RESEARCH REPORT 51

DETERMINANTS OF AGRICULTURAL POLICIES IN THE UNITED STATES AND THE EUROPEAN COMMUNITY

Michel Petit

November 1985

INTERNATIONAL
FOOD
POLICY
RESEARCH
INSTITUTE 1975-85

INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

The International Food Policy Research Institute was established to identify and analyze alternative national and international strategies and policies for meeting food needs in the world, with particular emphasis on low-income countries and on the poorer groups in those countries. While the research effort is geared to the precise objective of contributing to the reduction of hunger and malnutrition, the factors involved are many and wide-ranging, requiring analysis of underlying processes and extending beyond a narrowly defined food sector. The Institute's research program reflects world-wide interaction with policymakers, administrators, and others concerned with increasing food production and with improving the equity of its distribution. Research results are published and distributed to officials and others concerned with national and international food and agricultural policy.

The Institute receives support as a constituent of the Consultative Group on International Agricultural Research from a number of donors including the governments of Australia, Brazil, Canada, the People's Republic of China, the Federal Republic of Germany, India, Italy, Japan, the Netherlands, the Philippines, Spain, Switzerland, the United Kingdom, and the United States; the World Bank; the Ford Foundation; the International Development Research Centre (Canada); and the Rockefeller Foundation. In addition, a number of other governments and institutions contribute funding to special research projects.

IFPRI CELEBRATES 10 YEARS

IFPRI was incorporated in March 1975 and by the end of that year, with a staff of four and a Board of Trustees of five, began to undertake research on issues related to food production and consumption in low-income countries. Four years later, the Institute became a member of the Consultative Group on International Agricultural Research (CGIAR). Initially, IFPRI's research was heavily focused on Asia in recognition of the importance of the region's food and poverty problems and because of the wealth of data and analytical capacity that could be built on and used later. In 1984 IFPRI underwent its first five-year review by the Technical Advisory Committee to the CGIAR. The review panel stated, "In the 10 years since its foundation, IFPRI's mandate and its research have clearly evolved in response to changing needs and perceptions of the problems faced by developing countries." They are still evolving. As we look to the next decade, we see that food issues continue to loom large in Third World development. The food problems of Africa are now especially challenging, and IFPRI's experience both allows us to place these problems in a broader perspective and to facilitate developing approaches to deal with them. IFPRI celebrates its tenth anniversary this year. We look forward to our continuing evolution, enabling us to meet the challenges of the next decade.

BOARD OF TRUSTEES

DETERMINANTS OF AGRICULTURAL POLICIES IN THE UNITED STATES AND THE EUROPEAN COMMUNITY

Michel Petit

Research Report 51
International Food Policy Research Institute
November 1985

Library of Congress Cataloging in Publication Data

Petit, Michel, 1936-
Determinants of agricultural policies in the United States and the European Community.

Bibliography: p. 77.
1. Agriculture and state—United States. 2. Agriculture and state—European Economic Community countries. 3. United States—Foreign economic relations—European Economic Community countries. 4. European Economic Community countries—Foreign economic relations—United States. I. International Food Policy Research Institute. II. Title.

HD1761.P45 1985 338.1'873 85-23760
ISBN 0-89629-052-2

CONTENTS

TABLES

ILLUSTRATIONS

FOREWORD

Agricultural policies pursued by the United States and the European Community have had and are likely to continue to have a dramatic impact on international markets for agricultural products. And the stakes of developing countries in these policies are enormous. Thus it is only fitting that an international research institute dealing with food policy should analyze such policies.

The International Food Policy Research Institute has published several studies examining aspects of developed-country actions and policies having a powerful influence on the food policy environment of developing countries. These have included analyses of the Soviet Union's prospective grain imports, the effect of OECD country restrictions on entry to their own markets, the agricultural export potential of developing countries, and the effects of European Community policies and policy options on grains supply and prices.

But, it is not enough to study the consequences of existing or possible future policies; one must also understand why policies are what they are if one wants to avoid being totally surprised by what they turn out to be in the future. This research by Michel Petit gives particular attention to this question. It proposes a general conceptual framework based on two hypotheses: first, policies are the outcome of a dynamic process driven by conflicts of economic interest regulated by political institutions; second, in the long run, economic forces play a critical role in determining the evolution of agricultural policies, but their influence does not obey a purely economic rationality.

Three case studies of U.S. and European policies and of the confrontation between the United States and the European Community permit Petit to illustrate and to enrich his conceptual framework. He adopts a research approach that we find very promising.

John W. Mellor

Washington, D.C.
November 1985

ACKNOWLEDGMENTS

Acknowledging all the intellectual debts incurred in the preparation of this report is impossible because too many colleagues offered useful suggestions and criticisms of earlier drafts. But the author would like at least to thank the institutions that provided generous hospitality: first and foremost, the International Food Policy Research Institute, where he spent a stimulating and pleasant sabbatical year; the departments of agricultural economics at several universities (Arizona, Cornell, Delaware, Iowa, Minnesota, Purdue, Rutgers, and Wisconsin); the Ford Foundation in New York; and the Economic Research Service of the U.S. Department of Agriculture. Finally his colleagues at the Ecole Nationale Supérieure des Sciences Agronomiques Appliquées, who tended the store while the author was away, deserve a special mention.

1

SUMMARY

Government intervention in agriculture is widespread. The purpose of this research is to understand why agricultural policies are what they are. How do they evolve? Under the influence of which forces? How much of their future evolution can be predicted? This report presents a conceptual framework for the analysis of these questions and three case studies illustrating and specifying this framework: a comparison of the evolution of commodity programs in the United States and France since their birth in the 1930s, an examination of the process that led to the 1983 U.S. Dairy Production Stabilization Act, and an analysis of the current confrontation between the United States and the European Community about the international trade of agricultural products.

Policies are viewed as outcomes of a dynamic process. In order to identify the determinants of policies, emphasis is placed on two dynamic features of that process. First, it is sequential; that is, it occurs through time, and the chronology of events is important in understanding how it evolves. Second, uncertainty affects the behavior of all the actors involved in the policy process. The conceptual framework suggested here for analyzing these phenomena is based on two general hypotheses. In the short run, the process is driven by conflicts of interest, mainly economic. These interests are organized to influence public authorities, and the conflicts are regulated through political institutions. In the long run, economic forces affect the interests at stake and their relative weight. Thus they play a critical role in the determination of policies, but their influence is exerted through the mediation of the political process, and thus, decisions are never based on rational economic terms alone.

An important part of the process is the policy debate that takes place among the actors involved. These actors are mainly interest groups and government agencies: they include organizations and individuals. As in the theater, some actors play leading roles, others have bit parts. Some events occur center stage; but sometimes it is also essential to know what is happening backstage. As in Greek drama there is a chorus of interested observers, commenting on the action and often lamenting the process but not influencing it. The three case studies illustrate some aspects of this general framework.

Commodity programs were born at roughly the same time in the United States and in France. They followed long and deep economic crises in agriculture, which had generated heated and controversial debates in both countries. They were initiated in both cases by new governments that had received decisive political mandates in recent elections. The establishment of these programs settled the policy debate for several decades. Having moved backstage during the war years, both programs were revived as soon as the balance between supply and demand again tilted toward agricultural overproduction. In spite of considerable changes in the economic and political situations of agriculture in the last 50 years, commodity programs have survived, and they continue to play a central role in agricultural policies on both sides of the Atlantic. Their evolution shows that in the short run they react to changes in the conflicts of economic interest among all those who have a stake in these programs. But, more significantly, the influence of long-term economic forces on these programs through their impact on agricultural prices and incomes, on the balance between supply and demand, and on the costs to the public treasury is evident. Although critical, this influence does not obey a purely economic rationality: for instance, it neither ensures the most efficient allocation of resources nor guarantees the fastest rate of capital accumulation.

The process leading to the 1983 U.S. Dairy Production Stabilization Act covered a much shorter time span than the previous case study. For a period of less than 12 months, long-term economic forces can be taken as exogenous. For instance, the consensus that something had to be done to check the growth in milk production and the associated costs to the government of market intervention measures reflects the conviction that these phenomena resulted from long-term eco-

nomic forces that could not be eliminated. Emphasis was thus placed on the interactions among the various economic interests involved, their organizations, and the government agencies dealing with U.S. dairy policy.

Dairy organizations played a key role in the process. At first they were divided about whether they should advocate a diversion plan (such as paying farmers who agreed to reduce their milk production) or a straightforward reduction in the level of price supports. Several legislators for whom passage of dairy legislation was important were thus in a difficult situation because they felt that any new legislation had to be supported unanimously by the dairy industry to pass. They were instrumental in forcing dairy organizations to reach a compromise. Final passage of that compromise by both chambers took a long time, however, because of skirmishes with the administration and because of the opposition of a coalition of interests including beef, pork, and broiler producers. Finally, the president decided on purely political grounds not to veto the bill. This case study illustrates how a policy change can occur as a result of a struggle among conflicting economic interests regulated through the political process.

The confrontation between the United States and the European Community about international agricultural trade is another case in which policies result from conflicts of economic interest. The political process took a specific form because the regulation occurred through negotiations among national governments or more precisely between the U.S. government and the European Community, with the latter's position determined by negotiations among the member countries' national governments. This laborious procedure helps to explain why the two sides have found it so difficult to reach a mutually beneficial arrangement in spite of the obvious incentive to do so. In addition, deep divergences of economic doctrine help keep the confrontation open.

The stakes of third parties, particularly of developing countries, in this confrontation cannot be overstated, because these two economic giants have a decisive influence on world markets. Thus the least that can be recommended is that their confrontation be closely monitored. Because of the state of the art of policy research, it can also be argued that monitoring policy is an urgent task of policy research.

2

INTRODUCTION

The central question of this research is straightforward: What are the determinants of agricultural policies? Or, as de Janvry formulated it, "Why do governments do what they do?"[1] This question must clearly be distinguished from a normative question: How bad are the agricultural policies of country X? It is also different from the prescriptive question: What should agricultural policies be? Note that emphasizing the positive question, "Why are policies what they are?" does not imply that the normative and prescriptive questions are irrelevant or without interest. But the thrust of this research is based on the conviction that economists working on agricultural policies have tended to place too much emphasis on the normative and prescriptive, at the expense of the positive. Yet the latter is critical if one wants to understand the evolution of agricultural policies and predict their future. And many private and public decisionmakers need such predictions.

In order to understand how policies are elaborated, one must clearly be prepared to question the idea that they are designed to reach some economic optimum. Alternative assumptions must be considered. It will be argued here that the policy process is driven in the short run by conflicts of interest that are regulated by the political process and that in the long run, economic forces play a critical role. Having been left on the borderline between economics and other social sciences, particularly political science, a territory that is not well charted, it becomes necessary to devise navigation instruments. Accordingly, part of this work is devoted to building a framework of analysis.

This framework is used for comparisons of U.S. and European Community (EC) agricultural policies. In spite of obvious historical and geographic differences, it is striking to observe that agricultural policies on both sides of the Atlantic have converged since the 1930s, particularly since the end of World War II, and to realize how much they have become interdependent.

It is these obvious differences and this striking convergence that make policy comparisons attractive. Comparative studies of policies should indeed be useful as a tool of analysis. But a conceptual framework is needed as a guide to decide what should be compared. This justifies two complementary objectives of this report: elaboration of a conceptual framework and comparison of U.S.-EC policies.

Comparing U.S. and EC agricultural policies is topical. As these policies have converged, they have become more and more interdependent, thus reflecting growing competition on world markets. Controversies and even confrontation about the international trade of agricultural products between the United States and the European Community have escalated to a level that seriously concerns policymakers on both sides of the Atlantic. It is clear that this confrontation results from the internal dynamics of domestic agricultural programs that have treated international trade as a residual.[2] One consequence of this situation could be a trade war. If this is to be avoided, each side needs to understand better the other side's margin of maneuver, which requires an understanding of why agricultural policies are what they are and how they might evolve. That is, answers are needed to the positive and predictive questions defining the objectives of this research.

In the U.S.-EC confrontation, the stakes of other parties, particularly of developing countries, are very high. In the short run, importers of grains or dairy products stand

[1] Alain de Janvry, "Why Do Governments Do What They Do? The Case of Food Price Policy," in *The Role of Markets in the World Food Economy*, ed. D. Gale Johnson and G. Edward Schuh (Boulder, Col.: Westview Press, 1983).

[2] Here as in other cases, the similarities between the United States and the European Community are striking, but there are also important differences. In particular, the place of trade considerations in the general orientation of agricultural policies has been changing. It has grown faster in the United States than in Europe, calling attention to the need to understand not only why policies are what they are but also why they are changing.

to gain as prices will presumably remain low or even decrease. But the confrontation creates an unstable and uncertain environment. Market disruptions can be great and they are difficult to predict. In addition, many developing countries produce agricultural goods that compete on domestic or world markets with agricultural products from the United States and the European Community. If it can safely be predicted that the current surpluses in developed countries will continue and if the size of the surpluses can be forecast, such results will have great relevance for agricultural policymakers in developing countries.

It is hoped that this research report will be the first step in a long-term research program. In the next chapter, a first presentation of the conceptual framework is given, emphasizing the dynamic nature of policymaking. The following chapters are case studies. They are viewed as tests of the general approach and as opportunities to specify further the hypotheses.

3

HYPOTHESES AND METHODS

Agricultural policies depend upon long-term economic forces that shape the evolution of agriculture and on the institutional arrangements under which the policy process takes place, insofar as it is legitimate to assume that policies—that is, outcomes of the policymaking process—depend upon that process and hence on the rules that govern it. The concepts and assumptions regarding these influences constitute the framework of analysis. At this stage the objective is not to produce a well-elaborated theory of government intervention but to build a heuristic tool for pursuing the research and thus ultimately to contribute to the elaboration of a theory.

First, a review of the literature provides several critical hypotheses, which will be incorporated in a framework stressing the dynamic nature of the policymaking process and permitting an interpretation of the role of long-term economic forces in the determination of agricultural policies. Finally, the approach used in this research will be presented, with special emphasis on case studies.

Review of the Literature

The objective of this review is to identify approaches, concepts, and hypotheses that have been developed by others and that will be used to build the analytical framework for this research, as none of the existing approaches seems completely adequate to answer the questions raised.

Economists have developed several approaches to endogenize government behavior in their models,[3] but this report begins with the seminal contribution of a political scientist, Graham Allison, because his work emphasizes a fundamental distinction between dynamic and static policy models.

Allison's Models

In his book, *Essence of Decision*, Allison identifies three policy models and reviews their relative performances in explaining the 1962 Cuban Missile Crisis.[4]

In describing model 1, labeled "the rational actor," Allison borrows extensively from economic literature: "Classical 'economic man' and the rational man of modern statistical decision theory and game theory make optimal choices in narrowly constrained, neatly defined situations. . . . Rationality refers to consistent, value maximizing choice within specified constraints."[5]

Applied to public policy, the rational actor is the nation or the government, "conceived as a rational, unitary decisionmaker. . . . Thus a policy action is conceived as a steady-state choice among alternative outcomes (rather than, for example, a large number of partial choices in a dynamic stream)."[6]

In model 2, the actor is not a monolithic nation but rather a constellation of organizations, among which problems are divided. Each has its parochial priorities and perceptions and follows its own preestablished routine. The operational goals of each organization emerge as a set of constraints defining acceptable performances for that organization. Conflicts among constraints are resolved by attending to goals sequentially as problems emerge. Because organizations must typically coordinate the actions of large numbers of people, they act according to standard operational procedures, enabling

---

[3] For a recent review regarding agriculture, see Gordon C. Rausser, Erik Lichtenberg, and Ralph Lattimore, "Developments in Theory and Empirical Applications of Endogenous Governmental Behavior," in *New Directions in Econometric Modeling and Forecasting in U.S. Agriculture*, ed. G. C. Rausser (New York: Elsevier/North Holland, 1981), pp. 547-614.

[4] Graham T. Allison, *The Essence of Decision—Explaining the Cuban Missile Crisis* (Boston: Little Brown, 1971).

[5] Ibid.

[6] Ibid.

them to perform specific programs. They tend to avoid uncertainty but are capable of learning and change. All these features restrict the government leaders' margin of maneuver.

Recognition of such bureaucratic rigidities is not new for economists studying agricultural policies. It has led to the concern for what is known as "administrative feasibility." In addition, this way of considering government actions as outputs of more or less loosely coordinated organizations makes it easier to understand that various actors, having distinct views, goals, constraints, and strategies, are involved in the policymaking process. As will be discussed, from this standpoint it is easy to extend the circle of actors involved in the policy process to groups that are not part of the formal government structure but that interact with relevant government organizations in what Ogden calls "power clusters."[7]

The main feature of model 3 is that the decisions and actions of government are viewed as political resultants. "What happens is not chosen as a solution to a problem, but results from compromise, conflict, and confusion of officials with diverse interests and unequal influence. . . . The organizing concepts of the paradigm can be arranged as strands in the answers to four interrelated questions: Who plays? What determines each player's stand? What determines each player's relative influence? How does the game combine players' stands, influence, and moves to yield governmental decisions and actions?"[8]

Thus, this model emphasizes the political process of interaction among actors sharing power and influencing specific policy areas. In contrast to the essentially static nature of the rational actor paradigm, model 3 stresses the dynamic nature of the policy process. This distinction is critical for assessing the relative value of these two frameworks of analysis.

Allison's models 2 and 3 can easily be amended to incorporate the play of economic actors in the policymaking process. They are also useful as references for discussing the relevance of more static models such as the rational actor paradigm (Allison's model 1). Indeed model 1 ignores most features of the policy process, but it may catch the essential determinants of its outcome. It is analogous to the economic long-term static equilibrium which, in a comparison with a present situation, does not indicate all the details of an economic adjustment process but points out the direction of the adjustment. A postulate that policies are rational may rest on the assumption that if a given policy is not rational—if it is not in accord with the long-term objectives of society—a self-correction process will be engaged.[9] Thus, for instance, the long-awaited revision of the European Common Agricultural Policy (CAP), which limits spending by the European Fund, was decided on in the spring of 1984. Acceptance of this revision may be attributed to the political pressures resulting from the failure of the European summit in Athens in December 1983, where the heads of states and governments reportedly spent two half-day sessions discussing dairy policies. According to this interpretation, the financial consequences of the CAP had become so catastrophic that the policy had to be revised.[10] The phenomenon of escalation of difficult issues to higher decision levels is well known in political science and can perhaps be interpreted as widespread evidence of a feedback mechanism bringing about a regulation process to ensure a minimum degree of rationality in the policymaking process.

Economists' Contributions

Theory of Regulation. With the theory of regulation, Stigler opened a new field stressing

---

[7] Daniel M. Ogden, "Outdoor Recreation Policy and Politics," in *The Political Economy of Environmental Control*, ed. Anthony Downs et al. (Berkeley: Institute of Business and Economics Research, University of California, 1972), pp. 98-103.

[8] Allison, *Essence of Decision.*

[9] Renborg has proposed an interesting framework of dynamic decisionmaking. He stresses the existence of a hierarchy of steering levels—of levels of policymaking responsibility—and the widespread use of correction procedures that are implemented when a target variable passes some threshold (Ulf Renborg, "Steering Processes of Change in an Uncertain World," *European Review of Agricultural Economics* 3 [February-March 1976]: 265-289).

[10] Such a process reveals the relevance of an objective of limiting the budget outlay. This of course does not ensure the most efficient long-term allocation of resources, which many economists would view as the ultimate criterion of a rational policy.

the transfer of wealth resulting from market regulation.[11] A central thesis is that even though the social justification of regulation is the protection of the public at large, in fact "as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit." Stigler explains who receives the benefits of regulation, what form it takes, and what impact it has on the allocation of resources by analyzing the demand for regulation by industry and the supply of regulation by the political process.

Stigler's most important contribution for the purposes of this study is his explanation of the way preferences are expressed through that process. Because of the information costs involved, as well as the time needed to express preferences, most issues are settled through delegation of authority to elected representatives or civil servants appointed by these representatives. As a result, the process is "gross, filtered, and noisy." Only those who have a high stake in an issue will invest the resources necessary to influence the outcome.

Peltzman, building on Stigler's ideas, proposed a formal model explaining how many people a regulation will tax and how many people will benefit from the regulation.[12] The regulator is assumed to maximize his political support, taking into account the probability that those who benefit will vote for him and those who lose—those who are taxed—will vote against him. According to the author, these probabilities are different from 0 and 1 because of the transaction and information costs.

Commenting on Peltzman's model, Hirshleifer cricitized the simplicity of the assumptions regarding the nature of the policy process.[13] Why would regulators not maximize their own wealth? What about the regulators who are not elected?

But the theory of regulation has intellectual appeal as an explanation of the general orientation of agricultural policies in developed countries. Their thrust is indeed to protect agriculture from the free play of market forces, and they do benefit producers. But it is a static theory, and even though it may provide useful insights, it cannot capture the dynamic nature of the policy process.

Rent Seeking. Following Krueger's famous article, a theory of "rent seeking" has been developed as an explanation of the common behavior of economic interest groups in their dealings with public authorities.[14] In a sense this theory is a development of Stigler's theory of regulation. But it does not rely, as Peltzman's model does, on specific assumptions about the political process, rent seeking being viewed as a general phenomenon and therefore not characteristic of a particular policy system. The generality of the phenomenon is well illustrated by the collection of essays and papers in the book *Toward a Theory of the Rent-Seeking Society.*[15] In the introductory chapter Buchanan defines rent seeking as a social phenomenon: at the microeconomic level rent seeking and profit seeking cannot be distinguished. At the macroeconomic level, rent seeking can be defined as nonproductive behavior using resources to secure protection, that is, to prevent entry of competing resources into a particular industry and thus to avoid the destruction of rents through competition. The various essays present numerous examples of this phenomenon, including taxicab licensing by municipal authorities, the selection of civil servants in ancient China, the sale of officers' commissions in Britain, the sale of privileges or monopoly rights by the French kings, and the distribution of import licenses in India and Turkey.

The essence of the phenomenon is perhaps best grasped if one considers, as Tullock suggests, the welfare cost of theft.[16] The amount stolen is a pure transfer to the thief

[11] George Stigler, "Director's Law of Public Income Redistribution," *The Journal of Law and Economics* 13 (April 1970): 1-10; also George Stigler, "The Theory of Economic Regulations," *The Bell Journal of Economics and Management Science* 2 (Spring 1971): 3-21.

[12] S. Peltzman, "Toward a More General Theory of Regulation," *Journal of Law and Economics* 19 (August 1976): 211-240.

[13] J. Hirschleifer and G. Becker, "Toward a More General Theory of Regulation: Comments." *Journal of Law and Economics* 19 (August 1976).

[14] Anne O. Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (1974): 291-303.

[15] James M. Buchanan, Robert D. Tollison, and Gordon Tullock, eds., *Toward a Theory of the Rent-Seeking Society* (College Station, Tex.: Texas A and M University Press, 1980).

[16] Ibid.

at the expense of the robbed. Within a Paretian framework, this transfer is not necessarily a loss, and modern welfare economics asserts that it is not. But the resources invested in robbery by the thieves (their time and equipment) and by property owners in protecting themselves (locks and security systems) and by society at large (policemen, judges, and prisons) in preventing theft are deadweight losses. Similarly, rent-seeking activities use resources that could be socially productive; this forgone production is a welfare loss.

In her lead article, Krueger estimated that import licensing alone involved significant welfare costs: almost 7 percent of GNP in India in 1964 and 15 percent in Turkey in 1968.[17] Such estimates are very high indeed. They are based on the assumption of perfect competition in rent-seeking activities, which intuitively does not seem realistic, as many incomes appear to be rents. If that is true, Krueger's value of rent overestimates the social loss from rent seeking.

Whether it is true or not, the theory of rent seeking provides some interesting insights: it suggests that resources are spent in a variety of ways for the sole purpose of having the right to a rent institutionally created. Thus, the behavior of farm lobbies, for instance, can often be interpreted as a rent-seeking activity—one that consumes resources uselessly for society. There are many examples of broader social costs: disputes about dairy problems in Europe have occupied a disproportionate share of the summit time of heads of states and governments and have prevented them from giving sufficient attention to larger issues critical for the future of Europe. The uproar caused in the United States by passage of the tobacco and dairy bill in November 1983 may have contributed to the growing dissatisfaction with the political process among the public at large.

Yet, for purposes here, the literature on rent seeking suffers from an important limitation. Concentrating on the social costs of rent seeking, the authors acknowledge the possibility of market failure without regulation, yet they stress the desirability of reducing government interference with the market process. The literature on regulation has led to a similar conclusion, which indicates that allocative efficiency remains the ultimate reference of these economic approaches, even though they concentrate on distribution processes. This should be clearly born in mind, because even within the rational actor model, it is unwise to assume that the only social objective of policies is optimum resource allocation, equity considerations being treated separately.

A Marxian Approach. In addition to regulation and rent-seeking theories, which can be viewed as developments of the neoclassical tradition, the Marxists' efforts to elaborate a theory of the state can be useful. In the field of agricultural policy, work done in France provides insights on the complex interrelationship between economic, social, and political considerations involved in the elaboration of agricultural policies.[18] But these efforts have not yet produced a model of policy determination.[19]

Despite its serious limitations, construction of a theory of the state has the great merit of proposing a dynamic interpretation of the relationship between the economic and political phenomena shaping agricultural policies. This is probably achieved because it relies heavily on the role of evolving conflicts of interest placed in a historical perspective.

Contribution of the Pluralist Approach

Finally, it will be useful to touch briefly on what may be called the pluralist approach to policymaking. Although there is a risk in placing different approaches in the same category, many political scientists share Bates' view that "policies [are] the outcome of political pressures exerted by members of the domestic economy, i.e., by local groups seeking the satisfaction of their private interests from political actions."[20] It is consis-

[17] Krueger, "Political Economy of Rent-Seeking Society."

[18] Yves Tavernier, Michel Gervais, and Claude Servolin, *L'univers politique des paysans dans la France contemporaine* (Paris: Armand Colin, 1972); Michel Gervais, Marcel Jollivet, and Yves Tavernier, *Histoire de la France Rurale*, vol. 4, *La fin de la France paysanne de 1914 à nos jours* (Paris: Seuil, 1976); and Pierre Coulomb, Henri Nallet, and Claude Servolin, *Recherches sur l'élaboration de la politique agricole* (Paris: Institut National de la Recherche Agronomique, 1977).

[19] de Janvry has made a more recent attempt in "Why Do Governments Do What They Do?"

[20] Robert H. Bates, "Governments and Agricultural Markets in Africa," in *The Role of Markets in The World Food Economy*, ed. D. Gale Johnson and G. Edward Schuh (Boulder, Col.: Westview Press, 1983), pp. 153-183.

tent with earlier works by Bentley, Truman, Banfield, and others.[21] It has been embodied in models of voter coalitions pressing their demands on politicians who in turn are assumed to satisfy such demands in order to maximize their probability of election.[22] Bates and Rogerson have recently suggested a similar "coalition analysis" to interpret the elaboration of agricultural policies in developing countries.[23] Actually, the literature based on the idea of policies being the outcome of a political process influenced by pressure groups is extensive. And this analysis keeps the general idea that the political process is essentially driven by pressures exerted on public officials by organized interest groups.

Conceptual Framework

An essential feature of any scientific investigation is the elaboration and formulation of hypotheses specific enough to be refutable by observations of the reality that the research aims at interpreting or explaining. But the state of knowledge about the determinants of agricultural policies, and of other economic policies for that matter, is not advanced enough to formulate a set of hypotheses specific enough to be refutable by confrontation with quantitative data and broad enough to cover all the phenomena that must be taken into account. There is no well-established body of social science theory from which testable hypotheses can be derived. The literature review in the previous section offers useful pieces: ideas, concepts, and hypotheses that capture important aspects of the phenomena under study. But they must be assembled and completed to form a general, conceptual framework for interpreting the policymaking process.

The next stage will be to conduct case studies designed to test the general validity of this conceptual framework and to further specify the hypotheses. When the process is more advanced, hypotheses may be sufficiently specified to be tested against a body of quantitative data. If this specification process were short circuited, however, hypotheses might be formulated that would neglect the most important dynamic features of the policy process and relate policy outcomes to various characteristics of the policy environment. As indicated below, such an approach can be useful, but it does not fulfill the purpose here, which is based on the premise that it is essential to take the dynamic nature of the policy process into account. In a sense, one must look into the black box of the policy process.

Dynamic Features of the Policy Process

Two features of policymaking emphasize its nature as a process. It is sequential, and uncertainty plays an important role in the actors' behavior. A third feature will be discussed later. The policy process is organized by the dialectical relationship between economic interests and the organization of these interests to influence policies.[24] These dynamic features are so important that neglecting them would omit critical determinants of policies and particularly of their evolution. Hence the framework must be adequate for dynamic analysis.

To say that policymaking is sequential means that the process occurs through time and that events are ordered according to a chronology. Events here include policy decisions but also changes in the economic environment and the successive positions taken by the various actors. Clearly, what

[21] Arthur Bentley, *The Process of Government. A Study of Social Pressure* (Bloomington: Principia Press, 1935, first published in 1908); David Truman, *The Governmental Process, Political Interests and Public Opinion* (New York: Alfred Knopf, 1951); and Edward C. Banfield, *Political Influence* (New York: Free Press of Glencoe, 1961). Of course, this "group theory" of policymaking is only one of the models used by political scientists. For an elementary presentation of such models, see, for example, Thomas R. Dye, *Understanding Public Policies*, 4th ed. (Englewood Cliffs, N.J.: Prentice Hall, 1981) Chapter 2, pp. 19-45.

[22] See Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957); and James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962).

[23] Robert H. Bates and W. D. Rogerson, "Agriculture in Development: A Coalition Analysis," *Public Choice* 35 (May 1980): 513-527.

[24] The word "dialectical" is used here with a meaning similar to that usually given it by Marxist writers: a reciprocal interrelationship between two terms, leading not to equilibrium but, on the contrary, embodying the main contradiction driving the evolution of both terms, that is, their dynamics.

has happened before an event is important to understanding why that event occurs. In addition, each actor, being conscious of this chronology, knows that what happens or what he does today will affect his position in the policymaking process tomorrow. Hence expectations about the future play an important role in an actor's behavior. As a consequence, the time horizon of each actor extends beyond the solution of the issue under current discussion. Hence what he does on one issue depends on what he expects the situation and the policymaking process to be in the future. As an actor's position changes through time, the main issues under discussion evolve also. This is why one speaks of an issue as being timely.

