Liberalized Agricultural Trade--at the Multilateral Trade Negotiations, Bilaterally or Not at All!

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For most of the 20th century, much of the world has fretted about agricultural surpluses. This has been particularly true of the major producing nations, with the United States being in the forefront. Only a decade ago, our "ever normal granaries" were bursting at their steel seams, and we were immersed in another agonizing appraisal of U.S. farm policy.

Then the shock came! In 1972 everything went wrong on the production front—droughts, early frosts, monsoon problems, even the fish meal supply diminished because of an uncooperative ocean current. We suddenly realized that man was not quite as omniscient as he thought, especially in the field of weather control. And the Soviets realized that they had a demanding consumer sector, even under a totalitarian regime. All of this caused reverberations throughout this planet of ours, and the "world food problem" was born. Attention turned from surplus disposal programs to concern over production and access to that production.

The basic question, of course, is "Can the world continue to feed itself?" It is not my purpose to answer that query here, for it is a question the scope of which goes far beyond the arena of international trade policy.

One factor, however, is so simple as to be often overlooked. At any given point in time, we ought to do the best we can with what we have! In other words, with a finite quantity of agricultural products available, or about to become available in the short run, those products should move in international trade to where they are most in demand. The principle of comparative advantage should establish short-run production patterns, and the rules of international trade should facilitate the distribution of that production in response to competitive market forces.

An oversimplified model, such as the one I have just outlined, obviously does not describe the real world. It is easy to rationalize departures from the model, particularly if one is philosophically uncommitted to a market oriented economic system in the first place. The temptation of government intervention has been irresistible in many nations, including some which are in dire need of expanded food production. As a consequence, these nations have often ended up with agricultural production disincentives, rather than incentives, in their system. This has been a tragedy for their people, for the rules of distribution and trade are meaningless if there is little to distribute or to export.

As economists, we should do all we can to point out the probable economic repercussions of departing from well established economic principles. This applies, of course, to domestic production and marketing policies, an area in which economists have usually had a good bit to say, and at times considerable influence. But it also applies to international trade policy, an area in which economists have traditionally been much less active, and of relatively limited influence. Therefore, I would like to concentrate today on 1) international trade policy in the agricultural sector as it now exists, 2) efforts that are underway to alter the international trading system, and 3) some contributions that agricultural economists might appropriately make to that alteration.

The Reduction and Elimination of Trade Barriers

If the basic objective of the principle of comparative advantage is even to be approached in the real world, it is imperative that barriers to agricultural trade be reduced and, where feasible, elimi-

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inated. Increased agricultural production is of limited usefulness in feeding the hungry of the world if it cannot move freely across national borders. Yet, though this is well understood, barriers to agricultural trade continue to proliferate. In many cases, nations have become more, rather than less, protectionist in recent years. They have become highly imaginative in their approach, adding a gamut of non-tariff barriers to the tariffs that have been with us for centuries.

Why do they do this in the face of palpable starvation in certain parts of the world, and in direct contradiction to the interests of their own consumers? As usual, the reason is part economic, part political. Some domestic agricultural sectors are often in a price depressing surplus situation, even when aggregate food stocks are at dangerously low levels. This has been true, for example, in the dairy industry of many countries in recent years, even though grains have been in short supply. Beyond that, agricultural interests are politically strong in many countries, especially in the developed world, even though their numbers have diminished dramatically with the technological revolution. In some, farmers hold the balance of political power, thereby wielding an exceptional degree of political influence.

As a result of all this, domestic agricultural interests frequently seek—and obtain—protection from the agricultural exports of other nations. When they are non-competitive internationally (as is true, for example, for much of the small scale agriculture of the European Economic Community), they battle vigorously for that protection, because their survival is at stake.

Trade Barriers Erected for Defensive Purposes

The first element of agricultural trade restrictions is thus *defensive* in nature, oriented to keeping exports out. For many years, this was done through tariffs. But the effectiveness of tariffs as a protective mechanism has waned during the past three decades. This is due to the half dozen rounds of trade negotiations that have been conducted under the General Agreement on Tariffs and Trade (the GATT), with tariff levels having been progressively lowered during these negotiations. The GATT has helped move the principles of comparative advantage a bit closer to reality though, unfortunately, with less success in agriculture than in the industrial sector.

