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A NOTE ON THE FAO GUIDING PRINCIPLES FOR PRICE SUPPORT MEASURES *

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1. SUMMARY

Several international agencies have in recent years sought to establish a generally accepted code of behaviour to be observed by countries in formulating their agricultural policies. The objectives and vision of problems stimulating these endeavours have varied. OEEC aimed primarily at co-ordination of the agricultural policies of participating countries in order to increase efficiency and incomes in agriculture for the region as a whole. GATT and FAO have been primarily concerned with the repercussions of domestic agricultural problems upon the levels and stability of international trade, with the consequences for the terms of trade of primary-exporting countries, especially of those in a less advanced stage of economic development, and with the need to prevent further accumulation of burdensome surpluses of agricultural products.

This note reviews the outcome of these efforts, with particular attention to the guiding principles agreed upon at the last FAO Conference. A preliminary appraisal indicates that the principal weakness in the FAO guidelines is the lack of proposals for active review of national policies by an international body.

* Much of the material used is drawn from a paper prepared by Mr. Muir for the Faculty of Agricultural Economics' undergraduate Seminar in Agricultural Policy during 1961.

2. INTERNATIONAL ACTION TOWARDS A CODE OF BEHAVIOUR FOR PRICE SUPPORTS

The Eleventh Session of the FAO Conference in November, 1961, agreed upon a set of "guiding principles for agricultural price stabilization and support policies with special reference to the need to minimize adverse effects on international trade". These principles now await adoption by individual member countries.¹

This attempt to achieve an accepted code of behaviour for the guidance of countries in formulating national support policies for agriculture represents the outcome of efforts over a number of years in FAO and other international organizations but in particular of two expert working parties set up by FAO in 1956 and 1959.²

FAO Working Parties

FAO's action towards formulation of its guiding principles began at the 1955 Conference which passed a resolution moved by the Australian delegate, which called for an expert working party "to analyse the various systems of price support and other methods of maintaining farm incomes with particular reference to their effects on the flexibility of production, on domestic consumption levels, on the level of international trade and on the maintenance of a level of farm incomes in reasonable relation to incomes in other occupations."

This working party met and prepared a report during December 1956. A second working party was considered necessary by the 1957 Session of the FAO Conference in order "to analyse the effects of various agricultural support systems including different levels of price support, with a view to obtaining a better basis of evaluating the relative advantages and disadvantages of such systems" and "to recommend guiding principles designed to minimize the adverse effects of agricultural support policies on international trade, and to be taken into account by Member Governments in establishing or reviewing their agricultural policies".³ The working party was asked to have full regard to the differing circumstances and problems of particular countries and to the effects of support measures in increasing agricultural production and investment, especially in less-developed countries. These aspects were considered to have received inadequate attention in the report of the first working party.

The draft set of guiding principles contained in the second working party's report, after considerable modification in the CCP, was accepted by the 1961 Conference Session.

¹ A close parallel is to be found in the Principles of Surplus Disposal recommended to governments by FAO in 1954 and now accepted by forty-four member countries. See Food and Agriculture Organization of the United Nations, *Disposal of Agricultural Surpluses. Principles Recommended by FAO* (Rome: FAO, December 1954), pp. 17.

² The Reports of these two working parties, the second of which prepared the original draft statement of guiding principles, are published in: Food and Agriculture Organization of the United Nations, *An Enquiry Into the Problems of Agricultural Price Stabilization and Support Policies* (Rome: FAO 1960), pp. xii, 234.

³ *Ibid*, p. 152.

OEEC Report and Proposal for Confrontations

Before or concurrently with the consideration of the matter in FAO, considerable attention had been given to problems of international effects of price support measures by other international agencies. OEEC published in June, 1956, a report "based on systematic examination of participating countries' agricultural policies".⁴ In addition to descriptions of the policy objectives and agricultural programmes of each of the seventeen OEEC countries and of Canada, the United States, Spain and Yugoslavia, the report contained a general summary of present policies together with suggestions for future action. This report dealt with agricultural policies as an integrated whole and was not limited to price and income support measures. Amongst major recommendations for future action it suggested that "in order to increase efficiency and income per man in agriculture, it is necessary that each country pursue a comprehensive and consistent agricultural policy with due regard to the interests of other participating countries."⁵ It was accepted that some qualifications might be necessary in the case of less developed areas, whose policies are to "increase exports (and save imports) through stimulation of agricultural production, and to use the increased export earnings for general economic development". Specific recommendations to achieve these aims were then put forward.

