U. S. TRADE POLICIES FOR MEETING OUR INTERNATIONAL OBLIGATIONS

Dorothy H. Jacobson
Assistant Secretary of Agriculture
for International Affairs

The United States Government is today committed to trade policies directed toward twin goals—the strengthening of our domestic economy and meeting our international obligations. In the long run, and in the over-all impact on the well-being of all Americans, these twin goals are consistent. But in the short run complicated problems and conflicting pressures arise out of the more immediate wants and needs of various segments of our economy; and these problems are intensified when they are arrayed face to face with similar needs, wants, and pressures of our trading partners.

Our basic trade policy is directed toward expanding and liberalizing trade among the nations of the world. We strive for expanding trade because we regard it as essential for economic progress, increased prosperity, and higher living standards—both for ourselves and for our trading partners.

Although the United States is today a leader in the drive for expanded and liberalized trade, it has not always been. However, it has generally followed a liberal trade policy with regard to agricultural commodities, except for the period of agricultural protectionism that began in 1921 and reached its peak with the passage of the Smoot-Hawley tariff of 1930. In 1932, under that act, the average equivalent ad valorem duty on dutiable farm products was 85 percent.

American policy was reversed with the passage of the Reciprocal Trade Agreements Act of 1934. By the end of 1934 the average duties on agricultural products had been reduced to 55 percent, and by 1948 to 18 percent. By 1962, when the Trade Expansion Act replaced the Reciprocal Trade Agreements Act, the average had been cut to its present level of 11 percent. Thus, the Reciprocal Trade Agreements Act of 1934 was a milestone and a turning point in America's leadership toward expanding international trade, and the Trade Expansion Act of 1962 was a second milestone in progress toward implementing the American conviction that competition brings about greater and more enduring progress than protection.

It is not generally recognized that at present the United States is much more liberal, with regard to imports of agricultural products, than most other producing countries. If agricultural products that come in free of duty are included, the average rate is only 6 percent.

We have only a few nontariff protections, such as quotas, in order to uphold government programs designed to support prices and restrict production. These apply to wheat and wheat flour, cotton, peanuts, and certain dairy products. But until last month only 26 percent of United States agricultural production was covered by nontariff restrictions—a far smaller proportion than in any other major country.

In August of 1964 an act was passed to provide for stand-by quotas on beef, veal, and mutton imports to be invoked if and when they threaten to exceed 110 percent of the 1959-64 average, plus a "growth factor" based on domestic production. Since imports of beef and veal are currently running far below this ceiling, and since the ceiling is similar to that provided in the voluntary agreements that the United States negotiated with Australia, New Zealand, Ireland, and Mexico last spring, it is hoped that the newly imposed quotas will not have to be invoked.

Stricter quotas on meat were strongly opposed by the Administration because such action could seriously undermine our efforts to lower the barriers that other nations erect against our agricultural exports. If moves toward higher protection in the United States should have a boomerang effect, the major efforts we are presently making to encourage other countries to ease their restrictions against farm imports could be seriously hampered.

United States policy directed toward expanding trade in agricultural commodities includes, not only liberal access for imports from other countries, but positive efforts to expand our own exports.

In pursuance of its policy to expand international trade, the United States has joined with other nations in a General Agreement on Tariffs and Trade. The GATT is a multilateral trade agreement, entered into by the United States and most of the important trading nations of the free world. It is dedicated to the reduction of barriers to international trade and the promotion of international cooperation toward that end and since its inception in 1948 has upheld three basic principles:

1. Nondiscrimination among participating members (the Most Favored Nation principle)
2. Recognition of customs tariffs as the only appropriate means for protecting domestic industries (excluding the use of quotas for this purpose, but recognizing them as acceptable for other purposes)

3. Provision of an international forum for the discussion, negotiation, and settlement of problems of international trade.

The United States position in the Kennedy Round of negotiations under GATT is based on a genuine desire to expand and liberalize trade. It is further based on the principle that agriculture as well as industry must be included in the "package" agreement. However liberalizing international trade is a goal that the nations of the world, including our own, are finding much easier to support in principle than to implement in practice. When the time comes for governments to agree to positive steps to reduce specific trade barriers, all of the forces for protectionism seem to come into action. These forces are by no means confined to agriculture, but at this stage in our negotiations agriculture seems to be an area of particular concern.

The most difficult problems that arise in agricultural negotiations relate to the maintenance of domestic problems to strengthen farm income. Most of our trading partners have such programs, and most of them have far greater barriers against agricultural imports than we do. But none of them has any accompanying program to restrict surplus production. Some of them, notably within the Common Market, seem to be moving toward greater rather than fewer barriers to trade in agricultural commodities. This is the reason that—if we are to expand and liberalize trade—we must continue to insist on: (1) progress toward trade liberalization in agriculture as a part of any agreement we make, and (2) some assurance that our agricultural products will continue to have access to traditional markets.

It would be short-sighted as well as one-sided to yield to the temptation to sidetrack agriculture in the Kennedy Round. The farmer is more dependent upon the export market than any other major segment of American producers. Last year $6.1 billion, or 15 percent, of our total agricultural production went abroad as compared with 8 percent of our industrial production. One out of every four of our cultivated acres produces for export. Of the 1.6 million commercial farmers who produce 90 percent of our total agricultural output, nearly every one is a producer for export, since some portion of his crop is likely to go abroad. This contrasts with the 12,000 out of more than 300,000 American manufacturing firms that are engaged in foreign trade. Thus, while all of the American economy will gain by expanding international trade, agriculture has a proportionately greater concern with expanding exports than has American industry.