As domestic industries, both agricultural and non-agricultural, in the U.S. and elsewhere have observed the progressive crumbling of tariff protection, other protective mechanisms have been devised by their governments. One must give reverse "credit" where it is due; they have done this very effectively indeed. So-called "non-tariff barriers" have become the major impediment to world trade today. Whereas the previous rounds of GATT negotiations dealt almost exclusively with tariffs, with non-tariff barriers scarcely even being mentioned, the present Tokyo Round of negotiations probably will devote far more time to the latter than to the former. It must do so if substantial progress is to be made.

What are all these non-tariff barriers, and what are we seeking to do about them in Geneva? Let's take the major ones on an individual basis.

The first, of course, is quantitative restrictions, quotas if you will. We in the U.S. have them in dairy products, and to a lesser extent in meat. Both programs have been vigorously attacked in Geneva. Other nations have even more restrictions of this nature. Though Japan is our best agricultural customer, it has a multitude of QRs, including a program on meat that was at least partially responsible for forcing us into our own voluntary restraint program. The European Economic Community likewise has numerous quantitative restrictions, along with its variable levy system. And the lesser developed countries have moved heavily to quota programs, typically rationalizing them on balance of payments grounds, or for "safeguard" purposes, i.e., to protect infant industries.

From an economist's viewpoint, a quantitative restriction is one of the most disconcerting trade barriers of all, for it flies directly in the face of competitive forces. What good does it do to become more efficient than anyone else in wheat production, e.g., if one can sell only "X" bushels in a given market irrespective of price considerations? Yet this is the situation faced by many of our competitive agricultural industries (and the competitive industries of many other countries as well), all to protect relatively less efficient agricultural producers of importing nations. Perhaps one can rationalize a certain production level of basic food products in any country, even though that production be uneconomic and violative of the principle of comparative advantage. Political and possibly even national security considerations may predominate in such a case. But this too should be kept in perspective by policy makers. Does a goal of "total self-sufficiency in rice" really make sense in Japan? Partial self-sufficiency, perhaps; but total self-sufficiency, one must wonder! At the very least, the economists of Japan, the United States, or any other country should point out to their policy makers the opportunity cost of such decisions.

Quantitative restrictions form one of the major areas of effort now underway in the Multilateral Trade Negotiations in Geneva (the Tokyo Round). So far, we have had notifications and discussions on a bilateral basis between and among the 90 nations that are participating. We are not yet at the negotiating stage, even bilaterally, and far from it on devising any multilateral solutions to this problem. But we need to work at it with vigor, lest we conclude the negotiations with little progress in this distortive area of international trade.

The European Community has resisted the inclusion of variable levies in the Geneva deliberations of the Quantitative Restrictions Group. It has, in fact, resisted their inclusion in the deliberations of any of the basic functional MTN groups, notwithstanding their obvious effect on international trade.

Variable levies are among the most frustrating trade barriers of all, particularly to the U.S. and other exporters as they seek to establish markets in the Community and in other nations which use them. The essence of the variable levy is that when world market prices fall, the levy automatically increases. This makes it essentially impossible for an exporting country to expand its sales even though market conditions would ordinarily provide that thrust. The positive impact on sales that should result where import demand is not completely inelastic is negated by the variable levy.

This not only frustrates the competitiveness of a given country, such as the U.S., but it also shifts—in a distortive way—the burden of market adjustments. The international market for a given commodity becomes "thinner," because those nations which apply the variable levy isolate themselves from the impact (or at least the full impact) of supply and demand conditions elsewhere. Though their market remains relatively stable, price fluctuations elsewhere become greater than would otherwise be the case. This occurred, for example, as the world sought to adjust to the severe drought in the U.S. Corn Belt in 1974. The price of feed grains rose dramatically in the U.S. and in most parts of the world. U.S. livestock and poultry producers suffered through severe financial losses and ultimately adjusted by altering the grain content of their rations, reducing feeding periods, and in some cases even closing down their operations. It was a major adjustment on our part, and one reason was that nations with variable levies did not share in that adjustment. Feed grain usage in the European Community changed very little during that period and, in fact, its mountain of dairy surpluses continued to rise.

Variable levies have a cost, to the world trading community as a whole since they are a flagrant departure from the principle of comparative advantage, and particularly to those nations which are forced to absorb the world's supply and demand adjustments. But they also have a cost to the consumers of the nations which use them. Their proponents argue that they provide stability. That they do, but it is the worst possible kind of stability for a consumer! In terms of food costs, variable levies simply remove the valleys, and leave the consumer with nothing but peaks! That, unfortunately, is the lot of EC consumers, and will be until they achieve a stronger political presence than they have today.

