

Bloomquist Lectureship Series

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World Trade and Market Globalization: The Other Parts of the Equation

I'm pleased and honored to have this opportunity to present the Al Bloomquist lecture this year and I'm also a little apprehensive. I'm pleased because I'm a strong supporter of the Burdick Center for Cooperatives—and feel fortunate to have played a small part in its establishment.

I'm pleased because I'm a firm believer in the cooperative system and always glad to be part of something that has a cooperative base. I know of no other form of business that so directly involves and empowers people in decision making and profit sharing—without their having to sacrifice personal freedom and individual initiative. I know of no better way for farmers to extend their influence beyond the farm gate than through cooperatives.

I am honored because the lectureship honors a man I have known and admired for many years. A man who has contributed so much to the cooperative movement and to farmers in this area.

And finally, I'm apprehensive because I know that my friend, Joe Famalette, the human dynamo who used to operate across the river, gave an outstanding lecture last year and so I start deep in my end of the field at least one touchdown behind and time running out—and the game hasn't even started.

Let me begin with a few more thoughts about cooperatives. I first experienced their value when I was growing up on a depression-era farm south of Harvey.

I used to listen to my dad and our neighbors talk about all the things they were hoping for—better prices for their products, electricity,—the telephone.

Well thanks to their being able to organize themselves into cooperatives—they were able to realize these things because the cooperatives empowered them to market their products and purchase needed supplies and services more competitively. And the cooperative system provided a vehicle through which they could enter an effective working relationship with land grant colleges

like NDSU to bring information to their farms and with the U.S. government to bring electricity and the telephone as well.

The good news is that the cooperative system has grown and flourished through the years until today. We have a broad array of cooperatives serving us on a daily basis: agricultural cooperatives, consumer cooperatives, purchasing cooperatives, housing cooperatives, rural electric and telephone cooperatives, transportation cooperatives, banking and credit cooperatives, rural and urban development cooperatives, health care and insurance cooperatives, and flour cooperatives—the list is almost endless. And while not everyone is a part of cooperatives, everyone gains from them directly or indirectly through the competition they provide to non-cooperatives.

Another bit of good news is that the cooperative way of doing business is having a rebirth in America—and nowhere is that more apparent than in North Dakota—for which I compliment you.

Not only is the cooperative way of doing business being reborn—it's being reinvented—with new applications of established ideas. And again, North Dakota leads the way in many of these new applications. There is much to be thankful for.

But in the midst of all this good news, there are some major causes for concern as well. Two of those concerns lie in the area of competitiveness and globalization.

Let me elaborate—beginning with competitiveness. While U.S. cooperatives have done an increasingly better job of serving their member/owners—and through the years have grudgingly learned the importance of hiring good people and utilizing good business practices, most still lag behind their competitors in these areas—and they will need to significantly improve if they are to succeed.

Since Joe Famalette covered this area very well at last year's lecture, let me focus my comments on another area of concern, the willingness and ability of cooperatives to understand and to get involved in the global arena.

U.S. cooperatives by nature have a domestic focus and mind-set—which is good because that's where the member/owners are. Unfortunately, this has also inhibited their understanding, interest, and involvement globally.

Thus we find U.S. cooperatives too often caught in a domestic, and even regional, paradigm in a time of world trade and market globalization—what I call the other parts of the equation—situations and conditions which cause and permit the world's goods and finance to move rather freely across country borders.

In the years ahead, cooperatives will need to significantly increase their understanding and involvement in the global arena and in global markets to achieve their full potential.

I am fortunate that I was able to work for a major cooperative, Land O'Lakes, that believed very strongly in the concept of global involvement and understanding—and doubly fortunate in that I was given the opportunity to lead this effort right from the beginning. More of that later.

Let me begin with a brief review of world trade and market globalization: the impact, the cause, the consequences for the U.S.A., the forces which shape it, and the present situations.

Then we'll look at the future and the implications of world trade and market globalization for agriculture and cooperatives.

