Staff Paper

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Abstract: The U.S. agricultural policy process is marked by a proliferation of organized interests and rising transaction costs. These pose a barrier for countries negotiating with the United States on trade issues. This paper examines the causes of this proliferation of interests, the impact of this proliferation on trade policy decisions, and the consequences of these escalating transaction costs for countries negotiating with the United States. The results suggest that other countries must anticipate that the U.S. position in trade negotiations will be the result of an accommodation of conflicting interests and that any agreement will pass Congress only if it contains gains for U.S. export industries.

Key words: Agricultural trade, interest groups, trade negotiations, transaction costs.

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Abstract: The U.S. agricultural policy process is marked by a proliferation of organized interests and rising transaction costs. These pose a barrier for countries negotiating with the United States on trade issues. This paper examines the causes of this proliferation of interests, the impact of this proliferation on trade policy decisions, and the consequences of these escalating transaction costs for countries negotiating with the United States. The results suggest that other countries must anticipate that the U.S. position in trade negotiations will be the result of an accommodation of conflicting interests and that any agreement will pass Congress only if it contains gains for U.S. export industries.

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"The difference between Congress now and fifteen years ago is the difference between chicken salad and chicken [manure]. The words sound the same, but that's about all they do. The Congress is a completely different world from what it was fifteen years ago. If you don't understand that point, you'll understand nothing about Washington."

Washington veteran Robert Strauss to Canadian ambassador Allan Gotlieb on Gotlieb's arrival in Washington (Gotlieb, p. 29)

While the United States frequently criticizes its trading partners for maintaining agricultural trade barriers, the contradictory positions taken by the United States on many agricultural trade issues is equally frustrating for many American agribusiness interests, foreign agribusiness executives and policymakers in other countries. These people often express irritation about the inconsistencies of U.S. trade policy, noting that the United States is both an advocate of trade liberalization and a practitioner of export subsidies, import restrictions, export restraint agreements, and antidumping laws (Goldstein).

This analysis examines the political economy of agricultural trade policy in the United States and seeks to explain why the United States often assumes conflicting and inconsistent positions on agricultural trade issues. It is written in the hope that agribusiness leaders, who must understand and influence the political process that affects their operations, will have a better understanding of the root causes of their frustration with U.S. agricultural trade policy. While domestic executives and foreign observers have long understood that the U.S. government is decentralized and fragmented in its structure, the degree to which government is fragmented among its various actors is today greatly underestimated. We will examine the fragmented nature of U.S. agricultural politics, the complexities this fragmentation creates in agricultural trade negotiations, and the manner in which the fundamental operating rules of U.S. government have combined with the economic transformation of American agriculture to create a high level of transaction costs for U.S. trade negotiators and their negotiating partners from other nations.[1] This high level of transaction costs, and the accompanying high degree of uncertainty about the outcome of the decision process, we will argue, are the political obstacles that frustrate agribusiness executives and policymakers in the United States and abroad.

The Decentralized Nature of U.S. Government and the Evolution of a Fragmented Agricultural Policymaking Process

The U.S. agricultural policy process can be viewed as having evolved through five stages into its present state (Bonnen, Browne, and Schweikhardt). That evolution has been marked by a rapidly increasing number of political interests that claim a legitimate role in the policymaking process and by a system of power that has fragmented among the major decision makers in government. The rules of the U.S. legislative process, as created and in their subsequent evolution, give these interests a legitimate and powerful position in the policymaking process. What has caused this transformation of the agricultural policy process and what are the consequences for nations negotiating with the United States on agricultural trade issues? These questions must be answered on two related levels -- at the level of the basic constitutional and legislative rules of the U.S. government and at the level of the agricultural policy process.

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[1]Transaction costs are defined as the costs associated with any form of negotiation between two or more parties. They include the monetary and non-monetary costs of obtaining and evaluating information; establishing a bargaining position; locating bargaining partners; negotiating a formal or informal agreement; and monitoring and enforcing the agreement (Stevens, p. 68). A broad literature has been developed on the role of transaction costs in market transactions (Williamson; Williamson and Winter). This paper uses the same definition of transaction costs in examining the costs associated with political as well as economic transactions (Buchanan and Tullock; Bonnen and Browne).

The structure of the American government is intended to create a complex and decentralized policymaking process, with power divided between the national government and the states. Power within the national government is also separated among the executive, legislative, and judicial branches, and even divided within these branches. Each branch of government is provided an opportunity to participate in every national decision. But more than an inherent complexity and difficulty in decision making prevails in the U.S. system of government. With many actors having a role in the political process, organized interests have a strong incentive to find an advocate for their policy position somewhere in government -- a government sometimes described as "largely incapable of choosing among interests" (Hody, p. 5).

