agricultural export markets (Canada is the other). One should not presume that if our products are cut off by those countries, they could be shifted to other overseas markets. Those would be much smaller and their governments would surely act to prevent a flood of underpriced products harming their markets and producers. This is how a global trade fiasco begins.

People outside of agriculture may wish to believe that at least they won't be hurt, or may even be helped, by imposing restrictions on imports. They should think again. The last time the U.S. imposed tariffs in an effort to "save jobs" was the infamous Smoot-Hawley tariff shortly after the stock market crash of 1929 (see chart below). The immediate effect was a doubling of the unemployment rate from about 7% to 14% within two months. The effect over the next two years was a further jump in unemployment to over 27%, in part because of lost exports.

People who work in shipping, trucking, or in the railroad industry; manufacturers who rely on imported raw material; people who work in a car dealership or for a parts supplier; people employed in retail stores; or people who provide services to these and other sectors are those who will feel the immediate effects of reduced imports.

Next at risk will be people who work in support of our export trade, which account for over a million jobs across the economy. Jobs in harvesting, processing, warehousing, and shipping will inevitably be lost when our trading partners react in kind, not to mention the industries that supply farmers with inputs and credit. Small towns across rural American always feel the pinch when farmers' incomes decline or they are foreclosed.   A contraction in overall U.S. exports would be a particular shame given the fact that foreign sales have accounted for two-thirds of our GDP growth since early 2009.

Last but not least is the ripple effect across the economy and the cost to the average consumer. Keep in mind that tariffs are paid by Americans, not the exporting country (as some seem to believe), and that they are really just a tax that's passed on to consumers. The higher prices that result, whether from the tax or reduced supply, means less disposable income available for us to buy other products, or save for retirement, or pay off loans. This ripple effect would account for a third wave of job losses. To imagine how this happens, recall how and where jobs were lost after the real estate crash in 2008. It did not simply affect the real estate industry (some actually took advantage of it); it affected the entire nation.

When one hears about all the wonderful things that will be achieved when we slap tariffs on imports, it would be well to consider such untended (or disregarded) consequences.

Paul Drazek is an agricultural trade consultant with over 40 years of experience both in government and advising agricultural associations. He served as trade advisor to Secretary of Agriculture Dan Glickman.