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Chapter 11

The Governance of Agricultural Trade

Perspectives from the 1940's

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In many quarters the point was made that once you get started on a thing of this sort there is no end to it.

Henry A. Wallace on the Agricultural Adjustment Act of 1933 (1934a)

Introduction

Opportunities to rewrite the rules of the game of international relations are rare. They occur most often in the wake of a decisive war, because the victor can dictate or negotiate with maximum leverage the terms of the peace. The process of rewriting and enforcing the rules of play is analyzed by scholars of international relations in terms of regimes and hegemons. Crudely summarized, regimes are the rules of the game and the hegemon is the leading power, generally the creator of the existing rules and the prime mover in their enforcement. In this framework, the history of international relations can be viewed as the succession of hegemons and the regimes they create and attempt to maintain (Gilpin, 1981 and 1987).

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Kindleberger (1973) analyzed the Great Depression of the 1930's as the partial result of a lack of a clear hegemon in the interwar period. Great Britain was no longer capable of enforcing the existing rules of international economic and political relations, and the United States, while capable of taking the mantle of hegemony from Britain, refused and pursued an isolationist policy. World War II resolved the hegemons problem. The United States ascended to hegemony during the war and, in spite of the protests of domestic isolationists, assumed an internationalist stance in most areas of international relations.

The passing of hegemony from Britain to the United States was remarkably cooperative. Anglo-American negotiations on the structure of the postwar order began as early as 1940, and by 1943 one can easily distinguish the embryonic forms of what would become the International Monetary Fund [IMF], the World Bank, and the still-born International Trade Organization [ITO].

The United States as the new hegemon had the potential to initiate a new order, and it realized this potential in many areas. This chapter considers the failure of the United States to establish or negotiate rules of the game for the conduct of agricultural trade in the immediate postwar period. My argument is that U.S. international agricultural economic policy became thoroughly nationalistic in the 1930's. To be precise, agricultural nationalism began on May 12, 1933, with the passage of the Agricultural Adjustment Act of 1933.

The rents generated by the agricultural programs of the New Deal (and later World War II) created a constituency which proved too powerful to challenge in the postwar period. By the late 1930's, almost all analysts of agricultural policy took domestic programs as a given, nonnegotiable fixture of the economic landscape.

This self-imposed constraint was written into the earliest proposals for the postwar economic order in the form of exceptions and waivers for agricultural commodities. Then as now, the proposals weakened the United States' credibility in its commitment to freer trade. The failure to bind agriculture to a new commercial order in the late 1940's left the United States holding an umbrella over the activities of agricultural nationalists in other nations. Indeed, the U.S. failure to promote international rules allowed its domestic agricultural policy to unilaterally disrupt international markets, and these insouciant actions induced defensive nationalist policies abroad. From this perspective, Americans should accept the agricultural programs of the European Community and Japan as the sincerest form of flattery.

The New Deal and Agricultural Nationalism

> *[T]he isolationist and restrictionist aspects of foreign economic policy since 1934 have been directly related to agricultural programs. In practically every instance the need for the interference with trade has grown out of the particular needs of a specific agricultural program.*
>
> D. Gale Johnson (1950)

The year 1933 marks a watershed in U.S. domestic economic policy and in U.S. commercial policy. In domestic economic affairs, the Roosevelt administration broke with 150 years of relatively laissez faire domestic policy and attempted to inaugurate a corporatist or state-managed economy. In contrast, Roosevelt's appointment of freetrader Cordell Hull as Secretary of State was an attempt to break with 150 years of protectionism and isolationism in commercial policy. These two decisions, initiated in Roosevelt's first 100 days, set in motion two opposing forces which have collided ever since.

The Agricultural Adjustment Act (AAA) and the National Industrial Recovery Act (NIRA) were radical innovations. They granted the Federal Government considerable discretion to intervene in domestic markets. Industrialists strongly resisted the NIRA. In contrast, most of agriculture welcomed the AAA. In 1935, the Supreme Court found both laws unconstitutional. NIRA faded away, never to be resurrected, but the AAA was quickly repackaged through the joint efforts of agricultural interests and USDA and passed by Congress. The AAA of 1933 gave USDA several instruments with which to raise farm prices and incomes. The ability of Secretary of Agriculture Henry A. Wallace and others at USDA to adapt their policy instrument choices to meet shifting political pressures ensured the survival of Government control of agriculture.