This interaction between the formation of organized interests and the access available to these groups in the legislative process is evident in the evolution of the American agricultural policy process. Though probably oversimplifying the reality at the time, Campbell was generally correct in describing the earliest stage in the evolution of the U.S. agricultural policy process as an era dominated by a closed and tightly controlled decision making process. During the 1930s and 1940s, an "iron triangle" of policymaking dominated agricultural politics (Figure 1). Congress had to write legislation, but the entire Congress could not examine in detail each of the many issues under consideration. To facilitate expertise and specialized attention by a few members, Congress granted its greatest policymaking authority to a series of committees, with one committee in each house of Congress devoted to domestic agricultural policy. Because members of Congress had great latitude in choosing on which committees they would serve, members of the agriculture committees were self-selected, with members coming from states and districts having substantial farm constituencies.

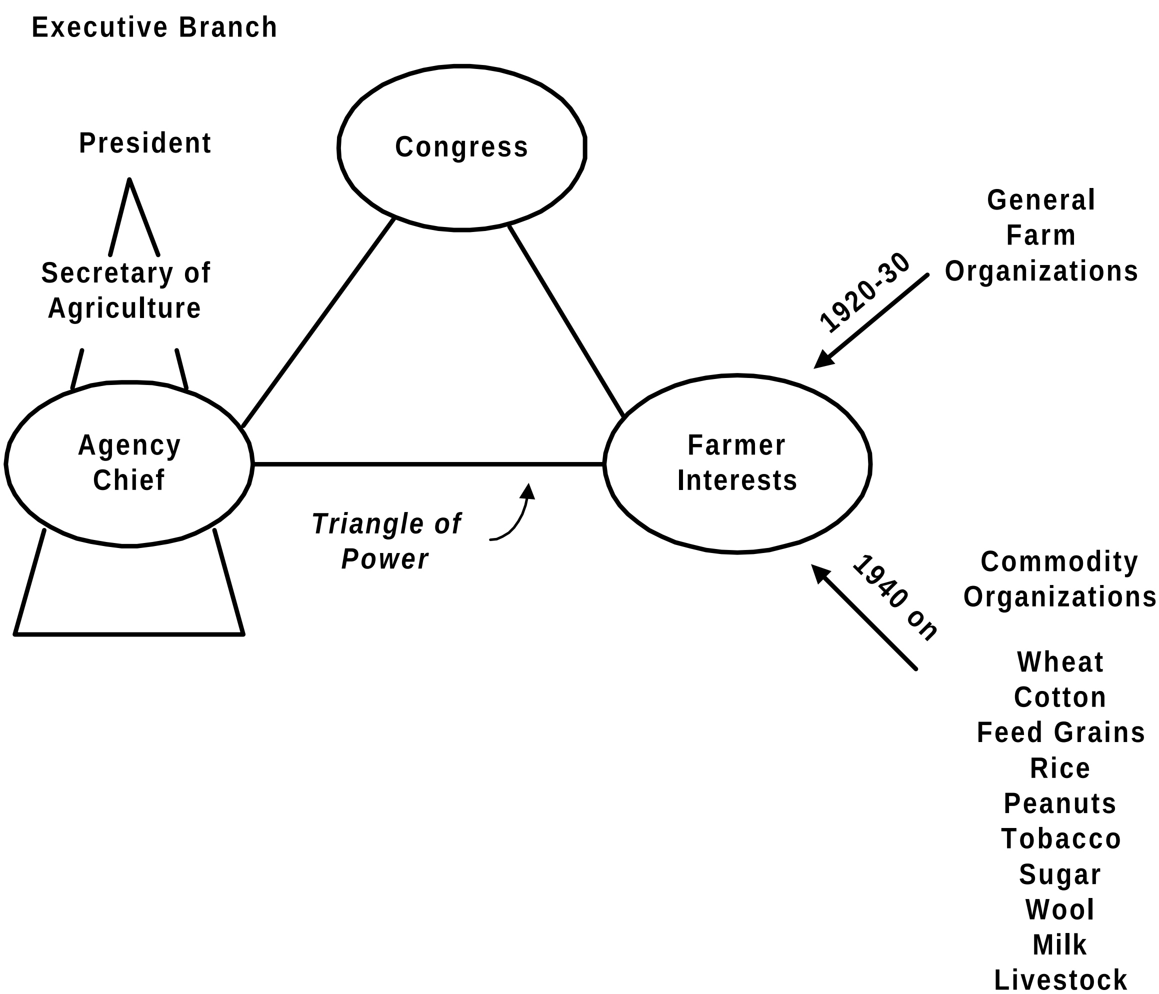

Figure 1. U.S. agricultural policy making process participants, 1920s-1940s

The U.S. Department of Agriculture provided analytical advice to Congress and represented the President, with his national constituency, in policy debates. Farm interest groups were also vital to the legislative process. They explained what farmers wanted from government, drafted their own policy proposals, and, if listened to, legitimized the results of the policy process with farmers (Hansen). Initially farm interest groups were general farm organizations that represented a broad range of farmers with largely similar interests. The Farm Bureau was the dominant farm interest group during the period, and coordinated the agenda articulated by its members with those of commodity interest groups, particularly corn and wheat organizations from the Midwest and cotton cooperatives from the South. During this era, the agricultural policy process was dominated by negotiations among these three parts of the iron triangle. All of these actors were focused only on agricultural policy, which during that era equated to farm commodity policy, with its near exclusive focus on supporting farm incomes. Farm commodity subsidies and conservation and credit programs provided selective benefits available only to farmers. The politics of this era were as simple as politics can be, and the transaction costs of negotiating policies among the major participants were minimal.

The simple politics of the iron triangle began to erode in the 1950s until, nearly fifty years later, the agricultural policymaking process bears no resemblance to this earlier era (Bonnen, Browne and Schweikhardt). Five major forces interacted to transform the agricultural policy process. This transformation would ultimately cause a proliferation of the transactions needed to pass any agricultural legislation, escalate the transaction costs of making policy decisions and, in agricultural trade negotiations, frustrate both U.S. agribusiness interests and U.S. trading partners. As these transaction costs escalated, agribusiness leaders and foreign policymakers often found progress on trade negotiations dramatically slowed or even stopped.

