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## IMPLICATIONS OF TRENDS TOWARD PROTECTIONISM

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### Introduction

Recent literature on trade policy suggests that the world has come full circle. Much is made of "the new mercantilism." The implication is that the economic liberalism which provided the basis for British leadership in trade policy during the 19th century and U.S. leadership during the post World War II period has come to an end. There is some truth in this assessment. But it falls short of representing a complete characterization of today's situation.

In its original form mercantilism was oriented toward enhancing state wealth and power. The increasing protectionism of today, on the other hand, derives from at least two different conditions. One is through producer-oriented pressure groups within individual countries. Protectionism in this context is aimed at the welfare of groups that are affected by competition in the international marketplace and who seek to influence policy to serve their own ends. This form of pressure has existed throughout history, but for a number of reasons has become more intense during the 1970s.

A second condition that leads to greater protection is the search by governments for ways to deal with problems of national interest that stem from greatly expanded levels of interdependence and the increasingly direct linkages between domestic and international policy issues. Some of these issues generate a competitive relationship among countries as, for example, when nations unilaterally implement policies aimed at improved balance of payments, expand exports to enhance economic growth, or they seek other national goals irrespective of their impact on the international trading order. Other actions are aimed at developing policies that will mutually serve the interests of nations as, for example, to generate increased market stability, improved control of multinational corporations, or an improved monetary adjustment mechanism.

The new protectionism thus must be viewed in a micro and a macro context. The micro issues have to do with the traditional

search for protection by specific producer groups and its implication for their economic and welfare position. The macro component has to do with issues of national concern, but the issues encompass a much wider range of policy objectives than normally attributed to the original mercantilism.

Trade policy to deal with micro level adjustment and welfare tends to concentrate on marginal adjustment within the framework of traditional policy instruments. Producer groups seek higher tariffs, increased export subsidies, reduced import quotas, etc. Trade policy that deals with macro level issues while concerned with marginal adjustment tends also to deal with the basic structure and rules of the system under which international commercial relations operate. This is most strikingly brought out in today's world through the call by less developed countries for a new international economic order.

An important implication of this overlapping but distinctly dual policy framework is that trade policy can no longer be viewed as a separate entity related to the domestic economy only through its impact on specific groups who may gain or lose through actions taken. An approach is needed that seeks to define and implement the international aspects of a composite domestic-international economic policy. Further, this must be done with the recognition that political and economic factors are frequently so closely intertwined they cannot easily be disentangled.

This intertwining in dealing with the micro aspects of trade policy is obvious and governments are forced to deal with the often very powerful political pressures generated by interest groups. The nature of the intertwining in developing policy to deal with questions of national interest is somewhat less obvious. In fact, it is a relatively uncharted component of the problem of developing international commercial policy.

When combined with an international power structure that reflects the diverse interests implicit in North/South relations, East/West relations, as well as the multiplicity of issues that exist among the world's industrial democracies, the complexity of policy development becomes obvious. Dealing with a broad mix of macro and micro dynamics in this diverse framework is the problem currently facing governments in developing a workable international economic system.

I would like to discuss some of the performance criteria or objectives that influence international commercial policy and then comment briefly on the current policy mix in light of the broadened political-economic model that is relevant in today's world. The basic questions that need to be addressed are:

1. What are the underlying economic and political conditions that influence a nation's policy objectives?

2. How are these underlying conditions being manifested in today's policy scene, especially in reference to agriculture?

### **Some Factors that Influence International Policy**

Post World War II international commercial policy has centered around the results of the Havana conference. There guidelines were established for trade policy that were ultimately incorporated into the General Agreement on Tariffs and Trade. The GATT was designed to reconstruct a liberal trading system based on neo-classical assumptions and the belief that movement toward free markets and achievement of improved resource use efficiency is the central trade policy goal. This system was complementary to the international monetary system developed at Bretton-Woods. They were jointly designed to provide a workable international order and avoid some of the problems that arose during the 1920s and 1930s.

In trade policy a relatively long period of success was achieved. Six completed rounds of negotiations have resulted in a substantial reduction in trade barriers, particularly on industrial products. The world moved a greater distance than at any other time in history towards the goal of free international markets.