Import licenses, import deposits, customs regulations, customs valuation procedures, and minimum import prices all have many of the distortive features of quantitative restrictions. Sometimes they are even more troublesome, for the restrictiveness is difficult, if not impossible, to prove. In licensing, for example, licenses just do not seem to be issued! Or, if they are issued, it is after an inordinate delay—usually at about the time the product is no longer in season in the exporting country! Administrative procedures can be exceptionally time consuming when someone has a vested interest in their being so.

Import deposit schemes obviously have a cost. Money is not interest free, and the cost of a deposit must be borne by someone in the marketing process.

Customs regulations can be as frustrating as import licensing. At times, it takes a long while for all those forms to be completed and stamped.

With perishable products, they seem to be completed just as the product has "perished."

Finally, valuation procedures can add an unexpected cost to imports as well. One would asume that the invoice price would be used as the base for customs valuation procedures, but this is often not the case. One of our neighbor countries, for example, uses "official prices" on many imported goods, and these prices often are considerably higher than the invoice amount.

All of these practices are presently being scrutinized in a Customs Subgroup in Geneva. Hopefully progress will be made to minimize their impact on international trade. In particular, changes in this area are contributions that the less developed countries could and should make to the MTN.

Even *standards,* whose basic purpose is to foster trade, can be and are used to impede it. About two years ago Canada banned the import of U.S. beef, allegedly because we then permitted our cattle feeders to use diethylstilbestrol as a feed additive. DES significantly increases weight gains in fattening cattle, but there is evidence that it may also have carcinogenic properties under certain conditions. Hence, the Canadian standard presumably was designed to protect the health of its consumers of beef. USDA, however, responded to the Canadian situation by implementing a series of surveillance and other measures, the purpose of which was to insure that U.S. beef entering Canada would not contain DES residues. Eventually the Canadian government recognized the effectiveness of these measures. Within a few hours of doing so, they implemented a highly restrictive quota program on U.S. beef! One must wonder just how relevant health considerations were in the original ban.

A similar situation occurred recently involving U.S. citrus exports to Japan. The Japanese government abruptly banned imports of citrus which had been treated by either of two particular fungicides, even though both had been approved for use by Codex Alimentarius, an international standards body of which Japan is a member! This case is still under negotiation today.

Fortunately, we appear to be making progress on the standards front in Geneva. A good deal of work has been done over the past two or three years, and hopefully a procedural code will reach fruition in 1977. This code will not establish standards; its purpose is to provide a set of rules that are to be followed by nations (or other entities such as Codex Alimentarius) in the standards making process. The basic intent is to obtain an open and transparent procedure, so that those affected will have an opportunity to comment on a proposed standard before it is implemented rather than after. In too many countries that is not now the case. Other nations are much less inclined to be as open in the conduct of their regulatory and regulatory-related programs as we are.

Government procurement practices have many of the same restrictive features as standards making. That is, the basic problem is that procurement practices are not open. A foreign company rarely is the winning bidder on government procurement contracts. In some countries, foreign firms have a difficult time even learning about the contracts until after they are awarded. And it is often impossible to determine the amount of the winning bid. In other words, "buy national" programs work very successfully in most nations! This is not now a major problem for agriculture, but it can become one as more governments around the world become involved in the purchase of agricultural commodities. (In one of our major trading partners, for example, single tendering [i.e., negotiating with only one bidder] is permitted for procurement of any product sold on a commodity exchange. The economic rationale of that provision is difficult to fathom!)

The hope here is also to negotiate an international code. Work in this area has been underway in the Organization of Economic Cooperation & Development (the OECD) for more than a decade, so far with limited success. But a negotiating group will be formed in Geneva on the subject later this year, and it will be able to build on the OECD experience. There is a reasonably good chance that a government procurement code can be completed in 1977.

The final defensive mechanism worthy of mention is the traditional *tariff.* Though less restrictive in an era of floating exchange rates than has heretofore been the case, it can still be important with certain products and in certain countries. The U.S. has few tariffs of any consequence in the agricultural area, but other countries. do.