The first of these transforming forces emerged in the 1950s as agribusiness interests asserted their role in the policy process. While agribusiness leaders had long argued for specific policy objectives, their involvement was sporadic and limited to a few players. By the 1950s agribusiness had grown into a major economic sector and its role in the policy process changed. As agribusinesses came to dominate the provision of farm inputs and the processing and distribution of food and fiber products, business leaders became more intensely aware that their financial interests were affected by such policies as production controls (e.g., the Soil Bank) and price supports. With that awareness, agribusiness leaders sought to establish an ongoing influence in Washington, which ironically became the first step in the transformation of the policy making process that now frustrates agribusiness interests on many trade issues.

With the entry of agribusiness interests into the policy process, farm and agribusiness interests had to recognize one another, bargain together when possible, and share influence in Congress and the USDA. When it became impossible to reach agreement, potential losers took their demands beyond the routine processes of the iron triangle. Congressional leaders, the Secretary of Agriculture, and even the President were forced to become arbiters, sharing power over decisions with the recurring players in the original iron triangle. Ultimately, the fragmentation of agribusiness interests intensified further as input suppliers, processors, food manufacturers, wholesalers, and retailers became more aware of their particular interests on policy issues and entered the policy making process with their own issues and demands.

The second major force transforming the agricultural policy process was the industrialization of the American farm sector. At the same time that farm input and output industries were becoming active in the policy process, the changing economic structure of agriculture led to fundamental changes in the political organization of agriculture. Specialization of production contributed to the industrialization of American agriculture, with farms increasing in size and shifting from diversified operations to increasingly specialized producers of a limited number of commodities. In a political system based on self interest, producers joined commodity groups that focused increasingly on the problems of their own industry rather than general issues affecting the U.S. farm sector.

As the specialization in agriculture increased, continued fragmentation of economic interests was inevitable, and the fragmentation of political demands by farmers could only follow. In Congress, the full committees on agriculture became less relevant in considering the needs of specialized crop producers. Political pressures made the subcommittees, which were by now divided along commodity lines, the central players in determining price policy. Local and regional farm interests looked to their own representatives and senators to serve as their congressional advocates (Lowi; Heinz). This brought a constant tinkering with commodity programs as an adjustment for one region set in motion losses in relative advantage that, in turn, generated new political demands by those in other regions that had lost. Eventually, both agribusiness and farm interests fragmented further on a regional basis. For example, cotton growers in the Mississippi Delta sometimes sought different policies than did producers in the Southeast or West, once again adding to the list of interests active in the agricultural policy process and increasing the transaction costs of passing agricultural legislation.