This liberalization has been accompanied by a rapidly expanding volume of international trade. The total value of commercial trade now exceeds \$1 trillion, and the value of agricultural exports exceeds \$100 billion. The world has become highly interdependent in a broad spectrum of items covering manufacturing, raw materials, and agriculture. This system has never operated perfectly, particularly in agriculture where numerous exceptions to GATT principles were developed to accommodate domestic farm programs. Nonetheless, overall positive results were substantial. The world monetary system established at Bretton-Woods also achieved a large measure of success over an extended period of time.

But change has occurred, and in the period since the late 1960s that system appears to have begun to break down. Stress on the system built up over time. This was reinforced dramatically by shocks that occurred during the early 1970s. International trading relations that had been relatively fixed, except in agriculture, were disturbed by export embargoes.

Actions by the OPEC countries had profound implications for balance of payments, trading relationships, and international investments. The system of fixed exchange rates designed at Bretton-Woods was abandoned to a system of floating but somewhat managed exchange rates.

The trading and monetary systems established at Havana and Bretton-Woods were designed to deal with problems as perceived at that time. The systems were devised to avoid competitive devaluation of currency, to prevent establishing trade restrictions and

export subsidies with a view toward fulfilling competitive interests, and to avoid "beggar thy neighbor" trade policies that sought to export unemployment. This focus has now been supplemented by new concerns.

One analysis suggests:

When the postwar economic system was constructed, the attention of virtually all countries was riveted on the fear of unemployment. . . .

In the 1970s, however, inflation has emerged in virtually all countries as an economic (and hence political) problem at least as severe as unemployment, if not more so. Indeed, in recent years numerous countries have been seeking to insulate their economies against imported inflation and even export their inflation to others by upvaluing their exchange rates, unilaterally liberalizing their import controls, and instituting export controls. Access to supplies has come to rival, if not surpass, access to markets as a major issue of international economics. But because of the previous focus on unemployment, by both governments and outside analysts, there exist no effective international rules and arrangements to govern these new policy approaches and few ideas for developing them. Thus, the international economic agenda has broadened at the same time that it has become more complex due to underlying political and economic changes.

In addition to these overriding questions of inflation and unemployment, a broadened set of more specific objectives has come to the forefront. First, and particularly in agriculture, current conditions of interdependence and uncertainty in world markets have led to a greatly expanded concern with market stabilization. Wide price swings affect consumers, especially the poor.

Producers in turn face great uncertainty in making production decisions and, through what has been called the ratchet effect, food prices contribute significantly to inflation. Longer term implications flow from the potential effect of uncertainty on investment and growth and production both in industrial and poor countries.

Another important issue is economic security. The extent of dependency of the United States and most other industrial countries on foreign sources of raw material, including food, has increased sharply in recent years. This creates a vulnerability not heretofore experienced. For some LDCs, food security and the ability to pay for needed energy imports have both become crucial. The questions of generating reserve stocks and of expanding production in food deficit poor countries contains a set of trade-aid policies of great complexity. Food security is also important in some industrial countries like Japan.

Another significant question is whether trade policies can be

geared toward assisting development in poor countries. The LDCs argue that simple liberalization and multilateral reduction in barriers will not serve that end and that policies are needed to perform a redistributive function. Assisting development thus has become a significant objective that currently influences trade policy formulation.

As a final point, at least lip service is paid to the need to develop trade policy that contributes to resource use efficiency and the general economic well-being of consumers and the world as a whole. This is the point at which specific domestic interests conflict most directly with international objectives.

Unfortunately, the force of argument is greatly imbalanced. The assertion that the world will be better off with liberal trade and exploitation of comparative advantage tends to carry little weight with elected officials. They must deal with the direct effect of trade policy on the incomes and well-being of those who vote them into or out of office.

What mix of international policy can be formulated and implemented in this framework of motivations and objectives is open to some question. Policy theorists argue that "the number of economic policy instruments must at least equal the number of policy targets that can be met; it is usually impossible to achieve a greater number of policy targets than one has available policy instruments."

The traditional conflict between governments seeking to protect particular groups in its economy has thus been supplemented by the search, with varying emphasis among countries, for policies that will not import unemployment or inflation. Rather than they will foster market stability, promote economic growth, improve economic security, further political objectives, and gain other ends.

This is the position the world is in at the present time. I want to turn now to a partial assessment of current conditions and prospects for formulation of internationally acceptable policy in four major areas: (1) trade liberalization, (2) international commodity arrangements, (3) export controls, and (4) special and differential treatment for developing countries.

