

## FREE TRADE IMPACTS ON U.S. AND SOUTHERN AGRICULTURE: DISCUSSION

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Prior to receiving the foregoing paper, "Free Trade Impacts on U.S. and Southern Agriculture," by Burfisher, House, and Langley, I assumed that I would be discussing either: (1) an econometrically-based empirical analysis of potential impacts for specific commodities important to southern agriculture designed to stimulate discussion and further analyses; or (2) a broad-based conceptual paper dealing with critical issues, concerns, outcomes, and potential response scenarios for producers and the profession. Based on my expectations for this specific topic and my broader expectations for an SAEA invited paper session, I did not think I would be discussing a survey of previous research utilizing partial and general static equilibrium and models. I was wrong.

I am more concerned about what the authors did not say than what they actually did say. Perhaps sins of omission are less serious than sins of commission. But before I dig too deep a hole for myself, let me anchor a rope to the nearest tree by noting what I like best about the paper.

The authors are to be commended for accepting the enormous and difficult task of assessing the potential impact of a possible U.S.-Mexico free trade agreement on a diverse southern agriculture. The authors provide a concise description of U.S.-Mexican agricultural trade and recent trends in bilateral trade barriers in agriculture. Their major effort, however, is their review of nine partial and general equilibrium and multi-sector macroeconomic models which address the effects of a Free Trade Agreement (FTA) on U.S. agriculture. This is the heart of their paper.

### MODEL SELECTION

The authors ask a reasonable question, "Is there a consensus on the effects of an FTA on U.S. agriculture?" They correctly note that "the studies reviewed differed significantly in model structure, sectoral composition, assumptions about trade barriers and elasticities, and the variables that were reported in results." Given the disparate nature of the models surveyed, it is amazing that the authors could then reach "certain general conclusions," let alone "fairly

robust" conclusions. Their efforts do provide some interesting insights into the types of modeling utilized in these studies, as well as the range of potential price and revenue impacts estimated for U.S. grains and livestock.

While the authors are to be complimented on their review of literature pertaining to a U.S.-Mexico FTA, they limit their "analysis" to sharing the results of previous research and fail to extend beyond the models surveyed. What conclusions can be drawn from a survey of previous research, alone? Why have the authors not selected, or developed, one model upon which to focus their paper? Is there a lack of confidence in any one model specification? Is there a data problem?

I admit to lacking qualifications to discuss partial and general static equilibrium models and multi-sector macroeconomic models. However my economic intuition requires me to express concerns with respect to the usefulness of such models. This is not to suggest that these models have no application. I understand that on a national level, several of the grain models and perhaps the livestock models perform quite reasonably. Also, papers based on these models make for great bedtime reading and are guaranteed not to keep you up all night.

Specifically, I am concerned about the static nature of the models surveyed. In the dynamic world of international trade, changes in barriers and agreements which cause shifts in competitive positions result in actions and reactions in prices, production, and policies. Analyses used for many commodity situations need to be swift, flexible, and able to capture changes in relevant parameters—something like the Schwartzkoff model made famous by Operation Desert Storm, which fits because the survey of models presented does exhibit some characteristics of a desert.

It is not obvious that these large-scale static models are always best suited for analysis of dynamic situations. Alternative approaches focusing on production and marketing costs, supply (import) response, and basic supply-demand relationships may provide

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useful information for decision makers. In specific situations, alternative analytical frameworks may be more useful to those concerned with the direction and timing of changes which affect their ability to compete. This is particularly relevant for commodity analysis on a state or regional basis. In economic theory, custom union literature documents the importance of dynamic effects associated with trading block formation.

### NATIONAL ORIENTATION

Burfisher, House, and Langley focus on U.S. agriculture; specifically, the U.S. grain and livestock sectors. While these commodities may have application to parts of Kentucky and Missouri, and perhaps even Oklahoma and Texas, the bulk of the Southern region could have benefited from analyses of potential impacts on commodities both specific to and important to southern states. What happened to peanuts, cotton, and tobacco; peaches, pecans, and grapefruit; winter vegetables, orange juice, and sugar? At best, some of these were superficially introduced or included as an afterthought.

The authors begin with good intentions by stating that "we...assume that a U.S.-Mexico FTA leads to removal of tariffs and quotas, and we analyze the effects of such an FTA on southern U.S. agriculture." In spite of their stated intentions, the authors fail to deliver on this promise. To be fair, once the authors chose to review models biased toward nationally important crop and livestock enterprises, the focus and results of their paper became predictable. Thus, my comments should be interpreted as being critical of the models selected and not the authors.