The third force contributing to the transformation of the agricultural policy process was the entry of a wide range of other interest groups into the decision making process. Consumer, welfare, and labor groups demanded a role and became participants with the passage of the Agriculture and Consumer Protection Act of 1973. The rural/urban alliance that passed the 1973 farm bill introduced the Food Stamp program as an institutionalized and ongoing part of agricultural legislation. By providing benefits to lower-income urban consumers, the Food Stamp program attracted the support of consumer, labor, and welfare advocacy groups for the 1973 farm bill, but further escalated the political transactions needed to pass agricultural legislation and gave these groups a permanent role in future agricultural policy decisions.

These groups eventually were joined by another new set of actors in the agricultural policymaking process. By the 1980s, it was recognized that the industrialization and specialization of agriculture had created impacts external to farming, raising significant issues in food safety and environmental policy. Consequently, organized environmental interests entered the decision process during the 1980s, bringing with them yet another set of issues and interests to be accommodated. The initiatives launched by environmental interests often differed from those of animal rights groups, food safety advocates, or sustainable agriculture interests. Within the environmental lobby, groups soon specialized further: rivers, wetlands, ducks, pheasants, songbirds, wild animals, farm animals, farmlands, and forests were among the interests represented by specific groups. By 1985 these groups had been accommodated in the policymaking process, with agricultural and environmental interests collaborating to support many conservation programs in the 1985 farm bill. Both groups fully understood that neither could pass their desired programs without the inclusion of programs favored by the other. This fragmentation of interest groups also meant that an interest group might achieve one or a few of it highest priority goals, but never its entire policy agenda.

A fourth force contributing to the transformation of the agricultural policy process was the economic integration of the U.S. food system with international markets. A decision process that was once essentially domestic in scope now became enmeshed in complex interactions with international political relations and trade. The White House and other cabinet-level departments were brought even further into the agricultural policy process. As agricultural exports became economically, and thus politically, more important, the decision making focus drifted, or was forced, away from the USDA to the White House. The Secretary of Agriculture competed for control of agricultural trade issues with the Office of Management and Budget, the U.S. Trade Representative, the Council of Economic Advisors, the National Security Council, the Central Intelligence Agency and the departments of State, Treasury, and Defense. With agricultural issues occupying a central role in trade negotiations, this competition became especially intense. Throughout this period, many policy actors came and went as their interest in agricultural issues changed, influencing policy only as they entered the process on behalf of their own political agendas and as issues and events changed.

Changes in the operating rules of Congress that provided greater access for interest groups in the policy process were the fifth force that contributed to the transformation of the agricultural policy process. Beginning in the early 1970s, Congress changed many of its operating rules to reduce the power of committee chairs and provide greater opportunities for individual members to participate in the legislative process (Loomis). As the power of the committee chairs was weakened, individual members of Congress adopted a strategy of “political entrepreneurship” emphasizing local constituent interests and issues. Using the congressional office as a personal political enterprise, the political entrepreneur came to pursue a highly individualized political agenda owing little to party leadership or committee chairs. Instead, political entrepreneurs allocated office resources (budget, staff, media access, campaign funds) to an array of individualized political objectives (re-election, addressing policy issues within the district or state, or building a broader power base within Congress).

To the political entrepreneur in Congress, legislation serves as a vehicle for delivering program benefits to constituents rather than an opportunity to achieve coordinated or comprehensive national policy. Committee chairs could no longer contain the entrepreneurial tendencies of individual members, and party leaders, now beholden to the increasingly independent rank-and-file membership, became little more than political brokers attempting to aggregate enough individual interests to achieve a voting majority. After witnessing the operation of Congress in the 1980s, Former Canadian Ambassador Allan Gotlieb described this change as "a sub-separation of powers...[in which] power in the Congress has become diffused, fragmented, and atomized" (Gotlieb, pp. 27-28). In such an atmosphere, legislative coalitions became *ad hoc* collections of narrow interests and issues attached to any available legislation. Bills became less manageable and their content less predictable, with decisions becoming deadlocked or revisited frequently as coalitions grouped and regrouped in different configurations.

Farm bill politics now offered legislators the opportunity to satisfy their entrepreneurial objectives, giving rise to a new operational mode for writing a farm bill: legislative coalitions were built by adding something for everyone, or at least for as many members as necessary to pass legislation. In a process of continuous tinkering, each new farm bill of this era added specific provisions and amendments dealing with one or more issues that rewarded distinct interests having their own policy agenda in agriculture. Many more members of Congress -- not just agriculture committee members and chairs -- became involved in writing farm bills, either at the behest of organized interests or because of perceived local inequities and circumstances of concern to select groups of constituents.