Finally, I'll conclude with a brief review of what we did about world trade and market globalization at Land O'Lakes—and the challenges and opportunities that await each of us.

Let's begin with the impact of world trade and market globalization:

Over the past quarter century, the market for most goods and services, and most especially for financial investments of all types, has become global in nature.

- Over 70% of U.S. goods compete with foreign goods (some goods are exempted.)
- Some countries circumvent the rules through tariffs and subsidies.

So What Caused It?

- U.S. desire to grow after World War II.
- Needs of other countries.
- Changes/improvements in transportation, communications, technology, production, and alliances.
- Changes in foreign policy.
- U.S. role as #1 economic power and world leader.
- The U.S. engineered the Bretton Woods agreement in 1947 which brought organization and structure to world interactions. The most significant of which were:

The International Monetary Fund

- Established to regulate the international flow of money.

GATT

- To regulate international trade policies and prevent governments from falling back on protectionist policies, and...

The World Bank

- To provide long-term capital for reconstruction of war-damaged economics—and later for the development of poorer countries.

What Were the Consequences for the USA?

- U.S. agricultural trade and U.S. trade as a whole doubled from 1970 to 1979 and tripled between 1965 and 1979.
- By 1980, an interdependent world economy had emerged which was of such significance **that it would forever weaken national boundaries and seriously question the value and meaning of national economic policies.**
- By 1980, the U.S. economy was as dependent on trade as Europe and Japan. A surprising development for an economy that traditionally had been self-sufficient and independent.

Then the bottom dropped out—primarily because in the 1970's the international financial system moved from fixed to floating exchange rates.

- The U.S. was forced to suspend convertibility of the dollar and with it the Bretton Woods agreement at the same time the OPEC nations were putting a lot of petro dollars on the market.

These developments set in motion four forces which continue to shape the global and agricultural economy today:

Force #1

- A rapid increase in international capital flows and the development of global capital markets.
- As these markets became more fluid and open, farmers had to compete with London bankers for funds.
- When forces drove up global interest costs, borrowing costs rose as well.

Force #2

- Large swings in exchange rates.
- Caused when huge amounts of money were being shifted in response to speculation, inflation, or interest rate pressures.
- Since the prices of U.S. agricultural products are expressed in dollars, prices of corn, wheat, and soybeans move every time the dollar exchange rate moves.
- OPEC countries were unable to absorb new-found wealth (petro dollars) so they deposited them into multinational banks.

Force #3

- The U.S. was free to pursue any combination of fiscal and monetary policies it chose.
- Under this freedom, the U.S. and its European counterparts established accumulative fiscal and monetary policies which lead to high inflation, low and often negative interest rates, and a high nominal rate of economic growth worldwide.
- In short term, much of the global economy benefited, trade boomed and land values rose.
- In the longer term, it proved to be a disaster when the U.S. Federal Reserve and other nation's national banks initiated policies to "wring inflation out of the economy."
- U.S. inflation fell from 8.1 to 3.9 percent between 1980 and 1985.
- It caused a major recession in 1982.

- The U.S. economy grew at less than 2 percent compared to a 5-year average of 3.4 percent and unemployment climbed from 6.2 to 9.7 percent.

Force #4

- Banks were pressured to recycle petro dollars through the international financial system—most notably to the developing countries.
- OPEC countries were unable to absorb new-found wealth (petro dollars) so they deposited them into multinational banks.
- The petro dollars were lent to developing countries at very low interest rates (8 percent) and debt rose from \$70 billion in 1971 to \$666 billion in 1981.
- The developing countries used much of this money to increase their consumption of all goods—especially food.
- The U.S. became a major beneficiary of all this borrowing and the dollar value of U.S. exports to developing countries increased from \$2.7 billion to \$18.9 billion during the 1970's.
- In 1979, fearing inflation, the OPEC countries responded to the second OPEC price increase with counteracting policies which negated the factors which had made lending and borrowing so attractive in the 1970's and the interest rates on developing country debts rose to 12 percent.
- Higher interest rates and a more expensive dollar combined to raise the debt service payments at a time of a global recession and shrinking markets.
- The effect on the U.S. trade balance with the developing countries was significantly falling from a \$2 billion surplus in 1980 to a \$37 billion deficit in 1984.

