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THE MAGAZINE OF FOOD, FARM, AND RESOURCE ISSUES

CHOICES

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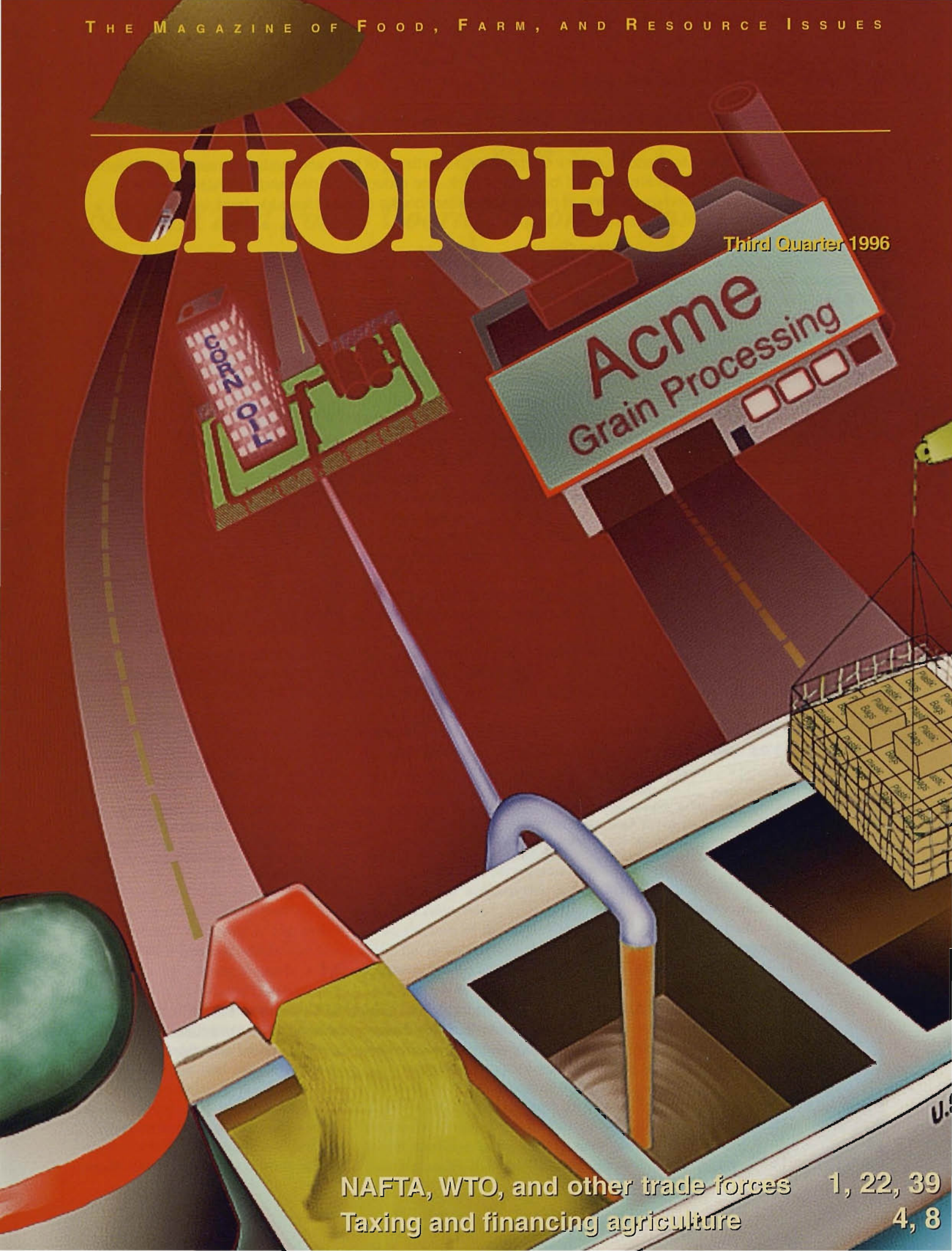

NAFTA, WTO, and other trade forces 1, 22, 39
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Findings

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.

by Sherman Robinson ■ **Guest Editorial**

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 agreement. 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 starr 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

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