Viewpoint ■ by Hal Harris

Baa, Baa, Black Sheep

One of the few tenets that virtually all economists agree on is that free trade is good—good for all countries involved. Admittedly, free trade creates losers in less competitive domestic industries. But it creates winners in competitive industries, and, in the aggregate, consumers in all countries are the biggest winners of all. It has been proven over and over again that the winnings more than offset the losses.

In a world of freer trade, the United States, and in particular U.S. agriculture, would be one of the biggest winners. That's one of the reasons the U.S. has been battling the European Union through the WTO over its unfair trade barriers against U.S. produced beef and (less convincingly) against bananas sold by U.S. corporations Chiquita and Dole. It's the reason the United States will push hard for further agricultural trade liberalization and subsidy reductions in the upcoming

WTO round of negotiations

But we may come to the table with dirty hands. Enter the U.S. lamb industry, which is not very efficient compared to the industry in Australia and New Zealand. As a result, U.S. lamb imports increased almost 50 percent from 1993–97, with virtually all imports coming from these two countries.

The lamb industry appealed for relief from the U.S. International Trade Commission, which ruled that the imports were a substantial cause of threat to the industry. An important thing to note is that the clause under which the industry brought the case forward to the ITC, Section 201, does not involve unfair trade practices. Indeed, as one commissioner put it,

There is no allegation of any unfair trade practices by the foreign producers. On the basis of their production efficiencies, product advertising programs and innovative marketing strategies, the Australian and New Zealand lamb meat industries have fairly and effectively drawn United States consumers to their product in increasing numbers.

The ITC commissioners proposed three options to President Clinton:

- A tariff rate quota, with imports above 78 million lbs, carcass weight equivalent, paying a 20 percent tariff. The threshold would rise slightly over a four-year period and tariffs would phase down to 10 percent in year four.
- Tariffs of 22 percent on all lamb imports, declining to 10 percent over four years.
- Country-by-country import quotas of 52 million lbs of lamb meat, increasing to 70 million lbs over four years (January–September 1998, Australian and New Zealand imports totaled 55.1 million lbs).

The president doesn't have to impose relief, but undoubtedly he will listen to arguments from the industry and from congressmen and senators from lamb-producing states.

Clearly, on economic grounds, presidential relief is unwarranted. You can't have your cake and eat it too. We simply cannot expect to impose freer trade for products we export and erect trade barriers for products we import. We should have learned that lesson seventy years ago with the failure of the Hawley-Smoot Tariff Act of 1930. U.S. consumers will be the big losers if any of the three options suggested by the ITC is adopted. If the United States is to be a true leader in the fight for free trade, the very existence of "safeguards" such as Section 201 should be questioned.

Meanwhile, agricultural economists can provide a valuable service by producing reliable forecasts of the impacts of trade liberalization, both in terms of quantifying gains from trade, but also in identifying losers. The profession should offer policy alternatives for losers that would be less costly.

In the lamb example, it could have been to begin programs several years ago to improve efficiency in U.S. lamb production, or adopting programs to allow producers a gradual, less painful, transition from the business.

Critics of this little piece may point out that I don't work in a lamb-producing state. That argument would just serve the purpose of pointing out that there are imperfections and inconsistencies in our professional world, just as there are in U.S. trade policy.

Would the expert witness for the lamb industry please step forward?

(For more information on the lamb case, see *Journal of Commerce*, 30 March 1999, p. 3A, and the International Trade Commission web site: http://www.usitc.gov.) ■

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