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International Economics Division  
Economic Research Service  
United States Department of Agriculture

**Staff Report # AGES850208**  
1985

**Agriculture, Trade, and Development: A Comparative Look at U.S.,  
Canadian, and European Community Policies**

White, T. K. and C. Hanrahan, eds.

Proceedings of a Meeting of the  
International Agricultural Trade Research Consortium  
December, 1982, Washington, DC

Discussion  
Alex F. McCalla

The three papers presented are interesting though quite different in approach and content. I want to begin with some brief comments on each of the papers and then turn to look at similarities and differences among domestic policy approaches in these three, major, developed country participants in international trade. I conclude with some issues for policy analysts.

All of the papers, in some sense, address the issue of the costs of domestic policy either conceptually and/or empirically. The Clayton and Lee paper is the least ambitious conceptually but most comprehensive in terms of at least one kind of number; namely direct fiscal cost of agricultural policy in the broadest sense. It does not address indirect or social costs, nor does it really address what ought to be measured as cost. It is, however, a valuable beginning.

The Barichello paper is the most ambitious in trying to measure costs: direct, indirect, and social. However, it deals only with a subset of nine commodities (though important ones) of Canadian agricultural policy. Barichello is to be commended for a thorough job of attempting to identify and measure direct and indirect subsidies and taxes. It is a good paper.

The Petit paper contains no numbers but has a very useful conceptual discussion of the issue of what is cost and how should we as economists measure it. But, the paper has more also. The first section is a fascinating and illuminating historical discussion of the long commitment to farm-income support in France, Germany, and the United Kingdom. The second part discusses European policy in its broadest aspect. It should be read carefully by us North Americans who tend to think only of the Common Agricultural Policy (CAP). The third section on costs I will return to later.

Now let me look across the papers for similarities and differences in policy and policy means.

Similarities

The United States, Canada, and the EC all support agriculture in various and sundry ways which involve mixes of direct and indirect subsidies. The mixes vary from country to country, probably in part because of their interface with world markets, a point I return to later.

This commitment to support has a long history. In North America, early efforts to improve agricultural income involved indirect means, such as support of research and extension, marketing services, and enabling legislation for cooperatives and marketing boards. The large increases in direct support in the United States occurred after 1933. In Canada, heavy intervention is of more recent vintage. Thus, in North America we have seen an evolution toward income support via price manipulation. The EEC has manipulated prices and income directly, via tariffs since the 1870's and 1880's, though it has become more elaborate since the 1960's.

In all cases the commitment to a social policy for agriculture is longstanding and deeply ingrained. Petit is the most extreme in arguing that the goal is so strongly held that it is not open to question, at least based on the examples given. Clayton and Lee do not make the point, but I would argue that it is true also in the United States. Barichello seems to lament it but does not suggest it will go away in Canada.

In all cases the transfers are from consumers and taxpayers to farmers.

The composition of the transfers (costs) changes over time, probably mainly as a result of changing economic conditions, especially in the United States.

In general, it seems that aggregate levels of transfers are increasing, particularly on a per farmer basis as farm size grows and numbers diminish. This seem to contradict the often-heard statement that the political power of agriculture is declining.

There are general problems in really grappling with the totality of the transfer because of a Federal structure in the United States and Canada and the CAP versus country policy in the EEC.

In summary, all three entities have a firm and similar commitment to the goal of farm, income support, vis-a-vis the rest of the economy; however, the means vary and change from time to time.

#### Differences Between Policies

Country policies involve various combinations of support via the between policies price system, via direct income transfer, via indirect transfer through subsidies (for example, Crow rates), via subsidization of inputs, and via endowing farmers with market power (for example, proliferation of marketing boards in Canada).

In general, what policy means are selected is related to the net trade position of the country, commodity by commodity. It is much simpler for importers to support income by price management. The EEC variable levy is a means of domestic income support. Exporters are faced with a more complex problem. The U.S. and Canadian experiences are interesting in terms of how to enhance producer income via various means. The U.S. has used many means, including land withdrawals, export subsidies, and demand expansion programs, such as P.L. 480 and food stamps. Canada has been more indirect. Theoretically, Canada has kept grain prices at world levels but has found other ways to help, such as with the Crow rates and the endowment of farmers with monopoly power.

The impacts of the policy means selected have different impacts on resource allocation and structure. United States policy has encouraged intensification; Canadian grain policy has encouraged extensive development. Barichello notes the potential efficiency loss resulting from marketing quotas. The EEC has tended more to maintain small farm structure, though this is now changing.

## Issues for Policy Analysts

The papers raise several issues for policy analysis. These are: (1) what is cost and how should we measure it; (2) the implications of domestic policy for trade policy, for example, are indirect domestic subsidies equivalent to export subsidies; and (3) how can we model international markets in a world full of heavy, complex, and varied forms of policy intervention. I discuss each briefly in turn:

Costs. The Petit paper argues that economists look principally at long-run costs--economic and social. He argues that these should be augmented by short-term budget and foreign-exchange costs and their implications for resource allocation. These are important conceptual questions. Barichello attempts the most comprehensive measurement attempt. Crucial in his analysis is what price he selects for the basis of comparison. Should it be "domestic equilibrium" price or "world price?" It might make a difference in the magnitude of social costs. Clayton and Lee only measure one component, domestic budget cost. The real issue is what costs should be included and how should they be measured. The relevance to trade policy is, of course, the contentious issue of direct and indirect export subsidies or effective protection.

Implications for Trade Position. It is clear that the CAP has encouraged domestic production expansion and has caused the EEC to switch rapidly in many commodities from an importer to an exporter. This has increased costs and expanded the need for export subsidies. United States policy has also increased production because of domestic policy interests. This has required increasing exports to world markets, but the U.S. mentality about their relationship to international markets is based on a small country assumption, even though the United States is now very large. The United States continues to behave as a residual supplier. Canada has been characteristically pragmatic and mixed in its approach. Canada's posture rhetorically has been as a free trader, but on many domestic products Canada is very protectionist and, as Warley has argued, has become balkanized among the provinces.

In summary, none are pure in terms of their trade posture. Rather all are schizophrenic--"free traders" for products they export but "defenders of domestic interests" for products they import. This makes policy analysis very difficult.

World Market Modeling. The last issue is how do we look at world markets when net export supply or net import demand are residuals from domestic policy programs. But that is the task for the next session.