By the 1990s, the agricultural policy process had been transformed from the once sedate, unified and generally low transaction cost politics that marked the era of the iron triangle into a massive politics of accommodation, open to a rising number of interests and policymakers capable of inserting their issues into the policy process (Figure 2). The transformation of the farm sector into a complex, industrialized food system, combined with changes in the rules of Congress that permitted greater access to the political process, caused a proliferation of the transactions needed to pass agricultural legislation. This generated an increase in the transaction costs required to pass any legislation. Perhaps the best indicator of this transformation was the increasing length of farm bills passed in recent years: the 1973 farm bill was 29 pages in length, while the 1990 farm bill reached 713 pages as Congress struggled to accommodate the insistent, often conflicting demands of interest groups and actors now involved in the policymaking process.

The Implications of a Fragmented Agricultural Policy Process for Agricultural Trade Negotiations with the United States

The proliferation of interests and escalation of transaction costs in the agricultural policy process could not be limited to domestic policy issues. Once these interests and actors had established their legitimacy within the policy process, they inevitably reached to extend their role into agricultural trade issues. Consequently, agribusiness leaders seeking to influence trade policy

Figure 2. U.S. food system policy making process participants, 1990s

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and policymakers from other countries now face U.S. trade negotiators who are constrained by a domestic political process that is dominated by fragmented *ad hoc* political coalitions, conflicting interests, and a political process that provides nearly unlimited access for interest groups to demand that their issues receive attention.

In addition to the fragmentation of interests in the agricultural policy process during the past half century, trade policy is further complicated by the diffused distribution of power over trade policy issues within the executive branch of government. While the Office of the U.S. Trade Representative holds official responsibility for negotiating trade agreements on behalf of the President, in reality that power is shared with the Department of Treasury (tariffs are considered a form of tax policy that falls within Treasury's jurisdiction), State (trade policy issues are often intertwined with, and sometimes subservient to, broader foreign policy considerations), and other sectoral departments (e.g., Agriculture, Energy, Commerce) each representing issues critical to the interests served by that department.[2] Such fragmentation in the American system leads to a high level of transaction costs within the executive branch as American policy makers struggle to develop a coherent negotiating stance. This internal struggle ultimately leads to frustration for

[2]Agricultural trade policy is further complicated because tariffs are considered tax policy, causing trade agreements to fall under the jurisdiction of the Senate Finance Committee and the House Ways and Means Committee. Other committees also share jurisdiction on trade policy issues. A 1985 review of Congress found that at least ten committees (plus their subcommittees) shared jurisdiction on trade issues (Finlayson, p. 150; Deardorff and Stern, pp. 42-49). This adds an additional set of actors to the agricultural trade policy process. As Finlayson also observes, many "domestic" policies (such as environmental policy or other regulatory policy) can affect trade. These policies will often fall under the jurisdiction of committees that have a domestic orientation and may pay little attention to the trade consequences of their policy decision (Finlayson, p. 157)

those countries whose parliamentary system is more centralized and whose capacity to define a coherent negotiating position is greater than the United States (Kirton, p. 460).[3]

The impact of the massive politics of accommodation that now dominates agricultural policymaking in the United States is evident in negotiations on agricultural trade issues. During the negotiation of the U.S.-Canadian Free Trade Agreement, for example, fundamental differences in the Canadian parliamentary system and the U.S. congressional system were the source of much frustration on the part of Canadian negotiators (Vernon, Spar, and Tobin). This frustration came from two sources. First, unlike the Canadian system, in which the chief trade negotiator answered directly to the Prime Minister and there was relative unity between the executive and legislative branches, the chief U.S. negotiator held no direct power over other agencies of government, permitting many other agencies to claim a role in the negotiating process. Moreover, Congress was willing to take a strong hand in shaping the priorities and tactics of the U.S. negotiators, often by threatening to withdraw support for the final agreement if specific issues were not addressed to the satisfaction of their constituents. Individual members of Congress felt no reluctance to question U.S. negotiators and challenge the administration on relatively narrow areas of the agreement, if those provisions were important to constituents (McPherson).[4] This

[3]The frustration of Canadian negotiators with the U.S. system was obvious during the negotiation of the U.S.-Canada Free Trade Agreement as Canadian negotiators labored under "the belief that somewhere in Washington there is actually a decision center that can be used to gain control over the policy process" (Doern and Tomlin, p. 168). By the conclusion of the negotiations, one Canadian negotiator would characterize the U.S. trade policy process as having "no anchor, no rudder, no compass" (Hart, Dymond, and Robertson, pp.36-53).

