



The Russians ARE COMING

Many economic factors are spelling change for Canadian agriculture, says Greg Mason. How will stock market instability and the potential rebirth of eastern European farming affect Canadian producers?

In the capitalist economies, we are smug. The free enterprise system has dealt a convincing blow to the socialist economic system and democracy forced open the previously-closed Communist societies. Over the past two years, we have seen the North American economies wake up and most pundits predict continued prosperity. Finally, many farmers have emerged from a long period of drought and poor prices. We have reason to be smug, don't we?

Well, most farmers I know have learned to eat more than a grain of salt. Prices rise and

devaluations in Asia make the Mexican upheaval of two years ago look like a hiccup. For many years, sober forecasters cautioned that their rosy predictions were predicated on stability in the world monetary system, especially in Asia. With these changes, things could get more than a little strange.

What does this mean to the farmer? On the input side, devaluation may not affect farmers since most fertilizer, herbicides, machinery and feed are sold within North America. Only if the Canadian dollar devalues against the American dollar will there be cause for

concern. On the output side, things might be different, especially for farmers selling offshore. Declining Asian currency values means that farmers now must sell to foreign importers whose purchasing power has dropped. Downward pressure on the prices of exported agricultural products is a serious possibility.

Second, and more ominous in the long term, is the recovery of agriculture in the former eastern bloc countries. For years, farmers in North America counted on the failure

of collective farming. In the late 1960s and through the 1970s, wheat farmers in the west benefited from repeated sales to Russia. With the collapse of the Soviet economy and the acceptance of free enterprise, it was only a matter of time before agricultural production would respond. Reports are now leaking in that production is growing in the former Communist countries. The Ukraine has yet to come on stream, but remember this was the breadbasket of Europe in the 19th century.

Once the free enterprise system ramps in eastern Europe, worldwide competition in wheat markets will tighten. Again, the prospect for prices looks bleak.

A third trend is worrisome. The regulatory environment unwound very rapidly over the past five years. Impelled by the GATT (General Agreement on Tariffs and Trade), we have seen a major reduction in the farm safety net and the elimination of important subsidies, especially in transportation. Now it makes no sense to export feed grain, livestock production has changed its optimal location and this crop year higher transportation costs are hitting many producers hard.

What is even more troubling is the apparent policy stall. After having dismantled part of the safety net, politicians seem to have become very hesitant to

make additional changes. The bill to revamp the Canadian Wheat Board is making painful progress through the House of Commons. Even more serious is the lack of resolution of the review of rail transportation as the shipping season starts in earnest. Agriculture can ill afford the fiasco of last winter. With three federal ministers in the act (Agriculture, Transportation and the Wheat Board), it is probable that this matter will stagnate.

This is not to argue for a further move to free enterprise solutions, just that uncertainty is a barrier to effective business planning in all areas of the economy. Enough risk exists in agriculture without compounding this with political dithering.

Much exists in Canadian agriculture for which to be thankful and optimistic. Many farmers have found truth in the saying, "what does not kill you makes you stronger." However, we need to always look to the future and calculate the risks. Currency instability, growing competition and political indecision are just three emerging storms on the horizon that agribusiness managers will be watching over the next year. ■

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prices fall, and we can't eat predictions. Unless you like crop. Just what are the risks in our current environment?

First, as I write this column, we are witnessing great turbulence in the stock market. Extreme nervousness about the Asian economies is causing investors to sell, then buy, and then sell. No one has a focus on this environment, but the recent rise in the value of many stocks has been the result of hype. Growing numbers of investors doubt that these levels can be sustained. The currency

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