



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

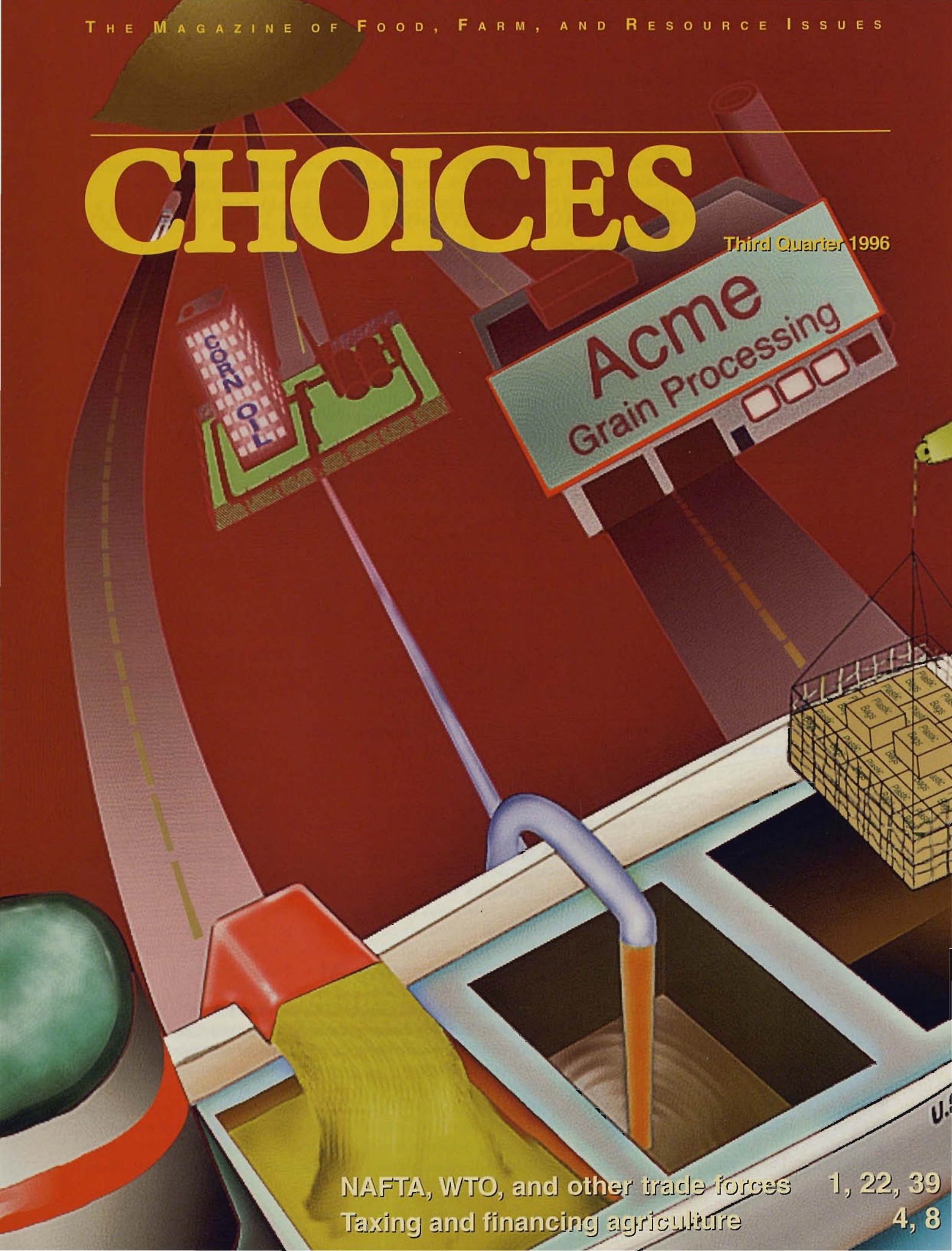
<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

CHOICES

Third Quarter 1996



NAFTA, WTO, and other trade forces 1, 22, 39
Taxing and financing agriculture 4, 8

Findings

What agricultural and resource economists are finding about food, farm, and resource issues.*