A second consequence of the importance of expectations is that uncertainty plays an important role in the policymaking process. This is so for a simple reason. Policy decisions are important because of their impact on economic life—both in terms of production and distribution. That impact occurs after the policy decision has been made and implemented, that is, after it has been contemplated and debated. Because the future is always uncertain, the policy debate necessarily takes place in an atmosphere of uncertainty. This affects the behavior of all participants, who are aware that they have to take risks. Hence, they display the whole variety of attitudes identified with human behavior in the face of uncertainty (gambling, hedging, waiting to see, seeking more information, and so forth). As time passes, many uncertain points are clarified. Controversial issues may fade away, because actors do not want to argue against facts; they usually cannot afford to deny the obvious lest they jeopardize their credibility in the ongoing policy debate.

Hypotheses

Two broad hypotheses about the determinants of agricultural policies are suggested here. In the short run the process is driven by conflicts of interest regulated through political institutions. In the long run general economic forces play a critical role. According to this thesis, economic phenomena, on the whole, play an important role in the determination of agricultural policies. But this determination is not the result of a purely economic rationality. The influence of economic variables is exerted through the mediation of the political process. This is the essential justification for an approach in terms of political economy.[25]

The main impulse that drives policymaking is the influence that economic groups attempt to exert on public officials. Some deplore the existence of these efforts, but such regrets are futile. It is hard to imagine a social process in which parties affected by some issue would not try to convince society at large to fix the rules of the game to favor their interests. Because uncertainty is the rule, information is neither free nor evenly distributed. A debate in which pros and cons can be examined has to take place. Even in a very simple political organization where decisions are made by an absolute monarch, his subjects submit pleas and thereby contribute to informing him of the potential consequences of the policy alternatives he may be considering.

Clearly, the influence of specific interest groups varies from one society to another. A model is needed of how interest groups are organized and how they exert their influence. More than 30 years ago, Kindleberger argued that such a theory was needed but lamented that it did not exist.[26] He illustrated the need by pointing out that European countries (Denmark, France, Germany, Great Britain, and Italy) reacted very differently to the world decline in the price of wheat after 1870. He concluded, "For accurate prediction and policy formation an adequate theory of the behavior of large groups and their components is needed as an adjunct to the analytical tools of the market."

Olson's seminal work on collective action points up some interesting elements about the conditions to be met for a group to be organized.[27] In particular, his definitive treatment of the "free rider" problem is a contribution to be incorporated in any model of

[25] See Michel Petit, "For an Analytical Political Economy: Relevance to the Study of Domestic and International Agricultural Trade Policies," paper presented at the Theodor Heidhues Memorial Seminar, Göttingen, 1980.

[26] Charles P. Kindleberger, "Group Behavior and International Trade," *Journal of Political Economy* 59 (February 1951): 30-46.

[27] Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965).

how group interests get organized. A common interest is a necessary condition for a group to be formed, but it is not the only condition. Any individual has a large number of diverse and specific interests; joining a group stresses those interests that are common but ignores and sometimes hurts other interests that are not shared and which may even conflict with the group's interests. As a result, any group is a conglomerate of subgroups having some interests in common and others not. The composition, the objectives, and the alliances of various groups change through time, and this is presumably an important part of the policymaking process, but not enough is known to explain the process of group formation and evolution. It is certain, however, that through their actions, organized groups influence the solutions of the interest conflicts inherent in any public policy decision.

Once a group is formed, its behavior can be predicted to a large extent. It pursues objectives that are largely dictated by its membership. Keeping its cohesion, promoting the development of the organization, and even ensuring its survival impose constraints on the behavior of its leaders and spokesmen. There is a clear analogy here with the organizational model 2 of Allison, where leaders sitting at the top of government organizations have a limited margin of maneuver because organizations have standard operational procedures to perform specific programs and repertoires.[28] Both sets of leaders are actors in the policy process. They have objectives and constraints that can be investigated. Other social sciences have studied aspects of such phenomena. Their contributions should be incorporated in a complete analytical framework, and there may be some scope here for multidisciplinary research in the future.

The interaction among the organizations involved in policymaking (government agencies and interest groups) are of a political nature. Allison's model 3 suggests that policies are the political results of "compromise, conflicts, and confusion" among bargaining players. In other words, there is no hard, general hypothesis to account for this interaction. The analogy of the political market in which policies are supplied by the political system in response to demands from economic interest constituencies resulting from disequilibria on economic markets is not sufficient because it does not say anything about the process underlying supply and only a little about the interaction between supply and demand.

Even though a set of satisfactory hypotheses—general but specific enough to be testable—is lacking, other social sciences have provided much empirical information about the way groups and organizations function and interact as illustrated by such concepts as agenda building, leadership, and access.[29] It is also known that government institutions have a powerful influence on the policymaking process. More specifically, in this framework political institutions influence the manner in which economic interests are organized in order to exert pressure on policymakers. Clearly in the United States it is essential for a pressure group to have access to senators and congressmen to try to convince them. In France access to members of parliament was critical during the Fourth Republic. Today it is much less important than access to the president, the ministers, and even the bureaucrats. Thus one can see that as power relationships change within the purely political institutions, so do the pressure groups' internal arrangements and ways of doing business. The tremendous growth in the number of lobbyists in Washington obviously reflects the evolution of the U.S. government's decision-making process.

Given this state of knowledge, more descriptive research on the dynamic process of policymaking, and particularly on how policies are determined by economic forces seems to be necessary. For that purpose the analogy of the theater may be useful. In *As You Like It,* Shakespeare wrote, "All the world's a stage,/ and all the men and women merely players./ They have their exits and their entrances,/ and one man in his time plays many parts. . . ." The analogy is interesting because a major part of the action is public. There are, however, important events occurring behind the scenes. Groups and government organizations interact through their representatives who are the actors in the policymaking

[28] Allison, *Essence of Decision.*

[29] A classic treatment of the phenomena for United States' agriculture is found in Ross B. Talbot and Donald F. Hadwiger, *The Policy Process in American Agriculture* (San Francisco: Chandler, 1968).

process. The role of each actor is defined by his position, but his script is not fully written, and he has some room for improvisation. As in all plays, some actors are more important than others. Perhaps, as in ancient Greek drama, a chorus exists; it is made up of observers and commentators explaining what is going on—not taking part in the action but often lamenting the ending they foresee.

Thus formulated, the framework of analysis gives policy debate an important place. In democratic societies, an important share of that debate is public, and it seems safe to assume that it plays an important role. It helps public officials to know the nature and the sensitivity of the interests at stake. It informs the citizens and permits them to judge the positions taken by the various groups purporting to represent their interests, as well as the actions of their elected public officials. Hence, public debate is essential for the social and political accountability of the public decisionmaking process. In less democratic societies debate is less public but, given the complexity of policy issues, there seems little doubt that there is always debate.

Obviously, the economic evolution of agriculture and its place in the general economy influence the agricultural policies pursued by each country. In a sense, one could even argue that the major determinants of agricultural policies in the long run are of an economic nature. But such a simplification has to be reconciled with the influence of the conflicts of interest inherent in policymaking.

Before discussing this articulation, the concept of long-term economic forces must be defined. Essentially these are long-term trends in key economic variables changing because of the general evolution of the national economy or of world trade. Often such trends can be expressed as changes in relative prices. They result from a complex process that agricultural policymakers can influence only marginally if at all. In that sense, they can be taken as exogenous variables in this analysis.

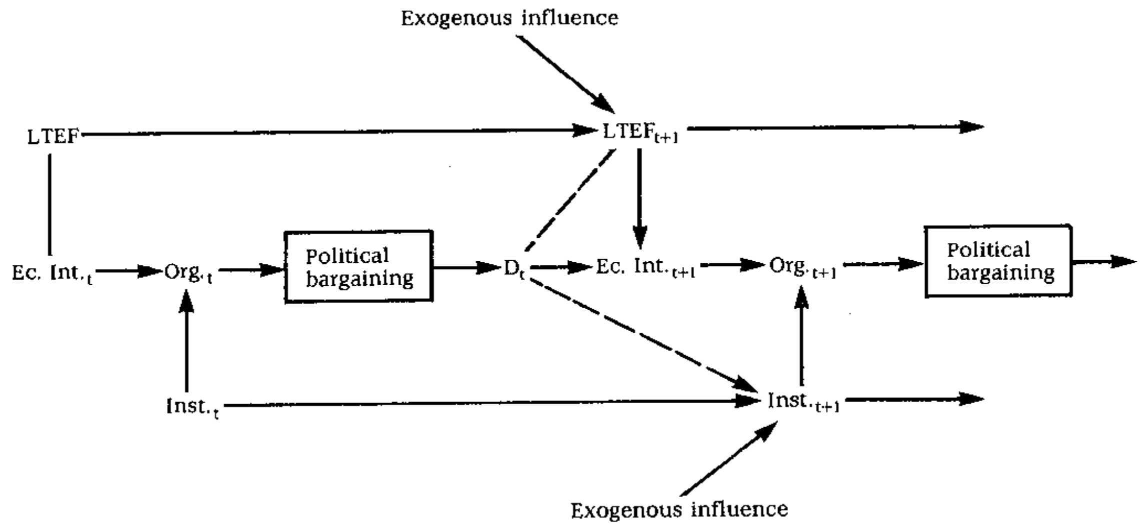
For instance, the price of labor relative to other prices has increased dramatically in developed countries since the end of World War II. Technical changes in agriculture, encouraged by agricultural policies, have contributed to that trend. But the effect of agricultural policies has probably been only marginal. Conversely, the rise in the relative price of labor has had a profound impact on the evolution of agriculture and of agricultural policies. However, policy adjustments to that long-term economic force have varied from one country to another. Witness the difference between the demise of the black sharecropper of cotton in the South of the United States and the maintenance of a small peasant agriculture in the mountains of Switzerland or Austria. This comparison deserves closer investigation: it is sufficient here to illustrate that the influence of long-term economic forces, albeit important, is not mechanistic.

How is this influence linked to the conflicts of interest inherent in the policymaking process? This question must be answered if the framework of analysis is to be capable of analyzing how long-term economic forces affect policies, because policies are viewed as the outcome of a process driven by conflicts of interest. At this stage a simple hypothesis will be sufficient: long-term economic trends affect the configuration of interests at stake in a policy debate, and this generates pressures for change. For instance, agricultural price declines lead to pressures by farmers for government intervention. Growth in public budget outlays leads to pressures for changes in the policy provisions to reduce spending. This hypothesis gives a clue for interpreting changes in the positions taken by various actors in the policy debate and thus more generally for analyzing the dynamics of a specific policy process. In that sense, it contributes to the elaboration of the heuristic tool of analysis.

In summary, the main features of the analytical framework are illustrated in Figure 1. Following Allison's lead, policies are viewed as "political resultants" of a bargaining process in which policy debate plays a central role.[30] Policy decisions during period $t(D_t)$ come out of a black box called "political bargaining," a process that takes place among organizations ($Org._t$), shaped in period t by the state of economic interests ($Ec. Int._t$) and of institutions ($Inst._t$). Long-term economic forces ($LTEF_t$) at period t influence $Ec. Int._t$. LTEF are assumed to be exogenous, although they are partially influenced by

[30] Allison, *Essence of Decision.*

Figure 1—Recursive representation of the dynamic policymaking process



policy decisions. Similarly, institutions are mainly exogenous. Observation of the policy debate reflects the nature of the political bargaining process.

In the short run, agricultural policymaking does not significantly influence the way political institutions are organized and work. In that sense, the latter are exogenous to the policy process, just as long-term economic forces influence conflicts of economic interest and, as a result, influence the policy process without getting significant feedback from it. But in the long run, political institutions themselves are influenced by the policy process that they regulate and to some degree respond to the evolution of the specific agricultural policy process. For instance, in the 1970s regulations of financial contributions to political campaigns in the United States were changed following a scandal involving large dairy cooperatives. More generally, the concept of induced institutional innovation is based on the idea that institutions change under the effects of economic forces.[31] This influence can only be exerted through the political process.

This approach does not exclude some form of rationality of the policy process, which is brought about through a political regulation process. If high public officials feel that the general public interest is jeopardized too much by the interplay of private group interests, and if they feel they can politically afford to, they will intervene. Depending on circumstances, this regulation works more or less swiftly and effectively. It is this question of efficiency that has led to recent developments in regulation and rent-seeking theories. In this context the relative pessimism regarding the dominant role of pressure groups promoting the interests of the few at the expense of the public-at-large is vividly echoed by Schattschneider in his 1935 book reporting on the political pressures brought about by passage of the extremely protectionist Smoot-Hawley Tariff

[31] See Vernon Ruttan and Yujiro Hayami, "Toward a Theory of Induced Institutional Innovation," *Journal of Development Studies* 20 (July 1984).

Act of 1930 in the United States.[32] Yet the tremendous growth of international trade after World War II illustrates that the situation in this matter can change drastically and rapidly. The domination of narrow, short-term interests is not the only feasible policy outcome. This example illustrates how much a dynamic theory of policymaking is needed in order to interpret current policies and to predict policy changes. Here only a heuristic framework is proposed because at this stage it is not possible to suggest a general hypothesis explaining how interest groups are organized and how they evolve.

Choice of Case Studies and Methods

Levels of Analysis

Given the conceptual framework just presented, the study of the determinants of agricultural policies can be conducted at various levels of analysis. Given the important influence of long-term economic forces on the policy process, one can treat that process as a black box, directly relating output (policy decisions) to inputs (economic forces). In a sense, this is what Scobie and Valdés did when they studied the determinants of food imports in Egypt.[33] They estimated that between 1949 and 1979 the subsidy to consumers of wheat, in terms of the difference between consumer and import prices, could largely be attributed ($R^2 = 0.92$) to variations in import prices and in import capacity (linked to the balance of payments), plus a dummy variable reflecting war years. Clearly, in this case a large proportion of the year-to-year variations in the policy instrument (consumer subsidy) seems to be determined by economic forces. Such an approach is useful, although it is limited to a portrayal of the key elements. Identification of these key elements is fraught with difficulty: for instance, the amount of consumer subsidy is only one element of a food policy—the import capacity itself is dependent on other policies, as explicitly recognized by the authors, who emphasize less the determinants of food policies than their consequences for the whole economy. This example illustrates that analysis at this level is complementary to, and not competitive with, analyses at more detailed levels, looking into the policymaking black box, in order to interpret the dynamics of that process, which a priori may also be expected to influence the evolution of policies.

At this stage, descriptive case studies are called for. The following chapters are devoted to presentation of such case studies. These have been undertaken with a double objective: testing the fruitfulness of the approach and specifying further the general framework of analysis described above. Further, specifications of hypotheses are easier to make for particular situations at specific times without worrying whether and to what extent these hypotheses can be generalized, that task being left for later.

Choice of Case Studies

Given that one of the objectives is to compare U.S. and EC agricultural policies, the first case study reported here is the review of the birth and evolution of commodity programs in the United States and in France since the 1930s. This long span of time will help identify the major economic forces influencing policies in the long run and to analyze how their influence is brought to bear on the policymaking process. Hence it is a first test of the conceptual framework. It will also provide necessary material for the study of the U.S.-EC confrontation reported in Chapter 6.

The second case study concentrates on a much shorter time period: roughly one year. It studies in detail the interactions among the policy actors (groups and organizations) involved in the passage of the U.S. Dairy Production Stabilization Act of 1983. This case was chosen because the author's presence in Washington, D.C. in late 1983 and early 1984 provided an opportunity to con-

[32] E. E. Schattschneider, *Politics, Pressure, and the Tariff—Study of Free Private Enterprise in Pressure Politics as Shown in the 1929-1930 Revision of the Tariff* (New York: Prentice Hall, 1935).

[33] See Grant M. Scobie and Alberto Valdés, "Modelacion de Politica Gubernamental: El Caso de las Emportaciones de Alimentos, Politica de Precios y la Balanza de Pagos en Egipto," *Cuadernos de Economia* 58 (December 1982): 325-356; and Grant M. Scobie, *Government Policy and Food Imports: The Case of Wheat in Egypt*, Research Report 29 (Washington, D.C.: International Food Policy Research Institute, 1981).

duct such a study. The policy process was long and protracted. It generated much controversy, which made the research easier because participants in the process were willing to be interviewed and were open to questions that in other circumstances could have been viewed as embarrassing or indiscreet. Third, the timing of the study was favorable in the sense that participants could be interviewed just following the whole decision process, when they had a global view of it, knew its outcome, could not hope to alter it, and yet did not benefit from the knowledge that full hindsight provides. This is important because uncertainty is an essential, integral part of the debate and thus of the public decision process.

In summary, the objectives of this case study are to specify the general hypotheses of the conceptual framework regarding the determinants of agricultural policies in the short run. This means identifying the actors involved in the process. How are they organized and why in that fashion rather than another? What interests do they represent? Which interests are not represented and why? What are the economic issues involved in the debate? How are they formulated? To what extent does that formulation reflect the organization of the debate? The nature of the answers is also an indicator of the value of the approach: Is it operational? Is it fruitful?

Finally, the confrontation between the United States and the European Community about the international trade of agricultural products is treated as a third case study. Here again considerations of opportunity played an important role in the choice of this case. First, the issue is topical. Second, it illustrates the relevance of the approach, because it is argued that this confrontation is the direct result of the domestic dynamics of policymaking on both sides of the Atlantic. Hence, each one of these dynamics must be understood in order to explain the confrontation and ultimately to propose possible compromises. Third, it takes in the field of international trade negotiations, where procedures for settling conflicts of interest are different from the political process of a nation or community. Thus, it provides another testing ground for the approach.

As indicated, the opportunities available were important in choosing the case studies. Actually, each case is important per se and would constitute a legitimate topic for a separate research study. Taken together, they illustrate what the approach can contribute and some of its limitations, but they do not constitute a systematic test of the hypotheses, because these are not fully specified. Clearly, this report is only a first, largely exploratory step in a longer-term research program.

Methods

Although the method used in this research is simple, implementing it is delicate. Various sources of information were used to describe the evolution of long-term economic forces, of the policy debate, and of policy decisions, as well as to understand the whole process.

For historical data, extensive use was made of economic history publications, particularly Benedict's *Farm Policy of the United States, 1790-1950* and *Histoire de la France Rurale: La fin de la France paysanne, de 1914 a nos jours*, by Gervais, Jollivet, and Tavernier.[34] The reliance on these published works reflects the nature of this research: it is not an investigation of the economic history of commodity policies in the United States and in Europe, but an attempt to provide an "explanation of what has happened—the explanation, that is, of economic history. . . ."[35]

Contemporary information came from two sources: interviews and public statements or articles published in newspapers and journals. These provided information about the ongoing policy debate at the time the research was conducted.

In the analysis of the dairy debate a systematic effort was made to interview the participants in the decision process. But the word "systematic" can be misleading here. Of course, it is impossible to be exhaustive. How can one be certain that all persons involved were interviewed? Their number is large and many are scattered throughout the United States. Actually, it was fairly easy to identify the agencies of government and the organizations that were involved. That information was constantly improved as early

[34] Murray R. Benedict, *Farm Policy of the United States 1790-1950: A Study of Their Origins and Development* (New York: Twentieth Century Fund, 1953); Gervais, Jollivet, and Tavernier, *Histoire de la France Rurale*.

[35] John R. Hicks, *Causality in Economics* (New York: Basic Books, 1979).

interviewees offered advice on additional persons and organizations to be interviewed. Presumably the actors themselves know which actors they allied with and whom they were opposing. In general, only one person per organization was interviewed. Although the vast majority of those interviewed were candid and volunteered information about internal conflicts or problems raised regarding the choice of their organization's position, interviewing only one person per organization is insufficient for analyzing in detail how such positions are taken. Thus this research is clearly limited, because questions on how interests are organized, how they are expressed in public debate, and how they are brought to bear may be important for understanding the final outcome and the decision process itself.

Another limitation of the method may be the absence of politicians among the persons interviewed. However, this is probably not serious. In most instances staff members or economists were contacted. They were clearly aware of the tactics, of the economic arguments used, and also of the politics of the positions taken, at least in general terms. Thus, it was not felt necessary to reach the upper level of responsible officials (the secretary, specific legislators, presidents, or chairmen of the board). In a few cases, however, this was done. Because of time pressures on these officials, interviews had to be brief; thus they provided less information than those with staff personnel.

For the study of the current confrontation between the United States and the European Community, officials from both sides knowledgeable about the current state of the dispute were interviewed. It was easy to reconstitute the chain of events as both sides gave consistent stories.

Deontology

The interviews sometimes led to sensitive questions. Therefore, it was necessary for the interviewee to feel confident that the interviewer would use any information received responsibly. This leads to a serious question of moral obligation.

What is meant exactly by responsible use of information? Obviously, the purpose of the research and its likely publication were presented at the beginning of each interview. In addition, publication of information collected in the privacy of an office can only be legitimate if it helps to promote an understanding of the issues, the debate, and the policy process. While writing, the researcher must constantly ask himself whether publication of information given by Mr. X, attributed to him, might be embarrassing either to him or to someone else, and he must refrain from using the information if the answer is affirmative. In addition, an early version of the manuscript was circulated to each person interviewed prior to publication, in order to make sure that no statement embarrassing to interviewed persons inadvertently remained in the text.

4

EVOLUTION OF AGRICULTURAL POLICIES IN THE UNITED STATES AND FRANCE, 1930-80

In reviewing historical developments of agricultural policies during the last 50 years, the evolution of agricultural policies in France, rather than in the European Community as a whole, is compared to U.S. developments. There are several reasons why France was chosen, aside from convenience. During more than half of the period covered—the 50 years that commodity programs have existed in the United States—the European Community did not exist. Moreover, rendering proper account of the diversity of agricultural policies in the countries that are now members of the European Community would be clearly beyond the scope of this report. Finally, the Franco-American comparison is worth undertaking in its own right.

Birth of Agricultural Commodity Programs

The birth of commodity programs was difficult both in France and in the United States. It took nothing less than the severe economic crisis of the 1930s and the arrival in office of a new government or administration to establish these programs. Significantly, they have survived to the present with their essential features intact, in spite of a world war, the Korean War, dramatic price slumps, the accumulation of huge stocks in the early 1960s, the price explosion of the early 1970s, an unparalleled technological revolution, the massive movement of people out of agriculture, and a dramatic reduction in the number of farms. But policy changes do not occur all of a sudden; they are the result of earlier developments marked by the struggles of groups unhappy with their situations and wanting to enlist the authority of the state to change the rules of the game. Thus, a review of the antecedents of these programs is in order.

Antecedents

In the United States, the policy debate that gave birth to massive government intervention on agricultural markets really started just after the end of the first world war.

In the 1920s several plans for raising the prices of farm products were put forward, but they broke too sharply with existing patterns of behavior and thought to be seriously considered even by the farm organizations. The idea that an ample portion of production be withheld and put on the domestic market only as required to satisfy demand at a fair exchange value, the balance being disposed of abroad at world market prices, was embodied in successive bills proposed by Senator Charles McNary of Oregon and Representative Gilbert Haugen of Iowa.

According to Benedict, "The campaign for enactment of the plan illustrates, perhaps better than any other farmer movement in our history, the amount of organization and persistence required to bring about a major policy change of this kind. It also points up the futility of poorly organized, briefly pursued efforts to alter traditional attitudes. Major policy changes do not come quickly or easily."[36] Indeed, the five bills proposed by McNary and Haugen each year between 1924 and 1928 are good examples of compromises among different interests, particularly among organizations representing different agricultural interests. The last two bills were passed by Congress, but vetoed by President Calvin Coolidge. The detailed story of these struggles, as narrated by Benedict, is a vivid illustration of the role of economic forces, interest groups, and of the political process in the elaboration of policies.

Passage of the Agricultural Marketing Act of 1929, which, with the support of President Hoover, established the U.S. Federal Farm Board, marked the end of this decade-long process. Farm organizations were not en-

[36] Benedict, *Farm Policies of the United States*.

thusiastic, but they felt that this act was the best they could get. It represented the victory of the idea that farmer-controlled cooperatives, helped by stabilization corporations to control surpluses that might arise, would suffice. Nobody foresaw at that time the depth of the general economic crisis to come. From 1929 to 1932 the index of all prices received by farmers dropped by more than 55 percent.

In France, the difficulties on agricultural markets that eventually led to commodity programs started with wine.[37] From 190 French francs (F) per hectoliter in 1926, the price for ordinary wine dropped to 154F per hectoliter in 1929 and even to 64F in 1935. Competition from wine imported from Algeria, a colonial product entering the metropolitan market freely, was acute. Algerian production increased from 7 million hectoliters before 1914 to 11 million on the average between 1924 and 1929, and it constituted almost 20 percent of total French production during that period. Under pressure from the Association of Wine Growers and the "wine deputies" (members of the National Assembly elected in districts where wine is important), the government took several measures affecting supply and demand: growers received subsidies for uprooting vineyards and for distilling unsold stocks, the addition of sugar during fermentation was forbidden, and sales of the "national drink" were promoted through propaganda. But, these measures proved to be insufficient. In 1931 a wine statute was adopted that strictly controlled production: new plantings had to be authorized and were severely limited; a progressive tax on large growers and high yields was established; irrigation after July 15 was prohibited; and wine sales had to be spread over time after vinification. Various subsidies and credit facilities supported these measures limiting the quantity produced.[38] They were often justified by saying that they favored higher quality, and in a sense they did.

The most important agricultural market, however, was that for wheat. It was produced by many farmers all over the country, and as a result it had—and still has—a visible position and a highly symbolic significance. The price of wheat fell from 183F per quintal in 1926 to 134F in 1929 and 74F in 1935. This led to protest movements and violent demonstrations at a time when various social and political forces (the old landed aristocracy, the Republican bourgeoisie, and the organized urban and industrial workers) vied for the support of and a political alliance with the peasantry. In such a context, governments attempted to placate the peasantry by satisfying the economic requests formulated by commodity groups that had been created in the 1920s. A law passed in July 1933 fixed a miminum price for wheat (115F); but without direct market intervention mechanisms, this legal minimum could not be enforced. In December 1934 a new law reestablished a completely free market and prices continued to fall.

Two schemes were proposed to solve the problem. One, a "corporatist" solution, would give authority to producers and users of wheat to control the market. The other, suggested by the socialists, would create a government-controlled board to perform essentially the same task.

Major Policy Innovations

In the United States, "the sweeping victory of the Democrats in the election of 1932, and the general desire for change, gave the new President a free hand to try out novel approaches in the fight against depression."[39] Hoover's policies were discredited. The farm board established in 1929 proved unable to check the crisis. Between 1929 and 1932 prices received by farmers fell by more than 55 percent. The board, short of sufficient financial resources, became inactive. Farm organizations tried to combine their efforts but did not offer new ideas.

Emergency measures, taken shortly after President Franklin Roosevelt took office, contributed significantly to pulling the economy—including agriculture—out of the crisis. But it is the Agricultural Act of May 12, 1933, which created the Agricultural Adjustment Administration (AAA), that has received the most attention from students of agricultural policies. This is probably

[37] See Michel Auge-Laribe, *La politique agricole de la France de 1880 à 1940* (Paris: PUF, 1950); and Gervais, Jollivet, and Tavernier, *Histoire de la France rurale.*

[38] The rapid development of wine cooperatives was encouraged because they constituted an effective and politically expedient vehicle for distribution of these subsidies and credit facilities.

[39] Benedict, *Farm Policies of the United States,* p. 276.

because AAA marks the birth of agricultural commodity programs in the United States.

> It authorized a wide range of activities designed to raise the level of farm prices. Among them were authorizations to enter into voluntary agreements with farmers for the reduction of acreage of basic crops, to store crops on the farm and make advances on them, and to enter into marketing agreements with producers and handlers of farm products for stabilizing prices. The act also provided for the levying of processing taxes as a means of financing the crop reduction program. . . .[40]

These processing taxes implied the maintenance of a difference between domestic and international prices. The amendment of the AAA in 1935, with its famous sections 22 and 32, enlarged the actions possible in the domain of international trade. Section 22 authorized the president to set quotas for, or to levy fees on, imports of agricultural products threatening domestic price support programs. Section 32 allocated 30 percent of all custom receipts to the Department of Agriculture for specific activities designed to enhance export and domestic demand. Following passage of this legislation, prices increased, particularly for wheat and cotton. Whether this was due to passage of the AAA or to other factors (drought or devaluation of the dollar) has been debated at length. There is no doubt, however, that all these factors influenced prices by altering the balance between supply and demand. At the political level, success established the legitimacy of such market intervention; the authority of government to intervene in this manner has not really been threatened since then, in spite of considerable rhetoric to the contrary. The 1936 Supreme Court ruling, which nullified the power to levy processing taxes and the power to enter into acreage reduction agreements with farmers, was soon circumvented with passage only a few weeks later of the Soil Conservation and Domestic Allotment Act of 1936, followed in 1938 by a new Agricultural Adjustment Act.

Farm organizations do not seem to have played a significant role in the process of adopting these major policy innovations. Clearly, many of the ideas they had been fighting for during the previous decade were implemented by the new administration, but observers agree that leadership was given by the administration economists. Thus the hypothesis that policies are the result of a process driven by the struggle among conflicting interests must be reexamined, or one must conclude that in this case the process started well before the 1932 presidential election. The Democrats harvested a ripe fruit.

In France, the creation of the wheat board, the Office National Interprofessionnel du Blé (ONIB), in 1936 is taken as the birth of government intervention on agricultural markets. Strictly speaking, the wine statute enacted in 1932 preceded the ONIB, but in the history of agricultural policies, the creation of the ONIB had a much greater symbolic value. Proposed by the Popular Front government, which was dominated and led by Socialists, it was strongly opposed on ideological grounds by the major farm organization leaders, who feared that it would give government an excessive role. Its success, however, was so apparent that its existence was no longer questioned: wheat prices rose from 74F per quintal in 1935 to 140F in 1936 and to 180F in 1937. The Vichy regime, with corporatism as its underlying philosophy, extended the role of the ONIB to cover all cereals and changed its name to ONIC. Its central council was replaced by a president appointed by the government. The first president had played a major role in the Wheat Growers Association and so belonged to the group of farm leaders who had first opposed the creation of the board.