The European Community, fearful that its valuable levies might be construed as tariffs, was successful in limiting the tariff cuts of the Kennedy Round in the mid-60s to industrial cuts. They did this by keeping agriculture separated from industry in the negotiations, with the U.S. ultimately discovering that it had little trading stock in agriculture. Hence, nothing much happened.

The Community is following precisely the same tactics in the Tokyo Round; early this month they placed their proposed tariff formula on the table in Geneva, and it deliberately excluded agriculture. This time, however, U.S. negotiators are determined that an industrial-agricultural separation will not occur. In this they have the strong backing of the entire U.S. agricultural community, the Congress, our agricultural advisory committees, and the Trade Act of 1974 itself. The agricultural "give" in the Kennedy Round was primarily by the U.S.; we are determined that this will not be the case in the Tokyo Round!

So much for defensive actions which nations take to protect their farmers from international competition. As can readily be seen, there are a host of restrictive devices in use for this purpose. We can only hope that significant progress can be made in Geneva to reduce the number and impact of these measures. If this can be accomplished, we will have moved the world a lot closer to an orientation of competitive agricultural markets, with substantial comparative advantage characterization.

Trade Measures Taken for Offensive Purposes

Nations can and do take *offensive* actions to protect and benefit their farmers too. The classic example is the *export subsidy*. In this area, economists are somewhat ambivalent, unsure as to whether such subsidies should be welcomed, tolerated, or condemned. Developing countries, for example, argue that export subsidies are essential, at least in the short run, if they are ever to become competitive. This is the infant industry principle or modifications thereof. Economies of scale may be necessary for a nation to achieve competitiveness in the exportation of a given agricultural product. This may, so the argument goes, require both import restrictions and export subsidies; otherwise the market volume necessary for competitive pricing will never materialize.

The developing countries have a number of additional arguments in favor of their use of subsidies—structural differences, e.g., along with terms of trade issues.

Other nations argue that they have a stronger social orientation than export competitors like the United States. Exporting firms must pay their share of the cost of these domestic social programs. Therefore, subsidies are required to offset competitive disadvantage that would otherwise occur to exporters in these socially oriented countries.

I will not debate these issues today. Suffice it to say that if the above and other arguments supporting export subsidies have any validity in economic theory at all, that validity is primarily, if not entirely, limited to the developing nations. I am not persuaded that export subsidies can be justified in the context of international trade among the developed countries. And they certainly cannot be justified in predatory circumstances, and where abuse of basic economic principles is flagrant.

In the European Economic Community, export subsidies are the flip side of the Common Agricultural Policy coin; variable levies being the other side. With its inordinately high price support levels, the CAP must use variable levies to limit competition from imports. And it must use export subsidies to rid itself of the surpluses that are inevitably generated when support levels become inordinately high. Without those subsidies, the Community would find international price competition in agricultural products to be very tough indeed.

We have used export subsidies of our own in the past—and for the same reason the Community uses them today! We permitted our support levels to get too high, and we priced ourselves out of the world market. We became residual suppliers and, as you will all remember, there wasn't much residual demand in the '60s!

Fortunately, we began in 1965 to alter our farm policies, and we completed that job in the farm programs that were enacted by the Congress in the early '70s. That series of legislation put us back into the world market—where we should have been all the time, given the efficiency of U.S. producers! I hope we will never again repeat the policy errors of earlier decades. Should we be tempted to do so, we ought simply to observe the struggles of western Europe's farmers today. High price supports are deluding them, just as they deluded us some years ago.

Recently, for example, the EC made a sale of wheat to Brazil, a traditional U.S. market. It took a substantial subsidy for that sale to be made, i.e., for the EC to be able to undercut U.S. wheat producers!

What can one do to curb the trade distortions of export subsidies? First, with respect to subsidies designed to penetrate one's own market, the solution is relatively simple. Countervailing duties can be applied. We have done this for both agricultural and non-agricultural products, to protect U.S. producers from having their domestic market undercut by subsidized competition from abroad.

Under present U.S. law, "injury" need not be proven in such cases. This causes consternation among some of our trading partners. But one must ask, where in economic theory can a case be built for establishing an injury requirement in such cases, particularly when the "subsidizer" is a developed nation!

The more difficult case is the one involving "third country subsidies," e.g., the Brazilian sale to which I just alluded. Countervailing duties are of no avail there–unless the recipient country can be persuaded to countervail, which is most unlikely. The consumers of the recipient nation will be delighted with the resource transfer represented in the export subsidy!