- In Australia, Australian Meat and Livestock Corporation advertising of beef and lamb increased the demand for beef, but had no effect on the demand for lamb or pork, and reduced the demand for chicken, while Australian Pork Corporation advertising of pork had no effect on the demand for pork, beef, lamb, or chicken—say Piggott and coauthors.
- Although on average consumer tastes have changed over time to favor some food groups over others, taste changes vary greatly among demographic groups, and food providers and marketers can use estimates of these differences to better target consumer preferences—say Cortez and Senauer.
- In addition to classified pricing based on end-use, California operates a milk pool-quota, and the accompanying two-pool pricing scheme implies lower production and lower net social welfare loss than if the state adopted the one-pool price system used in federal milk marketing orders—say Sumner and Wolf.
- The U.S. Department of Agriculture issues import quota licenses for cheese products in a way that creates oligopsony power—says McCorriston.
- Legume cover crops may have significant potential both for increasing farm profitability and for reducing environmental spillovers from agriculture—say Chambers and Lichtenberg.
- Public programs to preserve farmland, such as those which operate in all fifty states, may increase public benefits if they address environmental in addition to agricultural goals—say Kline and Wichelns.
- Because of the varying characteristics of western grazing lands, state- or region-specific public grazing policies, instead of uniform federal policies, can increase public welfare—say Bhattacharyya and coauthors.
- A shift to more healthy diets would likely reduce overall farm sales of food ingredients; increase food processing activities; and reduce some production of soybeans, grain, and red meats in the Midwest and Plains while increasing production of fruits and vegetables in the South and West—say Finke, Tweeten, and Chern.
- Throughout the European Community, in general, specialized cooperatives do not perform better than multipurpose agricultural cooperatives—say Mauget and Declerck.

*Findings are taken from recently or soon-to-be published research in the *American Journal of Agricultural Economics*, *Journal of Agricultural and Resource Economics*, *Review of Agricultural Economics*, *Journal of Agricultural and Applied Economics*, *Agricultural and Resource Economics Review*, *Land Economics*, *Journal of Environmental Economics and Management*, *Agribusiness—An International Journal*, and other journals which publish the research findings of agricultural and resource economists. Abbreviated citations are found on page 43.



ON OUR COVER—Several forces, including NAFTA, the new World Trade Organization, and shifting demand for more consumer-oriented food products, are shaping the agricultural export markets hinted at on the cover and discussed in some of our articles.

NAFTA and Policy Coordination in North America



Sherman Robinson is director of the Trade and Macroeconomics Division of the International Food Policy Research Institute. He was formerly a professor of agricultural and resource economics at the University of California, Berkeley. In 1993, he served as a senior economist specializing in NAFTA issues on the President's Council of Economic Advisers.

The North American Free Trade Agreement (NAFTA), ratified in late 1993, reaffirmed the U.S. commitment to Mexico's economic development. This commitment was tested at the end of 1994 when the peso crashed. The U.S. responded by putting together a \$50 billion line of credit, with hesitant support from the International Monetary Fund and grudging acquiescence from the U.S. Congress. While criticized from both right and left, the package succeeded in defusing the short-run liquidity crisis and was sound policy, generating benefits on both sides of the border. Far from being a "bailout," the credit line is generating interest income

for the United States and, according to the Congressional Budget Office, reducing the U.S. budget deficit. Although Mexico's economic development over the next generation is not assured, the country has turned the corner on its recent crisis. Macro balance has been reestablished; exports and imports have adjusted, yielding a current account surplus in 1995; and inflation is under control. The country is again able to focus on long-run problems of achieving sustained growth.

Many critics argued that the peso crisis showed that NAFTA was a bad idea and that the U.S. policy of "economic engagement" under both the Bush and Clinton administrations was a failure. In fact, the crisis showed the benefits of NAFTA and the importance of policy coordination. Experience with many regional integration efforts indicate that they are trade-creating, generating increased exports and imports for the member countries not only by lowering trade barriers but also by providing assurances to producers and investors that the countries will refrain from imposing protectionist policies in the future. NAFTA represents a major step in creating an integrated market for the U.S., Canada, and Mexico, and a number of studies indicate that it benefits all three countries.

