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# AGRICULTURE AND GOVERNMENTS IN AN INTERDEPENDENT WORLD

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## LUCIO RECA

### *Section Summary*

The session was intended to analyse the adjustments in the agricultural sectors of four countries or groups of countries prompted by the financial squeeze common to all cases. However the origins of the crisis were different: in the two Latin American countries the foreign debt problem constituted a major factor, while in the USA the fall in commodity prices played a leading role in triggering the crisis, and in the EEC the growth in agricultural budgetary expenses was the main reason for the adjustment in agriculture.

In Argentina the simultaneity between the adoption of a stabilization plan and the fall in the prices of the main agricultural exports led to a situation in which policy makers opted to secure fiscal revenue through export taxes without properly assessing the consequences of this policy on production. The result was a drastic fall in output and a worsening of the balance of payments. This episode suggests that stabilization plans are likely to be short-lived unless they also provide for adequate structural changes. In this case land taxation as a substitute for export taxes was a case in point. The Argentina case also illustrates, as pointed out by the commentator, one relevant institutional aspect, namely the excessive weight of Central Bank and Ministries of Economy in the formulation of economic policy, at the expense of sectoral departments. It was also pointed out that stabilization plans tend to overvalue the local currency (as prices of traded goods are frozen via exchange rate while prices of non-traded goods tend to rise) with undesirable consequences on the trade side. The commitment to reduce the fiscal deficit by controlling monetary emission leads to bond issuing which in turn increases the real rate of interest and diverts resources from productive activities to financial markets. Another characteristic of the economic scenarios prevailing in Latin America is that macroeconomic policy is often in the process of being reformulated, thus creating uncertainty for economic agents.

In the Brazilian case it was pointed out that the adjustment pattern followed in 1984–6 with a net transfer of resources above 5 per cent of GDP was unbearable from the domestic political point of view. The distribution of this burden within the country generates an explosive inflation that can abort any growth effort. Agriculture's response to the crisis has been an exceptional gain in productivity – which explains 90 per cent of increases in output in the last six years – as opposed to what happened in Argentina where productivity levels remained unchanged. There was also an increase in output of non-traded (food) products with a large loss in terms of trade and an increase in the absolute level of rural employment which was fundamental to allow the adjustment of the urban sector, concentrated on the external front. Real wages fell by one half. This is a new

version – common in Latin America – of the traditional role of agriculture subsidizing urban adjustment.

Another characteristic of the Brazilian experience is that agriculture continues to be heavily taxed, contrary to the situation in Argentina where the discussion is centred on the form of taxation rather than on the level of taxation.

Finally, agriculture has subsidized the adjustment process in the industrial sector which is responsible for the transfer of resources outside the country since agriculture has not been generating more exports.

In the USA the turning point for agriculture was defined by macroeconomic policy. The decision in late 1979 by the USA to fight inflation through monetary restraint brought about high interest rates, a global recession and the beginning of a cycle in the exchange value of the US dollar. The farming sector continued operating on the basis of a strong foreign demand. Declining product prices and increasing financial costs led the sector into the deepest crisis since the 1930s. Public policy responded slowly as a reaction to the unprecedented intensity of the crisis. The 1982–6 period brought about more significant changes in US agriculture than the four previous decades, accelerating a trend towards a dual structure (about 300,000 farms control as much as three-quarters of the nation's food and fibre production). The restructuring was made possible by the record level government spending on commodity programmes which turned out to be the principal policy response to the farm debt problem. As noted by the authors, 'the principle lesson for all in agriculture is that the industry is now completely integrated with a domestic and global macroeconomy. It was macroeconomic forces that defined agriculture's turning point to both recession and recovery. An expensive farm policy buffered some of the negative outcomes, but it could not produce recovery on its own. Agriculture must view itself as part of a macroeconomy that is subject to fundamental change.' The depth and intensity of the crisis and of the adjustment process in the USA far exceeds the one taking place in the EEC. The difference largely rests on public policy.

The analysis of the CAP indicated that food security and independence from foreign markets are the main underlying objectives of the policy. This is a very different policy perspective from those prevailing in the three other cases analysed. It was also indicated that agriculture is a declining sector of the economy in the EEC.

Two emerging pressures on the CAP may force the policy in new directions. The first of these is the internal pressure from the environmental lobby. The second comes from the international negotiations in the GATT. Discussions there are giving additional weight to the argument in favour of more economically and commercially sustainable agriculture in the EEC. In spite of continued attempts through the CAP to maintain agricultural incomes they have been falling steadily across the EEC, inducing outmigration of people to other sectors (total labour force has fallen by 20 per cent since 1975). Land prices have also decreased. Average size of land holdings tend to increase, with the largest size groups growing in numbers – a development comparable to the one observed in the USA. The discussion on EEC agricultural policies in response to the financial crisis highlighted, among other things, the easiness to criticize decisions which result from carefully worked out political compromises which are an integral part of the democratic process. It was also pointed out that the complexity of the

community's financial mechanisms could lead to absurd situations with more benefits accruing to parties generating the largest surpluses and receiving the highest product prices.

The conclusion is that reform is going to be a complex and lengthy process. However the discussion supported the view that a consequence of the financial pressures on the EEC will be to accelerate the path to moderate changes as exemplified by the recent call to 'price prudence'. It was also recognized that there is a need for a more in depth look at monetary policies within the community.

A conclusion of the comparative analysis of these four cases is that agricultural lobbies (or in more general terms public opinion on agricultural matters) are more favourable towards the sector in high income countries than in developing countries and that this circumstance is reflected in public policy. Another point is that the financial crisis has accelerated the movement of human resources from the rural to the urban sector in the EEC and in the USA while it has had an opposite effect in Brazil and has been neutral in Argentina.

The common thread in all papers and in their discussions is that of a major interconnection between macroeconomic policies and the performance and direction of change in the agricultural sectors as well as an increasing but incomplete awareness of this circumstance by policy makers and in public opinion circles.

Rapporteurs for the above sessions of the Conference were:

ALFONSO MONARDES  
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Participants in the discussions included:

A. Dehter, J. Fogarty, R. Irigoyen, D. Paarlberg, L. R. Sanint, C. Varela, O. Kusura, K. Otsuka, G. T. Jones, B. Cracknell and H. Binswanger.