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UNITED STATES PERSPECTIVE: SOUTHERN AGRICULTURE AND THE WORLD ECONOMY: THE MULTILATERAL TRADE NEGOTIATIONS

Kenneth C. Clayton

The current "Uruguay Round" of trade negotiations under the General Agreement on Tariffs and Trade (GATT) began with the Declaration by trade ministers at Punta del Este, Uruguay, in September 1986. To conduct the negotiations, an agricultural negotiating group, along with fourteen other such groups, has been established. Negotiating proposals on agriculture have been offered by the Nordic Countries, the European Community (EC), Canada, the Cairns group, Japan, and the United States.

This paper focuses on the proposal put forward by the United States to its GATT negotiating partners on agriculture. To understand why this particular proposal was offered, it is necessary first to be clear as to the nature of the agricultural trade problem. It is also important to recognize the historical shortcomings of the GATT with respect to agricultural trade.

A TRADE FABLE: PICK-UP TRUCKS AND AGRICULTURAL POLICIES

In thinking about the agricultural trade problem, I am reminded of a situation in my hometown when I was growing up. There was an old gentleman who came around every month or so buying up pieces of machinery, bits of metal, and other items for salvage. He had a 1953 pick-up truck that he used to haul away his treasures. Although the truck was showing its age, the old gentleman was really fond of it. He had purchased it new, and over the years they had been through a lot together.

The townfolk did not feel quite the same way, however. For one thing, the truck burned a lot of oil—everywhere the old gentleman went, a blue cloud of smoke followed. In addition, as

repair needs mounted, the old gentleman always seemed to be out in his driveway banging on the truck, creating something of a disturbance in the neighborhood. The increasing need for repairs also began to affect the old gentleman's finances. Repair costs were soaring. Every day that the truck sat idle because of a breakdown meant lost opportunities for income.

If the metaphor can be applied, what countries around the world have today is an array of "1953 pick-up truck" policies for agriculture. These policies are offensive to the neighbors. They are not particularly reliable. They are costly to maintain. Whether they actually promote the long-term economic welfare of farmers is open to question, as well.

Like the old gentleman in my hometown, governments face some difficult choices. There can be continued tinkering on old policies, a rather intolerable and likely unsustainable option. Alternatively, existing agricultural policies can be replaced, or at least substantially rebuilt.

DEFINING THE PROBLEM

It is important that the real, underlying problem of agricultural trade be distinguished from its more commonly recognized symptoms. This is the only basis upon which a lasting solution can be drawn.

The current situation takes on a number of dimensions. It is often said that there is an excess supply of agricultural goods, particularly as judged by unacceptably low market-clearing price levels. Government budget outlays for farm programs have skyrocketed—in the United States, the EC and elsewhere. International political relations are suffering as trade frictions multiply. Debt-burdened

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developing countries are in desperate need of the foreign exchange earnings that agricultural exports should be generating.

While each of these is a problem in its own right, the more pervasive, root problem is the protection or support (and the nature of that support) that governments are providing to their farm sectors. In search of an ill-defined income objective, the policy mix pursued by most countries attempts to manipulate the prices and/or costs of production that their farmers face. In so doing there are several repercussions: production is too often stimulated; demand is frequently discouraged or distorted; import barriers become necessary to keep out lower-priced products; and subsidies are required to export excess production.

It is particularly important to recognize that it is the *package* of support that matters. The distinction between "trade" and "domestic" policies has become more illusionary than real. Or, to put it another way, domestic policies are an integral part of the trade problem, either directly or because of the border measures to which they give rise.

GATT AND AGRICULTURE

The General Agreement on Tariffs and Trade (GATT) was agreed to in 1947-48 as a part of the overall effort to get trade restarted after World War II. Its basic purpose was to establish a system of rules whereby trade between countries could be nurtured and the resulting benefits of economic growth promoted.

While agriculture has always been a part of the GATT, the rules governing agricultural trade have been largely ineffective. Several factors seem to account for this failure. First, a number of countries have received waivers or exemptions from GATT trade disciplines when it comes to agriculture. Among these countries are the United States and the European Community.

The GATT rules are rather loosely written or ill defined as they apply to agriculture. These rules often lend themselves to conflicting interpretation.

Even when evidence of a violation of GATT rules is established, the means to ensure compliance have been ineffective. Decisions of GATT panels established to review a complaint can be blocked, with only the weight of international opinion serving to force a change in a country's trade practices.

Finally, and having much to do with the

other shortcomings of the GATT as regards agriculture, is the nature of agricultural protection itself. Agricultural protection as already noted consists of a package of support, including domestic programs. Countries have been unwilling to make changes in import restrictions and export subsidies because they directly or indirectly involve domestic programs that are considered to be a matter of national decision-making sovereignty.

FRAMING A SOLUTION

Having defined the problem—excessive farm support that is distortive of production, consumption, and trade—has put countries in search of a solution. That is the purpose of the Uruguay Round of multilateral trade negotiations.

Without attempting to prejudge the outcome of the negotiations, the basic outline of a solution does seem rather clear: the elimination of those policies that are distorting production, consumption, and trade. Preferably, existing price and income support policies would be replaced with need-based income transfer programs. If there are other rural or farm sector objectives that countries wish to pursue they would do so through targeted programs that do not distort (or, at least, distort to a much lesser degree) the production, consumption, and trade of agricultural products.