In the case of agriculture, however, NAFTA is incomplete and the commitment to lower trade barriers and keep them low is not yet firm. There are many examples of disputes and threats of new protection. For example, the United States subsidizes agricultural exports under the Export Enhancement Program (EEP). Although the program is currently on hold, given high world prices, the United States has stated that it will continue using EEP as long as possible under the new GATT agree-

ment. The original justification for EEP was to offset subsidized exports by other countries. In mid 1993, the United States asserted that Canadian subsidies of east-west rail transport effectively subsidized wheat exports. The United States responded by subsidizing wheat exports into Canadian markets, one of which was Mexico. The United States declared one NAFTA partner to be an evil subsidizer and then effectively disrupted the other partner's wheat market—hardly a good neighbor policy! The disruption was not welcome because Mexico was then in the final stages of designing a comprehensive reform of its agricultural policy. The new program, called PROCAMPO, seeks to phase out price supports and involves delicate political tradeoffs. The irony is that, while the United States was arguing that Canada was subsidizing east-west rail transport, Canadians found it profitable to load wheat onto trucks and send them south to sell in the U.S. market. As the Europeans understand, maintaining a price differential between domestic and world markets requires policy coordination within the free-trade area.

In North America, extending the benefits of achieving integrated markets under NAFTA to include agriculture requires that the three countries harmonize their agricultural policies. The GATT round is over, the PROCAMPO program is underway, and the new U.S. farm bill is in place. This would be a good time to make a start by establishing regular meetings between the three agricultural ministries to discuss current policy disputes and to explore areas of cooperation and policy coordination.

Sherman Robinson

Table of Contents



4



32

Feature

4 Agriculture's stake in federal income tax reform

by Hoy Carman and Michael Boehlje

8 Changes in Farmer Mac's charter

*Who's affected?
by Ron Feldman*

12 An interview with Uma Lele on the GREAN initiative

by Robert D. Emerson

18 Confined animal production and the manure problem

by David Letson and Noel Gollehon

25 Agricultural reform in Russia

by Barry Goodwin, Thomas Grennes, and Susan Leetmaa

29 Fisheries management

*Lessons about "tradable quota" from New Zealand
by Ross Cullen*

Profile

32 Acting on principle

*Aldo Leopold and biodiversity conservation
Gerald F. Vaughn and Curt D. Meine*

Gallery



Carman Boehlje Feldman



Emerson Goodwin Grennes



Leetmaa Cullen Letson



Gollehon Vaughn Meine

A professor of agricultural economics at the University of California, Davis, **Hoy Carman** served as department chairman from 1989 to 1994 and was associate dean of the College of Agricultural and Environmental Sciences from 1983 to 1986. His research interests include the effects of taxes on agriculture and the economic impacts of marketing order programs for fruits, vegetables, and specialty crops.

Michael Boehlje is professor of agricultural economics at Purdue University. He was a member of the faculty at the University of Minnesota, and served as head of the department from 1985 to 1990. Prior to moving to Minnesota, he was professor of economics and assistant dean of the College of Agriculture at Iowa State University.

A financial specialist with the Federal Reserve Bank of Minneapolis, **Ron Feldman** has written about a variety of federal credit and insurance programs, alternative accounting systems for the federal budget, and capital market innovations. His research interests are trends affecting financial institutions and banking supervision policies. Prior to joining

the Fed, he worked for the Congressional Budget Office.

Robert D. Emerson is professor of food and resource economics at the University of Florida, where his research concerns agricultural labor markets, with an emphasis on domestic and international migration. His recent research has included land tenure and labor market considerations in economic development.

Barry K. Goodwin is associate professor of agricultural and resource economics at North Carolina State University. He has conducted research on agricultural policy, trade, price analysis, and applied econometrics, and teaches international trade theory and introductory agricultural economics. His current research interests include the effects of market reforms in transition economies on agricultural trade relationships.