On the subject of price and income support measures, the report concluded that systems currently in use were more often introduced for social reasons than with the aim of increasing productivity in agriculture, that they were often introduced as *ad hoc* measures and subsequently acquired a degree of permanence. It suggested that further work was called for "to clarify what methods for supporting farm incomes and prices could be recommended for stimulating and not hampering the long-term over-riding aim of creating an agriculture which can produce a socially satisfactory income per man"⁶. It was recognized that in choosing between different methods for maintaining agricultural incomes, each country would be faced with differing problems "according to its marketing system, its position as net importer or net exporter and financial means available."⁷ However a number of considerations to be kept in mind were specified. These included:—

- (a) the need for flexibility in the programme to induce adjustments in the production pattern in accordance with underlying changes in market outlets;
- (b) the need to induce farmers to increase productivity and improve quality;
- (c) the desirability, in order to improve understanding of economic consequences of price supports, of methods which make it possible to assess costs of the programme;
- (d) the importance of maintaining close contact with external markets in order to avoid stimulation of high cost production and to further progress towards co-ordination of policies.

⁴ *Agricultural Policies in Europe and North America*, First Report of the Ministerial Committee for Agriculture and Food, May, 1956 (Paris: Organization for European Economic Co-operation, 1956), pp. 371.

⁵ *Ibid.*, p. 328.

⁶ *Ibid.*, p. 341.

⁷ *Ibid.*, p. 342.

The OEEC report also proposed a regular mechanism for evaluating and co-ordinating agricultural policies—a feature which is conspicuously missing from the FAO Guiding Principles. The procedures suggested provided for the submission by each country of regular reports on any changes in price support levels and methods, followed by discussions arranged under the auspices of the Ministerial Committee for Agriculture and Food. In other words the technique of confrontations used within OEEC in the co-ordination of general economic policies was to be applied to agricultural policies.

On a more limited scale a similar procedure has been adopted in bilateral trade agreements between Australia and the United Kingdom. Article 13 of the 1957 trade agreement between these two countries reads:—

“The United Kingdom Government and the Australian Government agree that opportunity will be afforded for full consultation between them in respect to their agricultural production and marketing policies and in respect to food and feeding stuffs import policy of the United Kingdom Government. In particular, the two Governments will each year exchange statements of agricultural production trends: and each Government will give full weight to the views of the other in the formulation of their agricultural production, marketing and import policies.”⁸

GATT—the Haberler Report

Another international organization to have studied the effects of various national and international measures for price stabilization and support is GATT. Concern had been expressed in GATT at the much slower growth of international trade in agricultural products than in industrial products and at the deterioration in the terms of trade of underdeveloped countries. The short-term price instability for primary products posed many difficulties for the less developed countries. An expert panel was therefore appointed to review trends in international trade with particular attention to these problems and reported to GATT in 1958.⁹ The report discussed *inter alia* the stabilization of commodity markets and methods, levels and effects on international trade of agricultural protectionism. While clearly recognizing that in practice stabilization and protective aspects of agricultural price programmes are intermeshed the panel discusses each effect separately.

Three main devices for national price stabilization programmes are distinguished:—¹⁰

- (a) buffer stock schemes in which a policy of purchases and sales by an official stock-piling agency is followed to reduce fluctuation in prices ;

⁸ Trade Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Commonwealth of Australia. 1957, Commonwealth of Australia, 1043/57.

⁹ *GATT Trends in International Trade, A Report by a Panel of Experts* (popularly called the Haberler report after the Chairman of the panel). GATT Geneva, Oct., 1958, pp. 138 and tables (5 folded).

¹⁰ *Ibid.*, pp. 67-68.

- (b) "Buffer fund" or stabilization fund programmes in which movements in prices received by producers are smoothed by means of contributions to and payments from a fund, i.e., the effect of market price fluctuations on producer returns is eliminated or reduced by taxes or levies during high-price periods and payments during periods of depressed market prices;
- (c) controlling the level of imports or exports (by variable import or export taxes and/or subsidies or other means) in order to maintain steady prices for domestic producers and consumers.

These three methods, it is suggested, are listed in order of preference from the viewpoint of minimizing disruptive effects upon international trade and the stability of markets in the rest of the world. This order of preference, it is stressed, applies only in the case of price stabilization as distinct from protection (raising average price levels for the commodity).