The AAA represented partial fulfillment of the demand by many agricultural groups in the 1920's for some form of two-price policy. Two-price policies were ultimately linked to the U.S. tariff schedule. U.S. tariffs were raised sharply following World War I in the Fordney-

McCumber Tariff Act of 1922 and raised even higher in the Smoot-Hawley tariff of 1930. In reaction to higher industrial prices and falling prices on world markets, farmers began to demand a "fair price" for their products. These prices were identified with parity, usually defined as the terms of trade which were obtained between farm products and industrial products in the early 1910's.[1] Agricultural interests might have been placated with tariffs on farm products which would have resulted in parity with industrial products. However, the United States was a net exporter of most of the agricultural products it produced, rending the tariff an ineffective policy instrument. The demand then was for a policy which would make "the tariff effective for agriculture." Agricultural producers also felt that agricultural markets were more volatile than markets for manufactures, so there was a further demand for insulation from the international market and the external policy and price shocks it transmitted to the domestic market.[2]

The nascent two-price policy of the AAA of 1933 embodied an inherent problem; if prices were "stabilized" above the market-clearing level, surplus stocks would result. How to avoid or dispose of surpluses, given domestic prices, was the key policy issue. There were several options open: destruction of surpluses, production controls, domestic dumping, and foreign dumping. Wallace refused to consider dumping surplus commodities on foreign markets. He realized that exporting the negative external effects of domestic price support policies would merely induce retaliation and make things even worse.[3] Three policy instruments for adjustment remained: surplus destruction, domestic dumping, and production controls. All three were tried. Surplus destruction and plow-ups did not play well against the backdrop of breadlines and fell out of use after the first year. Domestic dumping through targeted assistance programs such as the cotton mattress program and food stamps emerged later in the 1930's. The key policy was production restriction. Under the domestic allotment plan, as it was then called, farmers were paid not to

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[1] Tariffs were unusually low following the Underwood-Simmons Act of 1913, further biasing the "normalcy" of the Golden Age, 1910-14.

[2] This issue is addressed in the next section.

[3] Wallace's position that surplus disposal on the international market is inherently self-destructive has been recently "rediscovered" by economists; see Bulow, Geanakoplos, and Klemperer (1985) and Brander and Krugman (1983).

produce crops, reducing surpluses, increasing farm prices and, with the payment increasing, farm incomes.[4]

In a 1934 pamphlet, *America Must Choose,* and its hard-bound sequel, *New Frontiers,* Wallace presented his case for international cooperation over nationalism.[5] In particular, he stressed the financial risk of a policy of commercial nationalism. Because U.S. agriculture relied on exports, for there to be a recovery in agriculture there would have to be a recovery in the foreign effective demand for U.S. farm products. Wallace argued that the United States, as the world's leading creditor nation, must increase commercial imports from its trading partners, and that this could best be accomplished by reducing tariffs under the Reciprocal Trade Agreements Act. Without increased dollar revenues, foreign markets would not be able to service their dollar-denominated debts, nor would they be able to pay a fair price for U.S. farm products. In Wallace's view, the Smoot-Hawley tariff and the trade retaliation it generated shifted the burden of adjustment to agriculture and necessitated the acreage limitations of the AAA. The more America turned nationalistic, he argued, the greater the adjustment on agriculture. Wallace estimated that at least 50 million acres of cropland might have to be retired under nationalism (Wallace, 1934a). Lower tariffs would allow more agricultural production and would result in a more equitable distribution of adjustment.

Wallace had little doubt about the overall comparative advantage of American agriculture and felt that it had little to fear and much to gain from bilateral tariff reductions. The bulk of the adjustment to a more liberal trade regime would be borne by industrial cartels. The longer the burden of adjustment was placed on agriculture, the deeper the contraction of domestic demand for urban products, and the downward economic spiral could easily spill over to military conflict.

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[4] Payments were financed from taxes on processors. This scheme was what the supreme Court found unconstitutional in 1935. Since 1936, payments have been made from general revenue. This approach has helped diffuse the cost of agricultural programs and the political opposition they might provoke if financed more directly.

[5] Wallace's article in *Foreign Affairs* (1934a) and his "Secretary's Report to the President" in the *1934 Yearbook of Agriculture*, cover most of the points made in *America Must Choose* and are easier to find. Alonzo Taylor, then director of Stanford's Food Research Institute, critically analyzes Wallace's 1934 writings in *The New Deal and Foreign Trade* (1935). Taylor especially notes Wallace's neglect of monetary issues.