### **Trade Liberalization**

The major gains achieved in trade policy during the post World War II period have been in liberalization of industrial protection. Continuation of this process has become increasingly difficult. Because the U.S. has lost competitive position in world markets on a broad spectrum of industrial products, numerous industry actions to reverse the process have been forthcoming. Industries such as steel, textiles, shoes, television, and others have sought quota limitations or other forms of increased protection from foreign competition. Further, organized labor, which is an unquestioned political

force, has turned from its traditional position of liberalism to a policy of protectionism.

In many other countries, slow business recovery from the recession of the early 1970s and continued concern with maintaining full employment has created a reluctance to join meaningfully in trade negotiations. Conditions also have led to increased use of export assistance and direct government involvement in industrial markets.

Little has changed in agriculture. Countries continue to stick tenaciously to income support policies irrespective of their implications for international markets.

The implications of this for the multilateral trade negotiations now underway are profound. For most major industrial countries, industrial tariff levels are being negotiated through a formula process that calls for an across-the-board cut in tariffs from which exceptions will be negotiated. The initial U.S. proposal called for a cut of about 60% on most industrial tariffs while that initially proposed by the European community called for a cut of about 25%. There emerged a compromise based on a Swiss formula that called for an average 40% to 45% cut. This compromise, however, was itself compromised and agreed to only as a "working hypothesis" with an effort to reach an initial minimal cut of 20% to 25% which could later be extended to the full 40% to 45% under certain conditions, including satisfactory economic recovery.

In agriculture, the U.S. initially attempted a strong position and made substantial requests for reduction in barriers and also tabled substantial offers. At this time, the response from foreign countries has been limited. The outlook is not promising.

Another aspect of efforts to liberalize trading is being sought in several codes. These include a government procurement code designed to open government purchases to international competition, a subsidy-countervailing duty code designed to limit subsidies and in turn restrict the use of countervailing, a safeguards code designed to provide guidelines for the use of temporary restrictions to protect industries or commodity groups from short term market disruption or changing competitive position and a code on technical standards that would limit their use for import protection.

More recently the notion of developing an agreed set of principles to guide domestic agricultural policy and establish a council to provide international scrutiny of domestic policy actions in agriculture has come under discussion. The prospect for progress on these issues appears better than liberalization.

The gains that would flow from increased liberalization are many. These include improved resource use efficiency, lower cost items to consumers, competitive pressures that would restrain wage and price increases and complement anti-inflation policy and increasingly,

with today's industrial structure, exert competitive pressures that would lead to a search for innovation that would lower costs and improve the range of products available to consumers.

But American industry and that in many other countries face an unprecedented challenge in adjusting to the dynamics of world competition. Never before have they faced the competition of two major industrial countries, as is the case with Germany and Japan, whose economies are heavily geared to exports as a means of maintaining employment and achieving growth. In addition, a number of LDCs such as Korea and Taiwan are becoming significant exporters of a number of industrial products.

In agriculture wide differences in cost structure remain between traditional exporters and most importers. Changes that will seriously disrupt a major segment of agriculture in any country cannot be expected. Even lesser adjustments such as that which would be required by the U.S. dairy industry if markets were allowed to reach equilibrium with more liberal imports from the much lower cost producers in Oceania are had to come by and may not be achieved. In short, the economic dynamics both in industry and agriculture present major obstacles to achieving substantial progress toward liberalization.

Further, the problem of negotiating trade liberalization is subject to aggressive lobbyists and the incorporation into the negotiating system of a set of industry and agricultural advisory committees. These committees are commodity oriented and assure full representation of domestic interests in the negotiating process. Interest groups in most other countries appear to be no less active.

Despite these major obstacles, there is reason to believe that some degree of success will be achieved. There are several reasons for this:

First, and most important, is that most nations recognize the magnitude of the international economy and the nature of the interdependence that cuts across the spectrum of manufactured goods, raw materials, and food such that withdrawal to increased protectionism by the world's major economies could spell economic disaster. Failure in the MTN could trigger that kind of withdrawal. The stakes in this negotiation are immense and the outcome will influence the lives of millions of people, particularly those in western industrial countries. This, I think, is recognized by political leaders.

Second, there appears to be a developing realism about what can be expected from the negotiations. It is recognized that no nation will agree to trade concessions that create sudden major unemployment, or put large numbers of farmers out of business. Achieving improved "order" in international markets and the basis for increased participation by low cost producers in market growth represent more realistic and accepted objectives.



