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DISCUSSION: WORLD AGRICULTURAL MARKETS: IMPLICATIONS FOR U.S. FOOD AND AGRICULTURAL POLICY

Eric J. Wailes

White has provided us with an interesting paper on an important and timely topic. He has laid-out squarely the dilemma of the apparent contradiction in our domestic policies of rigid price and income supports and our ability to participate in highly variable international grain and oilseed markets. He has narrowed the focus to identify the market environment in which U.S. agriculture operates, and described the primary characteristics of international agricultural markets which affect the response to traditional farm commodity programs. Finally, he discusses implications of these characteristics for formulating and executing an effective farm policy.

I have only one basic disagreement with the paper. This involves the logic underlying the transition from his characterization of world markets to his conclusion that the United States should adopt a domestic policy which "interferes as little as possible in the transmission of signals about world market conditions." He has characterized international agriculture markets as: (1) thin, (2) imperfect, (3) having probable but uncertain price responsiveness, (4) highly volatile due to production, demand and policy shocks and (5) highly integrated with other commodity and financial markets, capable of transmitting exogenous shocks with increasing immediacy. The problem for me lies with the logic that, given this market environment, U.S. domestic policy should be formulated so as to interfere as little as possible with the kinds of signals this imperfect and volatile environment transmits. This policy prescription clearly defies the implications of the theory of second-best.

I find it difficult to accept the proposition that producers will allocate resources more efficiently and consumer welfare will be enhanced if producers and consumers respond to the market signals as generated by the environment White has described. It is clear that domestic economic and political forces provide a more important constraint to policymakers than do the circumstances of international agricultural markets. The policy choice of opening up international transmission of market signals to facilitate our export dependency is dominated by an ideological bias to reduce government intervention and budget exposure.

I basically agree with White's description of the market environment. Changes in the international monetary regime and information technology, among other factors, have contributed significantly to global interdependence. The growth in trade and the ability of the United States to make the initial adjustments faster than anyone else, has contributed to our export dependency. However, the past decade has been time enough for much of the rest of the world to respond to the market that the United States effectively exploited in the seventies. As with our supply capacity, once in place in the rest of the world, downward adjustment comes with great political reluctance and economic cost.

One aspect of the market environment that deserves consideration, but was not discussed by White, is the irony that increased global interdependence brings with it the sense of vulnerability. Insecurity has had a degenerative effect upon the efficacy of the market. As we have seen, the developed countries have pursued even greater insulation, and the developing countries have embraced autarchy with adjustments in consumption and changes in producer price policies to attain self-sufficiency.

The essence of the problem in international agricultural markets is that, for every country, international participation has become a byproduct of domestic policy objectives. As regards food, it is absolutely clear that very few countries, if any, are prepared to accept a competitive international market allocation of resources to ensure their supply of foodstocks.

Regarding the characteristics of international markets which most seriously affect the response to traditional domestic agricultural policy programs, we would have benefited from a fuller discussion upon what effect the more fluid, volatile and uncertain international environment has had upon U.S. producer response to domestic policy levers. Participation in government programs has increased significantly.

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What is the nature of the interaction of the world market environment, domestic policy and producer responsiveness?

I agree with White's list of market characteristics which seriously affect response to the programs. Imperfect markets, volatility and fluidity are significant dimensions to the question of whether world agricultural markets function in an appropriate framework of price discovery. However, the question of the meaning and nature of price signals in international agricultural markets is also significant. The magnitude and extensive use of price distortions generate significant data and informational problems for analysis attempting to evaluate this question.

White's discussion of the implications of international markets for agricultural policy is helpful. I agree that the key to easing constraints on effective policy implementation requires less fixed interference. But it does not follow that no or minimum interference is the best solution.

He has contrasted the objectives of stability of domestic prices and incomes with stability of participation in world markets. This is misleading, but it does get us on track to recognizing that the basic issue is determining what is an acceptable income and stability objective. Establishing this objective, along with a less rigidly set safety net, can provide program managers the flexibility to determine the extent and conditions by which the U.S. should participate in international markets.