[4]Perhaps the clearest indication of the willingness of individual members of Congress to challenge the President on trade issues occurred during the debate on the North American Free Trade Agreement. Two of the three highest ranking Democratic party leaders in the House of Representatives, Richard Gephardt and David Bonior, voted against NAFTA despite the fact that

openness to the demands of individual legislators, arising from legislators' almost unlimited ability to interject the demands of local constituents into the trade negotiating agenda, differs dramatically from a parliamentary system, in which votes against the prime minister can result in the fall of the government (Lipset, p. 135). This weak party discipline in the United States, and the obstacles it creates for international policymaking, is often underestimated by foreign policy makers familiar with the more disciplined parliamentary system in which the cabinet's decision sets the agenda for national policy (Gotlieb; Hart, Dymond, and Robertson, p. 41).[5]

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they were members of the same political party as the President who had negotiated the agreement. As political scientist John Kingdon observed, "Bonior's behavior would be unheard of in a parliamentary system with strong parties. He would surely resign his party leadership position. If he didn't resign, he would be removed. Even if he were not in a leadership position, he probably would lose any standing he might have had in parliament and possibly would lose his seat. But in the United States, because we prize autonomy and responsiveness to members' own constituents, Bonior was not only tolerated but was also encouraged by his Democratic Party colleagues in Congress and by just about everybody else. He was simply taking care of his labor union constituents working in the Michigan automobile plants, the thinking went, and American legislators are expected to do that" (Kingdon, p. 11). With Congressional party leaders having little obligation to support the President on such an issue, rank-and-file members of the Congress have a strong incentive to demand that their interests be accommodated in the negotiating and legislative processes.

[5]Canadian ambassador Allan Gotlieb described the lesson he learned while serving in the United States: "Since there are so many participants in decision making, so many special-interest and pressure groups and so many shifting alliances, a diplomat cannot design any grand or overarching strategy to further his nation's interests [with Congress]. He must grasp the fact that every issue involves its own microstrategy and that every microstrategy is unique. There must be an analysis of each individual politician, each special interest, each potential intervenor, and every force and point of pressure involved in the matter at hand. Each and every congressional subcommittee involved in an issue requires the most meticulous microanalysis, with separate substrategies defined for influencing the attitude of each legislator as well as his or her congressional staffers" (Gotlieb, p. 35). Perhaps only an outside observer could so succinctly describe the fragmented power, escalating transaction costs, and inherent uncertainty that dominate the modern American political system.

In addition to the ongoing role that many U.S. actors and interests play during the trade negotiation process, the U.S. approach to trade legislation provides two major opportunities for legislators and the interests they represent to shape the direction and outcome of trade negotiations. First, before the President may enter trade negotiations, the Congress must grant "fast track" authority for trade legislation. Under the rules of the fast track process, Congress guarantees the President that it will consider a trade agreement under a closed legislative rule that prohibits amendments on the substance of the final negotiated agreement. This process is designed to prevent amendments on the final agreement that would unravel the agreement during its final consideration by Congress. In the process of voting to grant negotiating authority to the President, however, Congress may impose constraints on the issues or alternatives that U.S. negotiators may pursue (Vernon, Spar, and Tobin; Rowley, Thorbecke, and Wagner, p. 206). This gives organized interests in the United States their first opportunity to influence the direction of trade negotiations, sometimes derailing the hopes of trade liberalization advocates.[6]

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[6]The clearest example of the challenges that can arise during this first stage was the consideration of the fast track authorization for the U.S.-Canadian Free Trade Agreement. Canada had requested that the two countries undertake negotiations, and the Reagan administration requested fast track authority from Congress, not anticipating major opposition to the authorizing legislation. When the Senate Finance Committee began its hearings on the legislation, however, fast track authority encountered fierce opposition from many senators who were using the opportunity to voice a wide range of complaints about the administration's trade polices. Despite the fact that many of the issues were not related to U.S.-Canadian trade, opposition was so strong that the chairman of the committee adjourned the hearings without a vote rather than confront the embarrassment of defeat. Twelve of the twenty members of the committee then sent a letter to the President asking that he withdraw his request for negotiating authority. Only personal lobbying by the President, in what one observer called "crisis diplomacy," could produce enough votes to achieve a 10-10 tie on the legislation, thereby passing the legislation on for consideration by the entire Senate (Winham, p. 24-27). This vote was only possible, however, because the administration agreed to preconditions for the negotiations that would satisfy legislators opposing the legislation (Leyton-Brown, pp. 152-54; Hart, Dymond and Robertson, pp. 142-51).

