Tools of the Trade

Elements of Agricultural Trade Policies. *By James P Houck New York Macmillan Publishing Company, 1986, 191 pp, $29 95*

Reviewed by John Wainio

One of the most basic and important contributions of the field of economics is the concept that countries can mutually benefit from free trade If country A raises corn and country B cattle, both may increase their total economic welfare by exchanging corn for cattle Through the price and exchange rate systems, the process can be extended to accommodate an infinite variety of goods and services

Despite strong theoretical arguments in favor of free trade, economists have difficulty convincing policymakers of the net social costs associated with policies to restrict trade Evidence of the problem is widespread, as government policies around the world that constrain and distort trade, particularly in agricultural commodities, have proliferated

Houck reminds the reader very early that the benefits of free trade are usually spread widely and thinly among numerous individual consumers, whereas the costs and hardships are nearly always borne by relatively few Grasping this fundamental disparity in the incidence of benefits and costs is essential in understanding why the economic arguments for free trade laid out in this book are often ignored by elected officials As Houck points out, a 2-cent-per-pound increase in the price of sugar caused by an import quota will prompt few consumer protests Yet an equivalent fall in sugar prices for growers because of increased imports will surely cause sugar producers and their representatives to press strongly and persuasively for protection It is this search for protection that lies behind much of the book's analysis

The first part of the book lays the groundwork, explaining some of the economic concepts used in trade theory such as comparative and absolute advantage, specialization, and gains from trade It discusses familiar arguments offered for protection against international competition, emphasizing those commonly used by the agricultural sector The essential nature of food and fiber to human welfare, the biological character of agricultural production, and the long-term behavior of prices and incomes have made agriculture a prime candidate for government intervention and, thus, a useful focal point for a book on trade policies The first section concludes with an introduction to partial equilibrium analysis, the major analytical tool employed throughout the book

The second part deals with the traditional mechanisms by which governments of importing nations intervene to shield their domestic producers from foreign competition These mechanisms include tariffs, quotas, variable import levies, and deficiency payments This section also analyzes trade intervention on the import side aimed at benefiting the consumer or user of foreign products via import and consumption subsidies The general approach is to first graph the partial equilibrium framework for the trade policy in question Next, the direct effects on domestic and international prices, production, consumption, trade, and government revenues are analyzed Small- and large-country cases are compared Finally, the domestic and foreign gainers and losers are identified, which requires the reader to have some understanding of the concepts of producer and consumer surplus However, the reader needs only a rudimentary knowledge of economic theory and mathematics to understand the analysis

The third part deals with the trade policy of exporters It covers the economics of export and production subsidies, food aid, and trade expansion Nonexpansionary trade policies, including export taxes, controls, and embargoes are also discussed The focus is again on assessing the direct and immediate impacts of a particular policy Although this approach suppresses interactions between commodities and ignores the dynamic time paths of adjustment, it is useful in highlighting the differences among policy options targeted at specific commodity problems

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The final part covers additional topics in trade policy economics The simple, straightforward analysis is extended to such issues as the protection of interlocked raw material and final good sectors in an international trading environment, trade preferences and economic integration, the effects of movements in the exchange rate on trade policies, and the destabilizing effects of trade policies on the international market

The book is not an exhaustive treatise on the economics of agricultural trade policies, nor is it meant to be Its value lies in being a clear and consistent introduction to the subject for the student and a useful reference for the researcher The user will particularly appreciate the annotated list of additional readings at the end of each chapter

Even readers without previous exposure to partial equilibrium analysis should quickly become adept at using this approach to uncover the broad effects of trade policies In keeping the analysis simple, however, Houck has omitted any reference to specific agricultural trade issues and problems of the day This is a regretable concession to the complexity of today's agricultural trade issues, which require an analysis beyond the simplistic approach used in the book Nonetheless, the book is not without insights into what is happening in the area of international trade and trade policy Some examples

- Protection from the painful economic adjustment brought on by inevitable changes over time in international patterns of comparative advantage is the most common cause underlying government intervention in trade

- An ingenious variety of nontariff barriers has replaced tariffs in many agricultural product markets Their distorting effects on trade and price are subtle, but potentially quite effective Because nontariff barriers often originate deep within goverment bureaucracies and may not reflect deliberate policy goals, they are troublesome to negotiate

- As a protective device, the variable import levy is among the most effective, hence notorious, in the international arena Importing nations typically view their variable levy schemes as nonnegotiable, since to do so would allow decisions about the level and process of a government's price guarentee to domestic producers to be influenced by external factors

- In contrast, the protective transfer from a deficiency payments scheme is not "hidden" in higher consumer prices, but appears clearly in the national budget and in the records of the operating agency It is, therefore, subject to direct scrutiny by taxpayers and consequently forces domestic producers to constantly restate and defend their favored status

- The public effect of an individual nation's trade policy on other countries is perhaps most obvious when export subsidies are used Such subsidies involve overt, positive actions that tend to depress international prices and narrow market outlets for other producers Like deficiency payments, they are a clear, obvious transfer item in the national budget and are, therefore, open to scrutiny by all

- Although both the farm and rural populations have dwindled, few countries have dismantled their systems of market intervention This situation underscores one of the overlooked costs of instituting a protectionist policy in any given year, namely, the difficulty of reducing or eliminating intervention once it is in place

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Ronald L Mighell and Elizabeth Lane
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