That's enough of a history lesson on how the global market came into being—now let's look at what it means.

Present Situation

- We have a global economy that is working, but not nearly as well as it should (protectionism, unevenness, and a lack of funds.)
- We have a global economy that has a lot of good points:
 - It made nations more interdependent and less likely to fight with each other.
 - It offers new opportunities.
 - We have global economy that is irreversible.
 - We have a global economy from which nations cannot isolate themselves.
- To be sure, that hasn't stopped some countries from trying to resist those external forces from time to time. In fact, the more interdependent countries became, the more many have intensified their efforts to escape the reach of world economics and to retain their freedom of action.

- Interestingly and deceptively, they have even succeeded in doing so for a short period of time. For example, because of the sharp appreciation of the dollar, our country was able to export the inflationary pressure caused by our rapid recovery in 1983-1984.
- And, through legislation and negotiation for a while, we restricted access to our markets for textiles, steel, automobiles, and semi-conductors.
- Unfortunately, the same dollar appreciation we used to export inflationary pressures and enable our spending to exceed domestic production for a time also produced massive trade deficits that turned our nation into the world's largest debtor nation and rendered our economy dependent on attracting \$10-\$15 billion of foreign capital each month.
- The import controls we implemented had the effect of pricing our protected American commodities out of the world market and enabled our foreign competitors to raise their prices and capture huge windfall profits from markets in which we were no longer competitive.
- In some instances, the import controls we imposed caused the domestic industries we were trying to protect to permit a sharp decline in their own competitiveness (as with steel, for example), and in more instances we hurt other American industries by driving up the prices of imported inputs.
- We are learning—as others have learned—that any efforts to resist the forces of globalization can succeed only partially—and then for only limited periods of time—and those countries that seek to resist the globalization of their markets will experience a decline in their living standards and relative to those who don't.
- Nowhere is that message more vividly dramatized than in the former Soviet Union and the centrally-controlled countries of Eastern Europe.
- The price they have paid for isolating themselves from the world market is tremendous. Their economics is shambles; their currencies are next to worthless; their productivity is low; their infrastructure is generations behind other countries; and their consumers are highly dissatisfied.
- The truth of the matter is—that it is extremely difficult for national economy to function effectively without a heavy reliance on markets—and when those markets are international in character—countries simply have to follow. **The great complexity of the world economy simply rules out any alternative.**
- Even those companies that choose not to sell their products overseas need to understand the impact that foreign competitiveness has on their business and position themselves to deal with it. **Keep in mind that establishing barriers to keep foreign competitiveness out—is not a viable option!**

Looking to the Future

- We need to break down trade barriers and trade restrictions through GATT and other means.

- We need to include the Soviet Commonwealth of Independent States and the Eastern European countries in GATT and give the access to the IMF and World Bank.
- We need to provide technical assistance to the emerging democracies and the developing countries, so they can get their economic engines going and become active participants in the world market.
- Unfortunately, no country has emerged as a world leader to exert a stabilizing influence on the global situation—and the United States can no longer play benevolent uncle and assume responsibility for all the world's problems.
- As a nation, we need to shrink our budget deficit; reduce our trade deficit; increase overseas growth; reduce the export surpluses of the Asian countries; and help the developing countries and emerging democracies to solve their problems and get their economic engines going.
- Unfortunately, these solutions are politically difficult to enact—but they demand strong, immediate, and continuing action.

What about Agriculture?

- Global economic interdependence and decentralization are here to stay.
- Over the near-term, world economic growth will be rather weak—and over the longer term, it will likely be volatile.
- The prospects for a return to a coordinated exchange rate and macro-economic policy regime seem very remote for economic and political reasons.
- For U.S. agriculture to be successful in such an environment:

Agricultural prices must be flexible

- Fixed agricultural prices in the face of floating exchange rates leave agriculture unable to counteract the effect of misaligned currencies.