Three principal approaches to price stabilization by international commodity agreements are also recognised:—

- (i) multilateral long-term contracts in which importing countries undertake to purchase agreed quantities and exporting countries to provide a certain quantity within an agreed price range. The 1949, 1953 and 1956 International Wheat Agreements were of this form as is the current I.W.A.;
- (ii) quota restrictions on export as in the International Sugar Agreement;
- (iii) the buffer stock principle as employed in the International Tin Agreement.¹¹

After some discussion of the difficulties faced in arriving at an international commodity agreement, the panel turns to the forms of agricultural support measures.

"Broadly speaking and from the basic economic point of view", the report suggests, "more national measures for the protection of agriculture can be analysed into some combination of three possible elements":—

- (a) measures which directly discourage imports;
- (b) measures which directly encourage exports;
- (c) measures which directly encourage home production.¹²

This classification is by no means as complete as is suggested by the Haberler Panel. Production controls and food stamp plans or other forms of price discrimination between domestic end uses of a product or between classes of domestic consumer cannot, for example, easily be fitted in to any of the three categories listed.

¹¹ *Ibid.*, pp. 74-76.

¹² *Ibid.*, pp. 81-82.

The Report points out that although the degree of protection afforded agriculture is the main problem, the methods employed are also important in determining international effects. A system of deficiency payments is held to be preferable to a "price support" programme¹³ and a gradual shift towards the former is advocated. The reasons advanced for this recommendation are that under the deficiency payments system the costs of subsidy are apparent and subject to budgeting review, that this in itself makes for more moderate levels of protection, that consumption is not discouraged and international trade in the commodity is reduced less than by other forms of support programmes.

3. AN OUTLINE OF THE FAO PRINCIPLES

The FAO guiding principles were designed to be taken into account by countries in formulating or reviewing their agricultural policies and to minimize adverse effects on international trade. They are contained in a very brief statement which is divided into four sections.

The first repeats the terms of reference of the drafting panel and explains that the principles are necessarily framed in general terms in view of the very wide variety of conditions and problems in countries of differing interests and at different stages of development. It draws attention to the need for allowing adequate time for changes to be made to conform with the principles. The final three paragraphs of this section suggest that countries should bear in mind the interrelationships between agriculture and the rest of the economy, the effects of national policies upon other countries and the possibility of providing assistance to agricultural producers by methods other than price support.

The second section, entitled "General Aims and Criteria" enumerates the desirable aims of agricultural policies. The suggested objectives and criteria for evaluating price policies include:—

- (a) an adequate relative level of living for farm people ;
- (b) an increase in the efficiency of agriculture ;
- (c) the avoidance of excessive fluctuations in prices and incomes ;
- (d) the maximum flexibility of production in adjustment to effective demand ;
- (e) a balanced and expanding consumption of agricultural products ;
- (f) a balanced development of the economy without excessive transfer payments to or from agriculture ;
- (g) improvement of international distribution of primary products.

In the third section a number of "General Guidelines" are set forth. The first paragraph in this section points out that parallel improvements in marketing, credit and land tenure are necessary in many countries before price measures can be effective and suggests that particular attention to non-price measures is warranted where assistance is prompted by the needs of low-income farmers or other groups. Then follows a reminder of the

¹³ *Ibid.*, p. 97. The term "Price Support" is used by the Haberler Panel in the limited sense of an agricultural price measure which raises consumer prices above the world market price. We use the term to denote any measure designed to raise, stabilise or place a floor under prices.

importance of the level at which prices are supported. Countries are urged to avoid serious differences between their domestic price levels and the general level of prices in international trade in view of the possible stimulus resulting towards intensified use of import restrictions and export subsidies. Price and income supports should be neither so high as to encourage production in excess of effective demand (interpreted incidentally by the United States delegate as including surplus disposals under P.L. 480) or to retard the transfer of resources out of agriculture (where these would be more effectively employed elsewhere) nor so low as to retard the adoption of more efficient farming methods or a needed expansion of output. Careful attention to the effects of high support prices on consumption is also advised.

Several guiding principles for the "establishment of price levels" are then presented. In brief, these advise governments, as far as possible, to leave the market to play its part in price formation, in exporting countries to take account of demand in importing countries and vice versa, to avoid excessive rigidity in prices while ensuring security to farmers and to maintain a reasonable relationship between the prices of different agricultural products. It is further suggested that where production costs are used to determine support levels these should be derived from economic farms and should be used principally as an index of cost movements. When formulae or index methods are used they should, it is suggested, be capable of flexible application and not be based on a remote reference period.