Wallace's aversion to export dumping stems from his longer run view of international economic relations. However, Wallace faced opposition from shorter run nationalists in USDA. George Peek was Wallace's administrator of AAA programs. Peek, the leading proponent of the two-price idea of agricultural policy in the 1920's and a former farm implements manufacturer, was vehemently opposed to production restrictions. Farmers should be given a fair price, produce all they can (buying implements all the while), and what could not be consumed at home should be dumped abroad. Peek's views and actions were to conflict directly with those of Wallace and Hull.

Hull's appointment as Secretary of State had an immediate effect on the conduct of U.S. commercial policy. Roosevelt and Hull had to contend with the repercussions of the exceptionally protectionist Smoot-Hawley tariff of 1930. Most U.S. trading partners retaliated with tariffs designed to discriminate against U.S. products, especially agricultural commodities, and many quantitative restrictions were tightened, especially the system of British Imperial Preferences (Jones, 1934). Trade imbalances resulted in many bilateral "balanced trade" agreements between trading partners. The United States was then the leading creditor nation and therefore faced severe discrimination under balanced trade policies.

The new administration's first opportunity to stem the spiral of protectionism and bilateralism was the 1933 World Monetary and Economic Conference held in London by the League of Nations. The U.S. position at the conference regarding trade is easily summarized: economic nationalism is self-defeating. To rise above the noncooperative solution, some international code of conduct and means of negotiation is required. Toward this end, Hull advocated three principles: (1) abolish or relax all quantitative restrictions, (2) reduce tariffs, and (3) promote nondiscrimination either through most favored nation clauses or via multilateral rather than bilateral trade negotiations. However, the United States delegation to the London Conference was instructed to demand an exemption from any concessions which might undermine the programs and activities of the AAA.[6] Roosevelt signed the AAA into law on May 12, 1933, and the London conference began June 12, 1933. That is, 1 month elapsed between the time the AAA initiated nationalistic agricultural controls and the time that U.S. trade negotiators attempted to pry open the door to liberal world trade while simultaneously holding it shut to any concessions on agricultural trade.

The London Conference ended in failure. The inability of the major powers to resolve currency issues or chronic imbalances dominated any discussion of commercial disputes. The London Conference is important because the planning of the postwar economic order was, in large part, a reaction to its failure to resolve these three problems. The proposed postwar solutions were three institutions: a Clearing Union, which would emerge as the IMF; an economic adjustment facility, the World Bank; and a commercial regulatory facility, the International Trade Organization.

Lacking any multilateral framework for trade negotiations, Roosevelt and Hull spurred congressional passage of the Trade Agreements Act of 1934 which provided the legislative basis for all subsequent trade policy. The Trade Act gave the President the power to negotiate reciprocal trade agreements. The means of negotiation was bilateral, but Hull attempted to employ most favored nation clauses to make bilateral deals as multilateral as possible.

Peek and Wallace collided in October 1933 after Peek cut a deal to subsidize the sale of Pacific white wheat to China. Peek and Wallace clashed over a number of issues and, in December 1933, Roosevelt asked for Peek's resignation. In compensation, Roosevelt named Peek as a Special Trade Advisor. This move put Peek into direct conflict with

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[6] Kindleberger (1973) and Peek (1936) portray Hull as tariff-obsessed. Hull (1948) portrays himself in a better light. He rightly viewed the NRA and the AAA as severe impediments to international commercial agreements, and that the administrators of such policies "believed in cutting the United States off from the rest of the economic world which they regarded as of little importance. They wanted to concentrate on lifting prices and restoring business in this country by purely domestic measures. As prices rose, they felt the need for import embargoes and higher tariffs to keep out imports from abroad which would interfere with the increasing price scale." Also see Kindleberger (1973) on the motivation for the U.S. agricultural waiver.

Hull.[7] In 1934, Peek attempted to buy German trade concessions by offering surplus cotton stocks at a fraction of cost. Hull objected to such an obvious departure from the principles of nondiscrimination.[8] Roosevelt sided with Hull, and Peek ultimately resigned.[9]

Peek may have lost the battle over cotton subsidies, but he won the war for making the dumping of surplus commodities on foreign markets a mainstay of U.S. agricultural policy. Dumping, or any form of price discrimination, creates the potential for arbitrage; a nation could purchase subsidized U.S. exports and reexport them to the United States for the higher domestic price. Arbitrage would simultaneously undermine domestic prices and give the arbitrageur a unit profit equal to the price gap. In August 1935, the 1933 AAA was amended to permit and finance dumping. Section 32 set aside 30 percent of customs revenues for the Secretary of Agriculture to use to subsidize agricultural exports.[10] To prevent arbitrage and secure the insulation of domestic agriculture from competitive forces, section 22 allowed the executive to impose import quotas to prevent imports from "rending ineffective or materially interfering with" domestic programs. The 1933 Act had metamorphosed

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[7] Hull (1948) notes, "The greatest threat to the trade agreements came not from foreign countries, not from the Republicans, not from certain manufacturers or growers, but from within the Roosevelt Administration itself, in the person of George N. Peek. In March 1934, the President had named him Foreign Trade Advisor. If Mr. Roosevelt had hit me between the eyes with a sledge hammer he could not have stunned me more than by the appointment."