Third, increased attention is being paid to international cooperation that will prevent unusual market disruption and create extreme stress in individual countries. This is being pursued both in commodity agreements and in several codes that deal with various rules under which international trade occurs.

These positive elements are not sufficient to predict that major breakthroughs will occur. Progress will be difficult, but not impossible, and there is too much at stake for the future of international relations to settle for anything less than a total effort to achieve some liberalization.

### **Commodity Agreements**

Another aspect of trade policy of particular concern to agriculture is commodity agreements. These are designed to improve stability, both prices and trading quantities, improve food security and, from the LDC view, provide a basis for international resource transfer and thus foster economic development. Several agreements are being considered. These include wheat, feed grains, dairy, and meat. A sugar agreement has been completed and now is being considered by the U.S. Congress. The content of these multilateral agreements vary from simple consultative mechanisms to agreements with extensive economic provisions that include commodity stocking, export quota arrangements in the case of sugar and, in the case of wheat, adjustment mechanisms to help influence world supplies. Agreements with economic provisions clearly provide an additional element of government intervention in international market mechanisms.

The U.S. is providing leadership in negotiation of an international wheat agreement. The U.S. proposal includes accumulation of wheat stocks nationally held by member countries with minimum and maximum trigger prices that would result in accumulation or release of stocks as the market required. Rigid minimum and maximum price levels would not be fixed, but if prices moved below minimum levels, despite accumulation of stocks, other adjustment measures would be involved including, if agreed upon, supply controls to prevent disastrous price drops. The proposal also includes a new food aid convention.

The potential for success in achieving this kind of wheat agreement is difficult to predict at this time. Numerous problems have been encountered in defining the nature of adjustment measures that might be required, the size of reserves, the width of price band, and other aspects of the agreement.

A second major thrust in policy is the establishment of bilateral arrangements. These appeal to countries for a variety of reasons. Exporters view them as a vehicle for stabilizing outlets and assuring orderly disposition on international markets. Importing countries, on the other hand, are concerned with assuring supply availability and in some instances, of providing price stability. They are also important in market management vis-a-vis state trading countries and by countries that seek to organize consistent trading relationships through national marketing boards.

While still not a dominant factor in world markets their use is increasing. The amount of world wheat trade under multi-year agreements increased from 9 percent in 1974 to 26 percent in 1976.

The effects of bilateral arrangements are difficult to quantify. In some cases, as with the U.S.-Soviet agreement, they may serve to stabilize markets by keeping highly variable trade within certain bounds. Also, non-binding agreements which generate additional market information may reduce risk and uncertainty and, because of forward sales commitments, may provide the basis for better production and market planning. On the other hand, if a large part of any individual market is tied up in binding bilateral arrangements, the remaining market will become thin and subject to greater price variability.

The possibilities exist for the U.S. to become increasingly involved in bilateral arrangements, but this could be done only if complemented with other policies. Formal and binding commitments could be made only if adequate reserves were established to offset crop shortages and, in extreme circumstances, export regulation on non-agreement countries may be required.

Finally, the LDCs have developed a major thrust to generate a common fund and associated commodity agreements with a view toward stabilizing and expanding their trading outlets. The nature of such a fund currently is at issue. UNCTAD has proposed an integrated program for 10 core commodities with a common fund providing buffer-stock financing, and financing for a variety of aid measures. The U.S., with other developed countries, has sought to limit fund operations to support commodity agreements and prevent expansion into activities that would result in the direct transfer of funds from industrial to developing countries.

A number of issues clearly surround the proliferation of interest in international commodity agreements. If all existing proposals are implemented, international agricultural markets will be largely organized through government to government agreements. For most countries, they represent a form of protection, but there are both costs and benefits involved. In some circumstances they may improve market performance, in others they may not.

In any case, the form which commodity agreements take and how they are in fact operated will depend on international power relations.

Governments also will be more directly involved in trading relationships than exists in the traditional pattern of national protection and national actions to stimulate exports.

### **Export Control Policy**

Another important variable that has recently become significant in trade policy is the management of exports. The most striking example is the OPEC, but numerous other actions have been taken by governments, including restrictions on food exports by the European Community and the U.S., and management of raw materials exports by Canada, plus numerous other actions. The reasons for restricting exports are numerous. They include avoiding price increases and controlling inflation, reinforcing various aspects of domestic policy, conserving resources and avoiding outright shortages, retaining raw materials to develop domestic processing industries, improving terms of trade and trade balances, and for foreign policy reasons. Export controls are no less protectionist than import controls though carried out for different reasons.