As created in 1936, the ONIB was a semipublic organization, under the dual control of the ministries of agriculture and finance. It was administered by a central council made up of 50 directors: 28 representing wheat growers, 9 consumers and workers' unions, 9 millers, bakers, and traders, and 4 civil servants. Farmers had a majority but could not impose their views, as decisions had to be approved by 75 percent of voters. Its main mission was to fix prices in reference to prices prevailing before World War I, a feature identical to the parity price concept in the United States. It also fixed the calendar for stock releases after harvest. Cooperatives were to take care of storage, under the control of public authorities and with financing from the Agricultural Credit Organization. But the key provision ensuring the balance between supply and demand at the fixed price was the monopoly over exports and

[40] Ibid, p. 283.

imports granted to ONIB. At that time, France was a net importer of wheat. The domestic crisis was obviously linked to the collapse of prices in the United States and, as a result, on international markets.

The opposition of the main farm organizations to the creation of ONIB is interesting in this context. Does it contradict the hypothesis that agricultural policies are the result of conflicts of interest, in which interests—particularly agricultural interests—are organized to press their claims on public authorities? Actually, it may help to specify the hypothesis. The creation of ONIB can indeed be viewed as a response of public authorities to pressures from agricultural interests. But that does not mean total satisfaction of the demands of the main agricultural organizations. As indicated earlier, the economic content of the socialist project and that of the corporatist project pushed by the farm organizations were similar (price fixing and market control used to manipulate the supply-demand balance). But the analysis must also take organizational problems into account. Farm organization leaders must be constantly concerned about their legitimacy in representing farmers' interests. In France, where ideological divergences are deep, farm organization leaders are keenly aware of the competition for their constituency with other organizations inspired by other ideologies. The socialists, who had just had access to the control of the government, were eager to solve the farm problem and to show that the solution which they had been proposing for a long time was good, thereby justifying their legitimacy as holders of power. Hence, once more, the political process can be seen to regulate the way policies respond to demands of economic interests.

Economic and Political Conditions Leading to Commodity Programs

In both countries the birth of commodity programs occurred after deep economic crises in agriculture, characterized by the collapse of agricultural prices and incomes, followed by important political changes. That the solution to the farm problem thus adopted was kept afterward, with considerable development and amendment but without major modification of the original concept, demonstrates the historical significance of that policy innovation. The economic function of the policy seems to have taken precedence over the ideological debate surrounding its birth.

In each case the crisis was so deep that the farmers' problems were obvious. Farm prices collapsed and, as a result, farmers' incomes were catastrophically low. Following a post-World War I crisis, farm incomes in France had made a slow recovery in the 1920s; then net farm incomes dropped by more than 60 percent. In France, prices of wheat—the most symbolic commodity—dropped from 183F per quintal in 1926 to 74F in 1935. Data on farm incomes during that period are sketchy, but the trends are clear. According to Sauvy, farm income declined by 24 percent between 1931 and 1935.[41] According to Dessirier, the purchasing power of gross agricultural receipts declined by 20 percent between 1928-29 and 1931.[42] The remedy seemed simple: a government-supported agency would fix prices at a fair level (in both cases with reference to pre-World War I prices). Previous experience having shown that price fixing without market control was illusory, authority to control the market—to manage the balance between supply and demand—was granted to the government agency. Such a policy was not viewed primarily as income redistribution but as a correction of market failure. Whether or not the instruments of control were effective, the mere fact that prices increased after government intervention began was generally viewed by the public as clear proof that the solution to the problem was good.

But the existence of an economic problem is not sufficient in itself to bring about a policy solution. The political process must deliver it. It took the return to power of the Democrats in the United States and the formation of a Popular Front and its victory in the 1936 election in France.[43] Clearly, the situation in agriculture was not the only cause of these major political events. The image of a political market supplying a policy in response to a demand by agricultural interests (generated by a disequilibrium on economic

[41] A. Sauvy, *Histoire economique de la France entre les deux guerres*, 4 vols. (Paris: Fayard, 1965-1975).

[42] J. Dessirier, *La conjuncture économique et financière* (Paris, 1939).

[43] The Popular Front refers to the alliance of the radical party with the communist and socialist parties, whereas before the former had been part of more centrist or rightist coalitions.

markets) does not seem adequate to account for this development.

The new teams, having just won elections, did attempt to solve farm problems. Their perceptions of the problems were influenced by the debates that had been going on for several years. Neither country simply adopted the proposals that were put forth by the farm organizations, but both retained their essential economic features: price fixing and market control.[44] As the problem became more urgent, the solution became more acceptable to nonfarmers.

Although there were striking similarities between the two countries, the differences are also quite instructive regarding the policymaking process. The issue of the proper role for government was not couched in the same terms in both countries. This probably reflects differences in the ideological debates and in their political significance. Granting government the authority to intervene directly on agricultural markets faced strong ideological opposition in the United States. President Coolidge's vetoes of the McNary-Haugen bills as well as President Hoover's opposition to the export debenture principle can probably be attributed to this opposition.[45]

In France, the opposition to market intervention was less important, although leaders of farm organizations also denounced the bureaucratic threat to agriculture when ONIB was created. Ideology, however, played another, more important role. The whole agricultural policy debate was involved in the struggle between the landed aristocracy, the bourgeoisie, and the working-class-based socialist organizations for the support of all or part of the peasantry. While some groups tried to convince farmers that Marxism was their worst enemy, others were trying to persuade the poorer farmers that they were exploited—like the industrial workers but in a different fashion—by those benefiting from the capitalist system. Given these deep ideological divergences, it is not surprising that narrow economic issues did not figure prominently in the debate. It is indeed significant that both the farm organization leaders, whose political leanings were to the right, and the left-leaning socialists proposed similar market intervention features—and that these features (price fixing and market controls) are similar to those that were adopted at almost the same time in the United States.

Thus one must conclude that in both countries agricultural prices had fallen so low that a political response had to be brought to the economic crisis. This interpretation seems consistent with what de Janvry calls crisis response, although he stresses the short-term horizon of such a model of government intervention.[46] But nothing indicates that the proponents of the AAA in the United States or of ONIB in France believed that they were suggesting only short-term solutions. What is important in a crisis is the urgency of finding a solution.

In addition, although the agricultural crises helped create the political conditions for solutions, the major political changes that occurred in each country resulted from economic, social, and political developments in the society at large, well beyond agriculture. The process at play in the management of commodity programs, once the idea became politically acceptable, was quite different, but it still involved the permanent regulation by political institutions of conflicts of interest among organized groups.

Management of Commodity Programs: Pressures of Short-Term Supply-Demand Imbalances

Reviewing in detail the evolution of commodity programs over the last 50 years is beyond the scope of this report. Here only a few key events in the history of these programs are interpreted, which show how the observed changes in commodity policies can be interpreted as responses of the policymaking process to shorter-term variations in the balance between supply and demand. In the conceptual framework such variations affect the interests at stake, thereby provid-

[44] This similarity must be emphasized in the face of a sharp difference in market conditions. U.S. agriculture was a major exporter of agricultural products whereas France imported significant quantities of wheat.

[45] Under the export debenture plan, the domestic and export markets would be segmented through a scheme administered by the government and financed by tariffs levied on agricultural imports (see Benedict, *Farm Policies of the United States*, pp. 226-227).

[46] de Janvry, "Why Do Governments Do What They Do?", p. 194.

ing the impetus for a new configuration of alliances and compromises, and therefore a new policy outcome.

In the United States

Whether or not the provisions of the 1938 act could have been effective was never really tested. The Commodity Credit Corporation (CCC), the executing agency of the government, accumulated large stocks, particularly of cotton and maize. Fortunately for the program, the Second World War drastically modified the balance between supply and demand.

The reaction of U.S. agricultural policies to the situation the war created is outside the main thrust of this report. Because of the compromise reached during the war, U.S. farmers benefited from price support guarantees at 90 percent of parity until 1948.

The Agricultural Act of 1948, passed under Republican leadership in Congress, constituted a return to the type of legislation of the 1938 Agricultural Adjustment Act, an indication that the principle of market intervention inaugurated under the New Deal had gained widespread acceptance. When Democrats regained control of both legislative chambers in the 1948 election, they initiated and, in 1949, passed a new agricultural act mandating higher levels of price support. The leading role was played by Southern and Plains Democrats.

But the main debate in 1949 centered around the famous Brannan Plan. Charles Brannan was Truman's secretary of agriculture. His proposals included an income standard to replace the 1910-14 parity price concept, income payments to producers of perishable products, a new list of commodities (including animal products) to replace the former list of six basic commodities, and a limit on individual price or income support payments. As Cochrane argues, the Brannan Plan appears to have failed, in spite of its appeal to many economists, because it faced too many opponents.[47] Large-scale commercial farmers opposed it because they did not want a ceiling on public support, and they feared that income support programs would be much more visible and more vulnerable than price support programs. The natural allies of the plan—presumably urban congressmen—were "appalled by estimates of its costs which ranged from U.S. $3 billion to $8 billion per year." The Republican party, on the other hand, feared that a plan providing high income to farmers and low consumer prices might become too popular. Thus, proponents of high, "rigid"[48] price supports won. Their victory was strengthened by the Korean War, which boosted the demand for agricultural products and brought about higher prices.

But in the period 1952-54, production controls failed to hold supplies in balance with demand. At support levels of 90 percent of parity, government stocks accumulated rapidly, and net farm incomes sagged. Secretary of Agriculture Ezra Taft Benson had a strong ideological abhorrence of government interference in the economy. But Congress did not allow price supports to be reduced to a level that would clear the markets. Hence, the Eisenhower administration introduced two major pieces of legislation: the Soil Bank to reduce supplies and PL480 to enhance demand.

Yet total production increased significantly; in 1959 and 1960 stocks of wheat and feedgrains, in particular, reached levels that were viewed as unbearable. As a result, a consensus developed in the late 1950s and early 1960s that the basic farm problem was the persistent excess production capacity in U.S. agriculture. This set the stage for the Kennedy administration to attempt a policy innovation implementing mandatory production controls authorized by legislation that had been on the books since the 1930s.

Hadwiger and Talbot have written a detailed account of the policymaking process that led to the rejection of mandatory controls.[49] Their book can be viewed as a case study of the struggle among economic organizations and political actors representing conflicting interests. The stakes were also highly ideological, and they influenced the future power of several important organiza-

---

[47] Willard W. Cochrane, *The Development of American Agriculture, A Historical Analysis* (Minneapolis: University of Minnesota Press, 1979).

[48] In U.S. agricultural policy jargon, this means support levels fixed by Congress without any flexibility left to the administration for implementation.

[49] Don F. Hadwiger and Ross B. Talbot, *Pressures and Protests. The Kennedy Farm Program and the Wheat Referendum of 1963—A Case Study* (San Francisco: Chandler, 1965).

tions. As a result, the wheat referendum was a key event in the postwar history of U.S. commodity programs.

Following these intense struggles, legislation in the mid-1960s can be viewed as a compromise, the two extreme ideological solutions (a completely free market and mandatory production controls) having been defeated.[50] This compromise was embodied in the Food and Agricultural Act of 1965 and, secondarily, in the Food for Peace Act of 1966. The main elements were: price support levels lowered to world equilibrium levels, and farm incomes—if they were to be supported—supplemented by direct income payments to farmers. To be eligible, farmers had to participate in production control programs authorized if supplies became excessive. Storage and surplus disposal programs continued as additional instruments. Thus government was still heavily involved, U.S. budget costs remained relatively high, and farm incomes were supported but at levels that many farmers felt were unsatisfactory. Such is the essence of a compromise: nobody is satisfied, but it is acceptable to most.

The agricultural acts of 1970 and 1973 improved the instruments used but did not make any significant change in the orientation of commodity programs. As the result of pressure from nonfarmer groups, payments to individual farmers were limited. These pressures also led to an explicit alliance with urban congressmen in 1973, which brought about an expansion of the food stamp program, created in 1964 as a means of increasing domestic demand and viewed more and more in the 1970s as a welfare program.

That the orientation of commodity programs did not change in spite of the considerable shifts in the balance between supply and demand occurring in the early 1970s is remarkable. Does it invalidate the hypothesis that changes in commodity programs are responses to short-term variations in the balance between supply and demand? Since commodity policies did not change fundamentally when the main concern had shifted from excessive agricultural supply to food scarcity and rapidly rising food prices, the hypothesis must at least be made more specific. This illustrates again that however powerful economic forces may be, they do not mechanically determine policies; the political process is important.

Farm organizations did not want to see a system dismantled that they knew would be difficult to reestablish in case prices dropped again. It is true that many people were happy to "get government out of agriculture." But it would probably be more accurate to say that agricultural markets escaped from government price supports under the influence of a rise in foreign demand, rather than that a deliberate policy took government out of agricultural markets. Actually, there was no strong political reason for this to happen. Consumers exerted pressure on public authorities to fight inflation in food prices, hence the 1973 embargo on the export of soybeans. But dismantling agricultural commodity programs, which were not operative at that time, would have had no impact on this pressing, immediate problem. In addition, there was a widespread belief that the supply-demand imbalance had shifted permanently and that a new long-term rising trend in prices was beginning.

As it turned out, the prices of several agricultural products soon declined and the agricultural policy debate rebounded. The preparation of the 1977 agricultural act was marked by controversy over the level of price support, pitting the administration, which was committed to balancing the budget by fiscal year 1981, against agricultural interests, now strongly organized by commodity groups.[51] Eventually, a compromise was reached on the level of price support, which shows that the concept of setting price supports at market clearing levels, as agreed in 1965, was not really an agreement on principles but the outcome of the existing balance of power.

Preparation of the 1981 farm bill was marked—even more than the 1977 act—by the commitment of the new president, with the help of a willing Congress, to reducing the budget deficit. Reducing agricultural program costs appeared feasible because the outlook for the supply-demand balance

[50] Cochrane, *Development of American Agriculture.*

[51] Penn describes this policymaking process, showing in detail the play of the actors involved. He indicates how agricultural interests exerted pressure and also states the importance in the debate of uncertainty regarding U.S. budget outlay estimates. (J. B. Penn, "The Federal Policy Process in Developing the Food and Agricultural Act of 1977," *Agricultural Food Policy Review,* [USDA, ESCA - AFPR-3, February 1980]).

was favorable to agriculture: a drought had reduced yields in 1980, export demand had picked up, and carryover stocks had declined. As a result, there was a consensus that the situation was back on the track of a long-term trend of tight supplies. In its desire to reduce budget outlays, the administration even proposed to do away with target prices and deficiency payments.

Infanger, Bailey, and Dyer, in their description of this policy process, show the extreme difficulty of reaching a general compromise, as the former coalition between agricultural interests and urban congressmen supporting food stamps was destroyed by the desire of conservative Republicans to dramatically reduce outlays for food stamps.[52] In addition, Southern Democrats, traditional supporters of tobacco, peanut, and sugar programs, broke down the farm coalition when they entered a new coalition supporting the administration's budget proposals. Finally, the Agricultural and Food Act of 1981 was another political compromise, as reflected by target prices, which reflect neither a parity level nor a cost of production concept, as they theoretically did in previous legislations.

The surge in commodity program outlays in subsequent years may appear paradoxical after such a debate. It reflects the importance of the supply-demand outlook situation, which changed dramatically within a few years. Two good crops in a row in 1981 and 1982 and a reduction in exports led to huge carryover stocks and low prices. Commodity programs being of an entitlement nature, budget outlays skyrocketed. In addition, agriculture was in a real financial crisis. Political pressures were such that the administration was forced "to do something" at the end of 1982. This is how the payment-in-kind (PIK) program was invented. The essential provision was that farmers agreeing to reduce their acreage of an eligible crop would be paid a compensation in kind, drawing from publicly financed stocks of the corresponding commodity. The political beauty of that program was that it permitted a significant transfer of public resources to farmers without requiring a financial outlay from the treasury. Yet the high total cost of commodity programs and PIK was an embarrassment to an administration that had vowed to reduce costs.

Generally speaking, these recent developments illustrate how much policies are affected by the supply-demand balance, because slight changes in this balance have strong repercussions on prices, farm incomes, budget outlays, and the levels of stocks. And each of these variables is politically sensitive: they affect the interests at stake, causing pressure to be exerted on the policymaking process.

In France

Food scarcity, rationing, and black marketing were major features of the war years. After the war, reconstruction was the order of the day. Expansion of agricultural production, as recommended by the first modernization plan, became the major objective of agricultural policies. Rationing was progressively phased out as production expanded. Adoption of technological changes, particularly the substitution of tractors for draft animals, and rapid migration of people out of agriculture produced an unprecedented agricultural revolution.[53] The relative price of labor increased, whether measured in wages paid to hired workers or income opportunities of family members working off the farm.

Agricultural production quickly expanded. France became a net exporter of wheat and barley. But the growth of production led to a collapse of prices, particularly for livestock products. In July 1953 public protest demonstrations by farmers placed tremendous pressures on the government and on farm organization leaders. For the most part, these were large farmers, representing the interests of the grain and sugar beet growers from the Paris Basin more than those of the small peasants from the western and southern provinces. This protest movement was so strong that the government extended its intervention to the markets for animal products and some fruits and vegetables; intervention in the wine market was strengthened. A public fund for the orientation and regulation of agricultural markets (FORMA) financed

[52] Craig L. Infanger, William C. Bailey, and David R. Dyer, "Agricultural Policy in Austerity: The Making of the 1981 Farm Bill," *American Journal of Agricultural Economics* 65 (February 1983): 1-9.

[53] Several books published in the late 1950s and early 1960s have titles that illustrate this point: *La fin des paysans, La revolution silencieuse, Les paysans contre le passe,* and *La fin d'une agriculture.*

activities of specific intervention agencies for meat and milk.

The cost of this intervention to the public treasury increased with the growth of agricultural production, becoming a controversial topic in the public policy debates of the 1950s. Farm organizations, both the general purpose Fédération Nationale des Syndicats d'Exploitants Agricoles (FNSEA) and the commodity-specific associations, exerted pressure on public authorities to increase price supports as much as possible. The grain and sugar beet farmers managed to receive more than half of the public subsidies to agricultural commodity programs, which shows the strength of their influence. Farm organizations were united, and in Parliament farm organizations had good access to deputies representing various parties. In addition, a peasant party played a significant political role. Farm leaders were also able to capitalize on the populist upsurge of "poujadism" in 1956.[54] All of this led them to a major victory in 1957, when the Gaillard government gave them what for many years they had been struggling for: the tying of agricultural price support levels to the general price index.

But that victory was short-lived. In 1958 General de Gaulle regained power. A new constitution was adopted, and the power of Parliament declined as the president became the ultimate decisionmaker. As part of a general program of economic reform designed to promote modernization without inflation, the indexation of agricultural prices was canceled. From 1959 to 1962 a series of violent demonstrations by farmers exerted new pressures on the government. Although the farmers demanded restoration of price indexation, the new government instead forged an alliance with a new farm organization called "the young farmers" (CNJA). Officially they were a branch of the FNSEA. Actually, the leaders were trained within the Catholic youth movement, which played a critical educational role in the post-war agricultural revolution. They mainly came from small- to medium-size farms located outside the Paris Basin (such as the central mountain region, the Southwest, and Brittany). They criticized price supports as being mainly advantageous to large farmers, and they requested measures to facilitate the modernization of their farms. Their demands led to passage of the Agricultural Orientation Act in 1960 and another act complementary to it in 1962. Emphasis shifted from price policy to structure policy. It has become common knowledge in France that this represents a major shift in agricultural policy. This view, however, fails to recognize a major event that occurred in the early 1960s: the shift of the center of decisionmaking for agricultural commodity programs from Paris to Brussels.

Throughout the 1950s farm organizations, particularly the wheat producers association (AGPB) and the sugar beet confederation (CGB), had supported the idea of a European common market for agriculture. Instead of having to struggle with the government to obtain satisfactory price supports and hard-to-get public subsidies to finance exports, farmers saw the European market as an opportunity to sell their products on a commercial basis at a high price.

The Gaullist government saw in a common agricultural market the opportunity to reduce its subsidies to agriculture and as a result to be able to allocate more resources to the modernization of a general economy soon to be faced with stiffer competition, particularly from German industry. Thus the new Common Agricultural Policy (CAP) was negotiated on the basis of an informal compact between France and Germany.[55] As it turned out, both sets of expectations were not entirely fulfilled: German agriculture and French industry did much better than anticipated in the early 1960s. The immediate consequence of the establishment of the CAP, however, was to take much of the political pressure about price supports out of the French policy debate. The relationship between the French minister of agriculture and farm organizations changed significantly. Instead of their adversary in Paris, he became their ally in Brussels.

[54] "Poujadism" was a populist protest movement of the 1950s named after Pierre Poujade, its foremost leader and symbol.

[55] The CAP has been described, analyzed, and criticized by many authors. For a brief description of its historical origins and its main features, as well as a selected bibliography, see Michel Petit, "Costs and Benefits of Domestic Agricultural Policies Within the EEC—A Critique," paper presented at the Trade Research Consortium meeting, Airlie, Va., December 1982.

In its general features, the CAP is similar to the commodity programs that existed in the six original member states before they formed the European Community, as well as to the U.S. commodity programs—government intervention on the markets for agricultural products in order to guarantee predetermined prices through management of supply and demand.

As the largest importer of agricultural products, the Community could easily control supply by limiting imports. For the most traded commodities—cereals—this is done through a system of variable levies and export refunds. In essence, these are equal to the difference between the variable world price and the fixed domestic price. The levies are collected on imports, the refunds paid on exports. These international trade instruments are complemented by a program of publicly supported domestic storage. A common European fund (FEOGA) finances the intervention measures; it receives the levies and contributions from the national governments of the member states.

But the CAP has become quite controversial in Europe, and fixing agricultural prices every year is a delicate political operation. In this instance, also, it is clear that the policy decision is a product of the regulation of conflicts of interest through the political process. The ultimate decisionmaking body is the Council of Ministers, which is made up of representatives of the member-state national governments. The council acts on proposals presented by the Commission of the European Communities, the European Parliament having a limited consultative role. As unanimity is required for most decisions within the council, decisions can only be compromises among the national governments.

Each national position is itself a compromise among conflicting interests within the country. Thus it appears that the French or Irish positions are often more sympathetic to the farmers' interests than the British. But this is only a general rule; each minister tries to get as good a deal for the farmers of his country as possible. For the ministers, subjected to pressures from their domestic farm organizations, the evolution of farm income is an important variable. The commission has shown more concern than the council for the balance between supply and demand and the budget consequences of agricultural policies. As a result, over the last several years, the council has generally decided on higher price supports than the commission proposed.

Agricultural production has grown so much that the Community has become self-sufficient in or even a net exporter of several important commodities. This has placed financial stress on the FEOGA. Some efforts have been made in recent years to reduce outlays. Producers were charged a coresponsibility levy for milk. For grains, the commission proposed that the price guarantee apply up to a threshold level and not beyond, as is already the case for sugar beets.

This story and more recent developments described in Chapter 5 show how the CAP, although quite protectionist and heavily biased in favor of farmers' interests, evolves under the influence of economic forces regulated through the political process. In Europe, as in the United States, the budget constraint has been the major source of pressure for change in the process. Agricultural interests have been on the defensive, and they have not been able to maintain the status quo. Changes in the balance between supply and demand and their consequences have made the status quo politically untenable.

Interpretation

How does this narrative of the birth and evolution of commodity programs in the United States and in France help to test or to specify the general hypotheses of the conceptual framework? First, it should be clear that the birth of commodity programs and their evolution are quite different phenomena, resulting from two different sets of causal relationships. It took an economic crisis and a change in political power to engender a decision on the birth of these programs, thus settling a long and heated debate. Their evolution, their survival, and their gradual complication once the crisis has passed may seem paradoxical if one implicitly holds to a model of policy formation in response to purely economic considerations. Actually this may be a good illustration of the need to take the dynamics of the policy process into account. During any one time period, the policy process is strongly influenced by its own past, which has produced the existing policies.

The Role of Conflicts of Interest

Because it encompasses such a long time span, this chapter does not include a detailed study of the interplay of interests involved in a specific policy process. Yet even in this sketchy account, the nature and the role of the policy debate—at times controversial—have been emphasized. In the United States, the Farm Bloc and the cooperative movement of Aaron Sapiro in the 1920s, the coalitions behind the various versions of the bills presented by McNary and Haugen, and the vetoes of President Coolidge all recall parts played by the various factions.

During the same period, the policy debate was lively in France, and farm organizations played an important role in it. Even though the creation of the wheat board by the socialist government in 1936 was opposed by the major farm organizations, their leaders endorsed the economic content of the program as soon as they held public office in the Vichy regime.

During the war the policy agenda changed because of a new balance between supply and demand, but farm organizations continued to be major actors in the agricultural policy process. The debate around the Brannan Plan in 1949 and the wheat referendum in 1962 in the United States provide other striking examples of the role of organized interests. Similarly the emergence of the CNJA in the early 1960s in France and its support for structural policies are other examples of the same phenomenon.

Thus, although no attempts were made to describe in detail how economic interests were organized and public officials (politicians and government agencies) were influenced, the role of conflicts of interest appears to be important, calling for a detailed analysis of one example of the process in the next chapter.

This chapter reveals another important determinant of policies in the short run. It is the supply-demand outlook situation. The actors involved in the policy process behave as if they have short memories, and the policy debate is strongly influenced by the current outlook regarding the balance between supply and demand, oscillating between the burden of surpluses and the fear of scarcity. This is important for the conceptual framework here. First, this perspective directly influences the perception of the interests at stake. Producers and those concerned with the management of public funds are concerned when surpluses accumulate. Consumers are worried by scarcities.

Second, the short-run role of changes in the supply-demand balance help articulate between short- and long-run determinants of agricultural policies since a major point of impact of long-term economic forces is the supply-demand balance. Because it covers a long time period, this chapter provides the most information on this influence.

How Long-Run Economic Forces Exert Their Influence

Although supply-demand imbalances may have played a critical role in the birth and evolution of commodity programs, this does not mean that the policy process obeys some form of economic rationality. In other words, policies cannot be accounted for by assuming that they are chosen to achieve some optimum, be it expressed in terms of efficiency, of equity, or of a combination of the two. Empirically, it appears that a few economic variables have played a key role. They are briefly discussed by order of importance below. The influence of the balance between supply and demand is extremely important because all of these key variables are influenced by it.

The effect of *agricultural prices* is straightforward. The incomes of all farmers are directly affected by the prices they receive. They always try to exert pressure in order to obtain higher prices. Because the road to that goal through increased monopoly power has been fraught with difficulties, they have often supported government intervention. In the United States, however, some farm groups, particularly the American Farm Bureau, have stated for several decades that they favor less government involvement in agriculture. It is not clear whether this really represents the position of their members.

At the time of the wheat referendum, which was a major victory for the Farm Bureau, the issue was not really government intervention but mandatory supply control. The coalition gathered around the Farm Bureau insisted in its campaign that an alternative program with voluntary participation would be developed if the administration proposal was rejected. That is what actually happened. More recently, commodity groups have gained more and more influence, perhaps as a result of the long-time existence of commodity programs. These organizations are in favor of commodity programs; they constitute the main political reason why these programs will probably be continued in the foreseeable future. In France, no farm organization is against price support programs.

For a long time, economists on both sides of the Atlantic have pointed out the limitations of price support programs as an instrument of income support. They constitute a regressive redistribution scheme because the larger farmers, the richer ones, benefit most. Such was the rationale for the Brannan Plan in the United States. It has led to ceilings on individual benefits. Yet price support programs are popular with farmers, even with small farmers, apparently for good reason. In France and then in the European Community, for instance, structural policies were invented in the name of limiting price support policies. Yet these policies eventually concentrated benefits in a more restricted group than price support programs. In addition, farmers are convinced that direct income transfers are much more vulnerable than price support programs in the political process, particularly in the case of budget pressures. These facts must be taken into account in order to understand the policy process and to predict its likely course in the future.[56]

Farm incomes also play an important political role. They are widely diverse, and income from nonagricultural sources represents a significant and growing proportion of the income of farm families. Farm organization leaders often have above-average farm incomes; it is in their interest to hide behind an average. But this is not sufficient to explain the political role of average farm income figures.

Year-to-year variations in average farm income, compared to other aggregate indicators such as variations in average family income or average earnings of wage earners, do tell something about the evolution of the relative position of farm producers in the distribution of national income. When the average farm income indicator declines several years in a row while average family income increases, as it did in France in the late 1970s, farm leaders feel strongly that the claim they are pressing on the government is legitimate. This self-confidence is probably based on other indicators of the standard of living of farm families compared to other social groups, their growing indebtedness, and the increase in the number of foreclosures by farmers who are well regarded by their peers. When, in addition, farmers show their discontent through public demonstrations, including tractorcades, roadblocks, and occupation of public buildings, the political pressure is great indeed.

The third most important source of pressure on the policy process comes from the *government budget.* As discussed earlier, the major changes in commodity programs on both sides of the Atlantic have occurred in response to budget constraints. When supply overruns demand, stocks accumulate and become visible, and budget costs escalate. Budget pressures may also be generated by the general situation of the budget. At some point, the situation becomes untenable; something has to be done to limit spending. In a sense a budget constraint has been reached.

But this concept of a budget constraint is subtle. On the one hand, it is very real. Observation of policy changes shows that these changes occur under budget pressure; and numerous interviews with actors involved in the policy process indicated that these actors were clearly aware of this concept. They knew at some point that "something had to be done" (because the constraint had been reached).

On the other hand, specifying a value for this constraint is difficult. It does not behave rigidly as a constraint should. For instance, all the actors involved in U.S. agricultural policies would probably have indicated in 1980 a constraint on commodity program costs well below $10 billion, but these costs were more than $18 billion in fiscal year 1983.

A clear sign that a limit is approaching is a change in the key actors in the policy process. For instance, the process that led to the revision of U.S. grain and cotton programs in 1984 was launched not by the secretary of agriculture but in a meeting of David Stockman, director of the Office of Management and Budget, Congressman Thomas Foley, Democratic congressman from Washington, a long-time "friend" of agriculture

[56] Note the differences in normative and prescriptive objectives, which lead economists to state that price supports are not a good policy instrument and to prescribe an alternative, such as direct income transfers.

and also a majority whip, and Senator Robert Dole, Republican senator from Kansas, another long-time friend of agriculture and also chairman of the Senate Finance Committee.