The authors' hearts are in the right place in recognizing that it would be nice to discuss southern agriculture. When the authors finally turn their attention from the major U.S. crop and livestock enterprises to southern agriculture, they utilize a regional math programming model to disaggregate trade impacts from three national models. Again, due to the national models selected, the analytical framework is devoted to major U.S. field crop and livestock enterprises with little consideration for southern commodities. Some crops of importance to the south are included in this model (rice and cotton) but then lumped together in an eight-crop catch-all category. No fruits or vegetables are included.

The issue seems to be that of major U.S. crops versus minor U.S. crops which are major crops in the southern region or in selected states in the region. Is the lack of analytical attention due to the major crop/minor crop dichotomy, a lack of data, or a regional bias? Why has a horticultural model not been developed? Why have southern-based com-

modities not been analyzed in an equitable manner? I think we understand the priorities involved. I do not blame the authors, but rather the system in which they work.

Admittedly, some attempt was made by the authors to note the existence of fruit and vegetable production in the southern region. However, the treatment of fruits and vegetables departed sharply from the quantification of impacts and the careful research citations found in the crop and livestock sections of the paper. In fact, the complete lack of specific citations in this section is particularly curious. Having been involved in the fruit and vegetable component of the American Farm Bureau Research Foundation project detailing the effects on agriculture of a North American FTA (Cook et al.; Spreen, Muraro, and Fairchild), I recognize and agree with many of the observations offered in the fruit and vegetable section. I am puzzled, however, at the authors' failure to even mention orange juice in this section, while indicating the existence of direct competition between Mexico and Florida in fresh citrus. In fact, fresh citrus is of relatively minor concern to Florida compared to the competitive interface in orange juice (Spreen, Muraro, and Fairchild; Behr and Bedigian).

### OTHER OBSERVATIONS

I would be remiss if I overlooked the statement "Florida opposes an FTA which they think would not yield 'fair trade' or a 'level playing field'." This is rhetoric more associated with commodity lobbyists than Florida-based agricultural economists (Taylor; Spreen, Muraro, and Fairchild). A small, but significant, point! However, the issue of government-imposed costs on the agricultural sector does focus attention on problems associated with free trade agreements between developed and less-developed economies.

The section on income effects correctly notes that "Mexican economic growth under an FTA could be a key element in determining the impact of an FTA on U.S. agriculture." The study highlighted in this section assumed a \$25 billion (7 percent) increase in Mexican capital stock. Why not \$50 billion or \$100 billion? The importance of investment in Mexico to Mexican income growth and commodity supply response begs further treatment and discussion.

My favorite phrase in the paper is "in the real world." "In the real world these results (higher grain prices) suggest that rising feed costs may place pressure on certain (southern) livestock producers...." Somehow, I never thought of cow/calf enterprises, which dominate the southern livestock industry, as utilizing grain as a major input. Venturing into the

real world can be dangerous. The authors fail to convince me that one can actually get from a static equilibrium model to the real world.

Burfisher, House, and Langley provide an excellent review of models developed to assess the economic impact of a U.S.-Mexico FTA from a national agricultural policy perspective. However, more attention to the enterprises and industries which permeate and define southern agriculture would have been appreciated. Unfortunately, the paper focuses on models with a commodity bias toward crop and livestock operations of national rather than regional importance. It is simply suggested that models appropriate for government policy makers may be less well-suited for firm and industry decision makers with state and regional perspectives.

Estimating price and revenue changes is an important activity for economists. The more specific we can be for a particular industry, the more useful the information will be to producers, input suppliers, and agribusiness firms. Alternatives to partial and

general static equilibrium models should be considered. Analyses such as the above-noted industry-level studies commissioned by the American Farm Bureau and state-level, industry-specific reports (Taylor; Rosson et al.; Fuller and Hall; Schulthies and Schwart; Behr and Bedigian) serve as useful models.

For economists concerned with commercial agriculture, the bottom line focus is on how well agricultural firms and industries can compete as the rules of the game change. Our profession can contribute with identification, analysis, and explanation of key issues and variables including macroeconomic policy, infrastructure, investment, production and marketing costs, supply response, and supply/demand situations. As we enter an era of expanded trade negotiations and agreements, demands for timely and accurate analyses of potential economic impacts on specific commodities at the national, regional, and state level can be expected to increase.

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