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PROTECTIONISM

*Robert Sargent, Workshop Organizer
Washington State University*

The worldwide recession led to rising cries for protection from various agricultural and industrial groups adversely affected by the economic situation. Declining markets or market shares, and resultant unemployment or lack of sales, have been the primary impetus behind this movement.

Few, if any, countries of the free world have been immune from pressures by constituent groups to initiate some form of protectionist activity. Pressures have also extended to some of the centrally planned economies. As examples consider the U.S. retaliatory Egyptian flour sale in response to export subsidies offered by the French as well as Japanese auto and electronic exports to the U.S. and EEC.

This workshop will address such issues as the reasons a country engages in protectionism and whether protectionism actually serves to preserve jobs, assure food and/or national security, reduce dependency on foreign product sources, and establish new industries. We will also consider the tools, such as tariffs and quotas and non-tariff subsidies or other constraints, that are used as a means of protecting affected groups and how they are used.

Implications of a protectionist policy for consumers, taxpayers, and technology will be reviewed as will the advantages and/or disadvantages of free(r) trade in periods of recession and high unemployment for both developing and industrialized countries. We'll also discuss who gains and who loses from free(r) trade and what types of national or international policies should be pursued to implement or defuse protectionism.

PROTECTIONISM VS. FREE TRADE

*Robert L. Sargent
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Derwent Renshaw defended the Community's positions, particularly as they relate to some of the current EC-U.S. trade disputes.

Some of the specific points that he emphasized included:

1. The EC is the largest importer of food and agricultural products in the world — taking about one quarter of total world agricultural imports.

a. The Community imports more than 20 percent of total U.S. agricultural exports and four times the value of EC agricultural exports to the U.S.

b. The transatlantic agricultural trade deficit of the EC in 1981 was four times the level of 1971.

c. The EC accounts for about 30 percent of developing countries exports, most of which enter the EC with zero or extremely low import charges.

2. Relating to cereals policy he pointed out that EC wheat production has risen by 29 percent over the last 10 years compared with an increase in total world production of 27 percent. In the U.S. he noted the increase has been 73 percent or about 2½ times the world average. He also stated that the bulk of the increase has been in soft wheat where production has multiplied three or four times. (Ed. note. Production of soft red winter wheat did increase over three times from 1971 to 1981 — from 212 million bushels to 676 million bushels. However, when soft white is included the increase was about 2½ times from 413 million bushels in 1971 to 1,028 million bushels in 1981. The U.S. had not yet imposed production restrictions in 1981.

3. The number of people working the land in the EC has declined from 18 million 20 years ago to about 8 million today. Farm numbers have fallen and average size has increased to about 45 acres, about double what it was in Europe when the CAP started.

Discussions which followed this paper and the following one presented by George Rossmiller tended to focus on these points:

1. The importance of resolving current and possible future disputes through negotiations rather than letting a full-blown trade war erupt. There is a high degree of economic, political, and social interdependence. Internal pressures, however, must be recognized and addressed by each of the parties. A trade war would not only be prohibitively expensive to both parties but might also unravel other vital defense, political, and industrial considerations.

2. The GATT has faced a great deal of difficulty in addressing agricultural issues throughout its various rounds of negotiations. This is due, among other things, to strong desires for a high degree of self-sufficiency in both food and fiber, to the long lead times in agricultural production which extend to months or even years, and to weather — induced uncertainties in levels of agricultural production. Further complicating negotiations related to

agricultural products are internal pressures generated by farm groups and lobbies, long-standing traditions, and the need to maintain a healthy agricultural industry. Employment and unemployment problems also have a bearing on the failure to address agricultural trade problems.

3. The recent (current) world-wide recession and the severe financial problems of most developing countries also entered the discussions. This has caused a general shrinking of demand while production has continued to expand. Exporting countries have responded in varying ways in their attempts to maintain, or perhaps increase, their share of the declining market. The EC has responded with export subsidies, which the U.S. claims run contrary to the Subsidies Code of GATT. These rules do not prohibit the use of export subsidies on primary agricultural products, but do say they should not be used when they result in the exporting country's obtaining more than an equitable share of world trade. This is the primary source of the current dispute. The U.S. has responded to EC export subsidies with the subsidized flour sale to Egypt and with its blended credit program. While negotiations have taken place, the problem has not yet been resolved. The Community also claims that a part of the reason for the decline in the U.S. share of the export market is related to the strong dollar.

The USDA has conducted some preliminary studies of the relative costs of various retaliatory actions that might be taken. The results of these studies are not yet publicly available, but in general, they tend to suggest that negotiations to achieve freer trade (free of various protectionist options) are by far the preferable option. This holds true from almost any standpoint that may be considered. It extends beyond the current EC-U.S. dispute to virtually all protectionist policies that are currently in place.