The contribution of agriculture to the *balance of trade* has been a source of significant pressure both in France and in the United States. In both countries trade deficits have been a constant concern of public authorities. Growth of agricultural exports has sometimes been a pleasant surprise and always a welcome boon. It is clear that exports have provided farmer organizations with powerful allies among government agencies concerned with macroeconomic policies. In addition, industries supplying inputs or processing outputs tend to support policies favoring the expansion of agriculture because this expands their markets or their sources of supply.

Thus, whereas most economic policies generate internal conflicts and debates, boosting agricultural exports has the great political advantage of not directly and obviously hurting anybody. As a result, export policies do not provoke significant opposition among players active in the domestic policy process. Reaching a consensus is easy, particularly if the budget exposure related to such measures is limited. Difficulties only arise if such policies lead to international conflicts, as will be discussed later.

The level of *food prices* paid by consumers has obvious political significance. In the United States and in France, consumer food prices have generally been less important in the agricultural policy process than such variables as prices received by farmers, agricultural incomes, and the budget cost of farm programs. In some circumstances, however, consumer prices have played an important role when they have increased rapidly. Thus, it is probably revealing that the 1973 act was called the Agriculture and Consumer Protection Act. As indicated earlier, concern with inflation led to an embargo on soybean exports but not to dismantling of government programs. The influence of the consumer movement has been significant on food safety regulations, however, leading Paarlberg to write: "Perhaps nothing so clearly depicts the recent change in the farm and food policy agenda as does the consumer movement."[57] If this judgment is correct, differences between the United States and France should be examined, although a boycott on veal by French consumers in 1982 was effective in calling the attention of farm organizations and public authorities to the problems of hormone residues in meat. So in both countries product quality regulations can be strongly influenced by consumers.

Other economic consequences of the long-term evolution of agriculture have sometimes led to controversy. These issues have taken different forms and their importance in the policymaking process has varied in France and in the United States. Until now, however, they did not have a major impact on commodity programs. In this category can be classified rural poverty and regional development issues, concerns about the speed of farm consolidation and who will control agriculture, as well as questions, particularly in the United States, regarding the impact of tax laws on the structure of agriculture.

Generally speaking, the global development process of agriculture, characterized by rapid technological changes, has not been seriously questioned in the United States, whereas many in France state that migration of people out of agriculture should be stopped. Whether this major difference in stated intentions will affect commodity programs remains to be seen.

Conclusions

In examining the birth of commodity programs in the United States and in France during the 1930s and their evolution since that period, it is clear that conflicts of interest have played an important role in these commodity programs on both sides of the Atlantic. The key economic variables identified in this chapter—agricultural prices, agricultural income, the government budget, the contribution of agriculture to the balance of trade, and food prices to consumers—are important because they directly influence the policy process, and it is through them that long-run economic forces, particularly those affecting supply and demand, influence policies.

But if it is clear that commodity programs were brought about by low agricultural prices

[57] Don Paarlberg, *Farm and Food Policies, Issues of the 1980s* (Lincoln: University of Nebraska Press, 1980), p. 72.

resulting from sluggish demand, many observers argue that today the causal relationship has been reversed. Price supports at higher than market-clearing levels, by definition, create an excess of supply over demand. By various means, particularly through the budget constraint, this creates political pressures to reduce prices. But farm organizations can muster enough power to prevent full adjustment to market clearing levels, leading to continuous excess supply and pressures toward lower prices. This extremely simple model of the dynamics of policy-making renders a surprisingly good account of long-term trends. In real terms, agricultural price support levels have tended to decline over the long run.

Two additional phenomena must, however, be incorporated because they have obviously influenced strongly the balance between supply and demand: technological change in domestic agriculture and shifts in foreign demand. Part of the variations in each can be attributed to prices received by farmers and to prices paid by importers. As such, they can be incorporated in the policy-making model.

But how should the part of these changes that is not price-induced be handled? New technologies have tended to expand production, thus accentuating the vicious circle. Cochrane's treadmill explains why the adoption process can occur with falling prices.[58] Input market imperfections—more precisely Johnson's "asset fixity" theory—strengthen the dynamics of that process.[59]

Shifts in foreign demand disturb the process. If foreign demand shoots up as it did in the early 1970s, price support programs become inoperative, reducing the political pressure on commodity programs. The fact that market prices were not allowed to rise in Europe is an important difference from the U.S. situation, but it does not alter the substance of the argument presented here. Thus, as clearly observed in the last 10 years, large variations in foreign demand create a great deal of instability.

This instability was compounded by weather accidents in the United States[60] and by policies in both Europe and the United States. But here there is a difference. European policies may have been too stable and U.S. policies too unstable. It is often argued that European policies have contributed to instability on world markets: a protectionist policy tends to insulate and stabilize the domestic market but increases instability in the rest of the world. As indicated in Chapter 6, this theoretical argument is not sufficient. It assumes without adequate empirical evidence that variations in European supplies in response to greater exposure to world price variations would have had a stabilizing effect. The consequences for the CAP, however, are clear: excess supply helps increase the budget cost of the CAP through larger export restitutions. Conversely, U.S. policy has over-reacted to short-term outlook perspectives. This has accentuated production variations, leading in 1983 to an emergency production control program, the PIK, with its high attendant costs imposed on input supplying and output handling or processing industries, as well as on the livestock sector.

The land market, particularly in the United States, reflects this instability. Variations in land prices, which are capitalized values of expected rents, indicate variations in expectations. In addition, they have important consequences for the evolution of the structure of agriculture. Land is often used as collateral for obtaining loans. Highly leveraged farmers found themselves in serious financial difficulties when land prices began to decline. Some observers are concerned that this process may have eliminated a significant proportion of the younger generation of farmers, particularly the good and dynamic ones who had expanded rapidly, precisely because they were successful.

On the other hand, many of those who believe that market mechanisms are the best tools of economic adjustment fear that bailing out farmers who are now in financial difficulties would only add to the general problem. At present, productive capacity is well beyond what the market can absorb and excess resources must flow outside of agriculture. Undoubtedly, the process is painful for those who are eliminated, but the price has to be paid for economic growth in the long run.

[58] Cochrane, *The Development of American Agriculture*, Chapter 19.

[59] Glenn Johnson, "Supply Function—Some Facts and Notions," in *Agricultural Adjustment Problems in a Growing Economy*, ed. Earl O. Heady et al. (Ames: Iowa State College Press, 1958), pp. 74-93.

[60] Weather is also a major cause of year-to-year variations in foreign demand.

Whatever the policy response to this issue, clearly commodity programs in both Europe and the United States are under considerable pressure because of their budget costs at a time when many farmers have been facing serious financial difficulties. In a sense, agricultural policies on both sides of the Atlantic are going through a crisis. What will be the result? In light of the previous analysis, the present crisis does not seem deep enough to bring about a major shift in policy, analogous to the birth of commodity programs in the 1930s. It seems likely that France and the United States will continue to "muddle through." In such a context, foreign demand becomes more and more critical, setting the stage for significant conflicts of interests in the international trade of agricultural products, as discussed in Chapter 6.

Some may be surprised that this analysis does not give a greater role to the bureaucracies administering the commodity programs. Are they not responsible for the survival of these programs long after the crisis that brought them into existence has passed? To put it simply, examination of the evidence does not vindicate this common view. Similarly, the famous "grain merchants," the large international grain companies, do not seem to play a major role.[61] This is not to suggest that they play no part in the policy scene. On the contrary, direct observation shows that these two sets of actors are very active. But neither can significantly affect the economic forces that play a determining role in the long run. They, as others, must adjust to these forces and there are indeed many indications that they do it well. Perhaps this should be viewed as an articulation of the role of economic interests in the short run and the influence of powerful, anonymous economic forces in the long run.

[61] Dan Morgan, *Merchants of Grain: The Power and Profits of the Five Grain Companies at the Center of the World's Food Supply* (New York: Penguin Books, 1980).

5

THE U.S. DAIRY PRODUCTION STABILIZATION ACT OF 1983

A study of how the Dairy Production Stabilization Act of 1983 changed U.S. dairy policy is interesting on several counts. First, in many respects American and European dairy policies face similar economic problems, including surplus production, escalating public treasury costs, and controversies about price support levels. On both sides of the Atlantic, dairy policy issues are visible, controversial, and resolved at a high political level. Thus, a study of dairy policies is of particular significance in a research program emphasizing comparative analyses, even though this study itself is not comparative because it focuses on the U.S. situation alone.

Second, the timing of the issue relative to this research made it an excellent choice for a case study. Participants could be interviewed at a time when they had just experienced the whole decisionmaking process, had a global view of it, knew its outcome, could not hope to alter it, and yet did not benefit from perfect hindsight as the effects of the new policy were still unknown. This is important because uncertainty is an essential feature of the policymaking process. Moreover, because the policy process generated much controversy, participants were willing to discuss the positions they had taken and were open to questions. The emphasis in this chapter is on the dynamics of the decision process that led to enactment of the bill in November 1983.

Economic and Political Background

The need for a change in the existing dairy policy stemmed mainly from the growing cost of price support programs linked to growing surpluses. An understanding of that situation requires a brief review of the major trends in the dairy sector during recent decades and of the evolution of the policies that have been determined by these trends and have shaped them.[62]

Table 1 shows the costs incurred by the U.S. Treasury in supporting milk prices. U.S. Department of Agriculture (USDA) total expenditures are the sum of CCC net expenditures (the net amount of funds the CCC must borrow from the treasury to make dairy price support purchases and defray inventory carrying charges) and other USDA expenditures on programs designed to increase milk consumption by children in schools, child care centers, and similar institutions. This concept overestimates the cost because it attributes no value to stocks in government storage. But this is probably justified as these stocks have generally been disposed of by giving them away free. In addition, it would not be meaningful to assess the present value of an asset whose disposition date is uncertain, whereas its storage cost is high. In spite of their limitations, the data presented in Table 1 are sufficient for the purpose. The budget cost of the dairy program has increased dramatically in recent years. Because there were about 170,000 commercial milk producers in 1979, a cost of about 2.6 billion dollars, as estimated for 1983, represents an average of $15,000 per farm, while average family income of dairy farmers has increased faster than and has been superior to the national average family income during the last 20 years. These figures are probably sufficient to explain the concern raised by such rising treasury costs.

---

[62] Much of that review relies on an OECD working paper, which was kindly made available by Hans G. Hirsch, the main writer of this anonymous document (Organization for Economic Cooperation and Development, Committee for Agriculture, Country Contributions to the Study on Positive Adjustment, "Positive Adjustment Policies in the Dairy Sector of the United States," Group on Dairy Products, Working Party No. 2, Paris, April 1982). Another useful source was the book by Alden C. Manchester, *The Public Role in the Dairy Economy— Why and How Government Intervenes in the Milk Business* (Boulder, Col.: Westview Press, 1983).

Table 1—Net U.S. government expenditures on dairy supports and related programs and net realized loss, fiscal years 1961-82

Fiscal Year	Total USDA Expenditures	CCC Net Expenditures	Special Milk Program Expenditures	Net Realized Loss
	(million U.S. $)			
1961	369.3	281.3	87.0	150.9
1962	703.7	612.0	91.7	324.6
1963	579.2	185.5	93.7	425.3
1964	476.2	379.1	97.1	562.8
1965	420.2	333.7	86.5	216.4
1966	165.6	68.6	97.0	147.4
1967	413.5	317.4	96.1	87.2
1968	467.3	364.2	103.1	198.2
1969	429.2	327.3	101.9	205.1
1970	393.8	290.9	102.9	122.2
1971	504.6	412.8	91.8	175.9
1972	431.8	338.2	93.6	214.8
1973	243.6	152.8	90.8	182.8
1974	121.1	70.9	50.2	101.1
1975	619.0	496.1	122.9	164.2
1976	220.5	76.5	144.0	83.1
Transitional quarter[a]	70.0	44.5	25.5	
1977	824.0	714.3	109.7	29.5
1978	389.2	451.4	137.8	192.7
1979	384.7	250.6	134.1	204.7
1980	1,436.6	1,279.8	156.8	314.5
1981	2,093.5	1,974.7	118.8	764.6
1982	2,267.3	2,239.2	28.1	1,136.2

Sources: U.S. Department of Agriculture, Economic Research Service, *Dairy Outlook and Situation*, DS-387 (December 1981). Net realized loss data for years before 1980 are taken from U.S. Department of Agriculture, Economics and Statistics Cooperative Research Service, *Positive Adjustments* (Washington, D.C.: USDA, 1982), and U.S. Department of Agriculture, Economics and Statistics Cooperative Research Service, *Commodity Fact Sheet*, (Washington, D.C.: USDA, 1982).

Notes: USDA is the U.S. Department of Agriculture, and CCC is the Commodity Credit Corporation.

[a] In 1976 the end of the fiscal year was permanently changed from June 30 to September 30; thus the transitional quarter refers to the period July 1 through September 30, 1976.

The Growing Surplus

Obviously, the escalation is directly related to the growing surplus of milk products, that is, the amount that the CCC had to buy in order to implement the price support program. (This defines surplus as the excess of supply over market demand at the prevailing price.) In Table 2, which shows how milk supply, use, and stocks have evolved, the increase in government stocks is a good indicator of the growing surplus. After reaching a peak of 1.8 million metric tons of milk equivalent in 1967, stocks practically disappeared in 1975 but then grew rapidly to reach 8.6 million metric tons by the end of 1983. At the same time CCC donations and commercial stocks increased; as a result the gap between supply and use (commercial and on-farm) reached 15.7 million metric tons in 1983. Thus, on this market protected from international competition by a system of restricted import quotas, the surplus accumulated in 1983 can be estimated to be between 8.6 and 15.7 million metric tons, about 15 percent of production.

As can be seen in Table 2, this growing surplus results from a recent increase in supply that has occurred while commercial and farm use stagnated or increased slowly. Whereas supply remained stable in the early 1970s, it increased from 55.8 million tons of milk equivalent in 1975 to 71.8 million tons in 1983, while commercial and farm use increased from 53.0 to only 56.1 million tons.

On the demand side, the significant phenomenon is the decline in per capita consumption. In the aggregate, it declined from 653 pounds per capita (296 kilograms) in 1960 to 540 pounds (245 kilograms) in

Table 2—U.S. milk supply, use, and stocks, 1965-83

Year	Supply[a]	Commercial and Farm Use	Donations	Commercial Stocks	Government Stocks[b]
	(million metric tons of milk equivalent)				
1965	59.1	54.6	2.5	1.8	0.2
1966	57.7	54.9	0.5	2.2	. . .
1967	57.3	52.2	1.5	1.9	1.8
1968	57.7	51.9	2.8	1.8	1.2
1969	36.4	51.4	2.6	1.8	0.6
1970	56.3	51.5	2.2	1.7	1.0
1971	57.0	51.6	3.1	1.6	0.7
1972	57.5	52.7	2.4	1.6	0.9
1973	56.6	52.6	1.6	2.1	0.2
1974	56.1	52.8	0.7	2.5	0.1
1975	55.8	53.0	1.0	1.7	. . .
1976	56.9	54.1	0.2	2.4	0.2
1977	59.2	53.9	1.4	2.3	1.7
1978	60.1	55.1	1.1	2.0	1.9
1979	60.6	56.7	1.0	2.4	1.5
1980	63.0	55.1	2.0	2.6	3.3
1981	65.8	55.7	1.8	2.4	5.9
1982[c]	69.6	56.6	3.9	2.1	7.0
1983	71.8	56.1	4.8	2.3	8.6

Source: U.S. Department of Agriculture, personal communication of data underlying U.S. Department of Agriculture, *1983 Handbook of Agricultural Charts* (Washington, D.C.: USDA, 1983).

[a] Supply includes stocks at the beginning of the year.

[b] Government stocks are stocks remaining at the end of the year.

[c] Estimate.

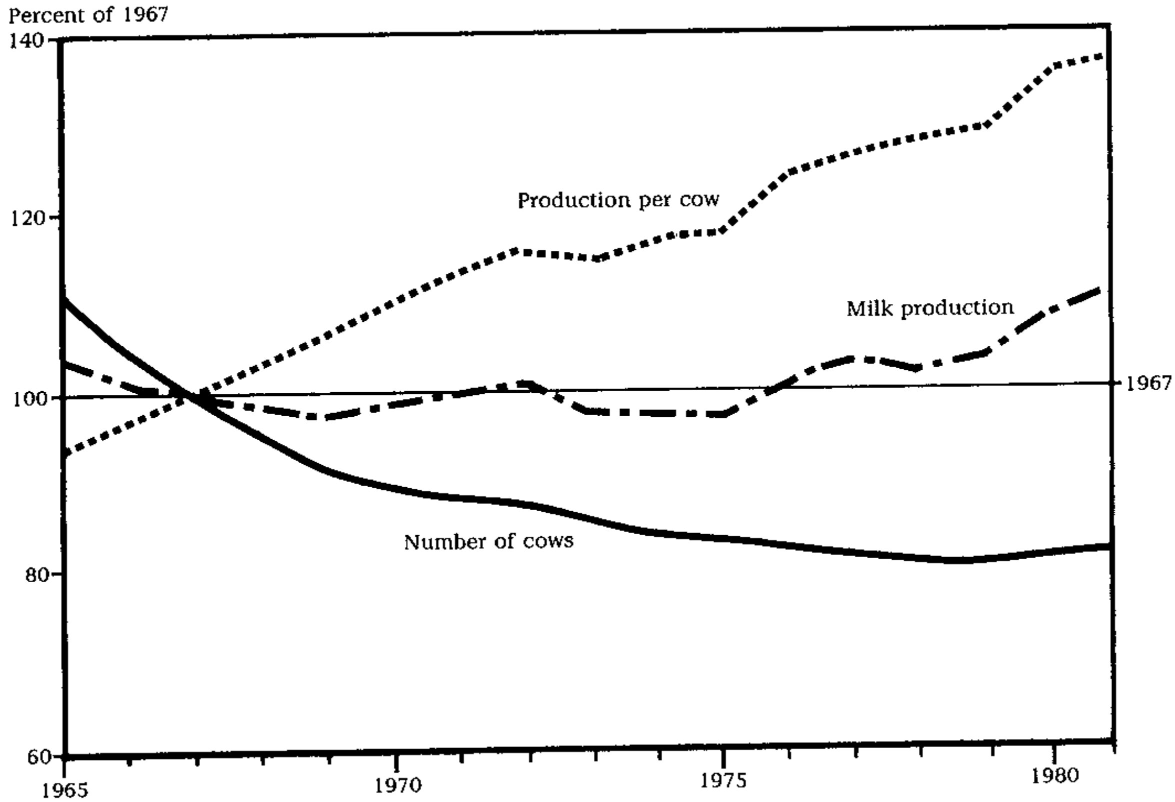
1975, and increased slightly to 562 pounds (255 kilograms) in 1982. But this aggregate evolution does not reflect adequately an important change in the composition of the dairy products consumed. Generally speaking, per capita fluid milk and butter consumption declined by more than 30 percent between 1960 and 1981, whereas cheese consumption doubled and today represents about 30 percent of total dairy product consumption.

On the supply side, Figure 2 provides information on the growth of milk production, number of cows, and yield per cow. This sheds some light on the cause of the supply increase. A shift in the aggregate behavior of U.S. dairy farmers occurred in the late 1970s to early 1980s. Whereas production per cow showed a regular upward trend, milk production remained fairly stable because the number of cows declined at a regular rate (from 21.9 million in 1950 to 15.0 million in 1965, and to 11.2 million in 1974). Average milk yield per cow continued to increase (from 4,700 kilograms in 1975 to 5,670 kilograms in 1983), but the number of cows declined less rapidly and even increased slightly in 1980, 1981, and 1982 (overall between 1975 and 1983 numbers declined only slightly, from 11.1 million to 11.0 million).

Evolution of Dairy Policies

Price Supports. To keep a promise made during the presidential electoral campaign, the Carter administration went along with Congress in raising price support levels in 1977. The Food and Agriculture Act mandated a minimum support price of 80 percent of parity through March 31, 1979 (automatically pegging the price support level to the index of prices paid by farmers). The administration had a mandate to adjust the support level semiannually, thus offering milk producers better protection against inflation than a once-a-year adjustment. Before passage of the act, the administration had used its discretionary authority and increased the level of price support from $8.26 per hundredweight to $9.00 per hundredweight—to 82 percent of parity as computed on April 1, 1977. Prices were increased according to

Figure 2—U.S. milk production, number of cows, and milk per cow, 1965-81



Source: U.S. Department of Agriculture.

provisions of the act until 1979. Even though this policy did not bring about surpluses in 1977-78 and 1978-79, the 1977 decision to adjust price supports on a fixed schedule is viewed as a policy tilt, setting the stage for later rigidities that turned out to be more damaging. In 1979, the minimum 80 percent parity provision and semiannual adjustments were extended by Congress. These continued to keep price support levels more closely in line with inflation, bringing about a rapid increase in nominal prices. The number of dairy cows increased in 1980 (for the first time since 1953) and increased again in 1982 and 1983. The number of cows reflects producers' production plans. This increase is viewed as a direct response to increases in price supports. Thus, the growing imbalance between supply and demand that followed is attributed to the failure of Congress to adjust price support levels sufficiently.

The price support level is enforced through government purchase of manufactured products (mainly skimmed milk powder, butter, and cheese) and fixing of minimum prices for different uses. Thus, fluid milk receives a premium.

Milk Marketing Orders. Price differentials are administered through a system of milk marketing orders; regional minimum price differentials are fixed. The minimum price rule applies to the price paid to an individual producer or to a cooperative selling in producers' names. As a result, cooperatives sometimes receive the minimum price, but to be competitive many have been forced to render additional services, such as assembling and transporting at no charge to the buyer, and they have to pay their members less than the prescribed minimum. In other areas cooperatives receive "over-order payments" above the prescribed minimum price. Prices received by farmers thus differ according to their location and the type of market they supply. These differences are not negligible. It was estimated that in 1980, the state average price for all milk sold to plants by state varied from $11.80 per hundredweight in Idaho and North Dakota, to $15.80 per hundredweight in Florida, where local supply is not sufficient to meet the demand for fluid milk. Both extremes were indeed related to the minimum support price, but this relationship is not the same for all producers. This, as will be seen later, is a source of important regional conflicts within the dairy industry.

Today there are 49 federal milk marketing orders. California, which has its own state regulations, is the only major dairy area not covered by federal orders. Each federal order is administered by a local market administrator, appointed by the secretary of agriculture and supervised by USDA. They compute and announce use class prices, the uniform blend price paid to producers of grade A milk (milk meeting the quality requirements for fluid use), and they administer a market settlement fund, which ensures that the blend price is effectively enforced.[63] They ensure that rules are respected by auditing the buyers' records. These orders constitute a system of regulation ensuring an orderly marketing of milk. The enforcement of the minimum price provision critically depends upon the existence of a price support program.

The administration of this system of milk marketing orders has yielded to pressure for, or perhaps even favored, the integration of numerous local markets into a more and more unified national market. Thus, federal marketing orders have been consolidated (their number declined from 80 in 1960 to 49 in 1982), and the regional and use class price differentials have been frozen or increased less than proportionately to the level of price support. Nevertheless, regional differences in the forces affecting supply and demand remain important.

The Politics of Dairy Policies

The three main features of U.S. dairy policy are the price support program, the milk marketing orders, and restrictions on imports of milk and dairy products. All of these combine to protect and stabilize the market, to support dairy farmers' income, and to ensure a stable supply of milk to consumers. What political forces brought about these policies?

The political power of dairy interests has long been recognized. The dairy lobby is admired, respected, reckoned with, and criticized; it is often presented as the archetype of well-organized, narrow, private interests capable of obtaining favorable policies at the expense of the public interest. Thus, in a sense, an analysis of its activities makes an excellent case study of American politics.

The nature of the product has had important implications for the organization of the dairy industry in the United States and in other developed countries. Milk is a perishable product, which must be processed before consumption unless it is consumed shortly after the cows have been milked. Historically, urban municipal authorities have intervened to make sure that public health requirements are met. In many countries, dairy producers invented institutions early on to find collective solutions to the problem of conserving such a perishable product. In the United States this led to the early creation of dairy cooperatives, which received help and encouragement from public authorities, including significant tax exemptions. In addition, because market segmentation is caused by transportation difficulties, there has been less of a problem in the dairy sector than elsewhere in agriculture with "free riders" in collective action (those who refuse to pay the cost of organization because they know that they can benefit from the collective action without paying).[64]

As the price support program became a critical element in determining dairy farmers' income, one can understand why dairy organizations, particularly dairy cooperatives, were able to collect large sums of money from their members. These monies have long been used for political influence. A well-known scandal in the early 1970s involving illegal payments by various firms, including a large dairy cooperative, contributed to the adoption in 1974 of stricter and more open rules on the financing of electoral campaigns (limitations on and public reporting of the amounts contributed). Within the existing rules, dairy Political Action Committees

[63] All dairy producers within a market order area are paid the same "blend price" for their grade A milk, irrespective of whether it is consumed as fluid milk or as processed powder, so they have a strong incentive to qualify as grade A producers. This has led to more grade A milk being used in manufacturing.

[64] See Olson, *Logic of Collective Action.*

(PACs) make contributions to many electoral campaigns. At the minimum, this helps them to keep many "friends" in Congress. In addition, some observers emphasize that dairy politics are presidential politics: because dairy farming is present in all states, and important in many key states, including California, Michigan, New York, Ohio, Pennsylvania, and Texas, presidential candidates do not want to antagonize dairy interests.

At the same time dairy production occupies a central position in the agricultural interests of less populous states such as Minnesota or Wisconsin. Senators and representatives from these states have strong incentives to pay close attention to dairy issues. But as alluded to earlier, regional differences in interests within the dairy industry are significant. Besides, the emergence of large dairy cooperatives having a somewhat regional basis and sufficient economic resources to be active in politics has increased the diversity of the political expression of dairy interests. Relatively recent cooperative concentration, particularly in processing and in distribution, is itself the product of important structural changes within the whole industry.

Because legislators have geographic constituencies, they can be expected to reflect regional differences, which must be resolved if any dairy policy program is to be adopted.

Clearly, this is a superficial presentation of the political aspects of the dairy industry, which perhaps reflects the author's disciplinary background as an economist and not a political scientist. Closer analysis of the 1983 dairy policy debate will reveal more details and nuances. But this information should be sufficient to characterize the political background of the specific decision process studied in this chapter.

The Decision Process

The growing dairy surplus led Congress to introduce two 50-cent per hundredweight assessments on dairy farmers, the second one to be enforced if on April 1, 1983, annual CCC purchases were projected to exceed 7.5 billion pounds of milk equivalent. This measure, passed as part of the 1982 Budget Reconciliation Act, did not satisfy any of the actors involved. In 1982, the Reagan administration had requested more flexibility in order to lower the price support level, which it viewed as mainly responsible for the surplus. The National Milk Producers Federation, the principal dairy organization, wanted a two-price diversion scheme. Dairy farmers reacted unfavorably to the assessments. They considered them a tax, effectively reducing their receipts without providing any demand incentive. In that sense the assessments were perhaps even worse than a direct reduction in price support. Everyone was convinced that the growth in the surplus and in treasury costs had to be checked, but they could not agree on the means to solve the problem.

About a dozen suits were filed in court against the assessments. Although these suits all lost, they delayed the implementation of the new policy until April 1983. The administration also did not like the assessment policy, considering it grossly ineffective. Nevertheless, it doggedly pursued its implementation because it was convinced that this would put pressure on Congress for a move on dairy policy in 1983, viewing 1984 as hopeless for passing dairy legislation because it was an election year.

Legislators sensitive to dairy policy were in a quandary. They knew something had to be done, but they had no chance of passing any dairy legislation that was not supported by all segments of the dairy industry. And at its board of directors meeting in the beginning of 1983, the dairy federation showed that the industry was divided. Some form of a diversion plan (one paying dairy farmers for agreeing to reduce their production) was favored by 85 percent of the voters, but the remaining 15 percent, from the southeastern states and Southern California, favored a straightforward reduction in price supports. This divergence may have arisen because the price support mechanism works through purchase of manufactured products. Reducing it would impinge directly on the prices for these products and only indirectly on prices for fluid milk, which would be affected through increased competition on the corresponding markets, where over-order payments would be somewhat reduced. Producers from the southeastern states and Southern California—which are furthest away from the competition of the surplus states of Wisconsin and Minnesota—would be least affected. Two different bills were introduced in Congress.

Faced with this dilemma, some legislators complained angrily and undertook the task of finding a compromise acceptable to all sectors of the dairy industry. These included members from both houses and from both parties. The secretary of agriculture participated in these informal discussions, which led, after difficult negotiations, to the elaboration in the spring of 1983 of a compromise bill. Its main provisions, which form the essence of the act passed by both chambers signed by the president at the end of November 1983, were: first, the creation of a diversion program—payment of $10 per hundredweight to farmers who reduced their production by 5 to 30 percent below a specified historical basis, for a 15-month period; second, an immediate reduction in the price support level from $13.10 per hundredweight to $12.60 per hundredweight, two further 50-cent per hundredweight reductions being authorized later if projected government purchases continued to be high (respectively, 6 and 5 billion pounds over 12 months); and finally, replacing the two 50-cent assessments with a 50-cent per hundredweight deduction for the duration of the diversion plan. Essentially, the agreement was reached because all parties understood that the choice was either to compromise or to go without new legislation, that is, to continue the hated assessments and the existing level of price support ($13.10 per hundredweight) until the October 1 increase.[65]

Legislators were convinced that a bill dealing only with dairy products could not be passed. An alliance was made with tobacco program supporters, tying milk and tobacco supports together in the same bill—a purely procedural linkage, which was probably critical to the final outcome. A hitch developed, however, when the administration insisted that its acceptance of the compromise was conditional on passage of legislation freezing the target prices of other agricultural commodities (essentially grains and cotton). Early in 1983, the administration presented that proposal along with its PIK program, which itself was the result of a compromise among agencies within the executive branch. PIK was accepted by the Office of Management and Budget with the understanding that this short-term relief program would make it politically possible to freeze the target price, which would lead in later years to significant reductions in the budget cost of farm programs. Thus, the secretary of agriculture was under pressure in the spring and summer of 1983, when it appeared that the sum of transfers to farmers under PIK and other commodity programs would reach unprecedented and staggering amounts.