[8] According to Hull (1948), "One basis of our trade agreements policy--equality of commercial treatment and opposition to the numerous sorts of discrimination and preference--would have been openly violated by the Peek barter proposals. Our program undertook in a broad way to provide export facilities for the more burdensome surpluses such as cotton, tobacco, lard, wheat, and automobiles, by reducing discriminations and preferences abroad and creating equality in trade treatment."

[9] Peek's book *Why Quit Our Own?* (1936) is a tirade against reciprocal trade agreements and production restrictions. In the chapter "The Sell Out," he gives his view of reciprocal trade agreements:

> Secretaries Hull and Wallace got out their school books, gathered around them a group that owned the same school books, and started to play a game that was in their books instead of the game that was in progress. Secretary Hull could not recognize that the elaborate system of exchange controls, quota systems, restrictions and regulations on trade which had sprung up throughout the world were not panic expedients but were reasoned attempts to preserve monetary systems and domestic economies.

[10] The value of 30 percent was employed because 30 percent of the U.S. population was considered to be involved in the agricultural sector in 1935. Section 32 is still in effect at the 30-percent level, although the agricultural portion of the population today is only 2 percent.

into a two-price policy; moreover, domestic agricultural programs had gained legal priority over trade negotiations. Of the broad powers granted by the AAA, the nationalist policy instruments came to dominate internationalist instruments. After 1935,

> [t]hose in the government concerned with commercial policy could do little or nothing to influence the future course of farm programs, which were of key importance to the New Deal. Legislative policies established by Sections 22 and 32 were regarded as untouchable. Accordingly, the trade-agreements program was made to conform (Leddy, 1963).

All agreements subsequently negotiated under the authority of the Trade Agreements Act contained a clause exempting quantitative restrictions linked to agricultural programs.

The Wallace and Hull alliance was only with respect to George Peek, as Wallace, unlike Hull, did not trust the free operation of market forces. In 1939, Wallace, over Hull's protests, successfully defended the use of section 32 to subsidize cotton exports. Even for Wallace, there were times when the political costs of holding surplus stocks outweighed the costs violating internationalist principles.

Agricultural Internationalism: The Ever-Normal Granary

Henry A. Wallace was a third-generation Iowa farm journalist and was well aware of the farmer's complaint of price volatility.[11] Wallace's solution was to help stabilize commodity markets through the establishment of an ever-normal granary. Wallace traced this solution to the Bible and the writings of Confucius.[12] To Wallace, the Commodity Credit Corporation was an obvious instrument for financing and managing a domestic buffer stock. But a domestic buffer stock would not solve the problem of international price volatility; in fact, it would exacerbate it. An international buffer stock was needed.

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[11] This is an understatement of the Wallaces; see Lord (1972) and Rosenof (1967).

[12] In essence, it is a buffer stock scheme. See Newbery and Stiglitz (1981) and Choi and Johnson (1991).

John Maynard Keynes was among the economists who considered the problems of commodity price volatility in the 1930's. He argued that primary products were different from industrial products. Their relatively price-inelastic demand and supply schedules were vulnerable to stochastic production and cyclical income shocks and resulted in price series of high amplitude. He concluded that primary producers had a legitimate complaint about excess price volatility and felt that some form of international buffer stock was required to moderate price fluctuations. Unless excess price volatility could be damped, producers were too prone to lobby for the kinds of nationalistic agricultural policies which only exacerbate the problem by shifting domestic volatility to the international market. Keynes was rather critical of the existing International Wheat Agreement, as he felt it discriminated against nonsignatory nations.[13] For commodity agreements to work without massive stock accumulation, Keynes advocated bringing long-term supply and demand into line by eliminating high-cost producers in an orderly manner with due notice.[14]

Keynes' published work on commodity problems starts with a 1938 paper presented at the Royal Economic Society meetings and published in the *Economic Journal.* August 30, 1938, Keynes sent a copy of the paper to Wallace. In the cover letter, Keynes wishes Wallace good luck with Canadian bilateral trade negotiations, and concludes with the following statement:

> I am a convinced advocate of the general principles underlying your policy of a concerted government policy to average fluctuations by an assisted scheme of storage (Keynes, 1980).