The second opportunity to influence the outcome of trade negotiations, and the primary juncture at which organized interests must be accommodated on trade issues, comes when Congress considers passage of the implementing legislation that grants final approval to the agreement negotiated by the President. While the fast track rules prevent any amendments to the agreement from the floor of the Congress, the President must still find a means of accommodating the conflicting demands of U.S. interest groups, especially those that claim to be damaged by the negotiated agreement. The difficulty of accommodating these interests can be heightened when some agencies within government, particularly those representing sectoral interests (e.g., the Departments of Energy, Agriculture or Commerce), raise criticisms of any negotiated agreement that fails to fully address the issues important to that sector (Doern and Tomlin, pp. 193-94). In this regard, the executive branch in the U.S. government provides much greater access for interest groups, and much greater capacity for political conflict within the executive branch, than does the more unified cabinet government in a parliamentary system (Wright, p. 11).[7] Such divisions within the executive branch provide additional points of access for organized interests to enter the policy process and obstruct any agreement detrimental to their members.

The clearest example of the opportunities provided to interest groups by this process can be seen in the implementing legislation for the North American Free Trade Agreement. Final approval of the NAFTA could only be achieved through an accommodation of agricultural

[7]Wright concedes, however, that interest group conflicts will occur within a parliamentary system and should not be minimized: "It is sometimes claimed that the system of constitutional checks and balances in the United States invites bureaucratic politics, whereas in Canada the institution of cabinet government and the pervasiveness of the career principle in the public service tend to do the opposite....What does sharply distinguish the Canadian case from the American is that the central role of the Cabinet in Canada means that, to a considerable extent, bureaucratic politics are hidden from the public view" (Wright, p. 11).

interests. In the final implementing legislation for that agreement, for example, fruit and vegetable growers were granted a postponement on the scheduled banning of the soil fumigant methyl bromide and an increase in funding for horticultural research, citrus producers were guaranteed that U.S. tariffs would be reduced no more than 15 percent during the final negotiations on the Uruguay Round of GATT, wheat and peanut producers were guaranteed that the U.S. International Trade Commission would investigate their complaints about Canadian exports to the United States, and U.S. wine and brandy producers were promised that U.S. negotiators would seek accelerated tariff reductions with Mexico on products of interest to their industry. In the legislation's most substantive change, U.S. sugar interests were granted more favorable terms that would limit Mexico's access to the U.S. sugar market during the early years of the agreement (Orden). All of these provisions -- and the high transaction costs associated with negotiating them -- were a necessary cost of accommodating the proliferating interests that now dominate the U.S. agricultural policy process on both domestic and international policy issues. While some of the demands are unrelated to trade policy, other demands may create additional obstacles to trade liberalization. Agricultural interests were joined by environmental, labor, human rights, and food safety interests, city and state governments, churches – even the American Society for the Prevention of Cruelty to Animals – all demanding that their issues be addressed during the debate on NAFTA (Wiarda).[8]

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[8]In addition to the fragmented system of power that prevails in Washington, international policy is increasingly complicated by the devolution of power in the United States to state governments. As power is shifted to the states, some U.S. states and Canadian provinces have exercised that power through joint agreements and understandings. In other cases, U.S. states have sought to take unilateral action on trade issues (e.g., the attempts by some state governments to restrict entry of Canadian wheat or livestock into the United States). This shift of power introduces another new set of participants into the trade policy process and heightens, yet again,

Consequences for U.S. Agricultural Trade Policy

The first major consequence of this transformation of the U.S. agricultural policy process is that agribusiness leaders, as well as policy makers and private sector executives from other countries, must anticipate that the U.S. position on agricultural trade issues is, by necessity, the product of a massive politics of accommodation. This process must, to a much greater degree than in other countries, address the conflicting demands of a burgeoning number of political interests. Those seeking to influence U.S. agricultural trade policy must understand that this process is likely to produce a large number of tentative, often inconsistent, and quite limiting proposals generated by a wide variety of sources within the U.S. government (Vernon, Spar, and Tobin). These proposals are likely to arise as interest groups pursue any available avenue within the legislative or executive branch to express their preferences on trade policy issues.[9]

The second major consequence is that interest groups in the United States that support trade liberalization must marshal their forces and express their support for continued progress on trade negotiations, if trade liberalization is to succeed. Krugman has emphasized that, while simple rent-seeking theories predict that narrow protectionist interests would prevail over the broader public interest in freer trade, the past half-century has been marked by continuing

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the transaction costs of making trade policy decisions (Kirton, pp. 459-60; Lemco, pp. 19 and 38).