But dairy spokesmen refused to cooperate with the secretary on the target price freeze. They insisted that this was not part of the compromise, and they did not want to be pitted against other agricultural interests. The Senate Agricultural Committee reported on the target price freeze, but on the Senate floor, a filibuster by Senator John Melcher from Montana, a state where wheat is important, blocked passage of legislation.

The stalemate was not broken until the summer, when the secretary of agriculture gave up the target price freeze linkage, seeing that the Senate would not even vote on the issue. The secretary stated then that the administration would be "neutral" on the dairy issue. The Senate passed the compromise bill, after rejecting by six votes an amendment proposed by Senator David Moynihan, which would have brought about a straightforward reduction in the level of price support. Through a procedural technicality, the dairy and tobacco bill passed by the Senate was attached to the number of another bill already passed by the House of Representatives, the body of which had been totally deleted. This would permit the bill to go directly to conference bypassing debate on the floor of the House, upon recommendation of the House Agriculture Committee. This scheme failed, as the House refused that recommendation and voted to have a full debate on the issue. Thus the lines were drawn for the decisive battle, and both sides were fully organized for it.

Dairy organizations were completely united and launched a major lobbying effort. On the other side, a coalition of some 21 consumer, farm, political, and food marketing groups calling itself the Coalition to Reduce Inflated Milk Prices (CRIMP) was formed. They opposed the compromise, and thus supported a price reduction amendment introduced by Representative Barber Conable. The coalition included the American Farm Bureau Federation and meat producers' associations for beef, pork, and broilers, whose interests were threatened by the existence of a large herd of dairy cows weighing

[65] An increase in the price support level would, of course, have been beneficial to dairy farmers, but their leaders knew that such an increase was not viable and that asking for it would backfire.

on the beef market. The coalition was supported by the administration, which of course did not go unnoticed. The secretary of agriculture was accused of having completely reversed his position from April, when he was associated with the compromise, to August when he became neutral, and finally to November, when he was fighting the compromise.

The critical amendment was rejected by 76 votes (250 to 174). Final passage of the bill was secured by a still larger margin (325 to 91), marking a surprising victory for the dairy lobby. This was at least the interpretation of the national press, which had not really played a significant role in the policy debate until then. Editorials in such newspapers as the *Wall Street Journal*, the *New York Times*, the *Washington Post*, as well as articles on the financial contributions of the dairy PACs, strongly expressed the view that the bill was a rip-off by the powerful dairy lobby at the expense of the public interest.

Attention then turned to President Reagan. Would he sign or veto the bill? Important congressional leaders urged him to sign. The press reported that the director of the Office of Management and Budget and the chairman of the Council of Economic Advisers recommended a veto, while the secretary of agriculture recommended signing. Most observers agree that the determining factors in the president's decision were political. The bill submitted to the president included, in addition to dairy and tobacco provisions, popular emergency feed assistance for drought-stricken areas and the authorization of marketing orders for eggs. But several Republican senators faced difficult reelections at a time when Republican control of the Senate was threatened, a very high political stake indeed in 1984. For these senators passage of the dairy or the tobacco bill was a must. Senator Jesse Helms of North Carolina, chairman of the Senate Committee on Agriculture, had been instrumental in the dairy-tobacco linkage and badly needed a tobacco bill. Reportedly, the president agreed to sign on a promise that the diversion plan would not be extended beyond the 15 months legislated in the act.

The Actors

This story shows that the policy decision was the outcome of a process involving various actors over a period of time. In examining the dynamic nature of that process, the interactions among the various interest groups and government agencies and the effects of uncertainty on the policymaking process will be emphasized.

Interest Groups

To continue the analogy to a drama on the stage, the role played by each category of actors and their strategies will be reviewed, beginning with the main actors.

The dairy lobby is made up of several organizations. The apex institution and the major voice is the National Milk Producers Federation. It has 60 members, which are dairy cooperatives or cooperative federations. Most of these cooperatives collect milk from their members who are dairy farmers and deliver it to buyers who process it. But many cooperatives are also involved in processing and manufacturing. Thus they not only sell milk in bulk but also bottle fluid milk and manufacture products.

In addition to the dairy federation, several large cooperatives are directly involved in the political process. They have full-time lobbyists and their own PACs. As stated before, the different positions taken by these groups at the beginning of 1983 can be attributed to the differing effects of a reduction in price supports on dairy farmers from various regions. Another consequence would have been a difference in the effects of a reduction on the volume of production, and hence on the profits of processing cooperatives. In spite of this conflict of interest among dairy organizations, it was their ability to present a united front, after the compromise had been elaborated, that proved essential to the final outcome.

For each organization, accepting a compromise does not imply a change in long-term policy objectives. It only implies selection of the best among what is feasible in the short term. Thus, the dairy federation was pushing for a diversion plan with greater incentives for farmers' participation: a $10 per hundredweight payment for reduced production but also a $12 per hundredweight penalty on increased production. Another cooperative, Dairymen, Inc., was in favor of a straightforward reduction in price supports. But full support of the compromise, once a deal was made, was a must in order to retain credibility on the political scene. Thus, the cooperative opposed both the Moynihan amendment in the Senate and the Conable bill in the House, although both of these proposals embodied the policy that it had advocated earlier. On the other hand, the compromise gave it the satisfaction of expressing an agreement by the whole industry that the level of price support should be reduced. The cost was acceptance of a diversion plan, but only a temporary one. The length of the period of the plan (15 months) was also a compromise.

Even if one recognizes that achieving the unity of the dairy industry was critical, the ability of the dairy lobby to get what it wanted in the face of formidable opposition remains striking. What is the source of its power? Much is made of the large financial contributions of the dairy lobby in electoral campaigns. The particular capacity of the dairy industry to raise money should never be overlooked. But defenders of the system (dairy lobbyists and congressional staff) are quick to reply, when asked about this touchy subject, that four dairy PACs at the national level can contribute a maximum of $20,000 (the individual ceiling for any PAC for a candidate is $5,000) to a political campaign that may cost $200,000 or more for a representative and $1 million or more for a Senator. In addition, lobbyists emphasize that their PACs seldom contribute as much as the $5,000 ceiling. Nevertheless, all agree that money is important, mainly as a "door opener," as a way to maintain good relations with legislators, and to keep friends in Congress. In this respect, the criteria used to distribute PAC contributions among candidates are revealing. Can the candidate be counted as a friend? Is the candidate's campaign well-organized? What are the candidate's chances of being elected or reelected? What is the quality of the opposition? To summarize, PACs believe that if they help a friend in need, he will listen to them when they have a case to present, but they try not to waste their resources on losers.

But money alone is not enough. Lobbyists are often a source of useful and timely information on their industry; they provide drafts of proposed legislation. They may have an influence on their members' votes through their reports on which legislators are friends of dairy farmers and which are not. These two roles and the way financial resources are used are probably the main sources of power of any pressure group. But what probably distinguishes the dairy lobby and makes it strong is its sophistication. For instance, prior to the debate on the House floor, the federation had three people working full time on Capitol Hill, making contacts with legislators or their staff. It developed brief fact sheets supporting its arguments for the compromise bill, stressing that, according to both USDA and the Congressional Budget Office (CBO) estimates, the compromise bill would bring about a larger reduction in dairy production and a smaller cost to the public treasury over the next two years than the Conable bill would. "Soft spots," legislators wavering in their support, were identified. Dairy delegations from various states were flown to Washington and sent to lobby their congressmen. Attention was paid to the composition of these delegations. For instance, the delegation sent to lobby representatives from a large urban metropolis included the sales manager of a large dairy cooperative. He was a city resident, an active member of the business community (Chamber of Commerce, Advertising Club, and so forth). Admittedly, such details, collected through interviews, are only fragmented pieces of information and cannot really be viewed as proving anything. They are suggestive, however, of what is involved in a successful, sophisticated lobbying effort.

Yet one should not conclude that dairy organizations are all-powerful and can get whatever they want. They did agree to a reduction in the price supports, and the idea of paying farmers for not producing is not new in American agricultural policies. It has been an essential feature of other commodity price support programs for 50 years. To summarize, the dairy lobby proved to be successful in getting what it wanted. The critical phase in that decision process was the determination of the common objective, both as the product of internal negotiations among different interests and as part of a permanent probing process, indicating what is politically feasible. The successful negotiation among conflicting, mainly regional, interests was possible because dairy organizations were convinced that, despite their differences, they had much in common. These commonalities, after all, are the essential reasons for belonging to a common organization, the dairy federation.

Other agricultural interests were represented in the debate by the American Farm Bureau Federation and the three organizations of meat producers: the National Cattlemen's Association, the National Broiler

Council, and the National Pork Producers' Council. They engaged in the public debate about the dairy bill at different times and for essentially similar reasons but with some differences. These differences are of interest to this analysis because they reveal the dynamic processes involved when an organization takes a position.

The American Farm Bureau Federation took the earliest stand. After a lengthy debate at the national meeting of its House of Delegates, held in Dallas in January 1983, it decided to stand in favor of a straightforward reduction in milk price supports without diversion payments. The vote was close, but once taken, the instructions given to the Washington office staff were clear. Six state Farm Bureau Federations dissented, however, and campaigned for a diversion plan. The split in this general farm organization reflected the same conflict of regional interests among dairy producers that affected the National Milk Producers' Federation. Southern dairy farmers were active and instrumental in the Dallas meeting. Whereas the Farm Bureau is a general farm organization, other agricultural interests, particularly those of the cattlemen, also weighed in the debate. Finally and perhaps more importantly, the outcome reflected the long-standing ideological (or philosophical) opposition of the organization to government intervention on agricultural markets and particularly to payments to farmers not to produce.

Only in the early summer of 1983 did the three meat producers' organizations express their opposition to the dairy compromise. Until then, they had kept a hands-off position on dairy issues. But, the three organizations recognized that, after the PIK program, which led to a rise in the cost of feed, the dairy bill would be another major government intervention affecting the profitability of their enterprises. Besides, the bill fueled a latent ideological opposition to the principle of a government program offering more support to the dairy sector, after high government payments helped create the surplus problem, without paying attention to those whose interests might suffer. This sentiment of frustration was important in determining the firm stand taken by the meat producers' organizations, yet the perceptions of the economic interests at stake changed through time and varied from one organization to another.

The National Cattlemen's Association had long recognized the potential impact on the beef market of culling large numbers of dairy cows. In July, they attempted to amend the bill in the Senate in order to bring about an orderly marketing of these culled cows. But that issue became less important later when the alliance with other opponents began to take shape and it appeared that all proposals would bring about increased slaughtering of dairy cows. It could not be argued that, compared to a straightforward reduction in the price support level, the compromise bill would bring about both a larger increase in the number of cows slaughtered and a smaller reduction in milk production. Thus the main issue became the extent of government intervention in agriculture. The straightforward reduction in price supports was viewed as a step toward less government interference. And this was probably more consistent with the dominant ideological position among cattlemen, who do not see themselves as benefiting from commodity programs. (Presumably their protection through import quotas is viewed as having a quite different nature.) Cattlemen also face restrictions set by regulatory agencies of the government who enforce health and environmental regulations and interfere with their grazing rights on public lands.

The National Broiler Council is an association of processors, not of farmers, the degree of vertical integration in the broiler industry being quite high. They had not taken any stand on farm programs before, as they were also dealing with government inspectors from the regulatory agencies, the Food and Drug Administration, the Environmental Protection Agency, and USDA. They started worrying about the dairy bill only in October 1983. The Broiler Council believed that the interests of the broiler industry would be affected because more dairy cow slaughters would make more hamburger meat available and, as a result, make the penetration of broiler meat in the fast food business slower and more difficult at a time when broiler prices were depressed. In addition, the dairy industry was viewed as highly regulated in sharp contrast to the broiler industry. Here again, because the dairy bill came so shortly after PIK, the Broiler Council felt it was high time to take a stand against government programs, which they saw as ineffective and harmful to the interests of their members.

The National Pork Producers' Council, whose headquarters are in Moline, Illinois, did not open an office in Washington until 1981. Thus, the organization was still search-ing for ways to operate effectively on the political scene. Who in the organization should take the initiative of raising an issue and suggesting a political action was still a critical question. On the dairy issue, the initial question was raised by a member at the grass roots in late June or early July 1983. A task force was organized, and a two-page position paper supporting the Moynihan amendment in the Senate was written in August 1983. After bad years in 1980 and 1981, pork production faced favorable price conditions in 1982. But in 1983 the PIK program, in conjunction with a drought, led to a major increase in feedgrain prices. Estimates of the costs to hog producers of a relative price reduction in beef were presented. Thus pork producers saw the proposed dairy program as an added, government-induced disruption of their markets. They viewed a rapid reduction in milk price supports as the best solution in the long run.

Thus, the three meat producers' organizations arrived at similar positions in the fall of 1983. The issue of the orderly marketing of culled cows was never discarded, but the main issue became the long-term effects of the program. And a shared ideological opposition to government programs provided the cement for the alliance with the Farm Bureau and probably secured the administration's eventual support.

Once the alliance was forged, a coordinated lobbying effort was launched. This included writing position papers, contacting representatives or their staffs in Washington, and alerting members so that they would put pressure on their legislators at home through personal contacts, telephone calls, and letters. This effort was not successful. Why? Considering the strong organization of the dairy lobby, it is clear that the opposition was weaker because it was organized much too late. Many representatives were already committed; they had made deals with colleagues in exchange for support on other legislation. Another factor was probably the lesser experience on the political scene of the meat producers' organizations. Finally, the arguments about the effectiveness of the various proposals and their relative effects on the meat markets may not have been convincing, as will be shown in the discussion of the role of the legislators.

Paradoxically, those who lost this battle expressed little bitterness in later interviews. Clearly everyone was conscious that policymaking is a dynamic process. This is particularly obvious in the case of the diversion program, which was intended to last for only 15 months. Every actor was already positioning himself for the next scene. The shadow of the coming debate around the 1985 farm bill loomed large.

Thus the Farm Bureau believed that failure to significantly reduce dairy production beyond the diversion period would vindicate its philosophical position and give it an advantage in future debates. All three meat producers' organizations stated that they had learned from the experience and would not be caught unprepared next time. Internal procedures had been or were being developed to play a more effective role on the political scene.

The Legislators

As with any piece of legislation, the legislators played a critical role in the policy process under study. By incorporating the two 50-cent assessments in the 1982 Budget Reconciliation Act, they sent a clear message to the dairy industry that the tolerable limit of the federal budget had been reached; something had to be done to reduce dairy production and public costs. As discussed in the previous chapter, the concept of a budget constraint is nebulous: nobody knows exactly what the limit is. But politicians sense when a program has gone beyond that limit.

When at the beginning of 1983 the dairy industry failed to reach a unanimous agreement on a desirable policy, legislators whose constituencies included a significant dairy industry became frustrated, as illustrated by an outburst of anger in the House Agricultural Committee in April 1983. Thereafter several legislators from both chambers and from both parties took the lead in developing the compromise that led to the passage of the act.

A series of meetings, with the secretary of agriculture present, was necessary to develop a workable compromise. Specific industry representatives were consulted to test the feasibility and the acceptability of the compromise. Finally, legislators told the industry: it is this or nothing. It was clear at the outset that no bill had a chance to pass unless it was unanimously endorsed by the dairy industry, unless it was tagged to another commodity program—hence the link with tobacco—and unless it had the support of the administration. The latter is clear if one remembers the impass during the spring and summer of 1983. It was only when the secretary of agriculture declared himself neutral and agreed to forgo the link with the target price freeze (which he had insisted upon until then), that the Senate majority leader judged that he could afford to schedule the dairy and tobacco bill for discussion on the floor.

The role played by Senator Rudy Boschwitz, Republican from Minnesota, illustrates the critical importance of a compromise. Dairy farming is important in Minnesota. Facing a difficult reelection campaign in 1984, the senator absolutely needed to be on record as having been instrumental in bringing about a policy supported by the state dairy organizations. The stalemate within the dairy industry could have been catastrophic for him. But once the main features of a workable compromise became apparent, they were different from what the Minnesota dairy interests wanted. Senator Boschwitz took a political risk: he supported the compromise and "sold" it to his constituents, presumably on the argument that this was the only workable solution and therefore better than continuing the older policy, which included the hated assessments.

Once the compromise was agreed upon and the administration had declared itself neutral, the play moved back to the House. The crucial question at this stage was the response of the legislators to the conflicting lobbying pressures they were subjected to. Some supported dairy or tobacco because of the significance of these interests in their constituencies. Others were committed because of earlier deals made with colleagues. Yet the extent of the victory won by the supporters of the compromise cannot be explained by these considerations alone. Many representatives from urban districts supported the version of the bill that promised a smaller reduction in the price of milk, which would seem to be less beneficial to consumers. Why? First, the consumer price argument did not carry much weight. Was that because consumer organizations were not very powerful? Some were part of the coalition opposing the compromise bill. Or did legislators feel that consumers were not really concerned about the issue? Whatever the reasons, consumer price was not a lively issue.

Of course, the large financial contributions of the dairy PACs probably did play a role. The Wall Street Journal of November 18, 1983, reported that since January 1, 1981, dairy PACs had distributed $1,343,868 among 293 members—more than two-thirds of the House. This is a large amount of money, but the total cost of the 1982 electoral campaigns of the representatives who were elected was probably greater than $150 million. It is hard to believe that such money alone could do the trick. Yet Representative Tony Coelho (Democrat from California and chairman of the House Democratic Campaign Committee, the person who held the purse strings of his party's war chest, is said to have stayed on the floor during the whole debate. This suggests that members of the Democratic majority of the House were thus subjected to powerful pressure because no elected official willingly antagonizes such a powerful colleague.

On the other hand, dairy lobbyists emphasize that many urban congressmen supported the compromise because both USDA and CBO estimates indicated that it would cost significantly less than the straightforward reduction in price support embodied in the Conable amendment. The CBO estimated a difference of 1 billion dollars over two years, a significant amount at a time when the problem of the budget deficit loomed so large in the general economic policy debate.

If, as seems likely, the budget argument played an important role in the position taken by many legislators, this was again a case where predicted short-term consequences of a contemplated policy were essential in the outcome of the policy process. Long-term considerations did not weigh much. This general tendency was probably reinforced here because all participants were fully aware that the adopted policy would only be temporary. It would have to be reassessed at the end of the diversion program and would be part of the general discussion of the 1985 farm bill.

In addition, many of these urban congressmen were Democrats. Most of them were probably suspicious of the free-market ideology that underlay the straightforward reduction in the price support level. They could be expected to favor, in principle, some form of public help designed to ease the pains of adjustment to a new economic situation. More research would be necessary to assess the relative importance of each of these considerations in determining why 250 representatives voted against the Conable amendment. Probably each of these considerations played a role and the mix varied from one member to another.

Finally, congressional leaders exerted pressure on the president so that he would not veto the bill. The logic of their behavior then is quite clear.

The Administration

The administration's lead actor was the secretary of agriculture and his department. Other agencies involved in the process included the Office of Management and Budget (OMB) and the Council of Economic Advisers (CEA). The roles of OMB and CEA seem to have been straightforward, with OMB seeking to minimize budget costs and CEA standing for a greater reliance on market mechanisms. Both were in favor of the reduction in the price support level, as well as the freeze in target prices.[66]

The secretary of agriculture's role in the dairy drama can only be understood if one recognizes that dairy policy in 1983 was but one element in his overall plan of action. His dealings with Congress on the dairy issue in particular must be viewed within the context of his general strategy. Any secretary of agriculture must keep the farmers' political support for the administration and follow the president's general policy orientation. For Secretary Block this meant reducing government intervention as much as feasible, relying more and more on market mechanisms and reducing federal treasury spendings.

In this context one can understand why the administration vigorously enforced the assessments voted on at the end of 1982, even though it did not like the policy. It was an effective way to call the attention of dairy farmers to the surplus problem. The administration's participation in negotiating the compromise in the spring of 1983 can be interpreted as a way to probe the limits of what was politically feasible. Linking endorsement of the compromise to the target price freeze has been the source of much controversy. USDA spokesmen say that this was part of the original deal. Dairy industry representatives insist that they were not a party to that deal. (Incidentally, this was the only contradiction that came out of interviews for this report, which indicates that the story narrated here is probably a good representation of what actually happened.)

Whatever the original deal, the secretary had to accept that he would have to forgo the link with the target price freeze. From hindsight, insisting on the link in the first place may not have been a good political move. However, it may have served the purpose of establishing publicly that the administration wanted the freeze badly and that only Congress should be blamed for the continuing high budget costs of agricultural programs.

When the play moved back to the House, the administration supported the Conable amendment and thus opposed the compromise, the development of which it had been involved in. This was done at some political cost. Several Republican legislators complained that the secretary had not kept his word, a grave accusation on the political scene. Again, this can probably be interpreted as taking a stand in favor of free-market mechanisms in a debate that had become somewhat partisan.

Finally, the secretary recommended signature of the bill by the president. Although one can only speculate about his reasons, political considerations were probably important in determining that position. In addition, he probably felt that this act was better than continuation of the old policy, which included a mandatory hike in price supports in 1984. Gambling that Congress would pass another more satisfactory bill in 1984 appeared risky, and the secretary had already paid a high political price to take a stand. If the diversion plan failed to significantly reduce production, the secretary's stand would be vindicated. If dairy production diminished significantly, treasury spending would decrease and the political pressure on the secretary to do something about the dairy program would be reduced.

The Chorus

In ancient Greek drama the chorus is made up of observers commenting on the drama but taking no active part in it.[67] Most often they deplore the process leading to the

---

[66] Incidentally, some observers believe that it was the director of OMB who put pressure on the secretary of agriculture to link the administration's endorsement of the dairy compromise to passage by Congress of the target price freeze. For the purposes of this report, this is not essential information.

[67] Other actors played a role in the policy debate. Several consumer groups and the National Association of Ice Cream Manufacturers opposed the compromise bill, but their roles do not seem to have been major, which justifies ignoring them in this research.

tragic outcome. The analogy with the policy process should not be stretched too far. Yet, the policy debate is indeed surrounded by observers and commentators who do not seem to have much influence on the process and its outcome, at least in the short run, and who lament that the outcome is not what would be in the best general interest. This chorus includes professional economists, journalists, and others interested in agricultural policies for one reason or another.

In casual discussions of the dairy policy debate with agricultural economists, a vast majority strongly favored a straightforward reduction in the price support level. They clearly felt that final passage of the dairy compromise was the result of political considerations alone and had no economic justification. Such a widespread opinion deserves some attention.

To a foreign observer, the quasiunanimity of the economic profession is striking. It probably reflects a strong common ethical attitude. Economists view themselves as defenders of the long-term general interest, and this is often equated with the long-term economic equilibrium. Distortions of that long-term equilibrium are viewed as costly to society as a whole because they lead to inefficient allocation of scarce resources.[68] Judged from this point of view, the dairy program is bad because it does not lead to a good solution of the problem of overcapacity in dairy production. Reductions in the price support would be more effective in bringing about the necessary adjustment.

As already indicated, the press coverage of the dairy policy debate was limited until the bill was discussed in the House. Although in preparing this report the review of press coverage was not exhaustive, such often-quoted newspapers as the *New York Times*, the *Washington Post*, and the *Wall Street Journal* were regularly consulted. The *Christian Science Monitor* was consulted less systematically. Whereas these papers have different ideological orientations, the consensus among them was striking. Comments by journalists on national television news programs followed the same line. All were critical of Congress for having given in to the pressures of the dairy lobby, and several editorials urged the president to veto the bill. Clearly on this issue, the national media felt that they had to denounce what they viewed as a patent breach of the public interest. They acted as spokesmen for silent consumers and taxpayers. This is consistent with their usual role in the public debate. What is more surprising, however, is that they seldom alluded to the substance of the issues involved: would one proposal be more effective than another in reducing production? What were the implications for the public treasury? These arguments were a major part of the debate, and quantitative estimates were available. One may wonder whether the urge to take a stand took precedence over the need to inform.

Uncertainty and the Policymaking Process

Uncertainty was inherent in the process because much of the debate revolved around the likely consequences of alternative policies. What would be the impact on supply? What would be the implications for the federal budget? In addition to these explicit questions, others remained implicit but were probably no less important. They dealt with the distributive effects of the proposed legislation. For instance, reaching a compromise within the dairy industry was difficult because of the differences in regional interests. But here again the uncertainties were important, constituting an essential feature of the process. In addition, some argue that the obscurity of the issues is a key element in explaining why there is so little pressure for reform for a policy that benefits so few at the expense of so many.[69]

---

[68] There are also sound arguments for questioning price support programs on equity grounds, because they often transfer income to farmers who are richer than a high proportion of consumers, and because they do not favor young farmers as most of the benefits are capitalized in land values.

[69] According to Donahue, "In 1982, dairy price support purchases cost eight times as much as government funding for the arts and humanities, almost three times as much as the National Park Service, and close to double the budget for the National Science Foundation. . . . Explaining why we pursue and pay for this policy involves legislative history, aggressively deployed lobbying power, and the political dynamics of obscure and glamourless issues," (John D. Donahue, "The Political Economy of Milk," *The Atlantic Monthly*, October 1983, pp. 59-68).

As for other commodity programs, the major economic variable that influenced the evolution of dairy policy was the federal budget constraint. A crisis occurred and became apparent to all when the two 50-cent assessments were introduced in the 1982 Budget Reconciliation Act. Then, and only then, was there no uncertainty—something had to be done about the budget. This means that prior to that there was enough uncertainty to keep the debate open. The type of uncertainty relevant in a policy debate is that viewed as a social phenomenon, in contrast to uncertainty in the mind of an individual. Clearly, many individual observers, and probably even as important a government agency as the USDA, were convinced early on that budget outlays, linked to the growing dairy surplus, would continue to increase unless something was done to check supply. The new administration pushed for a reduction in support prices and launched a campaign of explanations, which can be interpreted as an effort to reduce the degree of social uncertainty.

If many observers were convinced earlier than late 1982 that the growth in milk production was out of control, why was there still uncertainty? Economic analysis can be used here to provide an answer. First, it must be recognized that such conviction always relies to some degree on judgment. An issue is seldom perfectly clear. That was the case with the dynamics of supply.

There is little doubt that the long-run price elasticity of supply is positive and significant.[70] But that has not been sufficient to guide policy. The impact on production of lower price supports is always controversial. Questions are raised concerning both the reduction in the volume of production and its timing. The idea that production could even increase in the short run, always presented in such debates, is usually dismissed by economists, even though economic theory suggests that this might well happen at the microeconomic level. The existence of a large excess capacity in processing also complicates the transfer of price signals to farmers. The aggregate effect of a decline in the level of price support during a given time period cannot be rigorously predicted, and this issue weighed on the policy debate.

In the case of U.S. dairy production, there is no doubt that the milk-feed price ratio is important. Many of the ripples on the curve tracing the evolution of the average milk yield per cow in Figure 2 can be attributed to price effects. Such is clearly the case of the dips in 1973 and 1974, when grain prices were extremely high. But even this apparently straightforward relation is somewhat complex, as illustrated by the 1978 milk yield, which was below the trend line even though the milk-feed price ratio was favorable then.

Interpretation of variations in cow numbers in response to price changes poses more problems yet. The timing of changes in price support programs and of variations in the numbers of cows cannot be directly related.

A close examination of the curve tracing the evolution of the number of cows in Figure 2 suggests that the change in dairy farmers' behavior was progressive and began in the mid-1970s when the decline slowed down. It seems likely that this change should be related to general growth of the dairy industry, which underwent rapid structural and technical changes during that period.

The number of farms reporting dairy cows declined from 1.13 million to 350,000 between the 1964 and 1979 censuses. In 1959 about two-thirds of dairy cows were in herds of less than 30 cows; in 1979 more than 60 percent were found in herds of more than 50 cows, one-third being in herds of more than 100 cows. In 25 years, 1955-80, average milk yield per cow doubled. Thus, many dairy farms disappeared, while a smaller proportion increased their size, some of them dramatically. In some new dairy areas large new dairy operations were created. With such rapid structural changes, it would clearly be a gross oversimplification to argue that the number of cows is related directly to changes in price support levels. Of course, structural and technological changes are also related to prices, but the dynamics of these changes are not clear enough to trace the impact of prices.

With hindsight, the evidence that price supports played an important role in boosting production is strong. The provisions that prices be supported at a minimum of 80 percent of parity and be adjusted semiannually resulted in milk price support levels increas-

[70] For a relatively recent review of the literature and an independent estimate, see G. Joachim Elterich and Sharif Masud, "Milk Supply Response in Delaware," *Journal of the Northeastern Agricultural Economic Council* 9 (April 1980): 41-45.

ing faster than those for other commodities such as maize and wheat. It also sent signals to dairy farmers indicating that they could be reasonably confident that they would be protected against inflation. This probably influenced their long-term expectations favorably. And it is well known that such expectations play an important role in the dynamics of supply, because they are the relevant variables to be considered for such important decisions as whether the farmer's son chooses to succeed his father, whether a new barn should be built, or whether a dairy herd should be extended.

The very fact that no actor in the 1983 dairy policy process questioned the inevitability of a reduction in the price support level is striking. This was quite different from the situation in Europe, though dairy surpluses there were larger than in the United States. This unanimity in the United States can be interpreted as the outcome of a process to reduce uncertainty, but in spite of it, uncertainty about the impact of a price reduction on supply did not disappear with passage of the two 50-cent assessments. It fueled the 1983 debate around the potential effects of a straightforward reduction in price supports versus a diversion program.

Another source of uncertainty about the effects of a reduction in the price support level, revealed by the existence of a controversy, must be noted here. It deals with the influence on demand. As indicated earlier, there is some uncertainty about how reductions in price support would be transmitted at the retail level, and there is uncertainty as to the size and timing of the increased consumption that would result from declines in consumer prices. Here again there is a consensus on the sign of the price elasticity. There is also wide agreement that in the long run elasticity is important, but again that information is not sufficient to settle the most relevant issue for a policy decision: the size and timing of supply and demand variations.