During 1940 and 1941, Keynes was involved with drafting proposals for an International Clearing Union and in Anglo-American negotiations over lend-lease. During a visit to Washington in May 1941, Keynes met with Dean Acheson and Leo Pasvolsky, among others at the State Department. At that meeting, Keynes expressed his support for some form of an ever-normal granary. According to Keynes' editor, Moggridge:

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[13] Moreover, Argentina and the United States defected from the agreement shortly after it was signed in 1933.

[14] The idea of international buffer stock schemes was not popular with the British Ministry of Agriculture, which claimed that all other Ministries of Agriculture desired planned output (a euphemism for organized restriction), quotas, and fixed prices. In light of this predictably nationalistic complaint, Harrod (1951) quotes Keynes in a meeting with the Ministry as remarking "All Departments of Agriculture are rackets."

> Mr. Keynes was aware that a project of this kind was highly ambitious, but he felt that it was one which would appeal to the Vice-President [Henry Wallace] and he considered that the fact that it was difficult and even grandiose should not exclude it from the long-range planning involved in dealing with the surplus problem.
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> The reaction of Mr. Acheson to this was interested, but cautious. He gave the impression of not having thought along those lines before, and indeed at the end of the meeting he said that he felt his mind was much clearer now for giving thought to the problem as a whole. . . .
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> Mr. Pasvolsky was obviously interested and attracted from the outset. He was particularly concerned with the reverse adjustments which would be necessary after the war in cutting down productive capacity which had been called into existence by the war but which would not be needed during the peace. He was also clearly taken with the idea of linking the problem of surplus accumulation with that of postwar distribution (Keynes, 1980).

Keynes and Acheson maintained an active correspondence on the issue of international commodity agreements. Keynes also drafted several briefs on the International Wheat Agreement and was involved in international cotton negotiations. In 1942, Keynes shifted from specific commodity issues to the more "grandiose" issue of how to design an institution to manage an international multicommodity "ever-normal granary." These efforts were contributions to the U.K. Treasury's position papers in the Anglo-American negotiations over the institutional framework of the postwar order. The earliest extant draft of his paper, "The International Control of Raw Materials" was dated April 1942 (republished in Keynes, 1974 and 1980). Both this draft and the draft of May 1942, contain the heading: "The internationalization of Vice-President Wallace's ever-normal granary" (Keynes, 1980):

> The essence of the plan should be that prices are subject to gradual changes but are fixed within a reasonable range over short periods; those producers who find the ruling price attractive being allowed a gradual expansion at the expense of those who find it unattractive.

Buffer stocks would effect price stabilization; however, in cases of more extreme imbalance, output regulation would be required.[15] Such a policy would:

> amount to an internationalization of the ever-normal granary' proposals of Vice-President Wallace, which seem to go to the root of the matter and are likely to promote the *general* interest more completely than can be claimed for any projects which are primarily directed to restriction (Keynes, 1980, emphasis in the original).

As Anglo-American talks progressed, Keynes' commodity control institution was linked to the Clearing Union for financing. As the Clearing Union emerged as the IMF, the commodity control facility was dropped. At Bretton Woods, May 1944, a resolution was adopted to devise means to "bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike."[16]

Towards a Postwar Order

War mobilization, not the New Deal, ended the depression in the United States. The crisis in agriculture shifted from one of surpluses and excess capacity to one of shortages and supply constraints. Although the war sharply raised crop prices and farm incomes, farmers feared that the end of war-induced scarcities and the revival of production in competing countries would result in an agricultural depression as devastating as the one following World War I.[17] Farmers were hesitant to risk expanding production to meet the demands of the war economy if a postwar bust were likely to follow. To assuage their concerns, legislation in 1941 and 1942 extended parity-based price supports to a wide range of commodities (among them turkeys, sweet potatoes, tung nuts, and hemp), exempted them from war-time price controls (to 110 percent of parity), and guaranteed price supports for 2 years following the official end of hostilities. The 2-year guarantee, however, did not remove the threat of a

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[15] The idea that there is a corridor within which classical assumptions hold and beyond which quantity adjustments are required is a motif that pervades Keynes' work, see Leijonhufvud's (1981) essay, "Effective Demand Failures."

[16] Bretton Woods Conference, Vol. I, pp. 937-42, cited in Brown (1950).

[17] The 1920-22 agricultural depression stimulated the political demand for McNary-Haugen-type legislation and the formation of the farm bloc in Congress.

postwar bust; it merely delayed it. Two issues consequently dominated postwar policy discussion, in order of priority: how to return domestic policy to a peace time basis, and then, how to devise rules for international commodity trade.