Second, we must help the emerging democracies and developing countries to solve their problems and get their economic engines going.

- At the height of the agricultural boom, exports to developing countries accounted for 43% of U.S. farm exports.
- Developing countries and emerging democracies potentially represent the fastest growing markets for U.S. products if they can get their economies going.
- A key component to their growth is agricultural development.
- U.S. agricultural policies should encourage growth in these countries—keeping in mind that marketing loans, export subsidies, and closing markets through import quotas have the effect of artificially depressing world commodity prices.

Third, agriculture needs to look seriously and realistically at alternative agricultural policies which decouple income support for agricultural producers from production and price levels.

- This is not very popular, I know, but with the prices of imports and exports being determined in a world economy beyond the command of U.S. agricultural policy and U.S. macro-economic policy, the wisdom of relying on price-support mechanisms to support agricultural income is questionable at best.

Fourth, agriculture needs to become much more vocal and involved in macro-economic policies because macro-economic policies matter a great deal to agriculture

- Price, stability, inflation, interest rates, trade and marketing policies, and global growth all have more to do with the health of U.S. agriculture than do loan rates and target prices.

The Outlook

- The outlook for U.S. agriculture is bright if we deal effectively with some of our immediate problems; establish effective policies; and get actively involved in the global economy.
- The high growth markets for U.S. agriculture are the developing, newly industrialized, and former centrally-controlled and planned economy countries.
- The U.S. can create a liberalized trade environment for agriculture through free trade agreements.

Implications for Cooperatives

- Traditionally, cooperatives have operated domestically and looked inward to their members. We must continue to do an outstanding job in this area.
- But, in addition, we need to get much more involved in:
 - Macro-economic policies, negotiations, and decisions.
 - International development activities.
 - International business activities:
 - Exporting/importing.
 - Joint ventures/investments.
 - Licensing.
- Step #1: Make a commitment (attitude, time, resources...).
- Step #2: Make a plan and develop some strategies.
- Step #3: Hire some competent people.
- Get actively involved.

Cooperatives can ill afford to wait for the forces of globalization to sweep over them. Rather, they need to get actively involved in shaping their global future. That's what you did so successfully domestically, and you need to continue to do that. But you will need to plan your global future just as diligently in the years ahead.

In 1982, Land O'Lakes established an International Development Department, the first major U.S. corporation to do so. I was fortunate to head that effort. Its purpose was, and is, to provide Land O'Lakes staff and members with the opportunity to be directly involved in economic, market, and business development activities around the world.

Since that department was established, Land O'Lakes has been actively involved in development activities in over 30 countries including the emerging new democracies and the commonwealth of newly independent states.

Moreover, Land O'Lakes spans the globe in development programs and commercial ventures. This is especially significant in light of the fact that many U.S. cooperatives haven't moved off the dime and are still waiting for the "right" time to move—**locked in their paradigm.**

Finally, a word for you students here today—this is an exciting time with the whole world opening up with new opportunities.

This is not the time to develop a foxhole-type mentality as some would have us do. This is the time to prepare yourself as well as you can and then move into the global economy with confidence and understanding. With the assurance that your background, your experience, and your grounding in North Dakota, Minnesota, or the Upper Midwest—and with your education and experiences at NDSU—you have been well prepared to do so—if you have taken advantage of the opportunities you have been afforded. I know because I've been there and done that.

Vern Freeh

Dr. Freeh is currently the president of Freeh Enterprises, a St Paul Minnesota management and consulting company. He is an internationally-recognized authority on cooperatives and the important part they play nationally and internationally.

Dr. Freeh was born on a depression era farm in North Dakota. He holds a B.S. degree from NDSU and a M.S. and Ph.D. degrees from Michigan State University. He has been an academician (University of Minnesota, 1965-1980), a business executive (Land O'Lakes 1980-1991, where he established and headed the international development and public affairs division), and an international development specialist. His career has taken him to 60 countries and involved him in business, education and development activities in 22 countries, including Eastern Europe and the former Soviet Union.