There is also uncertainty about the consequences of various policy alternatives on internal conflicts of interest within the dairy industry. The key question is where would production decrease most if the price support level was lowered. Presumably, the opposition between the southeastern and Southern Californian producers on one side and other producers on the other is based on the assumption that production would decrease less in the Southeast and in Southern California than elsewhere. It is true that intervention purchases are for manufactured products (butter, milk powder, and cheese) and that the bulk of the milk produced in the South is used as fluid milk. But clearly these are broad statements.

The impact of changes in the level of price support on the regional price pattern depends on current regulations, particularly on the way the system of state and federal milk marketing orders is administered, including of course the regional variations in class price differentials. These differences roughly correspond to transportation costs 10 or 15 years ago. As regional price differentials have been frozen, one could conclude that the relative level of protection granted to deficit area (that is, Southern) producers has diminished. But Donahue writes, "In essence, these USDA regulations, which set minimum milk prices, are designed to ensure that consumers in every corner of the country get their milk from local producers.[71] It can be argued that without any regulation the price of milk would be lower; regions with limited alternatives, such as Wisconsin, would continue to produce milk and drive some southern producers out of the dairy business. But the price differentials would be close to the cost of transportation. By imposing a more uniform minimum price, regulations reduce competition on southern milk markets and therefore contribute to greater protection of deficit-area producers, who often benefit from over-order payments. Several studies have already elucidated the major determinants of over-order payments.[72] They reflect the competition on fluid milk and dairy product markets that is taking place in spite of and within the framework of existing regulations. Uncertainty about the future remains great because regulations may change and also because the long-term trends in regional supply and demand are not clear.

[71] Donahue, "Political Economy of Milk."

[72] See, for instance, Emerson E. Babb and D. A. Bessler, *Factors Affecting Over-Order Payments in Federal Milk Marketing Orders, 1965-80,* Agricultural Experiment Station Research Bulletin 977, Purdue University, June 1983.

Perhaps this issue was not prominent in the recent debate. It was present, however, because nobody really knew how many farmers in any region would participate in the diversion program. That question is critical, however, for any cooperative, because a reduction in the volume of milk collected means higher average fixed costs.

Thus, the uncertainties about the dynamics of regional competitive positions are significant. One thing, however, can be safely predicted. Given its importance for the welfare, perhaps even for the economic survival, of such major actors as the large dairy cooperatives, the issue will continue to play a prominent role in future debates and in the dairy policy process.

Long-term uncertainties are also significant. What are the prospects for future technical changes in the dairy industry? How will these be influenced by policies? By changes in the structure of the industry? Have most new products (imported cheeses, yogurt, and so forth) been introduced from outside the country? Does this reflect a lack of dynamism in the dairy industry? Could this change and under what conditions? What are the real advantages of large cooperatives? Are they the result of the intervention system? How beneficial to the cooperatives are special exemptions from antitrust or tax legislation?

All these questions will play an important role in shaping the future of the dairy policy debate and thus will help determine the policy process in the future. They may also provide a useful agenda for relevant collaborative research.

Lessons from the Case Study

Before attempting to derive lessons from this case study, which may be valid for other policy choices, it will be useful to point out some of its limitations. As with all case studies, this one cannot be taken as a test of the hypotheses; and if it does help to specify the assumptions of the general framework of analysis presented at the beginning of this paper, the general validity of this specification remains a conjecture.

Two additional limitations should be stressed. First, selecting one decision (the 1983 dairy act) and following it for about one year prior to its passage isolates a sequence of events from a longer sequence in a dynamic process of which it is a part. One cannot fully overcome the consequences of this splicing of time, which in some respects should perhaps be viewed as continuous. More concretely, this means that some issues that did not surface in the 1983 policy debate may have been very important from a longer-term perspective. For example, changes in the structure of the milk production sector, the rapid adoption of technical progress, and concentration on processing and distribution raise important policy questions. In the analysis of the 1983 debate these questions were considered only in the context of their influence on the balance between supply and demand or the regional conflicts of interest within the dairy industry. Clearly these influences were important and thus these economic forces were not entirely ignored, but focusing on one policy decision in which short-term considerations were of paramount importance has the disadvantage of neglecting long-term policy implications which may be important in future policy debates.

The second limitation is linked to the nature of the U.S. dairy sector. Having benefited for a long time from a high degree of protection, the sector holds a special position in U.S. agricultural policies. Understanding that specificity is probably essential in order to interpret the general U.S. agricultural policy scene. But clearly it must not be taken as typical. For many agricultural commodities the growing linkages between international trade and domestic agricultural policies are essential. International markets may be the driving force in the evolution of the policy debate. But such international considerations are not relevant in a dairy policy case study.

In spite of these limitations several lessons can be derived from this case study. Questions for further research can also be identified. First, the study raises an important question for the future of dairy programs. To what extent is their social basis eroding? How long will dairy organizations be able to compensate for that erosion with a high degree of lobbying sophistication? The idea that dairy programs have a social basis rests on the assumption that society at large is willing to support dairy producers because the public perceives that dairy farmers are not well off even though they work hard, have been innovative, and have made immense efforts to modernize. Moreover, the perception persists that even if a similar quantity and quality of milk could be obtained at lower prices and lower costs to the taxpayer, the savings might not be large enough in the long run to be worth worrying about.

Clearly, such perceptions have been and will continue to be less and less valid. Most dairy farmers work hard, but they are not poor. Criticism of dairy programs is being vehemently expressed. To what extent will the "bad press" received by the dairy lobby influence these public perceptions? Resorting to sophisticated lobbying may only contribute to the deterioration of a generally good image of the dairy farmer.

With reference to the conceptual framework presented in Chapter 3, this dairy policy change has clearly been the outcome of a dynamic process driven by conflicts of economic interests, regulated through the political process, and affected by long-term economic forces. The hypothesis is clearly valid for the case study, but it seems likely that it has more general validity, because the 1983 dairy policy process was not unusual in this respect.

The narrative of the decision process, the observation of the various actors' roles and strategies, and the review of the underlying economic issues have clearly shown that organized economic interests played a decisive role, often criticized but undoubtedly critical, in the policy process. They influenced policymakers; thus they also influenced the function of political institutions, and in the long run they helped to shape these institutions.

Conversely, political institutions help determine how economic interests are organized. In the 1983 dairy policy process the existence of a compromise accepted by all segments of the dairy industry was essential. Clearly, each party to the compromise viewed it as the best it could get under the circumstances. In a sense the dairy coalition was forced to stay together by the nature of the policy process, in spite of sharp internal conflicts of interest. But as this is part of a dynamic process, the present configuration of economic interest organizations is clearly a product of past evolution. In 1983 meat producers' organizations took a stand on dairy policies for the first time. In addition, there are clear indications that their participation in the dairy policy process will affect their future behavior on the political scene. Similarly, it is quite conceivable that other economic interests, such as consumer groups, will enter the policy debate more forcefully and effectively in the future than they have done in the past. Whether or not this happens will not affect the dynamic nature of the policy process.

How do long-term economic forces affect this dynamic process? First, it must be emphasized that the assumption that they do, presented at the beginning of this report as part of the general framework of analysis, is clearly supported by the case study. The shift in the balance between supply and demand in the late 1970s and early 1980s was the critical element in the evolution of the policy debate, and it led to the general consensus that something had to be done, as illustrated by the introduction of producers' assessments in December 1982. Internal conflicts of interest, particularly on a regional basis, also played a critical role in the policy process, leading both to the need to reach a compromise and to difficulties in doing so.

These examples show that long-term economic forces influence the policy process. They also illustrate how this influence is exerted. The positions taken by various actors are directly influenced by the evolution of their economic situations, the situation of the dairy sector, and that of the economy at large. Thus, the growing budget cost of the dairy price support program and the growing pressure on Congress resulting from the very large U.S. budget deficits led to the sense of a crisis in 1982. It is probably significant that a key event in the dairy policy process—the introduction of producers' assessments, which triggered the whole 1983 sequence of events—was part of the 1982 Budget Reconciliation Act.[73] Although the assessments were disliked by everyone, they had the great merit of calling the dairy farmers' attention to the federal budget problem.

Thus, this case study illustrates that long-term economic forces matter, that they influence the conflicts of interest, which are themselves regulated through the political process and that policies are determined through that process. It has also been shown that the existence of great uncertainties

[73] Boyd M. Buxton, Tom McGuckin, Roger Selley, and Gayle Willett, "Profitability of Milk Production in Selected States," *Dairy Outlook and Situation* 396 (March 1984): 26-29.

about these economic forces is an important feature of the policy debate, significantly affecting its outcome. Prediction of the evolution of dairy policies in the future must rely on forecasts of changes in long-term economic forces, and on an assessment of how these forces will be accommodated by a slowly evolving political process. This is a difficult task indeed, but there is really no alternative, and this is exactly what policy practitioners attempt to do all the time.

To what extent can these lessons be extrapolated outside of the United States? The policy debate is probably not always as accessible and as transparent as it has been in this case. In open democratic societies much of the debate is public, if only because conflicting private interests have a stake in influencing the outcome of the debate, and those who are not party to a deal complain publicly if they suffer from it. Of course, the policy debate is never perfectly transparent. Conversely, even in political systems where the decisionmaking power is centralized and public control is limited, the process is not totally obscure: diplomats, journalists, and other observers still attempt to interpret the policy debate, and to assess the issues at stake in order to predict policy changes.

In open democratic countries, even if the action is less transparent than in the United States, interest groups are actively trying to influence public authorities. It is clear for instance that in Europe dairy interests have also been successful in obtaining favorable policies.

6

CONFRONTATION BETWEEN THE UNITED STATES AND THE EUROPEAN COMMUNITY ON INTERNATIONAL TRADE OF AGRICULTURAL PRODUCTS

The confrontation between the United States and the European Community over the international trade of agricultural products has been so serious that the possibility of escalation into a full-fledged trade war was often mentioned in 1983 and cannot be dismissed today. This confrontation between two major world trading blocs could have serious consequences for third parties. Importers of agricultural products could derive substantial benefits from a price war on world markets; competing producers could, of course, suffer great losses. The potential disruption of world trade adds significantly to the already great uncertainty fueled by the last decade's roller coaster variations in the prices of major agricultural products. Given the rigidity of domestic policymaking, brought about by the dynamics of economic forces and political factors shaping the policy process on both sides of the Atlantic, American and European negotiators have limited margins of maneuver to accommodate each other's positions. For this reason, in spite of an obvious common interest in finding some mutually acceptable arrangement, it has been difficult to avoid the acrimony and aggressiveness aroused by real conflicts of interest and fed by a deep divergence of economic doctrines. As these conflicts increase, the issue becomes more critical.

Escalating Confrontation

Origin

Conflicts over agricultural trade between the United States and Europe are not new. The story of these conflicts has been clearly and briefly recounted by Hathaway. The following paragraph borrows from him and from Tracy.[74]

The creation of the European Community required, under GATT rules (Article 24-6), negotiations with trading partners to ensure that the new customs union would not hurt the interests of third parties. This was the first battle in a protracted struggle by the United States to alter the agricultural policy of the European Community. The United States obtained free entry for soybeans, soybean meal, other oilseeds, and cotton but failed to secure guaranteed access for other commodities that could be affected by a variable levy under consideration at that time, which was eventually adopted as a major feature of the CAP. During the Kennedy round (1963-67), the EC offered to negotiate a ceiling on the "margin of support," but the U.S. administration, under pressure from U.S. agricultural interests, would not settle for less than a dismantling of the CAP variable levy system. Not much was achieved because neither side was in a position to make a significant concession. On the U.S. side, broader geopolitical concerns about the future of the Atlantic Alliance were being expressed in the State Department, the National Security Council, and even in the office of the U.S. Trade Representative. There it was felt that if the CAP was the price for European unity, and thus for strengthening the European pillar of the Atlantic Alliance, it was a small price to pay. This clearly dampened the political clout of agricultural producers worried about their European markets. Besides, continued growth of U.S. agricultural exports to Europe seemed to prove their fears ill-founded.

The export boom of the early 1970s reduced tensions between the European Community and the United States. In the Tokyo round of multilateral negotiations (1973-79)

[74] Dale E. Hathaway, "A U.S. View of the Common Agricultural Policy," paper presented at the International Financial Conference, Vienna, April 1984; Michael Tracy, *Agriculture in Western Europe, Challenge and Response, 1880-1980*, 2nd edition (London: Granada, 1982).

the Community made it clear at the outset that what it viewed as the CAP principles were not negotiable, but it proposed an ambitious scheme of world marketing arrangements to be implemented through international commodity agreements. These were unacceptable to the United States on philosophical and other grounds. This stalemate on agricultural trade stalled the general negotiations for almost two years. Eventually U.S. negotiators felt that without anything to offer in return, they had no chance to achieve their goal of dismantling the variable levy system. They concentrated instead on the subsidy code, obtaining some success. It was finally agreed "not to grant directly or indirectly any export subsidy on certain primary products which results in the signatory granting such subsidy having more than an equitable share of world export trade in such product, account being taken of the shares . . . during a previous period, and any special factors which may have affected or may be affecting trade in such product."[75]

Recent Developments

The European Community felt that at the Tokyo round, its trading partners had finally accepted the principles of the CAP. Thus, the actions of the U.S. government in the GATT in the second half of 1982 were viewed as a breach in a gentleman's agreement.[76] First, the United States filed or revived several complaints attacking various elements of the CAP: export refunds on grain-based activities (milling, pasta, and poultry), aids to processing industries (canned fruits), and the privileged trading arrangement with Mediterranean countries (citrus). In addition, the U.S. delegation at the GATT ministerial meeting in November 1982 called for the suppression of export subsidies.[77] Thus in two decades the bulk of the conflict had shifted from variable levies to export subsidies, that is, from U.S. access to the European market to competition on other markets by European exporters benefiting from "unfair" advantages. In spite of their sharp internal conflicts, EC member states closed ranks under the attack and did not concede anything more than an agreement to hold informal bilateral discussions designed to specify the conflicts and to explore possible informal arrangements.

To show that it was serious—not just using the CAP as an outside scapegoat on which to vent high rhetoric for domestic consumption in a time of political difficulties with its farmers—the U.S. administration subsidized a large sale of wheat flour to Egypt in January 1983, thus knocking out an important traditionally French market.[78] Since the French government is viewed in Washington as the main stalwart of the CAP, the move was well calculated and correctly understood as an act of aggression in a looming trade war. In addition, threats were made to dump on the world market huge U.S. stocks of dairy products. This would lower prices still further and make the European export refunds—which cover the difference between the internal European price and the world market price—still more expensive.

In October 1982, the secretary of agriculture announced a program to blend direct export credit at zero interest rate with export credit guarantees of the CCC (GSM102 Export Guarantee).[79] These export credit programs had progressively become a major U.S. tool

[75] "Code on Subsidies and Countervailing Duties, Article 10" of the GATT, as quoted by Tracy, *Agriculture in Western Europe.*

[76] The existence of a gentleman's agreement was illustrated by a 1979 letter from Robert Strauss, the U.S. trade representative, to the late F. Gundelach, then vice president of the EC Commission, giving the U.S. interpretation of the recently negotiated change in the GATT subsidy code and asserting that the United States did not envision weakening the CAP in any way. The breach was not a total surprise, however. In 1981 the new Republican administration had defined its position and strategy on the agricultural trade issue with Europe and had sent clear signals to EC officials that it would oppose export subsidies. A high-level mission of five cabinet officials, led by Secretary of State Alexander Haig, went to Brussels for that purpose in December 1981.

[77] The U.S. delegation included Senators Robert Dole and Jesse Helms, which probably indicates that the position taken represented a consensus of Congress and the American people.

[78] The sale of 1 million tons of flour was achieved by making available at no charge an amount of flour in CCC stock to be added to the commercial sales. The resulting average price was well below the European bid, export refund included. A French observer estimated the cost to the U.S. budget at about $130 million.

[79] The terms of this guarantee, which include a high percentage of export value covered and credit up to three years, are very attractive. Although not public, the terms offered by competing countries are known to be less favorable, although competitors are now trying to match them.

of agricultural export promotion. In 1983 more than $1 billion of blended credit was granted, more than half of it devoted to wheat, a sensitive commodity in the U.S.-EC confrontation. In addition, nearly half of these funds for wheat were targeted to traditional French markets such as Tunisia, Morocco, and Egypt.

The bilateral discussions between the United States and the European Community, initiated in December 1982 at the ministerial level, were pursued in a high-level technical working group. The European delegation tried to convince their counterparts that if one looked in detail, market by market, commodity by commodity, U.S. grievances were ill-founded and that the European Community was scrupulous in respecting GATT rules, particularly the subsidy code. To prove the point, the Commission of the European Communities unilaterally fixed a ceiling on its exports of wheat, limiting its market share to 14 percent of the world wheat market. The U.S. delegation insisted on reduction and eventual elimination of the CAP export refunds; however, the EC representatives were not in a position to promise this. These technical discussions ended in mid-1983. At a ministerial meeting it was agreed, however, to form a joint bilateral group to explore whether it would be possible to reach an agreement on clarification of GATT rules, particularly on the subsidy code.

But the confrontation escalated when the commission submitted, in July 1983, its proposals for "adaptation of the CAP." Attention in the United States focused on two measures proposed by the commission: a tax on the consumption of oils and fats other than butter and a limitation of imports of feedgrain substitutes, particularly maize gluten feed and citrus pellets. Although the commission specified that these limitations would be negotiated with trading partners according to GATT procedures, these proposals were taken in the United States, the major exporter of soybeans, maize gluten feed, and citrus pellets, as adding insult to injury. Instead of showing a willingness to compromise, the commission proposed to strengthen the protectionist nature of its agricultural policy. Hearings held in Congress demonstrated the unanimity of views in the United States against these proposals. Administration officials conveyed in no uncertain terms to their European counterparts that, if implemented, such measures would bring about swift and strong retaliation.

The EC policymaking process is slow at best. No decision was made on the commission's proposals until March 1984. In the meantime, a new fiscal year started in the United States on October 1, 1983. By the end of February 1984, $603.9 million worth of blended credit had been committed, all of it for wheat, of which $601.4 million was allocated to Algeria, Egypt, Morocco, and Tunisia.

On March 31, the EC Council of Ministers finally agreed on a package of agricultural measures. It did not include the tax on oilseeds, but it did give a mandate to negotiate within the GATT a limitation of feedgrain substitute imports. It also gave clear signals that the European Community would seriously attempt to check the growth of its surplus production. The U.S. secretary of agriculture said the United States would attend the hearings conducted under GATT rules, but it would not accept a ceiling on U.S. exports. Most observers were convinced that this would not mean the end of the confrontation. The interim 1984 Agricultural Programs Adjustment Act, signed by President Reagan on April 19, 1984, contained measures or recommendations by Congress to boost agricultural exports: more food aid funds, more credit guarantees ($500 million), more direct credit ($100 million), hence more blended credit, and donations of CCC wheat and dairy stocks.

Thus, although the rhetoric noticeably declined after 1982, the escalation of measures fueling the confrontation continued—on wine, on export subsidies, on export credit.[80] One has the impression of a dialogue of the deaf. Actually, each side was following the logic of its own policymaking dynamics.

Logic of the U.S. Stand and Perspective

For the United States, the culprit is clearly the high price supports in Europe, which

[80] The high value of the dollar, the recession, and the debt crisis of several important developing countries are often quoted as causes of declines in agricultural exports. None of these factors is blamed on the CAP; however, opposition to its principles remains as strong as ever.

boost production and dampen consumption. To quote the EC commission itself: "The long-term trend of increases in the volume of agricultural production in the Community has been 1.5 to 2.0 percent a year, while consumption has increased by about 0.5 percent a year. Consequently, the Community has become more than self-sufficient in many of the principal products, and has come to rely increasingly on exports, or on subsidized sales within the Community, for the disposal of its production."[81] Export refunds are really export subsidies; they provide an unfair advantage to European exporters by enabling them to offer prices that do not reflect costs of production. This distorts the play of comparative advantage, which in the long run should dictate the pattern of international trade. Admittedly, measuring comparative advantage is difficult. But considering that U.S. farmers are usually viewed as more efficient than their European counterparts, the continued growth of European agricultural exports after 1981, when U.S. exports declined from 162 million tons valued at $43.8 billion to 149 million tons valued at $35.5 billion in 1983, can only be the expression of trade distortions caused by unfair practices.

In late 1982 the administration was under strong pressure to do something for agriculture. Net farm income for 1982 was expected to reach $19 billion, the lowest real value in more than 10 years. The number of foreclosures on farms had increased dramatically. Carryover stocks for major products were at a record high and were sure to increase further. Farm exports were declining and the budget cost of commodity programs had escalated to $11.6 billion, compared to $3.4 billion on the average during the three previous years. It is in this context that the PIK program was initiated on the domestic front, and that increased pressure was brought to bear on the European Community.[82]

The PIK program and a severe drought reduced feedgrain production by 45 percent. But 1983 wheat yields were good and partially offset the reduction in area due to PIK, so wheat production declined by only 14 percent from the 1982 record. In the fall of 1983, prospects for net farm income were a little better than in 1982 ($24-26 billion compared to $22.1 billion), but because inventories had declined, the outlook for net cash income was much better. Thus, the political pressure from farmers was reduced, but the cost to the budget was embarrassingly high ($18.8 billion for commodity programs plus about $10 billion for PIK). Budget pressures were such that the administration announced commodity programs for 1984 that eliminated diversion payments. Authorizations for export credit guarantee programs for 1984 were at first reduced to $3.0 billion from $4.8 billion in 1983. But during the 1983/84 winter, discontent built up among farmers. Clearly, the financial crisis was not over. Many farmers who had borrowed extensively during the 1970s to finance rapid expansion during a time of high expectations were facing serious problems, as revealed by the numerous foreclosures. Wheat farmers became upset with the administration for failing to propose an attractive 1984 program. Political pressure built up in states such as Kansas, Montana, and North and South Dakota, which have voted Republican in all but one presidential election since 1952 and which are represented by several influential senators.

This set the stage for a new compromise, which paradoxically came as part of the package to reduce the federal budget deficit. The process was launched by a meeting between OMB Director David Stockman, eager to obtain a freeze on target prices; Senator Robert Dole, a Republican from Kansas (an important wheat state) and chairman of the Finance Committee; and Representative

---

[81] Commission of the European Communities, *Common Agricultural Policy Proposals of the Commission* (COM [83] 500 final), Brussels, July 28, 1983, p. 3.

[82] The following excerpts from a speech by Secretary Block at the National Agricultural Bankers Conference, held in Chicago on November 10, 1982, illustrate the predicament the administration faced at that time:

> Almost everyone you talk with will tell you that agriculture is in trouble today. . . . I am not pleased with the present conditions in American agriculture; you aren't; and we know that farmers aren't. . . . I have nightmares over our CCC holdings of 400 million pounds of butter; 800 million pounds of cheese; and 1.2 billion pounds of non-fat dry milk. Our cotton carryover on August 1 was nearly two-and-one-half times as large as last year; wheat carryover next June 1 will be up 43 percent from 2 years ago; and the soybean carryover next October will be 60 percent larger than this year. . . . The European Common Market started building a trade wall around its 10 member countries 20 years ago for the purpose of becoming more self-sufficient in agriculture. But that point has been passed. The Common Market went from a net importer of 20 million metric tons of grain per year in the 1960s to a net grain exporter by 1980. Not content with being more self-sufficient, the Common Market went beyond that. It is subsidizing its excess production into exports that compete with American farmers. Our farmers must compete against the treasuries of European capitals. What's fair about that? . . . That hits American farmers squarely between the eyes.

Thomas Foley, Democrat from Washington (another important wheat area), majority whip, and former chairman of the House Committee on Agriculture. A deal was made: the 1984 wheat program was made more attractive by adding a paid diversion provision, but the target price was frozen at $4.38 per bushel, instead of rising to $4.45 per bushel in 1984 and to $4.65 in 1985, according to previous legislation. It was then necessary to bring in other commodities, that is, to negotiate with other commodity organizations and their friends in Congress on an acceptable package. As press reports and debates in the Senate indicate, this was not easy.[83] The "rice Senators" even resorted to a minifilibuster. Besides, conflicts of interest among wheat producers were evidenced by threats to oppose the compromise by Senator John Melcher. Presented as part of the "budget down payment" requested by the president, the Agricultural Programs Adjustment Act was actually certain to increase outlays in 1984, while freezing the target prices would lead to savings in later years. Total savings were estimated at $25.3 billion in four years. But such a figure depends critically on assumptions regarding what the target prices would have been after 1985, a period for which no decision had been made yet. Thus, the economic significance of these estimates is questionable. Their political function, however, is clear.

Looking at the U.S. stand on international trade problems from a political economy perspective goes a long way toward explaining it. Wheat is the most sensitive commodity in the U.S.-EC confrontation. About 60 percent of U.S. wheat production must be exported. The political clout of wheat producers is mighty. Their sales promotion organization, U.S. Wheat Associates, which works in collaboration with the Foreign Agricultural Service of USDA is smooth and effective. Therefore, it is not surprising that wheat benefited from almost 50 percent of the GSM102 credit guarantees and most of the blended credit in 1984. It is also not surprising that in the difficult domestic debate that led to the interim 1984 Agricultural Commodity Act, reaching agreement on measures to boost agricultural exports was easy. Clearly, the stand on international trade is a direct product of the domestic policymaking process, and the internal dynamics of U.S. agricultural policymaking will tend to aggravate rather than to lessen the tensions with the European Community.

European Positions

The European situation differs markedly from that in the United States, where, in spite of sharp conflicts on domestic agricultural policies, the consensus on the importance of exports for U.S. agriculture and on the posture to take in international trade negotiations is broad. In Europe, the views of the member states are extremely diverse; defining a common European position is always arduous. This makes the task of the EC Commission—to express that common view—difficult. Thus, although pressure exerted on the European Community by the United States was considerable, the recent policy debate on the CAP was dominated by internal conflicts of interest. Eventually, and paradoxically, a situation arose similar to that described for the United States.

Even though many in the European Community, particularly in Britain, and many economists share the United States' critical view of the CAP, that is not the position of the majority of the actors involved in the European agricultural policymaking process. Many would agree, however, that the price support level must and will be reduced, mainly because of the budget constraint. Growth in agricultural production is attributed more to the rapid modernization of European agriculture, including technological change, substitution of capital for labor, and enlargement of farms, than to the price level. Although growth and prices are recognized as related, the relationship is believed to be much less direct than is commonly accepted in the United States.

To summarize the general view, Europeans point out that export refunds do not contradict the commonly agreed-upon rules for international trade of agricultural products embodied in the GATT. They recognize that the subsidy code for agriculture is ambiguous and that a free-trade model would

[83] The debate was circumscribed in the Senate; a consensus—which would be interesting to analyze—developed quickly to avoid full debate in the House.

exclude export subsidies. But the GATT is viewed as a pragmatic effort to reach a politically viable agreement on ways to liberalize trade and not as a set of rules enforcing free trade. For some five decades now, government intervention in agriculture in developed countries has been widespread. Europeans note that agriculture originally received special treatment in the GATT at the request of the United States; there were strong political reasons for that. Similar forces are at play in Europe where there are still some 8 million farmers and where unemployment rates are extremely high. It would not be wise to ignore these forces, they say. As long as the Community respects the mutually agreed-upon rules, they feel it is unfair and counterproductive to attack its policies. Behind the doctrinal rhetoric supposedly advocating the general interest, powerful private interests are lurking. After all, free traders have always been found among those who would benefit most immediately from freer trade.

This brief summary of the European doctrine is extremely superficial.[84] But doctrinal differences, particularly between the United States and continental Europe, are wide and help explain some of the divergences and conflicts. With this background it is possible to interpret the positions taken by the European Community since the GATT ministerial meeting in November 1982.

The American attack came at a time when the EC member states were sharply divided and when long-standing issues regarding the budget and the reform of the CAP were pending. In addition, it became more and more embarrassing to drag on discussions about the application of Spain and Portugal for membership. The three issues, however, were closely interrelated; they could only be settled at the highest political level.

Pressures for reform of the CAP came from several directions. Agricultural prices in Europe, which were high compared to world market prices, have always been criticized by consumer organizations, but these groups do not have much political clout. Concern for inflation has also led several governments, particularly the British, to push for lower prices. This position was also consistent with the desire to guarantee traditional, low-price Commonwealth suppliers such as New Zealand continued access to the British market.

Farm organizations generally feel that the CAP is not complete. First, there are growing loopholes in the protection of European agriculture. For instance, imports of protein-rich animal feed, oilseeds, and feedgrain substitutes such as cassava have increased rapidly; they have affected the European cereals market and directly increased the surplus of grains that must be exported. Second, government intervention on storable products is easier to implement and thus more effective than on fresh or difficult-to-store products. It happens that the storable commodities (grains and dairy products) are largely produced in temperate northern Europe. Agriculture in the less prosperous Southern Mediterranean regions derives less benefit from the CAP than North European agriculture. This has important implications for the enlargement of the Community.

Farmers from countries with weak currencies complain bitterly that competition within Europe has been distorted by Monetary Compensatory Amounts (MCAs), which were created when governments refused to automatically raise or lower farm prices in their own countries immediately after a devaluation or a revaluation of a national currency. Positive MCAs are paid to farmers from countries with strong currencies when they export. Negative MCAs are collected from farmers in countries with weak currencies. Abolishing MCAs is politically easy where they are negative but difficult where they are positive because this implies a reduction in nominal prices.