The implications of increasing export controls are profound. They can be a force leading countries with scarce resources to seek assurances of supply. This can be built into international multi-commodity agreements and represents a significant aspect in importer concerns with establishing bilateral arrangements with long term supply assurances. This clearly is an important element in the desire by Japan, and a number of other countries, for long term bilateral commitments by the United States to supply agricultural commodities.

As demonstrated by OPEC, export control provides a basis for the raw use of economic power that can be exploited to serve both economic and political objectives. Export controls can trigger a new form of competitive policy retaliation and lead to new problems in monetary adjustment. The effects of export embargoes can be particularly severe when used to restrict supplies of raw materials and food.

Article XI of the GATT deals with the general elimination of quantitative restrictions and explicitly prohibits the use of quota restrictions both on imports and exports. In practice this article has not been implemented effectively and has had no effect on export policy.

In light of numerous recent actions by individual nations and groups of nations, this is clearly a gap in the world's trade policy mix. There are situations under which export management may well be justified such as to promote infant industry, take safeguard actions to prevent undue short term market disruption, and prevent excessive depletion of resources. On the other hand, export controls used to wage economic warfare or to serve international political ends cannot be justified. Even in cases of justified restraints on exports, international rules and guidelines related to such questions

as justification, notification, compensation and retaliation are needed. Unfortunately, this is not at present an active component of trade policy negotiations.

### **Special and Differential Treatment for LDCs**

A final element in the policy mix that must be dealt with is the special problem involved in trade policy for LDCs. Cast in the framework of the call by LDCs for a new economic order, this is a complex issue. I will comment only briefly on one aspect. LDCs succeeded in establishing a negotiating format that calls for across the board special and differential treatment in all aspects of the negotiation. They seek to avoid granting reciprocity, and want special rules related to subsidies, safeguards, government procurement, and other elements in the negotiations on codes.

Accommodating the world trading system to these adjustments and special arrangements could be a difficult task. It may require increased involvement in ongoing trade operations by governments. While little progress has been made at this point in defining what form special and differential treatment might take, there is a commitment to this goal, and at present it is difficult to judge what the outcome might be.

### **Summary and Conclusions**

Agricultural economists have tended to view the problem of trade policy in classical economic terms and deplore the inconsistency that exists between domestic farm policies in most countries and the search for a free international market. The assumption behind our position has been that the goal of trade policy should be to move toward a worldwide pattern of production based on comparative advantage and hence optimal efficiency. This goal is still important, but in today's world it presents a limited perspective on the framework within which trade policy is developed and implemented.

First, it has to be recognized that most governments develop economic policy within a multiple set of objectives. Second, we have to recognize that the linkage between domestic and international policy has increased to the point that they generally cannot be clearly separated. This increased linkage along with the growing importance of such phenomena as market stability, economic security, and economic development has both broadened and politicized international commercial relations.

International economic policy is an increasingly important aspect of domestic politics in most countries. Additionally, it is an increasingly important aspect of overall international relations. The era when political and military alliances were central and economic relations secondary has passed. Economic and monetary issues are now central to overall international relations.

As a final complicating factor, the participants involved in the policy development process vary greatly in their motivations and the nature of their political and economic structures. Communist countries are a clearly delineated group whose motivations and economic system present major problems in developing workable trade relations. But in addition, there are corporate states, such as Japan, and semi-corporate states, such as Brazil, where the ordinary assumptions of market economics are at best only partially valid. The world's largest trading bloc, the European Community, reflects policy based on the compromise of a set of national interests.

This, then, is the framework of policy development. There has been a great leap forward in the importance of international policy as a tool for serving national interest. This has led to the search for new policy instruments including multilateral marketing agreements, bilateral arrangements, and increased concern with rules that govern export and import flows. Basically, these all reflect efforts to insulate economies or groups within the economy from the vagaries of a free, open and competitive market.

What will emerge over time as a new set of international arrangements is difficult to predict. It is hoped that the outcome will be better than the rush towards unilateral protectionism of the 1920s and 1930s. In this sense, the outlook is positive. On the other hand, those who continue to seek the utopia of a free, market-oriented, international trading system, with increasingly limited government involvement, will likely be disappointed.

## **PART IV**

### ***The Land-Grant System and Public Policy***