Thomas Grennes is professor of economics and agricultural and resource economics at North Carolina State University. In addition to visiting Russia in August 1995, Grennes was visiting professor at Vytautas Magnus University in Kaunas, Lithuania, in 1993 and at the

In Short

36 Pesticide cancellation and Kentucky windage

by Charles V. Moore and Don Villarejo

39 Reviewing the World Trade Organization

by Seeley G. Lodwick

40 Changing attitudes about fat and cholesterol: Do they impact meat consumption?

by Ronald W. Ward and Wanki Moon

Departments

1 Editorial
NAFTA and policy coordination in North America
by Sherman Robinson

2 Gallery
About the authors

22 Graphically speaking
Growth of consumer-oriented trade: Implications for the U.S. agricultural market share

43 Letters

Publisher

The American Agricultural Economics Association
1110 Buckeye Avenue
Ames, IA 50010-8063

Editor

Harry W. Ayer, PhD
Department of Agricultural and Resource Economics
University of Arizona
Tucson, AZ 85721

Managing editor

Sandra Clarke
1110 Buckeye Avenue
Ames, IA 50010-8063

Art director

Valerie Dittmer King
King Graphics
Grand Junction, Iowa

Printer

Pendell Printing, Midland, Michigan

Cover and center spread design

Ken Patton
Fine Print
Ames, Iowa

Advisory board

Kristen Allen	B. Delworth Gardner
Paul W. Barkley	Ray Huffaker
John Bergstrom	Cathy Jabara
Adell Brown, Jr.	George McDowell
Neilson Conklin	Bob Robinson
William Dobson	David Schweikhardt
Robert Emerson	Gene Swackhamer
Jill Findeis	Laurian Unnevehr
Dave Freshwater	Jeffrey Zinn
Richard Gady	

Stockholm School of Economics in Riga, Latvia, in 1995 and 1996. His research has dealt with international trade in agricultural products and international monetary economics.

Agricultural economist **Susan Leetmaa** is with the Europe team of the Commercial Agriculture Division of the U.S. Department of Agriculture's Economic Research Service. Her primary research areas are the European grain sector and European Union trade policy. Currently she is analyzing the potential economic impact of Central and Eastern European accession to the EU on European agriculture.

Ross Cullen is senior lecturer and head of the Department of Economics and Marketing at Lincoln University, New Zealand. His research and teaching interests are particularly focused on fisheries policy, environmental protection, and outdoor recreation.

Assistant professor of marine affairs and economics at the University of Miami, **David Letson** teaches and conducts research on water quality and ecosystem management. Previously he was an econo-

mist with the USDA's Economic Research Service.

Noel Gollehon is an agricultural economist with the Natural Resource and Environment Division of the Economic Research Service. His research analyzes policy issues involving competition for water resources, water quantities for irrigated agriculture, and agricultural-based water quality issues.

Gerald F. Vaughn, whose world view and approach to economics long have been ecological, is a frequent contributor to *Choices* and other periodicals. He retired in 1994 as extension specialist in resource economics and policy at the University of Delaware, after working more than thirty-five years in natural resources management in federal, state, and university positions.

Author of the biography, *Aldo Leopold: His Life and Work*, and numerous other writings on conservation biology, history, and philosophy, **Curt D. Meine** has served as a consultant to the National Research Council on conservation issues and currently works as a conservation biologist with the International Crane Foundation in Baraboo, Wisconsin.

CHOICES (ISSN 0886-5558) is published quarterly by the American Agricultural Economics Association for people who want to be informed about food, farm, and resource issues—and the policies that affect them. Views expressed herein are those of the authors, and not necessarily those of CHOICES or its publisher. Postage paid at Ames, IA, and additional mailing offices. All rights reserved. Quotation with credit is permitted. © 1996 Vol. 11, No. 3, American Agricultural Economics Association. Subscription rates for U.S.: individuals—\$20.00 per year, libraries—\$32.50 per year (four editions). In Canada add \$10 per year. Outside U.S. and Canada add \$20. Send subscription correspondence to CHOICES, AAEA Business Office, 1110 Buckeye Avenue, Ames, IA 50010-8063. Telephone (515)233-3234, FAX (515)233-3101. Send four copies of each manuscript to the editor, Harry W. Ayer, Department of Agricultural and Resource Economics, University of Arizona, Tucson, AZ 85721, telephone (520)621-6257 and FAX (520)621-6250.