The most important source of pressure on the CAP, however, has come from the budget constraint. CAP-related expenditures are a major share (60 to 70 percent) of the European budget. The growth in self-sufficiency for most agricultural products has meant that exports have increased faster than imports and thus that payments of export refunds have grown more than collection of variable levies. The deficit is offset by contributions from national treasuries, based on collection of a value added tax (VAT) in each country. By prior agreement, a ceiling

[84] The word "doctrine," which according to Webster pertains to a system of principles or beliefs, is used here rather than "philosophy," which is commonly used in U.S. discussions of agricultural policies, because philosophy is a much broader discipline. Here doctrine, means a set of general beliefs about what economic reality is as well as what it should be, without reference to particular situations.

on these contributions was fixed at one VAT percentage point. For several years the ceiling was close to being reached, but relatively high world prices in 1981 and 1982 eased the situation. It was clear, however, that financial resources would not be sufficient in 1983. Thus, a serious crisis was building because CAP market intervention outlays are of an entitlement nature.[85]

Internal conflicts among member-states made it difficult to find a mutually acceptable solution. Yet this was required because important decisions must be unanimously approved. Some simply wanted to raise the ceiling on national contributions. Others, particularly Britain and to a lesser extent Germany, insisted that present inequalities must be corrected before contributions could be increased. For several years British economists and successive British governments argued that they were paying more than their fair share of the common budget; the net balance of public financial flows (levies, export refunds, treasury transfers) was negative for them. They insisted on a rebate in their favor. Such rebates were reluctantly granted by other member states on a temporary basis. Thus the question of the British contribution was sure to arise again in 1983.

The admission of Spain and Portugal, which was generally desired for broader geopolitical reasons, was sure to compound these difficulties. Agricultural producers of Mediterranean products, such as fruits, vegetables, wine, and olive oil were concerned about increased competition on their markets, which are less well "organized" (read protected) than those of Northern Europe. More intervention would require more public funds. In addition enlargement would mean adjustments in both new and old member countries, and historically this has meant more public funds. In addition, because Spain and Portugal are poorer than most of the other member countries, their VAT receipts would be smaller, and the net transfer of public funds would be in their favor. Thus both the pressure for reform of the CAP and the acuteness of the financial crisis were heightened by the pending application of Spain and Portugal.

The July 1983 proposals of the commission for adjusting the CAP, viewed in this context, were a modest contribution to ease the budget constraint. Stressing that "its proposals represent a global package, which cannot be significantly modified without compromising its overall balance," the commission "examined the economic context of each market organization with a share of more than 2.0 per cent of the expenditure of the guarantee section" (the commodity program outlays) and proposed changes in policies specifically designed to ease the budget constraint.[86] These included establishment of quotas for the milk market and strict enforcement of the guarantee threshold concept (price support applicable to a limited volume of production). The tax on vegetable oil consumption and the limitation of imports of feedgrain substitutes were part of that package.

It is true, as argued by Mahe, that "a budgetary approach to CAP problems is unlikely to bring about prospects for a comprehensive, consistent set of principles or rules which would have a sound economic basis and lead to long-run economic efficiency."[87] Thus the commission proposals may be viewed as a set of piecemeal commodity-by-commodity adjustments. On the other hand, they represent a total package, which was politically feasible and helpful in easing the most pressing budget constraint. In addition, these proposals signaled that the era of open-ended financial commitment to support of the CAP was over. From the viewpoint of European internal policymaking dynamics, they were a pragmatic, positive contribution. On the other hand, it is not surprising that for those whose ultimate reference is free trade, these proposals were a disappointment.

The commission did not design the measures to be offensive to the United States; they were not tit-for-tat retaliations. The limitation on feedgrain substitutes was to be negotiated in GATT; this implies that due compensation for harm done would have to be given. The tax on oilseeds, which was very low, would contribute to the European budget but would not greatly affect the volume of soybean imports. This episode clearly shows

85 Like welfare benefits in most countries, all those who qualify under the law are entitled to them, without global budget limitation.

86 Commission of the European Communities, *Common Agricultural Policy Proposals.*

87 Louis P. Mahe, "A Lower but More Balanced Protection for European Agriculture," *European Review of Agricultural Economics* (11-2, 1984): 217.

how doctrinal differences lead to misunderstandings and fuel confrontation.

It took eight months for the Council of Ministers to make a decision on the commission proposals. This was done in March 1984, after two summit meetings of heads of states and governments, held in Athens in December 1983 and in Brussels in March 1984, had partially cleared the way. The process was complicated: the Athens summit devoted one-half of its time to the dairy issue, but nothing was agreed upon, and it failed to produce a final communique. This led to a flurry of bilateral contacts before the Brussels meeting.

Although the second meeting eventually failed to produce an agreement on the British rebate, the issues had provisionally been settled. The principle issues of budget, CAP reform, and enlargement of the Community to include Spain and Portugal were settled. The whole package was dependent on an agreement regarding the financial question, which was not settled until the following summit at Fontainebleau in June 1984.

In spite of the atmosphere of crisis following the Brussels summit, the ministers of agriculture met in council at the end of March 1984 and adopted a package of reforms. The principle of the guarantee threshold was confirmed and extended to a series of other less important products, in addition to milk, cereals, and sugar. Milk production was to be controlled through quotas, allocated among member countries, and implemented with some flexibility by the national governments. Positive MCAs were to be phased out. The average price support, expressed in EC units, was slightly reduced (−0.5 percent). But, because of the arrangement for MCAs, this meant on the average a 3.3 percent increase in prices expressed in national currencies. Various aids and premiums to specific commodities were altered. Finally, the tax on vegetable oil consumption was not adopted, but imports of feedgrain substitutes were to be limited; a mandate to negotiate in GATT was given to the commission.

Adopting this package implied political risks, and it did lead to farmers' protests. This is a good illustration of the limited margin of maneuver of European agricultural policymakers, who are subjected to powerful and contradictory economic and political forces. This analysis also explains why it is difficult for the European Community to enter into serious negotiations on international trade in agricultural products.

No one has the authority to make concessions in any negotiation in exchange for concessions from the other side. When the EC Commission receives a mandate to negotiate in GATT, for example, the Council of Ministers rarely leaves much flexibility. In all fairness, however, U.S. negotiators may not have a much wider margin. As part of the executive branch, they receive authority from and must account to Congress; during negotiations, they are closely watched by commodity interest representatives, who have powerful friends in Congress.

Issues Pending in 1984

Analysis of two issues that were pending when this research was conducted in the first half of 1984 show the difficulties of finding a definitive settlement to confrontation. They also show that the economic stakes, although significant, represent obstacles that could be overcome. But they are so entangled with doctrinal viewpoints that the best negotiators can hope for is to avoid a trade war. The two issues were the intended EC restriction on free entry of grain substitutes, particularly maize gluten feed, and the future of multilateral discussions in GATT.

Maize Gluten Feed

Maize gluten feed is a by-product of the maize-based sweetener industry. It is used as a source of carbohydrates and proteins by the livestock feed mixing industry in Europe. Its use, like that of other nongrain feeds such as cassava, has increased rapidly. This growth is a direct result of the protection of the European grain market and is viewed in Europe as a loophole in the protection of the market. If less nongrain feeds were imported, more cereals would be incorporated in livestock feeds and less would have to be exported on the world market. Payments of export restitutions would be smaller and the budget constraint would be eased. This is the reason, after having negotiated voluntary export restraints with the major exporters of cassava, Thailand, Indonesia, and Brazil, the EC Commission proposed to negotiate a similar arrangement with the United States to limit imports of feed products derived from the maize processing industries. The Council of Ministers endorsed that proposal as part of the package of reforms adopted in March

1984. As already indicated, the U.S. reaction to these proposals was first one of total rejection. After the council accepted the commission proposal to negotiate, discussions started.

In order to assess the economic stakes of the conflict, a little background information is necessary. The U.S. maize sweetener industry, benefiting from the high protection of the U.S. sugar market, grew rapidly, total production of isoglucose increasing from 1.7 million tons in 1979 to 3.5 million tons in 1983. Because of the difference in relative grain prices between the United States and the European Community, most of the maize gluten feed produced in the United States was exported to Europe.

Maize gluten feed can also be a by-product of maize-based ethanol, or gasohol, which is incorporated into gasoline. Production of maize gluten feed increased from 2.5 to 3.8 million tons between 1979 and 1983. Another by-product of ethanol production through another process is Distillers' Dried Grains, (DDG). In 1982-83, 700,000 tons of it were produced. The proposed restriction would also limit imports of maize germ oilcake, a by-product of maize germ oil production. In total, the restriction would cover 3 million tons of maize gluten feed, 0.4 million tons of DDG, and 1.1 million tons of maize germ oilcake.

What would be the effects of these restrictions? Strictly speaking, maize gluten feed and grains are not perfect substitutes. Maize gluten feed and oilcakes both contain more protein than grains. So import restrictions on these products would probably lead to an increase in imports of protein-rich materials such as soybean meals. Incorporation of grains into livestock feed might also increase, which might lead to growing imports of maize from the United States. Thus, what Midwestern U.S. farmers, the major exporters of maize and soybeans, would lose through import restrictions on maize gluten feed, they might gain in large measure through increased exports of the primary products.[88]

Imported maize gluten feed, the most important and visible commodity at issue, had grown an average of 17 percent per year, but the U.S. industry itself (the Corn Refiners Association) pointed out that the growth of the maize sweetener industry, and thus the production of maize gluten feed, would slow.

Given all these qualifications, the conflicts of interest seem limited. European officials pointed out that according to Article 28 of the GATT rules, unbinding (rescinding) an earlier agreement on a duty-free entry is permissible, provided the trading partner is adequately compensated. They clearly indicated that they wanted to negotiate such compensation with the United States. They had negotiated voluntary export restraints with countries such as Indonesia and Thailand, and the United States had entered into a similar arrangement with Japan for automobile imports—a much more important volume of trade.

Such a reasonable argument completely misses the symbolic value of this issue. The Reagan administration is committed to fighting EC protectionism in agriculture. Its objective is clear: to reduce existing barriers to trade and to exert enough pressure to stop "unfair trading practices." It would be unthinkable for the administration to willingly accept an increase in protectionism. The American Soybean Association and the Corn Growers Association as well as the Farm Bureau, are among the solid supporters of the administration's struggle for freer trade in agriculture. They share the president's ideology in favor of free market mechanisms. The maize gluten feed issue directly touched this constituency. In addition, many feared that if they accepted this breach in concessions made earlier, the Community would call for further restrictions on imports of other livestock feeds, particularly soybeans, a $4 billion business. Needless to say, agroindustries and their organizations, as well as international traders involved in the process, have played an active role in keeping up the pressure on the administration. They have been able to marshal effectively significant amounts of resources, and they have many friends in Congress. But this political clout would be much less effective if the issue did not touch on a basic tenet of the dominant, almost official, ideology: free play of market forces and free international trade.

It is true that U.S. policy is much more pragmatic and flexible than adherence to a rigid dogma would suggest. But it is probably fair to recognize that adoption of policies breaching the dogma, that is, increasing the degree of government intervention, requires

[88] Of course, the same compensation does not apply to the U.S. maize sweetener and gasohol industries.

those who promote changes to have considerable political power. The European Community has practically no power in the U.S. domestic policy debate, because it seldom conducts lobbying activities, although a few other foreign governments do.

On the European side, the issue of grain substitutes also has symbolic value. Farmers and their organizations were recently faced with a package of CAP reforms. Closing the grain substitute loophole was expected to be the sweetener in a bitter potion that included limits on dairy production, reduced real prices, and extension of the guarantee threshold. It should also ease the budget constraint. To renounce it under U.S. pressure does not seem politically viable.

GATT rules prescribe that the European Community offer compensation for unbinding the maize gluten feed duty. Because the U.S. government does not want to recognize the validity of the EC decision, it is likely that they would not accept any compensation that would be offered. According to the rules, the United States could then retaliate. If the European Community judged that the retaliation was excessive, it could register a complaint with the GATT. So the process could go on.

Although U.S. officials insisted that no decision had been made on retaliation measures that would be taken against EC trade, one possibility would have been to restrict wine imports. Exploring this possibility can help clarify the process of confrontation. The trade volumes in wine and maize gluten feed are roughly comparable; both have grown rapidly in recent years. Thus, U.S. retaliatory measures on wine, comparable to EC restrictions on maize gluten feed, could not be construed as excessive by the Community. From the U.S. perspective, retaliating on wine might not, however, be politically astute. In France and Italy where wine is a politically sensitive commodity, hurting wine producers would increase the pressure on the French and Italian governments. But it would put little pressure on the governments of Denmark, the Netherlands, or the United Kingdom. Yet these countries may be more susceptible to yielding to U.S. pressure than the French or the Italians.

In the fall of 1984, political pressure forced the U.S. administration to accept an omnibus trade act incorporating potential protection for the U.S. wine industry. In the meantime, the European Community has not made any decision on which compensation to offer for restricting imports of maize gluten feed. Thus the issue remains unresolved.

Multilateral Discussions on Agricultural Trade

When a bilateral U.S.-EC group was established in the second half of 1983 to explore the possibility of an agreement on interpreting GATT rules for agricultural trade, particularly the subsidy code, a proposal was put forth by the United States ultimately calling for a total ban on export subsidies. Surprisingly, the proposal was not rejected out of hand by the Europeans. In the meantime, the Committee on Trade in Agriculture (CTA), open to all GATT contracting parties (member governments) including the United States and the European Community, started work. The United States and the European Community mutually agreed to suspend their bilateral discussions, and the U.S. proposal was incorporated in the materials to be discussed by the CTA. This step was taken for several reasons. Although the U.S.-EC confrontation is viewed as serious—probably as the most difficult issue in the field of international agricultural trade—there are many other obstacles to freer international trade of agricultural products. If free trade is the ideal, then each of the 44 countries participating in the CTA is a sinner. In addition, other countries engaged in multilateral discussions are suspicious of extensive bilateral discussions on the same topics between the two major trading blocs. They fear that the two will strike a mutually acceptable deal, blocking any further negotiation. This shows the complexity of the negotiations and the difficulties of reaching an agreement.

Why did the EC accept the U.S. proposal banning export subsidies as a basis for discussion? EC officials often point out that the U.S. farm sector also benefits from many subsidies. These may not be direct export subsidies, but government support is important, and it indirectly "operates to increase the export" (GATT Article 16). Thus, one can surmise that EC negotiators will attempt to broaden the discussion to all government measures affecting agriculture. If that is the case, reaching an agreement promoting free trade will probably prove to be very difficult.

Future Significance of These Issues

In interviews, officials from both the United States and the European Community who were directly involved in the negotiations expressed a striking amount of frustration and bitterness in the privacy of their offices. One official spoke of the "hundred years" war. Another said the European Community is reforming its agricultural policies because of the internal budget constraint, but once this is done it will be "business as usual." The commission proposals of July 1983 show "no moderation, no progress has been made of substance," even if bilateral discussions since December 1981 have been useful because "personal relationships have developed between high officials from both sides."

What is clear is that there is a deep divergence of views, which goes beyond the obvious and real conflicts of interest. The dispute about agricultural trade has been simmering for years. When the controversy reaches a high enough political level, global political considerations relative to the Atlantic Alliance dictate that the issue must be negotiated. Both sides agree to that. But each sees the issue differently. For the last few years the position of U.S. negotiators has been simple: because free trade is the ultimate objective, European export subsidies must be stopped. They view the lack of progress as evidence that Europeans are not discussing in good faith.

European negotiators, on the other hand, consider the American position an exercise in duplicity. Export refunds are an integral part of the CAP. It is difficult enough to reach an agreement among Europeans. Why should the Americans dictate a politically important European policy? Besides, they argue, preaching free trade in agriculture happens to fit U.S. commercial interests at the moment, but the U.S. position is not credible because the U.S. administration is not doing what it preaches. The United States has never forfeited its right to waive any GATT rule on agriculture that conflicts with its domestic program. Several major U.S. commodity programs are based on trade interventions. Thus, if the European Community is convinced that the U.S. doctrinal position is not credible, their agreement to negotiate implies willingness to reach an informal gentlemen's agreement. But soon after the United States reached this sober realization the "armistice" was broken and the "war" started again.[89]

If this perception of the U.S. and EC views is correct, the divergence is deep. U.S. negotiators want the European Community to end export subsidies. European negotiators are not in a position to do so. There is little hope that the root cause of the controversy will disappear or that the confrontation will end.

But the worst scenario is not necessarily the most likely one. The conflict of economic interests stems from competition in third markets and from possible restrictions on U.S. access to European markets. The basic condition underlying this conflict is the excess productive capacity of agriculture on both sides of the Atlantic. It happens that for different but parallel reasons, related particularly to the budget constraints, various measures have been taken in the European Community and in the United States to limit the growth of government agricultural supports. In addition, as dependence of European agriculture on the export market increases, policy instruments forged when Europe was a net importer of all major agricultural products are becoming more and more obsolete. For instance, it is likely that prices paid to European farmers for grains will be brought closer in line with world market prices, thus reducing the need for and the effects of export subsidies. Similarly, the proposal to create a tax on the consumption of oils and fats other than butter has not been endorsed by the council. All of this suggests that the causes for conflict have varied through time and will continue to do so in the future, alternatively fanning and dampening the public controversies fed by a deep divergence of doctrinal viewpoints.

Consequences for Third Parties

The impact of developed-country agricultural policies on the international trade of agricultural products has received significant attention by economists in recent years. The body of knowledge thus accumulated is particularly useful, in spite of the limitations inherent in the exclusive use of a free trade theoretical reference in most of this research. In keeping with this approach, an attempt will be made here to incorporate these results

[89] Letter from Robert Strauss to F. Gundelach, 1979.

in a political economy framework and to show how taking into account the interactions between economic and political phenomena may shed a useful light on the international negotiations influencing trade in agricultural products.

Challenging Protectionism

The conventional wisdom among economists is that the protection of agriculture by developed countries is costly for developing countries. Yet available research results paint a picture with many more nuances. It all depends on which protectionist instrument is used, which crop is stressed, and whose welfare is considered.

In a justly famous book written more than 10 years ago, Johnson presents a cogent analysis of why "the policy setting in which agriculture finds itself is in disarray."[90] The evidence is simple: "Products from the land are being produced at high costs in some parts of the world while elsewhere farm products that can be produced at low cost cannot be sold at all or only with great difficulty."

Valdés and Zietz have explicitly attempted to measure the cost to less-developed countries of agricultural protection in OECD countries.[91] They estimate that a hypothetical 50 percent reduction across the board in tariffs and other trade barriers for 99 commodities in 17 developed countries would increase world trade by about $8.5 billion, 36 percent of this expansion accruing to developing countries. They also estimate that the main gainers would be Australia, Canada, and the United States. The potential gain for developing countries as exporters would be an increase in real income of about $1 billion a year, but poorer importing developing countries would suffer a welfare loss of $580 million.

Using the same model, but concentrating only on EC grain policies, Koester's results are somewhat different.[92] Complete liberalization of EC grain trade would lead to a welfare loss for the developing countries taken as a whole (0.04 percent of GNP), whereas developed countries would gain 0.02 percent of GNP. In another paper, however, Koester criticizes the CAP as an "example of 'managing' trade under a 'Maginot line' mentality."[93]

In spite of the extreme caution that must be used in interpreting estimates of welfare changes because these estimates are questionable on both theoretical and empirical grounds, some firm conclusions stand out from these studies. If the CAP were less protectionist, the first gainers would be developed-country exporters and then, a distant second, some developing countries. In Europe, consumers would be better off and producers significantly worse off. In some poor developing countries that import cereals, consumers would be adversely affected.

A second question of paramount interest for third parties is the impact of domestic commodity policies on price instability in world markets. Josling argues on theoretical grounds that the CAP accentuated world market price instability, "Because they [the levy and export subsidy policies] block many of the adjustments in production, consumption, and private domestic stock management that would otherwise assist in promoting world market stability, they contribute to short-run instability problems in other countries."[94] By contrast, he finds that "the major exporters [of wheat], Canada and the United States, are both more responsive and less protective than the other developed countries."[95] Although useful, this analysis is incomplete. First, Koester shows that even though "grain production in the EC tends to fluctuate more than in the rest of the world... reducing the share of EC grain production in world grain production by lowering EC grain prices would probably destabilize world grain production."[96] This apparently paradoxical

---

[90] D. Gale Johnson, *World Agriculture in Disarray* (London: Fantana/Collins and Trade Policy Research Centre, 1973).

[91] Alberto Valdés and Joachim Zietz, *Agricultural Protection in OECD Countries: Its Cost to Less-Developed Countries*, Research Report 21 (Washington, D. C.: International Food Policy Research Institute, 1980).

[92] Ulrich Koester, *Policy Options for the Grain Economy of the European Community: Implications for Developing Countries*, Research Report 35 (Washington, D.C.: International Food Policy Research Institute, 1982).

[93] Ulrich Koester and Malcolm D. Bale, *The Common Agriculture Policy of the European Community, A Blessing or a Curse for Developing Countries?*, World Bank Staff Working Paper 630 (Washington, D.C.: World Bank, 1984).

[94] Timothy Josling, *Developed-Country Agricultural Policies and Developing-Country Supplies: The Case of Wheat*, Research Report 14 (Washington, D.C.: International Food Policy Research Institute, 1980), p. 38.

[95] Ibid.

[96] Koester, *Policy Options*, p. 9.

result can be understood if one thinks of stabilizing world production by distributing it regionally so as to minimize risk, as in the choice of an optimum portfolio. Second, the stabilizing impact of price variations must be discussed. Josling's argument implies the existence of price-induced variations in production, consumption, and stocks,[97] and that these variations would have a stabilizing effect on world markets. But can one be satisfied with the standard assumptions about the short-run elasticities of supply and demand implicit in Josling's analysis (without lags in adjustment)?

Government behavior must be included in the analysis. There is significant evidence, particularly in the successive USDA outlook conferences, that the basic supply-demand balance outlook was often misjudged and that in several years U.S. government policies accentuated rather than dampened production variability. If there were no lags in adjustments and no perverse government response, Josling's argument would be valid; price-induced variations in European production and trade would tend to correct imbalances between demand and supply in the rest of the world. But taking government behavior and lags in supply and demand response to prices into account, the following scenario is plausible. A price rise on the world market, as in 1973-74, could lead to a production increase in Europe, thus contributing to a price decline. This could be a stabilizing change, but government overreaction and lags in response could be such that in later years the problem of excess production capacity in agriculture would be worse than it is. It is well known that reducing excess production capacity is difficult—a clear illustration that adjustments take time, hence that lags are important and may have significant consequences.

Ultimately, to judge the CAP's impact on world markets, one needs to know whether price-induced variations in production would be offset by variations in consumption and in international trade or would cumulate with the present variations in the volume of trade resulting from current European price stabilization policies. This is an empirical question, needing further research before it can be answered; one would expect, however, that world price-induced variations in production between regions would have positive covariances. This suggests increased rather than decreased production variability, but other effects will have to be taken into account before the issue can be settled.

Probably of greater political interest for international negotiations is the type of storage policies adopted by major countries. Josling argues that variations in stocks of wheat held by a few developed countries and the USSR "did not offset the impact of domestic price policies. Instead they reinforced these effects."[98] Similarly, Koester concludes that "the EC could contribute more to stability without changing the degree of protection for EC grain producers."[99] This result suggests the possibility of negotiation with other countries. It is true that the long negotiations around an international wheat agreement following the Tokyo round of multilateral trade negotiations faltered on the issue of who should bear the costs of a mutually agreed storage policy. But if there is a genuine possibility of improving everyone's welfare, negotiation is possible. By contrast if the recommended change assumes redistribution without compensation, reaching an international agreement is practically impossible.

Political Realities

In the international debate, the most vocal trade liberalization advocates are economists, who point to the losses from protectionism as forgone productive capacity of resources committed to agriculture in excess of what the market requires. This implicitly assumes that, since total production could increase, losers from a policy change could easily be compensated. The other advocates are representatives of interest groups and of national governments who would be the first gainers from agricultural trade liberalization.

On political grounds, the evidence is clear: trade policies for agriculture in developed countries are a by-product of the domestic policymaking process.[100] Ultimately, outside forces, however powerful,

[97] Josling, *Developed-Country Agricultural Policies.*

[98] Ibid., p. 31.

[99] Koester, *Policy Options,* p. 9.

[100] This is probably also true in many developing countries.

have had a limited impact on that process. These characteristics have dictated the type of negotiations that have been feasible under the GATT. Trade concessions are exchanged among contracting parties. For pragmatic reasons, some trade barriers have been reduced. Indeed, GATT can be viewed as an imperfect instrument for reaching the ideal situation of free trade. But this view is not directly reflected in the real negotiation process, where the reference situation is not a theoretical free trade situation but the existing one with its tariffs and other trade barriers. A practical accounting system has been devised to estimate the value of trade concessions, and efforts are made to mutually balance these concessions. Of course, such a system is purely ad hoc. The value of a trade concession is difficult to appraise: multiplying the current volume of trade by the change in tariffs can only give a rough approximation. Besides, experience indicates that trade volumes may change drastically over time: hence estimating the future value of a trade concession is extremely difficult.

In addition, as Hathaway argues, agricultural trade has never conformed with the principles underlying GATT.[101] In particular, the most-favored-nation principle implies an accessibility of information about trade transactions that does not sit well with the dominant role of state-trading agencies in many countries, the growing number of long-term bilateral agreements, and the concentration of business in a few multinational corporations. Hathaway concludes that GATT does not touch the real issues in agricultural trade—those that have to do with domestic commodity programs—because they are politically untouchable.

Given this situation, coupled with the weak legal status of GATT, which has still not been formally approved by all contracting parties, what has been achieved in trade negotiations must be viewed as remarkable. Undoubtedly, an international society in which nation-states have disappeared, which is the implicit political condition of completely free trade, is still far away. But that is utopian and the intellectual challenge is to define an alternative approach that does not rely on this free trade reference.

The consequences of this situation for third parties, groups and countries not directly involved in the U.S.-EC confrontation are clear. The rules for international trade are the product of negotiations among national governments. Hence, the political nature of that process should be obvious. This recognition may help clarify the role played by free trade. As a theoretical reference, the relevance of free trade is limited, but as the basis of a doctrine, it plays an important role. Given that doctrinal role, which makes free trade a party in an ideological struggle, does it represent an ideal arrangement for trade rules? Can it be used as a moral reference?

Free Trade as a Moral Reference

If interference with free international trade could be proven to benefit the rich at the expense of the poor, one could denounce it on moral grounds, while recognizing that the current political situation prevents its disappearance. An ideological campaign against protection of agriculture by the European Community and of several agricultural sectors by the United States would be legitimate. But the research results here show that such a general charge is not valid. The poorest of the poor have benefited, in the short run at least, from developed-country grain policies, which have led to cheaper prices on world markets and greater availability of food aid than otherwise would have prevailed. The development of a European market for cassava as a feedgrain substitute, which has clearly benefited relatively poor farmers in the northeast of Thailand and in Indonesia, is a direct consequence of the same policies. There are many other instances, however, when protection of agriculture in developed countries has hurt significant groups in developing countries. For example, in a recent study Michael Schluter shows that among several constraints limiting Kenya's agricultural export potential, the nature of the international market for beef plays a significant role.[102] That market is strongly influenced by developed-country protectionist policies, particularly those of the United States and the European Com-

[101] Dale E. Hathaway, "Agricultural Trade Policies for the 1980s," in *Trade Policies in the 1980s*, ed. William R. Cline (Washington, D.C.: Institute of International Economics, 1983), pp. 435-453.

[102] Michael Schluter, *Constraints on Kenya's Food and Beverage Exports*, Research Report 44 (Washington, D.C.: International Food Policy Research Institute, 1984).

munity, which include import quotas, sanitary regulations, and export subsidies. These policies hurt the interests of a developing country lacking industrial raw materials but having an excellent potential for agricultural production.

This illustrates the need to analyze issues case by case. Economic analysis alone cannot provide a general solution to the conflicts of interest inherent in the international trade of agricultural products. But in each case, it can help identify the interests at stake and who would gain and who would lose from a change in policy.

Actually, this is exactly what the various participants in the agricultural policy process in the United States and the European Community do. Presumably the same is true in many other countries.

At the international level, performing the same task is much more difficult, for the simple reason that monitoring domestic agricultural policymaking in several countries poses material problems of time and access to information. Yet this research suggests that such monitoring cannot be short-circuited: policymakers involved in international negotiations need this information. Many agricultural attachés from developed countries perform, among other functions, a task of this type, but in most instances developing-country negotiators are less informed.

There is, however, some hope for the future: awareness of the political nature of international trade negotiations is becoming more widespread. At the same time the growing interdependency of economies, and thus of economic policies, will make ignorance of the effects of one's actions on others less possible and more costly. Serious negotiations will become essential. International pressure may then force the United States and the European Community to resolve their bilateral confrontation.

Conclusions

After this analysis of the confrontation between the United States and the European Community, it is worthwhile to return to the conceptual framework. To what extent does this case study provide materials for enriching the hypotheses? The narrative style of the chapter and the nature of the problem under study could lead one to believe that little has been gained for the conceptual framework. Yet conflicts of interest have been given a prominent role in the interpretation of international trade issues. Admittedly, there is no supranational political authority to regulate these conflicts; negotiations are conducted among governments either bilaterally or multilaterally. But the conceptual framework may be relevant if one is willing to extend its domain of application. The essential hypothesis is that the influence of economic variables on domestic policies is exerted through the mediation of the political process. In international trade economic variables also play an important role, both in the short and the long run, and the political process takes a specific form: negotiations among sovereign governments.

The influence of conflicts of economic interest is obvious in the short run. The influence of long-run economic forces has not been specifically examined. But the role in the current conflict of excess productive capacity of agriculture on both sides of the Atlantic has been stressed. Similarly, it has been shown that U.S. concerns about access to the European market in the early 1960s diminished when European demand for U.S. maize and soybeans expanded faster than had been anticipated and when demand from the rest of the world was very buoyant in the 1970s. Conversely, concerns about export restrictions have become more acute as competition in world markets has become fierce. Clearly, the long-term evolution of supply and demand has a direct impact on the conflicts of interest on world markets and, as a result, on international trade issues.

But again this influence is not the product of a purely economic rationality. Regulation through the political process is essential. Thus the very nature of GATT procedures has been dictated by the fact that negotiations take place among national governments exchanging trade concessions that must be mutually balanced and judged on the basis of the existing situation and not of a theoretical economic reference. Beyond this observation, much research remains to be done on the political process itself. It has been shown that ideological divergences play an important role in blocking the search for a mutually beneficial arrangement between the United States and the European Community. But this is not sufficient to analyze the current conflicts and to predict their evolution.