[9]A corollary of this conclusion is that, just as more interest groups have the capacity to influence agricultural trade policy decisions, agricultural interests now have greater access to trade policy decisions in other industries. In 1983, for example, the Reagan administration imposed quotas on imports of textiles from China. When China retaliated by withholding purchases of U.S. grain, farm organizations launched a successful campaign to soften the administration's position (Destler, p. 193). The openness of the American political process and escalating transaction costs of political decision making are not unique to agriculture, but extend to every area of public policy (Olson; Rauch)

progress on trade liberalization.[10] The reason that trade policy has defied predictions of increased protectionism, he argues, is that industries with an interest in the increased export opportunities created by trade liberalization have acted as an effective political counterbalance to the demands of protectionist interests. This is especially critical in the United States, where the abundance of access points available to organized interests provides opponents of trade liberalization with a nearly unlimited number of opportunities to make their case known to negotiators and legislators in the United States. Consequently, frustrated business executives as well as officials in other countries must recognize that U.S. negotiators will require an opportunity to marshal support for an agreement and that U.S. export industries must have meaningful gains in market access, if any negotiated agreement is to have an opportunity to garner support within Congress.[11]

The final consequence is that interests seeking to influence U.S. agricultural trade policy must understand that every policy decision in the United States is a tentative decision, based on prevailing economic and political conditions and founded only on the *ad hoc* political coalition

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[10]Rent seeking theory suggests that intense interests (such as producer interest groups seeking to benefit from import protection) will have an advantage over diffuse interests (such as consumers who may be forced to pay higher prices) in erecting or maintaining trade barriers (Krueger, pp. 1-8; Deardorff and Stern, 36-42). It was this imbalance between intense interests and diffuse interests, combined with the ability of producer interests from industries seeking protection to coalesce in support of protectionist legislation, that led Schattschneider to conclude, in his analysis of the Smoot-Hawley tariff bill, that "The very tendencies that have made the legislation bad have, however, made it politically invincible" (Schattschneider, p. 283). Writing in 1935, Schattschneider could not have foreseen the role that export-dependent industries would play in the trade policy process of the post-War period.

[11]In addition to export-dependent producers, supporters of trade liberalization could include processors for whom imported inputs are a major production input, retailers, input suppliers that serve export-dependent producers, and providers of trade-related services such as transportation (Destler and Odell, pp. 35-56). The potential number of such supporters is another indication of the transaction costs of assembling a coalition in support of trade legislation.

existing at the time of that decision (Browne, Allen, and Schweikhardt). The openness of the U.S. political system to the demands of interest groups, combined with the many legislative opportunities available to political entrepreneurs operating within the fragmented system of power in Congress and the Executive branch, assures that any decision that "resolves" an issue will last only until an interest group combines with an opportunistic member of Congress to challenge that decision in later legislation. Both domestic interests and foreign governments have found that decisions cannot be assumed to be stable in a political system where, "Instability is the norm, alliances and coalitions are always being forged, forces and counterforces are always mounting" (Gotlieb, p. 37). In such an environment, trade policy decisions can always be re-visited, issues are rarely resolved, and the transaction costs of building coalitions are a permanent part of the policy making process.

Conclusions

"Chaos umpire sits
And by decision more embroils the fray
By which he reigns; next him high arbiter
Chance governs all."

Milton, *Paradise Lost*

The transformation of the American agricultural policy process now has an impact on the United States' capacity to conduct agricultural trade negotiations. By limiting the United States' capacity to achieve greater trade liberalization, this process, in turn, restrains agribusinesses that are seeking greater access to foreign markets. U.S. negotiators face an increasing number of domestic political constraints created by the proliferation of organized interests and policy actors that now claim a legitimate role in the agricultural policy process. The transaction costs of accommodating the demands created by these interests pose a major obstacle to successful negotiations between the United States and its trading partners.

This proliferation of interests will require that countries negotiating with the United States on agricultural trade issues understand the fragmented and often fragile coalitions that must be assembled to pass any negotiated agreement through the Congress. Agribusiness interests seeking trade liberalization must coalesce with these trading partners to influence the U.S. domestic policy process. Such coalitions will almost certainly be *ad hoc* in nature and burdened by a very high level of transaction costs as Presidents struggle to accommodate the demands of individual legislators and their constituents. Progress on agricultural trade liberalization will only be possible if trade negotiators include enough substantive gains to earn the political support of U.S. export industries, permitting these groups to develop a political core around which other interests can coalesce in support of future trade agreements.

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