THE U.S. PROPOSAL

Given the nature of the agricultural trade problem and the kind of solution that is required, the United States tabled its proposal for agricultural reform in July 1987 (Office of the U.S. Trade Representative). The essential features of the U.S. proposal include the following:

- (1) the phased elimination over a ten-year period of policies that distort the production, consumption, and trade of agricultural products, including specific provision for a freeze and phase-down of the quantities of commodities exported with the aid of export subsidies, and required market-access commitments consistent with the phased elimination of support; and
- (2) harmonization of food health and safety regulations so that they do not serve as disguised trade barriers.

Two important exceptions are provided in the proposal with respect to the phasing-out of distortive policies. First, direct payments that are decoupled from production and marketing would be permitted as a safety-net for farmers. Second, bona fide domestic and foreign food aid could be continued.

The U.S. proposal has been characterized as bold and innovative by its supporters. Its detractors term it unrealistic; they say that it goes too far. Questions have been raised such as whether public support for agricultural research and extension education could or should be eliminated. This debate, to some extent, misses several important points about the U.S. proposal. Most importantly, it sets the standard in identifying what *ought* to be done. The U.S. proposal addresses the need for fundamental agricultural policy reform. It provides an approach that allows countries to adjust their policies over a reasonable period of time. It appropriately recognizes that it is the package of support that governments provide to their farmers that must be considered. Issues such as policy coverage will ultimately be a topic of the negotiation so that particular programs (e.g., research and extension) can be preserved if there is an international consensus to do so. And importantly, the U.S. proposal allows for reform of agricultural policies without abandoning farmers. Legitimate income needs can still be met through decoupled (i.e., not related to production or prices) payments.

MOMENTUM FOR CHANGE

Previous GATT trade negotiations have failed to deal adequately with agriculture. The Uruguay Round, on the other hand, holds promise for significant progress. There are a number of reasons for this noticeable momentum. A great many countries are struggling with the reform of their domestic farm policies. However, the political constraints to significant reform on a unilateral basis are exceedingly difficult. Multilateral reform can ease this process. A number of studies suggest, moreover, that the costs of adjustment to any one country can be reduced if action is undertaken on a multilateral basis (Organization for Economic Cooperation and Development, World Bank).

Several analyses indicate that the gains from agricultural trade liberalization accrue to those groups of countries that reform their policies (Organization for Economic Coopera-

tion and Development, World Bank). That is, the free-rider benefits of trade liberalization appear limited. It seems only logical, therefore, that it is in a country's self-interest to participate in agricultural policy reform if other countries are making similar reforms.

The evidence is clear that there should be incentive for domestic farm policy reform. Efforts to protect the incomes of less efficient farmers through price policy have not been particularly successful. Such policies typically have led to a deterioration of the relative income position of the less efficient, as benefits flow predominantly to the larger, more efficient producers. Commodity markets have become distorted when governments have intervened to influence or set prices. The incentives for production and the price signals to consumers inevitably get out of line with market realities. This ultimately leads to losses in economic welfare for taxpayers and consumers that outweigh any gains to producers.

A growing literature of general equilibrium analyses suggests that the economy-wide effects of farm policies are quite significant (Breckling et al.). By trying to hold resources in agriculture, these policies are creating a drag on the general economy causing slower economic growth and higher unemployment. It is ironic that many of the countries that argue the need for farm policy to keep their rural populations out of unemployment lines in the cities may actually be contributing to the problem rather than resolving it.

The economic difficulties being experienced by many developing countries are not without consequence for the industrialized countries and should provide at least some impetus for policy reform. This would seem particularly true with respect to those debt-burdened developing countries that depend on agricultural exports to generate foreign exchange earnings. The financial communities in many industrialized countries hold the debt which is at risk in these developing countries. Moreover, the future growth of agricultural exports from industrialized countries is closely tied to economic growth and the exchange earnings potential of developing countries.

On a broader scale than just agriculture, there is a strong vested interest in seeing the international trading system prosper. Several of the countries which seem most resistant to agricultural policy reform are greatly dependent on trade in manufactures. If confrontations over agricultural trade are allowed to

undermine the overall trading system, it can only work to their economic disadvantage.

Finally, there is an international political consensus as to the need for long-term reform of agricultural policy. This consensus is unprecedented and creates a window of opportunity for multilateral actions that are difficult, at best, on a unilateral basis. The need for agricultural reform featured prominently at both the Tokyo and Venice Economic Summits attended by the heads of government from the major industrialized countries. In addition, the Organization for Economic Cooperation and Development (OECD) recognized the need for reform in its 1987 Ministerial Communique. This political statement at the OECD was supported, moreover, by the first

analytical effort in an international forum to define the problem of agricultural protection and examine the economic implications of multilateral reform (OECD). And lastly, the Punta del Este Declaration by trade ministers which inaugurated the Uruguay Round was an important political statement on the need for agricultural policy reform.

CONCLUSION

There can be no question but that the stage is set for significant progress in international agricultural policy reform. The need for reform has been well established. Whether countries will take full advantage of this historic opportunity, of course, remains to be seen.

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