7

CONCLUSIONS

Case Studies and the Analytical Framework

To analyze the determinants of agricultural policies, a conceptual framework was developed, which stresses that at any given time policies can be viewed as the provisional outcomes of a continuing process. The conflicts of economic interests inherent in any policy issue are the engine that drives the process. The organization of these economic interests depends on the institutions involved in public policymaking. In turn, these organizations help shape the institutions. The conflicts of interest are regulated through the political process, which is essentially a dynamic process of bargaining among economic interest organizations and relevant government agencies. The choice of policies—the outcome of the process—depends upon the stakes involved and the ability of each group to make its case in interaction with other groups and government agencies. The determinants of this relative power remain somewhat elusive. But in the long run the outcome of the process depends on long-term economic forces: on long-term trends in important economic variables, such as relative prices or changes in the general balance between supply and demand. These changes are essentially exogenous to the policymaking process: they influence it, but they are largely determined by factors outside of it. These economic forces influence the interests at stake and thus are often the ultimate determinants of policy variations. For instance, long-term changes in the balance between supply and demand dramatically impinge on the public budget costs of market intervention measures. This often leads, through the political process, to changes in policies.

Because the influence of long-term economic forces on policies is exerted through the political process, their action is neither simple nor mechanistic. This is why research on the determinants of agricultural policies must take explicit account of the dynamics of the policymaking process. Examination of the past reveals which of the economic variables have been politically relevant. In this report the study of the birth and evolution of commodity programs in the United States and in France since the 1930s shows that commodity programs were born out of a deep economic crisis and under specific political circumstances. Their evolution during the last 50 years has been strongly influenced by variations in the short-term outlook for the balance between supply and demand. Over the long run, the most politically important economic variables influencing these policies have been agricultural prices, farm incomes, the government budget, and the balance of trade.

The ability to predict changes in policies depends, first, on the identification of long-term economic forces; second, on a judgment of whether these forces will continue to be relevant as the political process slowly evolves; and, third, on a prediction of how they may evolve in the future. Analysis of the past evolution of agricultural policies in the United States and Europe suggests that none of these steps can be short-circuited. In addition, observation of the behavior of policy analysts and of participants in the policy process in many countries suggests that they attempt, more or less rigorously and consciously, to perform each of these three tasks for the policy area that concerns them. Thus, their behavior helps to validate this approach.

The analysis of the elaboration in 1983 of the U.S. Dairy Production Stabilization Act shows the importance for the outcome of the process of the interactions through time of economic organizations and government agencies. Two dynamic features of that process are stressed: it is sequential, and uncertainty about the stakes involved has a major influence on the behavior of the actors. In addition, the interactions among the actors in the policy debate may perhaps be interpreted as the product of a dialectical relationship between economic interests and organizations. Using the word dialectical seems justified here because it suggests important dynamic features of the policy process. Any dialectical process is characterized by internal contradiction in the object under study leading to its own evolution. Marx's theory of dialectical materialism is but one example of such a process. Conflicts of interest and organizations (or institutions) are critical elements of the policy process. Institutions are designed to solve conflicts of economic interests. They do so in the short run, but any solution always creates losers because even in the best compromise everyone loses something. The losers seldom rest easy. They almost always attempt to change the solution by either bringing more pressure to bear on the existing institutions or by challenging their existence as such. This contradiction can be viewed as a key dynamic feature of the policy process.

A limitation of the analysis should be stressed here, however. Although the concepts and hypotheses may be adequate to interpret the individual policy actors' behavior, the same is not true of their dynamic interactions. The individual behavior of each actor, that is each group and government agency, can probably be analyzed under the assumption that it is rational: it chooses objectives and pursues them through strategies and tactics that can be observed. The selection of objectives can be interpreted on the basis of the nature of the group, its constituency, and its organization. But there is only a limited theoretical basis for interpreting the interactions through time among policy actors. There are only partial theories on why some groups are formed and not others; why some prosper and develop while others stagnate or disband. There is no general hypothesis to explain why certain alliances are formed and compromises reached. In the absence of a satisfactory theory, the analogy of the stage is used to interpret the public debate about a given policy issue. This at least captures the sequential nature of the process, the uncertainty about policy issues, and some aspects of the interactions among actors.

The study of the confrontation between the United States and the European Community about the international trade of agricultural products illustrates the consequences of the policies analyzed in Chapters 4 and 5 and presents a new test of the conceptual framework. The analysis strongly endorses the generally held view that agricultural trade policies of both trading blocs are a by-product of the domestic agricultural policymaking process of each country. The confrontation results from objective conflicts of interest because the productive capacity of agriculture on both sides of the Atlantic exceeds domestic and foreign demand, leading to difficult competition on export markets. But finding an arrangement that would be in the mutual interest of both parties is particularly difficult because of institutional and ideological rigidities. Institutional rigidity relates to the stalemate among conflicting interests that has hampered the evolution of agricultural policies on both sides for several years. It is probably more acute in Europe because of the rigidity of the public decision process, which requires that the EC Commission elaborate a proposal acceptable to the Council of Ministers, where unanimous agreement must be reached among representatives of the 10 sovereign, national governments. Ideological rigidity reflects the deep divergence between the dominant economic doctrines on both sides. It is probably more serious in the United States where the free-market ideology, which is breached on the domestic front by the protection of several commodities including dairy products, tobacco, and sugar, serves the interests of U.S. exporters on world markets well.

Whether these rigidities can be overcome through serious negotiations leading to significant mutual concessions is difficult to predict. The question is so important that it deserves close monitoring.

Implications for Policymakers

Some implications of this analysis for third parties, particularly developing countries, are important. Exporters of agricultural products competing with those of Europe and of the United States can expect continuing difficulties in the foreseeable future. Short of an unlikely but not absolutely impossible boom in demand from developing or socialist countries, the United States and the European Community can be expected to face great difficulties in their attempts to limit production growth. Hence, prices will remain depressed and competition on third markets fierce. Credit provisions will probably play an increasingly important role in that competition.

Importers of basic food products will, on the contrary, enjoy a fairly favorable situation. This may, however, decrease internal pressures in developing countries to provide domestic producers with satisfactory incentives. If that happens, the long-term effects will be detrimental.

Perhaps the most important consequence of the current situation is the need to monitor domestic policymaking in both the United States and the European Community. The importance for trade of domestic considerations does not necessarily imply, as many observers argue, that market uncertainty increases because of the discretionary nature of policy decisionmaking. On the contrary, this research indicates that the domestic agricultural policymaking process is somewhat predictable, at least in the short run. But it also indicates that, short of a general theory, specific hypotheses rendering account of such major actors on international markets as the United States and the European Community must be formulated each time for every issue. Unfortunately, most developing countries are ill-equipped to perform this task.

Another consequence for third parties of the U.S.-EC agricultural trade confrontation relates to international trade negotiations. Obviously, the rules of international trade affect all participants. These rules are the result of a general agreement, as the name GATT indicates. They were derived and evolved—in a pragmatic fashion—as the outcome of a complex set of mutual concessions. Indeed, these can be viewed as steps in the direction of an ideal, totally free trade. But another interpretation is also possible. The rule of equivalent concessions, which plays such an important role in GATT procedures, takes as a reference the current situation with its various tariffs and nontrade barriers and not a theoretical situation free of any trade intervention, which political realities preclude anyway. Sober realization of the real nature of the negotiation process is essential for any successful negotiator, who should not be deceived by the multiple mirrors of the struggle between free trade advocates and proponents of more international planning through international commodity agreements.

Developing countries cannot ignore what goes on in GATT. For the first time in almost 30 years, serious multilateral negotiations on agricultural trade have become a real possibility. The main economic force bringing about this change is the emergence of the European Community as a major exporter of some important agricultural products. Instruments forged at a time when the European Community imported much more than it exported may be inadequate now. Some will have to be changed, which will affect trading practices and open the door for serious negotiations.

Implications for Research

Like all research, this study points up needs for future research. It also engenders some thoughts about the role of policy research. The conceptual framework used here has been proven useful, but it needs further elaboration. The most serious limitation concerns the dynamics of interest group interactions. At this stage no general hypothesis can be suggested. More case studies are called for, which may lead to improvements in the general framework.

In this respect, a study of European dairy policy that would complement and permit a comparison with the analysis for the United States reported here seems appropriate. Although the problems of a budget constraint leading to measures to limit production is the same in both countries, the policy process, particularly the institutions, are quite different. It would be interesting to see how interest groups interacted with national government agencies and EC institutions in the process that led to a potentially major change in policy.

More generally, the conflicts and struggles inherent in the policy process in the United States are almost transparent, which is not true in Europe. Thus, it would be useful to analyze the conflicts of interest driving the policy process and leading to the elaboration of national positions on agricultural policies in the member states of the European Community, and to study how the compromises among these national positions are reached at the EC level.

Finally a continued monitoring of the positions taken by the United States and the European Community in international trade negotiations for agriculture would be useful. It would help test the idea that positions regarding international trade are a product of the domestic policymaking process and to specify how this product is developed. It would also help to predict whether significant changes in agreed-upon trade rules can be expected from such negotiations if and when they start.

Two characteristics of the policymaking process have important implications for the role of economic research. The process is driven by conflicts of economic interest, and uncertainty drastically influences the behavior of policy actors. The role of conflicts of interest suggests that economists cannot rest with the idea that only political constraints prevent policymakers from choosing the policy that would be optimum from an economic point of view. The truth of the matter is that many of these so-called political constraints have economic underpinnings. Thus they cannot be taken as exogenous in economic analyses. This seriously questions the significance of policy research designed solely to investigate which policy would achieve the hypothetical optimum of the social utility function.

Presumably, policy research should reduce uncertainty about the stakes involved in any policy issue. Given the role of uncertainty in policymaking, this means that policy research is not neutral: it affects the process itself and presumably may affect its outcome. Once more it appears that perfect objectivity in social science is not possible. In such a situation the least that can be expected of the policy analyst is that he should know what he is doing, more precisely, that he should be aware of his role in the interactive, dynamic policy process. Hence, he must identify, as clearly as possible, the main actors, their strategies, how they interact, and what use each one may make of the ideas that he is pushing. In his documentation of the role of research in the creation of the Cereal Import Facility of the International Monetary Fund, Adams clearly shows the interactive nature of the process, stressing the iterative relationships between policymakers and social scientists.[103] He concludes that "fortuitous timing played an important role." This seems to support the emphasis here on the sequential nature of the process. Systematic attention to the actors and their play—how policies are determined—should be helpful in ensuring that timing in the future will more often be designed and less often the result of fortune. This means that a major task of policy research is to monitor policymaking.

[103] Richard Adams, "The Role of Research in Policy Development: The Creation of the IMF Cereal Import Facility," *World Development* 11 (July 1983): 549-563.

BIBLIOGRAPHY

Adams, Richard. "The Role of Research in Policy Development: The Creation of the IMF Cereal Import Facility." *World Development* 11 (July 1983): 549-563.

Allison, Graham T. *The Essence of Decision—Explaining the Cuban Missile Crisis.* Boston: Little, Brown, 1971.

Auge-Laribe, Michel. *La politique agricole de la France de 1880 à 1940.* Paris: PUF, 1950.

Babb, Emerson E. and Bessler, D. A. *Factors Affecting Over-Order Payments in Federal Milk Marketing Orders, 1965-80.* Agricultural Experiment Station Research Bulletin 977. Lafayette, Ind.: Purdue University, 1983.

Banfield, Edward C. *Political Influence.* New York: Free Press of Glencoe, 1961.

Bates, Robert H. "Governments and Agricultural Markets in Africa." In *The Role of Markets in World Food Economy,* pp. 153-183. Edited by D. Gale Johnson and G. Edward Schuh. Boulder, Colo.: Westview Press, 1983.

Bates, Robert H. and Rogerson, W. D. "Agriculture in Development: A Coalition Analysis." *Public Choice* 35 (May 1980): 513-527.

Benedict, Murray R. *Farm Policy of the United States, 1790-1950: A Study of Their Origins and Development.* New York: Twentieth Century Fund, 1953.

Bentley, Arthur. *The Process of Government: A Study of Social Pressure,* 2nd ed. Bloomington, Ind.: Principia Press, 1935.

Block, John. Speech presented at the National Agricultural Bankers Conference, Chicago, November 10, 1982.

Buchanan, James M.; Tollison, Robert D.; and Tullock, Gordon, eds. *Toward a Theory of the Rent-Seeking Society.* College Station, Tex.: Texas A and M University Press, 1980.

Buchanan, James M. and Tullock, Gordon. *The Calculus of Consent.* Ann Arbor, Mich.: University of Michigan Press, 1962.

Buxton, Boyd M.; McGuckin, Tom; Selley, Roger; and Willett, Gayle. "Profitability of Milk Production in Selected States." *Dairy Outlook and Situation* 396 (March 1984): 26-29.

Cochrane, Willard W. *The Development of American Agriculture, A Historical Analysis.* Minneapolis: University of Minnesota Press, 1979.

Coulomb, Pierre; Nallet, Henri; and Servolin, Claude. *Recherches sur l'elaboration de la politique agricole.* Paris: INRA, 1977.

deJanvry, Alain. "Why Do Governments Do What They Do? The Case of Food Price Policy." In *The Role of Markets in the World Food Economy.* Edited by D. Gale Johnson and G. Edward Schuh. Boulder, Col.: Westview Press, 1983.

Dessirier, J. *La conjuncture économique et financière.* Paris: 1939.

Donahue, John D. "The Political Economy of Milk." *The Atlantic Monthly,* October 1983, pp. 59-68.

Downs, Anthony. *An Economic Theory of Democracy.* New York: Harper and Row, 1957.

Dye, Thomas R. *Understanding Public Policies,* 4th ed. Englewood Cliffs, N.J.: Prentice Hall, 1981.

Etterick, G. Joachim and Masud, Sharif. "Milk Supply Response in Delaware." *Journal of the Northeastern Agricultural Economic Council* 9 (April 1980): 41-45.

European Economic Commission. *Common Agricultural Policy Proposals of the Commission.* COM (83) 500 final. Brussels, July 28, 1983.

Gervais, Michel; Jollivet, Marcel; and Tavernier, Yves. *Histoire de la France,* vol. 4, *La fin de la France paysanne de 1914 à nos jours.* Paris: Seuil, 1976.

Hadwiger, Don F. and Talbot, Ross B. *Pressures and Protests: The Kennedy Farm Program and the Wheat Referendum of 1963—A Case Study.* San Francisco: Chandler, 1965.

Hathaway, Dale E. "A U.S. View of the Common Agricultural Policy." Paper presented at the International Financial Conference, Vienna, April 1984.

———. "Agricultural Trade Policies for the 1980s." In *Trade Policies in the 1980s,* pp. 435-453. Edited by William R. Cline. Washington, D.C.: Institute of International Economics, 1983.

Hicks, John R. *Causality in Economics.* New York: Basic Books, 1979.

Hirschleifer, J. and Becker, G. "Toward a More General Theory of Regulation. Comments." *Journal of Law and Economics* 19 (August 1976): 241-248.

Infanger, Craig L.; Bailey, William G; and Dyer, David R. "Agricultural Policy in Austerity: The Making of the 1981 Farm Bill." *American Journal of Agricultural Economics* 65 (February 1983): 1-9.

Johnson, D. Gale. *World Agriculture in Disarray.* London: Fantana/Collins and Trade Policy Research Centre, 1973.

Johnson, Glenn. "Supply Function—Some Facts and Notions." In *Agricultural Adjustment Problems in a Growing Economy,* pp. 74-93. Edited by E. O. Heady et al. Ames: Iowa State College Press, 1958.

Josling, Timothy. *Developed-Country Agricultural Policies and Developing-Country Supplies: The Case of Wheat.* Research Report 14. Washington, D.C.: International Food Policy Research Institute, 1980.

Kindleberger, Charles P. "Group Behavior and International Trade." *Journal of Political Economy* 59 (February 1951): 30-46.

Koester, Ulrich. *Policy Options for the Grain Economy of the European Community: Implications for Developing Countries.* Research Report 35. Washington, D.C.: International Food Policy Research Institute, 1982.

Koester, Ulrich and Bale, Malcolm D. *The Common Agriculture Policy of the European Community: A Blessing or a Curse for Developing Countries?* World Bank Staff Working Paper 630. Washington, D.C.: World Bank, 1984.

Krueger, Anne O. "The Political Economy of the Rent-Seeking Society." *American Economic Review* 64 (1974): 291-303.

Mahe, Louis P. "A Lower But More Balanced Protection for European Agriculture." *European Review of Agricultural Economics* (11-2, 1984): 217.

Manchester, Alden C. *The Public Role in the Dairy Economy—Why and How Government Intervenes in the Milk Business.* Boulder, Col.: Westview Press, 1983.

Morgan, Dan. *Merchants of Grain: The Power and Profits of the Five Grain Companies at the Center of the World's Food Supply.* New York: Penguin Books, 1980.

Ogden, Daniel M. "Outdoor Recreation Policy and Politics." In *The Political Economy of Environmental Control,* pp. 98-103. Edited by Anthony Downs et al. Berkeley: Institute of Business and Economic Research, University of California, 1972.

Olson, Mancur. *The Logic of Collective Action.* Cambridge, Mass.: Harvard University Press, 1965.

Organization for Economic Cooperation and Development, Committee for Agriculture, Country Contributions to the Study of Postwar Adjustment. "Positive Adjustment Policies in the Dairy Sector of the United States." Group on Dairy Products of Working Party No. 2, Paris, April 1982.

Paarlberg, Don. *Farm and Food Policies, Issues of the 1980s.* Lincoln: University of Nebraska Press, 1980.

Peltzman, Sam. "Toward a More General Theory of Regulation." *Journal of Law and Economics* 19 (August 1976): 211-240.

Penn, J. B. "The Federal Policy Process in Developing the Food and Agricultural Act of 1977." *Agricultural Food Policy Review.* U.S. Department of Agriculture, ESCA-AFPR-3 (February 1980).

Petit, Michel. "Costs and Benefits of Domestic Agricultural Policies within the EEC—A Critique." Paper presented at the Trade Research Consortium meeting, December 1982.

_______. "For an Analytical Political Economy: Relevance to the Study of Domestic and International Agricultural Trade Policies." Paper presented at the Theodor Heidhues Memorial Seminar, Göttingen, Federal Republic of Germany, 1980.

Rausser, Gordon C.; Lichtenberg, Erik; and Lattimore, Ralph. "Developments in Theory and Empirical Applications of Endogenous Governmental Behavior." In *New Directions in Econometric Modeling and Forecasting in U.S. Agriculture,* pp. 547-614. Edited by Gordon C. Rausser. New York: Elsevier/North Holland, 1981.

Renborg, Ulf. "Steering Processes of Change in an Uncertain World." *European Review of Agricultural Economics* 3 (February-March 1976): 265-289.

Ruttan, Vernon and Hayami, Yujiro. "Toward a Theory of Induced Institutional Innovation." *Journal of Development Studies* (July 1984): 203-223.

Sauvy, A. *Histoire economique de la France entre les deux guerres,* 4 vols. Paris: Fayard, 1965-1975.

Schattschneider, E.E. *Politics, Pressure and the Tariff—A Study of Free Private Enterprise in Pressure Politics as Shown in the 1929-1930 Revision of the Tariff.* New York: Prentice Hall, 1935.

Schluter, Michael. *Constraints on Kenya's Food and Beverage Exports.* Research Report 44. Washington, D.C.: International Food Policy Research Institute, 1984.

Scobie, Grant M. *Government Policy and Food Imports: The Case of Wheat in Egypt.* Research Report 29. Washington, D.C.: International Food Policy Research Institute, 1981.

Scobie, Grant M. and Valdés, Alberto. "Modelación de Politica Gubernamental: El Caso de la Emportaciones de Alimentos, Politica de Precios y la Balanza de Pagos en Egipto." *Cuadernos de Economia* 58 (December 1982): 325-356.

Stigler, George. "Director's Law of Public Income Redistribution." *Journal of Law and Economics* 13 (April 1970): 1-10.

_______. "The Theory of Economic Regulations." *Bell Journal of Economics and Management Science* 2 (Spring 1971): 3-21.

Talbot, Ross B. and Hadwiger, Donald F. *The Policy Process in American Agriculture.* San Francisco: Chandler, 1968.

Tavernier, Yves et al. *L'univers politique des paysans dans la France contemporaine.* Paris: Armand Colin, 1972.

Tracy, Michael. *Agriculture in Western Europe, Challenge and Response, 1880-1980,* 2nd ed. London: Granada, 1982.

Truman, David. *The Governmental Process, Political Interests and Public Opinion.* New York: Alfred Knopf, 1951.

Valdés, Alberto and Zietz, Joachim. *Agricultural Protection in OECD Countries: Its Costs to Less-Developed Countries.* Research Report 21. Washington, D.C.: International Food Policy Research Institute, 1980.

IFPRI RESEARCH REPORTS (continued)

24 *THE EFFECTS OF EXCHANGE RATES AND COMMERCIAL POLICY ON AGRICULTURAL INCENTIVES IN COLOMBIA: 1953-1978,* June 1981, by Jorge García García

23 *GOVERNMENT EXPENDITURES ON AGRICULTURE IN LATIN AMERICA,* May 1981, by Victor J. Elías

22 *ESTIMATES OF SOVIET GRAIN IMPORTS IN 1980-85: ALTERNATIVE APPROACHES,* February 1981, by Padma Desai

21 *AGRICULTURAL PROTECTION IN OECD COUNTRIES: ITS COST TO LESS-DEVELOPED COUNTRIES,* December 1980, by Alberto Valdés and Joachim Zietz

20 *IMPACT OF IRRIGATION AND LABOR AVAILABILITY ON MULTIPLE CROPPING: A CASE STUDY OF INDIA,* November 1980, by Dharm Narain and Shyamal Roy

19 *A COMPARATIVE STUDY OF FAO AND USDA DATA ON PRODUCTION, AREA, AND TRADE OF MAJOR FOOD STAPLES,* October 1980, by Leonardo A. Paulino and Shen Sheng Tseng

18 *THE ECONOMICS OF THE INTERNATIONAL STOCKHOLDING OF WHEAT,* September 1980, by Daniel T. Morrow

17 *AGRICULTURAL RESEARCH POLICY IN NIGERIA,* August 1980, by Francis Sulemanu Idachaba

16 *A REVIEW OF CHINESE AGRICULTURAL STATISTICS, 1949-79,* July 1980, by Bruce Stone

15 *FOOD PRODUCTION IN THE PEOPLE'S REPUBLIC OF CHINA,* May 1980, by Anthony M. Tang and Bruce Stone

14 *DEVELOPED-COUNTRY AGRICULTURAL POLICIES AND DEVELOPING-COUNTRY SUPPLIES: THE CASE OF WHEAT,* March 1980, by Timothy Josling

13 *THE IMPACT OF PUBLIC FOODGRAIN DISTRIBUTION ON FOOD CONSUMPTION AND WELFARE IN SRI LANKA,* December 1979, by James D. Gavan and Indrani Sri Chandrasekera

12 *TWO ANALYSES OF INDIAN FOODGRAIN PRODUCTION AND CONSUMPTION DATA,* November 1979, by J. S. Sarma and Shyamal Roy and by P. S. George

11 *RAPID FOOD PRODUCTION GROWTH IN SELECTED DEVELOPING COUNTRIES: A COMPARATIVE ANALYSIS OF UNDERLYING TRENDS, 1961-76,* October 1979, by Kenneth L. Bachman and Leonardo A. Paulino

10 *INVESTMENT AND INPUT REQUIREMENTS FOR ACCELERATING FOOD PRODUCTION IN LOW-INCOME COUNTRIES BY 1990,* September 1979, by Peter Oram, Juan Zapata, George Alibaruho, and Shyamal Roy

9 *BRAZIL'S MINIMUM PRICE POLICY AND THE AGRICULTURAL SECTOR OF NORTHEAST BRAZIL,* June 1979, by Roger Fox

8 *FOODGRAIN SUPPLY, DISTRIBUTION, AND CONSUMPTION POLICIES WITHIN A DUAL PRICING MECHANISM: A CASE STUDY OF BANGLADESH,* May 1979, by Raisuddin Ahmed

7 *PUBLIC DISTRIBUTION OF FOODGRAINS IN KERALA—INCOME DISTRIBUTION IMPLICATIONS AND EFFECTIVENESS,* March 1979, by P. S. George

6 *INTERSECTORAL FACTOR MOBILITY AND AGRICULTURAL GROWTH,* February 1979, by Yair Mundlak

5 *IMPACT OF SUBSIDIZED RICE ON FOOD CONSUMPTION AND NUTRITION IN KERALA,* January 1979, by Shubh K. Kumar

4 *FOOD SECURITY: AN INSURANCE APPROACH,* September 1978, by Panos Konandreas, Barbara Huddleston, and Virabongsa Ramangkura

3 *FOOD NEEDS OF DEVELOPING COUNTRIES: PROJECTIONS OF PRODUCTION AND CONSUMPTION TO 1990,* December 1977

2 *RECENT AND PROSPECTIVE DEVELOPMENTS IN FOOD CONSUMPTION: SOME POLICY ISSUES,* July 1977

1 *MEETING FOOD NEEDS IN THE DEVELOPING WORLD: LOCATION AND MAGNITUDE OF THE TASK IN THE NEXT DECADE,* February 1976

Michel Petit has held the chair of economics at the Ecole Nationale Supérieure des Sciences Agronomiques Appliquées in Dijon, France since 1968. He was at IFPRI in 1983-84 on sabbatical leave.

IFPRI RESEARCH REPORTS

50 *GOVERNMENT EXPENDITURES ON AGRICULTURE AND AGRICULTURAL GROWTH IN LATIN AMERICA,* October 1985, by Victor J. Elías

49 *LIVESTOCK PRODUCTS IN THE THIRD WORLD: PAST TRENDS AND PROJECTIONS TO 1990 AND 2000,* April 1985, by J. S. Sarma and Patrick Yeung

48 *RURAL HOUSEHOLD USE OF SERVICES: A STUDY OF MIRYALGUDA TALUKA, INDIA,* March 1985, by Sudhir Wanmali

47 *EVOLVING FOOD GAPS IN THE MIDDLE EAST/NORTH AFRICA: PROSPECTS AND POLICY IMPLICATIONS,* December 1984, by Nabil Khaldi

46 *THE EFFECTS ON INCOME DISTRIBUTION AND NUTRITION OF ALTERNATIVE RICE PRICE POLICIES IN THAILAND,* November 1984, by Prasarn Trairatvorakul

45 *THE EFFECTS OF THE EGYPTIAN FOOD RATION AND SUBSIDY SYSTEM ON INCOME DISTRIBUTION AND CONSUMPTION,* July 1984, by Harold Alderman and Joachim von Braun

44 *CONSTRAINTS ON KENYA'S FOOD AND BEVERAGE EXPORTS,* April 1984, by Michael Schluter

43 *CLOSING THE CEREALS GAP WITH TRADE AND FOOD AID,* January 1984, by Barbara Huddleston

42 *THE EFFECTS OF FOOD PRICE AND SUBSIDY POLICIES ON EGYPTIAN AGRICULTURE,* November 1983, by Joachim von Braun and Hartwig de Haen

41 *RURAL GROWTH LINKAGES: HOUSEHOLD EXPENDITURE PATTERNS IN MALAYSIA AND NIGERIA,* September 1983, by Peter B. R. Hazell and Ailsa Röell

40 *FOOD SUBSIDIES IN EGYPT: THEIR IMPACT ON FOREIGN EXCHANGE AND TRADE,* August 1983, by Grant M. Scobie

39 *THE WORLD RICE MARKET: STRUCTURE, CONDUCT, AND PERFORMANCE,* June 1983, by Ammar Siamwalla and Stephen Haykin

38 *POLICY MODELING OF A DUAL GRAIN MARKET: THE CASE OF WHEAT IN INDIA,* May 1983, by Raj Krishna and Ajay Chhibber

37 *SERVICE PROVISION AND RURAL DEVELOPMENT IN INDIA: A STUDY OF MIRYALGUDA TALUKA,* February 1983, by Sudhir Wanmali

36 *AGRICULTURE AND ECONOMIC GROWTH IN AN OPEN ECONOMY: THE CASE OF ARGENTINA,* December 1982, by Domingo Cavallo and Yair Mundlak

35 *POLICY OPTIONS FOR THE GRAIN ECONOMY OF THE EUROPEAN COMMUNITY: IMPLICATIONS FOR DEVELOPING COUNTRIES,* November 1982, by Ulrich Koester

34 *EGYPT'S FOOD SUBSIDY AND RATIONING SYSTEM: A DESCRIPTION,* October 1982, by Harold Alderman, Joachim von Braun, and Sakr Ahmed Sakr

33 *AGRICULTURAL GROWTH AND INDUSTRIAL PERFORMANCE IN INDIA,* October 1982, by C. Rangarajan

32 *FOOD CONSUMPTION PARAMETERS FOR BRAZIL AND THEIR APPLICATION TO FOOD POLICY,* September 1982, by Cheryl Williamson Gray

31 *SUSTAINING RAPID GROWTH IN INDIA'S FERTILIZER CONSUMPTION: A PERSPECTIVE BASED ON COMPOSITION OF USE,* August 1982, by Gunvant M. Desai

30 *INSTABILITY IN INDIAN FOODGRAIN PRODUCTION,* May 1982, by Peter B. R. Hazell

29 *GOVERNMENT POLICY AND FOOD IMPORTS: THE CASE OF WHEAT IN EGYPT,* December 1981, by Grant M. Scobie

28 *GROWTH AND EQUITY: POLICIES AND IMPLEMENTATION IN INDIAN AGRICULTURE,* November 1981, by J. S. Sarma

27 *AGRICULTURAL PRICE POLICIES UNDER COMPLEX SOCIOECONOMIC AND NATURAL CONSTRAINTS: THE CASE OF BANGLADESH,* October 1981, by Raisuddin Ahmed

26 *FOOD SECURITY IN THE SAHEL: VARIABLE IMPORT LEVY, GRAIN RESERVES, AND FOREIGN EXCHANGE ASSISTANCE,* September 1981, by John McIntire

25 *INSTABILITY IN INDIAN AGRICULTURE IN THE CONTEXT OF THE NEW TECHNOLOGY,* July 1981, by Shakuntla Mehra

(continued on inside back cover)

International Food Policy Research Institute
1776 Massachusetts Avenue, N.W.
Washington, D.C. 20036 USA