To deal with the third country situation, an export subsidy code undoubtedly will be required. There are a good many other trade policy problems in the subsidy-countervailing duty area that also merit international attention, i.e., inclusion in a code. For this reason, the United States has submitted a concepts paper on this subject in Geneva. Though negotiations in this area will be extremely difficult and sensitive (it will probably be the most contentious issue of all in the MTN), they are critical to the success of the Tokyo Round. This is one of the most, if not the most, significant of the non-tariff trade barriers in use today. And it is potentially the most economically distortive of all. Therefore, it behooves all of us to give subsidy practices our attention, both in an academic setting and at the negotiating table.

A New Challenge – Supply Access

Restrictions designed to protect and serve the interest of domestic producers have for many years been the major challenge faced by trade negotiators. As I have noted, most of these restrictions are defensive–their purpose being to keep competitive products out. The exception is export subsidies, which are offensive–their purpose being to develop export markets.

A new challenge emerged in the clamor over U.S. grain sales to the Soviet Union, the challenge of export restrictions. Food price increases in the U.S. during 1973 led to strong potitical pressures for export controls. The consumer movement, which had been languishing somewhat after its earlier successes on automobile safety, meat inspection, etc., suddenly found itself with a new cause.

Prior to 1973 food had been a tremendous bargain in the U.S. The percentage of income expended for food had dropped below a mean of 16, for the first time in history, and by far the lowest in the world. Relative to the consumers of other nations, our food is still a bargain, and has been even in the somewhat chaotic days since those 1972 grain sales. Nevertheless, as economists we have learned that Americans are often less concerned with absolute price levels than with the rate of change in those levels. (Witness the recent adjustments to a higher level of gasoline prices and the return to bigger cars vis-a-vis the consternation expressed when gasoline prices began their climb.)

Dramatic incremental adjustments in food costs during 1973 certainly caught the attention of American housewives. The resultant outcry (caused at least partially by the economic distortions of a price-wage control program) ultimately led to the imposition of export controls on soybeans. In retrospect, this was not one of the better public policy decisions ever made in the U.S.! From the consumer standpoint, it impacted adversely on our balance of trade, weakened the dollar, and thereby made imports more costly. From the producer standpoint, it did more damage to our reputation as a dependable supplier (i.e., exporter) of agricultural products than anything that has happened before or since. In addition, it stimulated an enormous investment in alternative, and ultimately competitive, sources of supply elsewhere, viz. Brazil.

We are not alone in applying export restrictions. Other nations have done so too, for a variety of reasons–economic, foreign policy, national security, or combinations thereof. In ferrous scrap, for example, essentially everyone but the U.S. applies export controls.

This issue has stimulated a great deal of discussion in international fora. It has become known as the "supply access" question. GATT rounds of trade negotiations have to date been devoted almost exclusively to "market access." Supply access has had little attention, but tensions have been building and many believe that a comprehensive code of conduct is needed. The major stimulus for this concern has, of course, come from the OPEC oil cartel. But there is also concern about access to food supplies, enhanced by the trend toward long term contracting among food exporters and importers and the resultant thinning of the world market.

At the moment no action is underway in Geneva in this area.

Summary

In summary, agricultural trade barriers are on the front burner of the MTN in Geneva. So long as they are negotiated with barriers to non-agricultural products, considerable movement toward a "comparative advantage world" is possible. As a major actual and potential exporter of farm products, the U.S. should gain from a significant reduction and/or elimination of agricultural trade barriers. Our producers will benefit directly, our consumers indirectly.

In specific areas of the negotiations, we are hopeful that tariff levels will be reduced more than in the Kennedy Round. Our own tariff proposal meets that objective. An export subsidy-countervailing duty code should emerge at the end of a hard fought negotiation. If this does not occur, the United States will protect itself domestically through its countervailing duty authority, internationally in third country subsidy cases through use of the retaliatory provisions of Section 301 of the Trade Act of 1974. A standards code, which could prove to be extremely important to agriculture, is likely, as is significant progress on quantitative restrictions. The probability of agreement on additional codes–government procurement, safeguards, and supply access–is difficult to determine at this stage of the negotiating process.

Our goal is to wind up the Tokyo Round by the end of 1977, meaning that the economic benefits of more liberal trade should begin to flow soon thereafter.

Potential Contributions by the Agricultural Economist

I would like now to turn briefly to the role that my profession might play in international trade policy. Some of my comments will be short run in nature, i.e., related to the MTN; others will have a longer time spectrum.