1945 was a banner year for proposals for a postwar agricultural and trade order. In January 1945, W.H. Jasspon donated $12,500 to the American Farm Economic Association [AFEA] to fund a contest. Entrants were requested to write a paper: "A Price Policy for Agriculture, Consistent with Economic Progress, that Will Promote Adequate and More Stable Income from Farming." There were 317 entries. Awards were presented in September 1945, and the 18 winning papers were published in the November 1945 issue of the *Journal of Farm Economics.* First, second, and third prizes were awarded, respectively, to William H. Nicholls, then of the University of Chicago; D. Gale Johnson, also of the University of Chicago; and Frederick V. Waugh, of USDA's Bureau of Agricultural Economics. Fifteen honorable mention awards were also granted.

AFEA President L.J. Norton, in his introduction to the November 1945 issue, summarizes the policy suggestions of the papers:

> The papers logically fall into two groups, those written by farmers and other laymen; those written by professional economists. Among the former there was a strong accent in favor of fixed prices, in many cases related to "cost of production." No definite plans were proposed for accomplishing this. The desire of many farmers for fixed prices may be considered as a wish for security against the effects of fluctuating prices and depression accompanied by severe price declines.
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> The professional group of papers included a wide variety of proposals. In general the present parity formula was considered to be outmoded and the entire concept of parity was held to be unworkable by a number. . . . Very little emphasis was placed on production controls.
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> Among the prize-winning papers there was a strong accent on the desirability of general measures that would maintain a vigorous and prosperous general economy, greater freedom in prices of individual commodities than

> is possible under existing price support legislation, some type of "forward pricing" in order to guide production, and government supplementary payments to maintain total returns from individual products or total overall farm income.
>
> The general trend of thought was toward freer markets accompanied by measures to support some minimum level of farm income.

There is little discussion of international trade in the winning papers. To claim that this absence is evidence of an isolationist or insular view of agriculture given the topic of the contest, its page constraints, and the impending end to wartime supports would be unfair. Waugh is one of the few to explicitly discuss the international market:

> *A foreign trade program.* A revival of foreign trade will be essential. The best possible domestic nutrition program will not provide adequate outlets for wheat, cotton, tobacco, and other export crops. The United States should use its influence to bring about a general, world-wide relaxation of international trade barriers. But we should recognize that progress along these lines may be slow and difficult. Therefore, we should also proceed immediately to work out international commodity agreements aimed at an orderly distribution of world surpluses of the primary export commodities. These agreements should provide a "buffer stocks" program to even out fluctuations in supplies. They should also include measures to make surpluses available to undernourished populations in areas of chronic need.

Waugh's comments reflect an emerging view in the *Journal of Farm Economics* during the early and mid-1940's that international commodity agreements might provide a second-best solution to the volatility of international agricultural markets. But what transpired during the negotiations of the ITO and the GATT (1945-50) ultimately had little to do with internationalist views of Keynes, Wallace, or the professional economists writing in the *Journal of Farm Economics.* Rather, it was L.J. Norton's "farmers and other laymen"--the George Peeks of the world--and their demand for fixed prices related to the cost of production who gained control of the postwar agenda for agriculture.[18]

1945 was also a good year for official proposals for the postwar order. Four merit our attention. In its report on policies for economic stability in the postwar world, the League of Nations strongly advocated international agreements among governments. The greatest risk of a return to the economic nationalism policies of the depression would be during the "transition period," those few years during which economies would attempt to shift from wartime to peacetime.

> It seems inevitable that the ad hoc uncoordinated decisions of individual governments to deal with specific problems confronting them at that time (whether these problems relate to import controls, surplus stocks of commodities, or exchange control practices) will be of a defensive rather than of an expansive character, and that these defensive policies embarked on in the transition period will set the tone of international economic policy for a long time to come. . . . Short-run considerations of expediency may from time to time appear to indicate a temporizing approach; the immediate difficulties of bold action may make the temporizing approach appear more realistic than a bold and far-sighted view. Realism is, however, not to be confused with myopia (League of Nations, 1945).

The League's prescription for "International Anti-Depression Measures for Raw Material and Food Producing Countries" follows directly from the Keynes-Wallace formula: international buffer stocks with production controls as needed.

> [C]ontrol may prove necessary as a supplement to buffer stocks in order to preserve the existing pattern of production and productive capacity in the world rather by international agreement than by competition among governments in the preservation of redundant capacity. The justification is only valid so long as governments are resolved to prevent the elimination of the unprofitable.