Another "general guideline" offers the view that agricultural price stabilization and support measures will often be more effective if farmers take an active part in their implementation and urges that "farmers and farm organizations should participate in the administrative and financial responsibilities of support schemes as far as is practicable."

The fourth and final section deals briefly with methods of price support. The qualification that the choice of method must depend largely on the objectives and circumstances of the country concerned is reiterated. In addition to the desirability of interfering as little as possible with the flow of international trade in primary products governments are enjoined, in choosing the method of price support, to take into account the following considerations:—

- (a) regulating the volume of imports or exports should be used with restraint because effects of this method on international trade may be particularly adverse ;
- (b) deficiency payments avoid high consumer prices and direct regulation of imports but where this method is used there is still a responsibility to see that price guarantees are not so high as to encourage uneconomic production ;
- (c) deficiency payments appear less applicable in less developed countries because of their limited administrative and financial resources and also where agriculture is a large part of the economy, where a large part of the food supply is produced domestically and where a large part of output is for export ;

- (d) stabilization funds should be used where appropriate and are particularly suited to countries heavily dependent upon agricultural exports ;
- (e) buffer stocks have advantages as a method reducing short-term price fluctuations, if used cautiously, but in view of the danger of heavy losses it is advisable to place a ceiling on holdings ;
- (f) where surpluses are likely to disrupt international trade governments should "endeavour to meet the situation by appropriate measures" ;
- (g) where output is unresponsive to price reductions, production controls may be necessary and tonnage quotas are often more effective than acreage quotas ;
- (h) limitation of guarantees to prevent burdensome surpluses should not be nullified by higher prices for that part of output covered by supports.

4. A PRELIMINARY APPRAISAL

The above is practically a complete precis of the principles rather than a summary of major points. Since nothing is excluded other than some of the qualifications and explanatory material, the limited scope of the FAO principles and the lack of comprehensiveness in the methods of price support covered will be apparent. There is, for example, no discussion of or comment upon the implications of multiple price programmes, which constitute an important category of price support measures.

Perhaps the most serious weakness is not in the set of principles *per se* but in the absence of any regular review procedure or formal mechanism for ensuring that the principles are in fact applied. In contrast to the OEEC Report, which proposed the periodic submission of reports on their agricultural policies by member countries and the review of the data provided by an international panel in order to help harmonize policies with the agreed objectives, there is in the FAO statement no proposal for implementation of the principles or for independent evaluation of policies. As in the case of the Principles of Surplus Disposal, each individual country is left as sole judge to the extent to which its national policies conform to the agreed principles.

Moreover, governments are almost invited to take the principles lightly by the repeated stressing of the qualification that the principles will need to be considered in the light of the circumstances and objectives of individual countries. Principles which are so equivocal and which invite such conveniently flexible (and possibly even unprincipled) interpretation can perhaps scarcely be termed principles at all. This feature, combined with the lack of policing provisions, unfortunately robs the principles of much of their force and tends to reduce their role to one of a pious exhortation to governments to observe a set of very general and elastic guidelines if it suits them to do so.

One should not, however, be too critical of FAO's achievement even if one feels some disappointment that it did not go further. It is, of course, inevitable that principles or criteria for the formulation and evaluation of agricultural policies will "turn out to be a set of procedures for asking

the right questions and concentrating on the right considerations rather than slide-rule formulae for prefabricated optimal decisions.”¹⁴ The multiplicity and diversity of policy objectives are largely responsible for such an outcome. Nevertheless, there are well-known dangers in excessive generality in this field, expressed, for example, in Galbraith’s statement that “if we are to make progress and be sure of making progress (in reforming and improving farm policy), we cannot organize our efforts around abstract goals. Free markets, uninhibited resource allocation, lessened reliance on price fixing, however much they excite our affection, are no more useful or appropriate goals than 90 per cent of parity. Work organized around such abstractions will turn out . . . to be only sonorous boondoggling”.¹⁵

