

## INTERNATIONAL TRADE AND CONSUMERS: SOME ALTERNATIVES

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A discussion of alternative U.S. government policies with respect to trade issues should probably begin with a description of U.S. trade policy. An official statement of U.S. government trade policy would probably suggest that the nation supports free trade. In general I think that would be accurate. A closer look at the evidence might suggest a fair degree of government involvement in trade to promote certain social and economic objectives. This involvement has important implications for households, as consumers, as wage earners, and as taxpayers.

The importance of exports — first agricultural but later industrial — to the early growth of the United States laid the foundation for a U.S. trade policy that by world standards remains relatively free. We have been leaders in seeking freer world trade through the Generalized Agreement on Tariffs and Trade, and the Kennedy and Tokyo Rounds of the MTN. But free trade as practiced by the United States and other nations should not be confused with the textbook definitions of free trade. The United States does interfere with markets, largely though not entirely, in order to protect key industries and to permit more orderly adjustment for non-competitive industries. Protection provided under the Trade Act of 1974 reflects the nature of most recent U.S. market interventions.

The statute, used frequently in recent years, does not provide permanent protection. Rather, the protection provided — quota and/or tariff — lasts for three to five years. It declines over the period in order to give the industry time to adjust through modernization or exit, but the act does not allow for protecting inefficiency indefinitely.

### Protectionism

The macroeconomic effects of trade have a large impact on public policy. Jobs created through exports, or lost to imports are important particularly in periods of high unemployment, even to proponents of free trade. Restraints imposed in recent years on the importation of steel, autos, and motorcycles, and even efforts to promote the export

of higher valued agricultural products are illustrative of the public trade policy response to macroeconomic conditions.

Many industries which have sought protection from imports have claimed they have been injured by unfair competition — dumping, subsidies, or predatory pricing. But, there are many reasons to protect an industry from foreign competition apart from injury which may be due to some form of unfair competition.

Nations protect industries which simply cannot effectively compete, for national security reasons, or because of the stage in the industry's life cycle, with those in infancy or decline most often receiving some form of protection. National pride has more than once been seen as reason enough to protect a basic industry, like steel or an airline, from the realities of the marketplace. And a desire for self-sufficiency, particularly for food or energy, has been a frequent rallying cry for protectionism.

### **Food Security**

The food system is protected to some degree in most nations for national security reasons. Food security is always a high priority and some nations go to great lengths to assure self-sufficiency in their food supply — even to the point of encouraging uneconomic productive capacity rather than being dependent on other nations. The effects of maintaining excess capacity for food security reasons can spill over into the international trade arena.

The decision over how to dispose of a surplus that may be generated by high internal prices can have widespread impacts on producers and consumers the world over. On the other hand, a high degree of specialization and trade in food commodities may result in greater uncertainty and variability in supplies and prices — effects which are viewed unfavorably by policymakers in most nations and which can extend far beyond domestic borders.

Consumers have an important stake in the alternatives for dealing with food security. Some of the options for consideration in addition to high cost self-sufficiency are food reserves, two-tier pricing, government trading, and export embargoes.

World-wide food security is also an important issue affecting consumers, both for humanitarian reasons and because it may affect domestic food security. World food security has been approached through a number of alternative mechanisms including: international commodity agreements, bilateral and multilateral trade agreements, unilateral or multilateral food reserves or financial reserves, direct food aid — domestic and international, and technical assistance to promote food self-sufficiency in food deficit regions of the world.

Consumers have a stake in which of these alternatives is utilized as each may have differential consumer/taxpayer impacts. As a major

participant in any alternative for assuring world food security the decisions made by the United States can have important impacts on American consumers. Even reaching an agreement on a working definition of food security is important.

To some, security means having enough to eat, while to others it means having a high degree of food price stability. Security and stability come only at a price, and consumers need to be aware of the costs of assuring varying degrees of stability. While there are surely social benefits that accrue by achieving a secure domestic and world food supply it is equally clear that food security is relative. Depending on the type and level of security one chooses the cost can be very different.

### **Food and Politics**

Food and politics often are mixed together resulting in some form of government involvement which affects producers and consumers. Over the past decade we have witnessed embargoes to protect consumers from high prices and an embargo to punish an aggressor. Food/political actions can take the form of unilateral action or a more united front. Several international commodity agreements have been successfully negotiated yet many others have failed, often because one nation or group of nations lacks the "political will" to go further. Food cartels have been favored by some for a variety of purposes including stability, profit and politics. While most politicians openly deplore the use of food as a weapon, either to appease producer groups or to avoid adverse world public opinion, history would suggest that food and politics will never be totally divorced from one another.

### **The Full Cost of Exports**

There has been some concern expressed during recent years regarding the full cost of exports, particularly of agricultural commodities. Some have charged that U.S. farmers were exporting commodities at below cost of production, and with the exports went valuable topsoil. The issue of social versus private costs of production is not limited to agricultural commodities. In reality anytime products are sold for less than cost as a result of market imperfection or subsidy, the concerns over appropriate resource utilization become relevant.

Export subsidies through tax incentives, export financing, or directly through input or transport subsidies can result in production of commodities which sell for less than the social cost of production. Against that, however, must be compared the societal gains from increased employment, foreign exchange earnings and even increased capacity utilization which may result in lower private production costs. Such comparisons are not easily made, but consumers, as taxpayers and citizens, need to be aware of the issues and of sources of information for evaluating the options.