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[18] Peek grasped the realpolitik of international trade policy; see footnote 9 above.

> The creation of a buffer stock scheme would remove an important reason for protectionism, because . . . it would very greatly diminish, if not remove altogether, what has been a real risk in the past, namely, that productive capacity which is again vitally requisite during a boom may be destroyed during a depression (League of Nations, 1945).

Two points are important here. First, because national governments tend to preserve redundant and unprofitable production capacity, an international agreement is required to constrain this behavior. Second, reducing price volatility will moderate both booms and busts. Booms are as much a problem as busts, because owners of marginal land cultivated during a boom demand protection against redundancy when normal conditions return. Protection of redundant capacity initiates a cumulative process resulting in surplus production, protectionist pressures, and an increasing risk of a bust.

The U.S. State Department's proposal was an exemplar of Hullian liberalism, voicing strong support for the ITO. However, there were some glaring exceptions: in particular, sections 22 and 32 were defended, and there was support for international commodity agreements under ITO control (U.S. Department of State (1945), pp. 13-23 in particular). The USDA's program, at least as it pertained to trade issues, championed international agreements. The influence of Keynes, Waugh, and Schultz, among others, is apparent in its emphasis on consumption enhancement and its aversion to production control. International coordination of transfers of surplus stocks to households or nations with an "ineffective demand" for food, but nutritional needs, would, at one stroke, help alleviate supply, demand, and income imbalances. Although the USDA program was internationalist, it left a very limited role for the market in international trade, as a liberal trade order in agriculture would undercut government management of domestic agriculture (U.S. Department of Agriculture, 1945). The consumption enhancement view of international control of agricultural trade is also strongly voiced in the proposal by the Food and Agriculture Organization of the United Nations (FAO) for the establishment of a World Food Board (FAO, 1945). One of the struggles during 1945-46 was over which international organization would have control of international commodity trade. USDA lobbied for FAO control, while State lobbied for ITO management. As Brown (1950) explains, on the issue of commodity agreements, the FAO

> . . .has not, as the drafters of the ITO Charter tended to do, regarded such agreements as necessary exceptions to general rules of commercial policy, to be rather reluctantly accepted and strongly safeguarded against abuse. There has, moreover, been a tendency for governments, even those of importing countries, to send representatives to FAO deliberations who are more deeply imbued with the point of view of producer interests than were the representatives sent to the ITO negotiations by the same governments. It seems probable that if the ITO entered into force this difference in attitude would continue, and that the ITO would tend to emphasize consumer interests, that it would attempt to minimize departure from more liberal trading policies, and that it would treat commodity agreements as essentially short-term devices to meet particular emergencies, rather than as permanent and desirable methods of conducting trade. Such an attitude would be in accordance with the spirit and provisions of the ITO Charter as a whole. The FAO would probably continue to see in commodity agreements an important technical device for the achievement of positive objectives, such as improved nutrition and the sale of "surplus" products to depressed areas at special prices.

The Truman administration witnessed the origin of the cold war. Henry Wallace, Secretary of Commerce until 1946, split with Truman over U.S. relations with the Soviet Union. After a year as editor of *The New Republic,* Wallace reestablished and then headed the ticket of the Progressive Party in the 1948 presidential election. Among other points, Wallace stressed cooperation and trade with the Soviets and strengthening the power of the United Nations. In particular, he advocated U.N. administration of foreign aid. As the political climate polarized, Wallace and advocates of internationalism became increasingly suspect.

The internationalist perspective in commercial policy met a similar end. Internationalists argued for adoption of a code of international rules which would constrain economic nationalism and reduce the risk of depression and military conflict. The United States as the new hegemon faced a decision between binding itself and all others to a system of rules and reserving for itself complete discretion at the apparently small cost of a marginal loss of legal leverage over other countries. The nationalist view in the United States ultimately prevented the Congress from even voting on the ITO charter, and by default the GATT, which was, and remains, very weak on agriculture, became the code governing international trade.[19]

Despite the demise of the ITO, the prospect of international commodity agreements remained alive and several were signed in the late 1940's. However, the idea of an international buffer stock for the purpose of price stabilization surrendered too much national sovereignty to an international committee for the United States to consider. The buffer stock proposal withered away leaving the shell of an international commodity agreement stripped of its international public good rationale.[20] Arguments for surplus disposal and consumption enhancement also remained, but they were increasingly nationalist in scope. The emergence and ultimate permanence of the "temporary" Food for Peace program (1954) is perhaps the clearest manifestation of agricultural nationalism generating bilateral government-controlled commodity trade. The other export programs of the United States, as well as those of the European Community (EC), are also derivative of the demands of domestic producers for a controlled environment.