The general goals and criteria listed in the FAO principles and the carefully weasel-worded recommendations on methods of price stabilization and support and on the determination of price levels are not calculated to dispel this fear. Moreover some of the goals and criteria expressed are open to more specific challenge. The aim of “an agriculture economically capable of providing for farmers and farm workers a level of living adequate in relation to the general levels of the country” is not particularly meaningful unless it is indicated whether this is to be the objective for all persons at present engaged in agriculture, for all persons who would like to take up this occupation or for some lesser number. The second criterion, “an increase in the efficiency and competitiveness of agriculture” (the only one mentioning efficiency) is quite inadequate for gauging the effects of agricultural price programmes upon the efficiency of resource-use or for evaluating specific programmes. As D. Gale Johnson has pointed out, the fact that higher farm incomes lead to significant additional investment “does not prove that government-supported prices at relatively high levels are the most adequate policy solution”.¹⁶ A more important question in evaluating policy than whether there are favourable effects on agricultural efficiency is whether there are other methods available of achieving these effects at less cost. This receives no clear recognition in the FAO statement although in the discussion of “non-price” measures the possibility that these may be “less costly than a general increase in farm prices” is mentioned.

A further surprising omission is the absence of any reference to the impact of various methods of price support on the adjustment process in agriculture, on the movement of resources to alternative occupations, on the value of land and other resources and on farm management decision-making. Even given the major system of price supports which a country chooses to employ, the implications for international trade may vary quite widely depending upon the detailed arrangements adopted. Contrast, for

¹⁴ P. A. Samuelson, “Principles and Rules in Modern Fiscal Policy” in *Money, Trade and Economic Growth*, Essays in Honour of J. H. Williams (New York: Macmillan, 1951).

¹⁵ J. K. Galbraith, “Farm Policy: The Current Position”, *Journal of Farm Economics*, Vol. 37, No. 2 (May, 1955), p. 298.

¹⁶ Johnson, D. Gale, “Economics of Agriculture” in Haley, B. F. (ed.) *A Survey of Contemporary Economics* (Homewood, Illinois: Richard D. Irwin Inc., 1952), p. 247.

example, the consequences of domestic allotments and of price equalization or pools as methods of distributing subsidies or sharing proceeds from multiple price programmes.¹⁷

Such refinements are indispensable if a set of guiding principles is to serve as a useful aid to countries in minimizing inconsistencies between their agricultural policies and the objective of avoiding adverse effects upon the levels and stability of international trade in agricultural products.

5. CONCLUSIONS

Recognising the difficulties of reaching general agreement internationally upon questions as complex as those involved in the establishment of guiding principles for agricultural price programmes, the FAO Principles are by no means as toothless as might possibly have been the case. If countries had regard to them in formulating their programmes, the present inconsistencies between international trade objectives and national farm policies would certainly be diminished. However, general principles of this kind should, it is felt, contain some procedural arrangements for their active application if not enforcement. FAO's set of principles, in contrast to the recommendations of the OEEC report, have no such built-in review procedures and this constitutes an important weakness.

The organization of FAO as an advisory body without supra-national powers and dependent for its effectiveness upon the goodwill of contributing countries, may make it reluctant to assume the responsibility of appraising specific policies of individual member countries. However, in other fields, such as land tenure, it has circulated questionnaires to countries and exercised a function going beyond descriptive reporting. If the general principles are to yield worthwhile results in reducing the disruptive international effects of domestic support programmes, then FAO or some other specialized agency should undertake the task of calling for periodic reports from countries concerning developments in their agricultural programmes and of providing an organizational framework for their regular analysis and review.

Moreover if we are to progress beyond the very general form of the initial principles, there is a need for a greatly increased volume of research analysing the consequences of national agricultural policies, including the international effects. The Economic Analysis Division of FAO could legitimately participate directly in this work as well as performing a useful co-ordinating role for analyses by other institutions.

Finally, there is a need for the continuation and intensification of the efforts of FAO and other agencies towards improved understanding of the economics of alternative price support measures. These efforts would be complementary to the approach being made to the problems of price stabilization and support through the formulation of guiding principles.

¹⁷ A discussion of the differing implications of these methods is presented in G. K. Brinegar and S. Johnson, "On Letting Go of the Bear's Tail", *Journal of Farm Economics*, Vol. 36, No. 1 (February, 1954), pp. 30-43.

They could represent a useful form of technical assistance to the less developed countries but should by no means be directed at them exclusively. The outmoded but tenacious tenets of physiocracy still underly thinking on agricultural policies in many highly industrialized countries and more than the mere announcement of principles will probably be required to secure, in such countries, a change to agricultural price policies which have less damaging repercussions upon international trading opportunities.