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"Nice Work if You Can Get It"!

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There were sighs of relief in Australia when Congressman Richard Gephardt failed to make a significant impression in the Democratic Primaries for the 1988 Presidential campaign in the United States. Gephardt had been campaigning on a platform of increased protection for U.S. agriculture *inter alia.* Gephardt's failure may not actually improve the economic position of individuals and countries producing agricultural products for international trade. However, particularly if Gephardt's constituency fails to have a significant impact on the Democratic candidate's platform, prospects may not actually worsen for agricultural exporters outside the U.S.

We can understand a political process that throws up an agricultural populist like Gephardt from time to time. What is hard to stomach, however, is when professional colleagues spout the same stuff. At a joint meeting of North American agricultural economists in August 1987, the President of the American Agricultural Economics Association, Daniel I. Padberg, included the following paragraph in his Presidential address:

> Countries with substantial agriculture and with a small or undeveloped nonagricultural economy have felt differently. Canada, Australia and New Zealand, and perhaps Brazil and Argentina are examples. This group has cheap agricultural inputs and wants to sell on a world market in competition with other nations who have high-cost industries. This is nice work if you can get it. But the experience of the twentieth century shows that the developed nations need this output only about one year in ten, and they keep it out in deference to their own producers in other years. These "free trader" nations then grumble about trade barriers, restrict their production, and subsidize exports. (Padberg 1987, p. 887)

In the interests of professional communication, this paragraph demands unpacking. Firstly, do countries like Canada, Australia and New Zealand have cheap agricultural inputs relative to the U.S.? Ignoring the considerable difficulties of international comparisons of this kind, we may note that many agricultural inputs—*e.g.* machinery, agricultural chemicals—originate in the U.S. and are unlikely to be absolutely cheaper in other countries. Since living standards and wage rates are roughly comparable in the U.S., Canada, Australia and New Zealand, the opportunity costs of labour are unlikely to be substantially lower in the last three countries. The input price that *is* substantially different between the U.S. and the other three countries is that of land. (And, to broaden our horizons, we might lump the European Community (EC) countries with the U.S.) But the *principal* reason that land prices in the U.S. and EC are higher than Canada, Australia and New Zealand is that, in the former, the value of massive agricultural subsidies has been imputed into land prices. (The effect of farm subsidies on farm land prices is graphically illustrated by experience in the United Kingdom: in the year preceding U.K. entry to the EC with its highly subsidised farm output prices, agricultural land prices in England and Wales doubled in real terms.)

Or, to turn the argument on its head, if the U.S. and EC were agricultural free traders, the cost of their agricultural production would be approximately the same as that in the other three developed countries. The U.S. and EC have relatively high cost agricultures *because* of their massive agricultural subsidies, not because their land, labour and water have higher opportunity costs. If the U.S. wants an agriculture whose costs are comparable to Canada, Australia and New Zealand, then the first step to achieve this objective is to stop the subsidies.

Secondly, does "the experience of the twentieth century" show that developed and enlightened nations (like the U.S. and EC) need output from countries like Canada, Australia and New Zealand "only about one year in ten". "Need" is a

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curious word for an economist to use; we usually talk about wants and demands, not needs. Further, "needs" seems to suggest that the U.S. only imports agricultural products when there are unforeseen production shortfalls in the U.S. Clearly, this is patently untrue. For example, Australia ships about 300 000 tonnes per annum of beef to the U.S. *ten* years out of ten. The only reason it doesn't ship more is because of quotas which keep any more out "in deference to their own producers" in *every* other year. Indeed, to link these comments with those of the preceding paragraph, the trade restrictions which keep agricultural imports out of the U.S. "in deference to their own producers" are *precisely* a mechanism for creating a high cost U.S. agriculture.

Thirdly, at least in Australia, we do not "grumble about trade barriers, restrict [our] production, and subsidize exports". We have shouted the iniquities of trade barriers from the rooftops at political and professional levels. We have argued that not only is it in *our* interests, but also in the interests of the U.S., EC and Japan, to reduce restrictions on agricultural imports. If our production has been restricted, it is because our producers have equated their marginal costs to the lower marginal revenues caused by U.S. and EC dumping of agricultural exports. And, at least in Australia, we have strenuously attempted to avoid agricultural subsidies. Indeed, almost alone in the developed world, we have a governmental institution whose specific role has been to sniff out and recommend reductions in assistance to primary and secondary industry. Its charter has recently been expanded to include government services and the tertiary sector.

The American agricultural economics profession has been highly regarded by its Australian counterpart. One example of this regard is the number of Australian agricultural economists undertaking postgraduate study in the U.S. (and frequently with conspicuous success). It is devoutly to be wished that Padberg's Syndrome has not, and does not, become endemic in the U.S. profession, otherwise the Australian profession will end up finding a future different from its American counterpart.

Reference

PADBERG, D. I. (1987), "Agricultural economics: finding our future", *American Journal of Agricultural Economics*, 69 (5), December, 883–889.