Conclusion

The decision not to bind agricultural trade to some form of international governance in the late 1940's still affects the conduct of agricultural trade, its empirical analysis, and prospects for its liberalization.

[19] Covering the debates over agriculture in the ITO and the origins of the agricultural exceptions of the GATT would require a paper at least double the length of the present text. Readers can turn to two excellent sources: Brown (1950) and Johnson (1950). Both authors served as economic advisors on international trade issues at the State Department under the Truman administration, and both books were published when the ITO was still a live issue and cover many issues not covered in later works. For agriculture under the GATT, Warley's (1990) article picks up the narrative where this chapter concludes.

[20] Poor mechanism design is the weak point of any commodity agreement. The International Wheat Agreement, initiated in 1949, was the only agreement of any importance, and its performance was fairly comical. See Farnsworth (1957).

Conduct and Analysis

The exemption of agriculture from the rules of the game has led to policies of competitive bilateralism which have proved destructive in the 1980's and, unless constrained, are likely to become even more destructive in the 1990's. Bilateralism remains the dominant mode of international agricultural trade. There is much more government control of international trade than our standard assumptions of a law of one price and continuous and twice-differentiable functions would lead us to deduce. Almost all quotas and government export programs are bilateral, and bilateral trade short-circuits the Walrasian auctioneer who implicitly solves the equations of our trade models.[21] One should seriously question the results of analyses which require a suspension of belief in what we know about agricultural trade: the assumptions undergirding one-price, Armington, and net trade models result in elegant but implausible representations of observed conduct.

Stability and Liberalization

In the United States, free trade in agriculture has not been a politically correct position since 1933. This political reality cannot be assumed away. Current proposals for agricultural trade liberalization may be too liberal for national governments to tolerate if liberalization increases the variance of agricultural prices and farm incomes within their borders. What Gale Johnson warned of in 1950 still holds true:

> Regardless of which proposal [for effecting price stabilization] is accepted, this country must stand ready to consider the desires and aspirations of agricultural producers for greater economic stability. If these desires are not taken into account, the possibility of achieving liberal trade throughout the world is sharply reduced.

The possibility is even further reduced today because the United States is no longer the victorious hegemon that it was in 1945. Too little attention has been paid to the issue of price stability, or the political demand for it, in the context of liberalized agricultural trade. The plans for a Commodity Control or World Food Board were certainly idealistic, but

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[21] These issues have been the focus of the author's recent research (Skully, 1990, 1991, 1992).

Keynes and Wallace, although overoptimistic about the capacity of the public sector, were not dueling with phantoms. They recognized and attempted to devise a means to reduce price volatility, which they viewed as the core cause of agricultural nationalism.

Keynes and Wallace identified an international political-market failure and attempted to construct an international public good: an institution that would (1) lessen the demand for nationalistic policies by (a) reducing price volatility and (b) resolving, multilaterally, effective demand failures (food aid); and (2) credibly enforcing rules to constrain the external effects of domestic agricultural policies from spilling over into the international market.

Designing or realizing such an international public good may be impossible, but it seems to embody what many current partial liberalization proposals are groping toward.[22] The current Hobbesian circus of retaliatory bilateralism, with the United States and the EC at center stage, is too self-destructive to be sustainable. The risk is that agricultural retaliation is at least as likely to spread to other areas of commerce and finance as it is to be resolved by a cease-fire and an agreement to play fair in the future; no one has played fair in the past. The proposed alternative of liberalized agriculture trade, as long as the volatility problem persists, is equally unsustainable, not to mention politically unacceptable. The Uruguay Round of the GATT is the first time since the late 1940's that proposals on rules for agricultural trade have been seriously discussed multilaterally. The negotiations on agriculture have limited themselves to evaluating alternative amendments to the rather weak GATT foundations. The GATT, after all, was the default option to the ITO. The agricultural diplomacy of the 1940's, as outlined in this chapter, entertained a much broader portfolio of options than we have permitted ourselves today, although we face essentially the same problems, and some of these options may contain solutions or alternatives to the current stalemate.[23]

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[22] Production entitlement guarantees and trade distortion equivalents address the second goal, but the price volatility problem remains.

[23] A constitutional convention rather than amendment to the existing order may be needed. Jackson (1990) discusses the establishment of a World Trade Organization, and Bhagwati (1991) alludes to constitutional questions in his analysis.

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