First, it is important that we in the U.S. develop more trade policy expertise than we have today. We are much too thin–in government, in the academic community, and in the private sector–in people who truly understand international trade, and trade policy issues. One of the reasons for this is that international trade traditionally has not been all that significant to the U.S. economy. Until recently it has composed only 4 or 5 percent of Gross National Product. But that figure has since doubled, and is likely to move higher in the coming years. Export trade is, of course, much more significant than that in the agricultural sector.

Another reason for our paucity of international trade talent is that GATT negotiations have been conducted on a stop and go, round-by-round basis. We've trained people for each of the rounds, particularly in Federal agencies. But then we've reduced staffing between rounds, and have lost the benefit of that training and experience. My hope is that we'll quit having rounds of negotiations, and will develop a permanent group of well trained professionals to serve the needs of U.S. trade policy as we consult and negotiate with our trading partners on a more or less continuous basis.

Not only are we shorthanded in the professional area, but we are also plagued by a level of public knowledge of international trade that leaves much to be desired. How many of our citizens understand the term "balance of trade?" How many can define "countervailing duties?" How many have even heard of a "variable levy?" As we expand U.S. involvement in international trade, we have a big educational effort ahead if we are to make sound public policy decisions. In the agricultural sector, it is you who must inevitably carry a large share of that load.

But let us concentrate now on some of our immediate needs.

First, in the entire area of developed-developing country relationships we need help. Admittedly, political considerations will play a major role in the evolution of these relationships; witness recent meetings of the United Nations and its agencies. Nevertheless, we should operate from the best possible base of economic theory that we can develop.

Many volumes have already been written on the development process. But the orientation is not very useful in a negotiating setting. In Geneva, long term ivory tower solutions are of no practical consequence. We need to know how we can build "special and differential treatment" for LDCs into the drafting of a subsidy code, the implementation of a tariff formula, the concept of safeguarding a nation's balance of payments. The protection of the interests of the U.S. and other developed countries is only one element of this need; we must also make sure that what is done for the developing countries is not beneficial in the short run, detrimental in the long run.

Among the relevant questions of the day are: "When, if ever, should either developed or developing countries be permitted under international rules to use export subsidies?" "Is maintenance of export earnings, as illustrated, e.g., by the Rome Convention, a defensible economic concept?" "And what of the desire by developing countries for indexation of their exports vis-a-vis imports from the developed world?" "How should international trading rules and dispute settlement provisions respond to developing country cartels?" "How does one define a developing country? Should there be two or more categories of such countries? If so, where should the line be drawn? What are the criteria? When does a nation 'graduate' from one development stage to the next, and ultimately to developed status?" "Are there economic tradeoffs between price stability and the incentive to produce, i.e., are private sector incentives reduced when governments implement 'stability' programs? It is possible to devise stability mechanisms which are not price depressing?" "Is it economically feasible for developing countries to apply import restrictions to protect their domestic industries? If so, when? Or should their emphasis be on reducing trade barriers in developed countries, rather than creating barriers of their own?" "How does one determine the probable international competitiveness of a developing-country industry? That is, how does one decide that the infant industry argument applies?" "And on what basis should a developed country (or the developing country, for that matter) decide, at a later date, that the infant industry decision was wrong, and that the industry should no longer receive special benefits under international rules?"

These are just a few of a multitude of issues which exist today in the trade context of DC-LDC relationships. Many more will emerge in the coming years. The trend is clearly toward "more trade, less aid," for LDCs. That being the case, we need to learn how that trade can best be conducted. If there are to be special rules to benefit the developing countries—and this is a foregone conclusion—then we need to have some imagination in devising those rules so that all the world will benefit. Whatever be the rules, we need to know their probable economic impact. Today this is a fertile area of interest, but not a terribly fertile area of knowledge.

Second, we need help in defining "injury" in a trade policy context and in dealing with the concept of injury in trade disputes. One can readily devise dozens of definitions for injury, depending on the adjective that is used. One might have "material injury," "substantial injury," "significant injury," or any one of a host of other alternatives. Each of these terms can, if one is not careful, be interpreted in many different ways.

Injury ought to be an economic concept, not a political one. We ought first to determine where in the GATT rules and codes proof of injury is even appropriate. The U.S. does not now apply an injury test in the application of its countervailing duty law, and we are not at all persuaded that our law should be changed. If, however, injury might appropriately be insisted upon as a prerequisite to certain actions taken under the GATT, the definition and interpretation of the concept becomes of critical importance. Can one adjective serve the needs of all rules and all codes? If not, how does one avoid confusion between an injury provision in a subsidy code which uses one adjective, and a similar provision in a safeguards code with a different adjective. Add to this the possibility of still another definition for developing countries and it is no wonder that one of the needs in the GATT is for an improved dispute settlement procedure! If economists can help us to make sense of the injury question, we will be eternally grateful.

Third, we need to learn a lot more about the implications of floating exchange rates to trade policy. For example, should nations now be precluded from using trade measures to rectify balance of payments deficits? Will not floating exchange rates do the job, thereby avoiding the use of trade restrictions which distort international economic relationships? Or is there likely to be a lag involved with floating, such that trade measures will still be needed? Should trade measures then be more carefully circumscribed in their time frame, so that floating rates will take over the balancing job as quickly as possible? And what of "dirty float?" Though this may lead to increased stability in exchange rates, will it not also prevent some of the benefits of clean floating from being fully realized? And what of nations which maintain a fixed exchange rate relationship with some countries, but float vis-a-vis others? How can their situation be meshed into the GATT rules of the future? Finally, how can we do a better job of coordinating monetary and trade policy internationally?

The era of floating exchange rates is just beginning to unfold. It is imperative that we quickly and comprehensively study and evaluate the economic impact of floating, and apply what we learn in the development of U.S. and international trade policy. This is an area in which sophisticated economic analysis can have a very great payoff.

Fourth, we badly need updated estimates of price and income elasticities for all significant U.S. exports and imports. Present data is simply inadequate. It is unfortunate that we must go into a negotiation as important as the Tokyo Round, with billions of dollars of international trade at stake, and be dependent upon elasticity estimates that are obsolete and of dubious accuracy. Elasticity estimates are relevant to every phase of the negotiations—to determine the probable impact of a given tariff formula, to evaluate the effect of excepting a particular product from the application of that formula, to appraise probable trade flows that will emerge from granting LDCs a given type of special and differential treatment, etc. If U.S. agricultural economists can provide our negotiators with improved elasticity estimates in the future, it will be of very great benefit to all.

Fifth, we live in a country in which private enterprise has been the bulwark of our economic development. This is especially true in agriculture, where we have long been at the head of the class in both production practices and marketing techniques.

Our market oriented system has served us well. Yet the trend elsewhere in the world seems often to be in the other direction. Government planners typically want to manage the economy. One constantly hears the refrain, "The market system just won't work for us." Or, "The free market is a thing of the past." But must it be! Cannot we, as U.S. agricultural economists, provide a private sector alternative that will serve the agricultural needs of other nations? Can we not show them the benefits of private incentives, as reflected by the performance of U.S. farmers? For example, would it not be beneficial to point out the dramatic way in which American farmers shift their cropping practices in response to price signals, and alter their livestock operations for the same reason? Could we not, for example, describe the workings of U.S. futures markets and the potential they have for stabilizing prices of given commodities—in the aggregate and for an individual producer or processor? Might this not be a viable alternative, for a good many commodities at least, to much more costly buffer stock schemes?

Technical assistance is, of course, an important aspect of all of this. If U.S. agricultural economists have something worthwhile to say to the rest of the world, and particularly to the developing countries which are so much in need, it will have to be said primarily through technical assistance programs. We've done a lot in this area, perhaps more than any other developed country in the world. But we have only scratched the surface. Though we have generally embarked upon technical assistance efforts out of humanitarian motives, those efforts have usually turned out to be in our self interest. As we have taught farmers in other countries to produce more, the total development process of those countries has accelerated. This has made them better customers for our industrial goods, and likewise better customers for U.S. agricultural exports as they upgrade their diets by expanding livestock and poultry production. Hence, with an effective technical assistance program, the recipient country gains, and we gain. Should we not then have a much stronger commitment to such endeavors, both in our nation as a whole, and among our academic institutions?

Conclusion

One could go on with many other examples of economic work for which there is a dire need in the trade policy arena. I have cited only a few in which present deficiencies are particularly glaring. There is much to do if we are to make sound public policy decisions in this area, decisions that will advance the cause of American agriculture. I know that you have both the talent and the enthusiasm to undertake this most important task. Thank you.