A basic justification for freer trade has always been the higher levels of consumption made possible when each trading partner produces goods for which it has the greatest comparative advantage and trades with others instead of attempting to become self-sufficient. In few, if any, areas has American productive superiority been demonstrated as positively as in the field of agriculture.

Another important task in our effort to expand trade is to find an acceptable resolution of the special problems of less developed nations.

One aspect of our trade policy that is of major significance in meeting our international obligations is carried out under Public Law 480—our Food for Peace program. The obligation to carry out this program is imposed on us because of our agricultural abundance, because of our position of leadership in the free world, and because we recognize that food aid can promote future markets as well as progress toward a more stable and secure world.

The Food for Peace program is uniquely suited to today's needs in the extent to which it contributes to our own economic well-being while at the same time it helps us to meet our international obligations. And it is uniquely suited to meet and reconcile two conditions that prevail in the world today.

One of these conditions is the amazing advance in American agriculture that now can produce far more than can be absorbed in ordinary commercial channels. The other is the great need, in emerging nations, for more food than they can produce in their present state of development, and far more than they can buy under ordinary commercial terms. Eventually, adjustments will be made. But for the present and in the years immediately ahead, the fruits of the abundant productivity of American agriculture can contribute materially and constructively to economic development in the emerging nations.

Our Food for Peace program has provided—and continues to provide—agricultural commodities to relieve hunger and suffering where the need is great, but ever increasing emphasis is being given to the use of food aid as an instrument to hasten economic growth.

Local currencies generated by sales under Public Law 480 are used to pay American government expenses and as grants or loans to recipient countries to be used in community and economic development projects. Commodities made available help to combat inflation that often seriously threatens the economies of nations.

Food is also used as part payment for work in scores of projects to improve agriculture and promote community development. It is increasingly being used to develop school lunch programs that now serve some 40 million children throughout the world. In these programs it fosters not only better nutrition but higher rates of school attendance. It thus contributes materially to an investment in human capital that is a much greater factor in economic growth than is generally recognized.

The operation of our Food for Peace program has both immediate and long-term advantages for the American economy. More than 120 million tons of American farm products have been moved to foreign consumers under this program. This has included 3 billion bushels of wheat, 10 million bales of cotton, 100 million bags of rice, 6 billion pounds of vegetable oil, and substantial amounts of dairy products, tobacco, and feed grains. The immediate advantage of these exports is obvious. Of even greater advantage, in the long run, is the potential for development of future commercial markets for our products.

Historically, United States agricultural products have found their greatest commercial markets abroad in the highly developed, industrialized nations. These countries have higher per capita incomes, and it is interesting to note that our agricultural trade with developed nations grows just about in proportion with increases in their income levels. If we are successful, this trade can continue to expand as their populations and incomes increase.

But by far the greatest potential market of the future lies with the developing nations of the world. Their populations are increasing twice as fast as those in the developed nations. Their tremendous needs for food and fiber can be translated into commercial purchases only as their economies develop and their incomes increase.

A few figures illustrate how directly our agricultural exports depend on income levels abroad. In the less developed countries of Asia and Africa, where per capita annual incomes are slightly over $100, our commercial exports of farm products amount to about 25 cents per person per year. In Japan, where incomes average $350, our commercial agricultural exports average $4.70 per person. In the European Common Market, with incomes averaging $850, our farm exports average $6.00. In the European Free Trade Area, with incomes of over $1,000 per person, our farm exports average $7.00. And in Canada, where per capita incomes are nearly $1,600, our farm exports average $24.00 per person.

These figures indicate our stake in rising incomes abroad. The tremendous potential commercial markets in the emerging countries of Latin America, Asia, and Africa can be tapped only as economic growth in those areas results in rising incomes. To the extent to which we can promote and hasten economic growth by our food assistance programs we will be building valuable future markets for ourselves.

Another very important aspect of our Food for Peace program is that it is being used to an increasing degree to serve the foreign policy interests of the United States. As it promotes higher standards of living for people who are insistently clamoring for their share in the modern world, as it helps to promote free institutions among those people, it contributes materially to our hopes for security and peace.

We face many problems with this aspect of the program. One problem is how to operate food assistance programs so that they will make maximum contributions to economic development, without prolonging dependence or hindering desperately needed improvement in the agriculture of recipient countries. This problem deserves, and is getting, increased attention. Another is how to operate Public Law 480 in such a way that concessional sales and donations do not impair commercial sales by either American exporters or by those of other friendly nations.

Another problem involves the extent to which food aid to the developing nations can be a multilateral effort in which other rich, highly developed nations would share the obligation to assist the less developed countries. The United States is taking the lead in such a multilateral effort under the World Food Program, now just a little beyond the mid-point of its three-year pilot operation under the joint sponsorship of the United Nations and the Food and Agriculture Organization.

In concluding this review of United States trade policy as it relates to our international obligations, I would repeat my conviction that in the long run, and, in the over-all impact on the well-being of all Americans, the twin goals of promoting our national interest and meeting our international obligations are consistent. Complications and problems arise when special interests and short-term gains take the spotlight away from the general interest and long-term advantages.

These problems can be resolved only through greater understanding. If we are to succeed in maintaining and implementing trade policies that effectively meet our international obligations, we need greater understanding—both at home and abroad.

Abroad we need to convince other nations of the importance of what President Johnson expressed when he said: "We must expand world trade. Having recognized in the Act of 1962 that we must buy as well as sell, we now expect our trading partners to recognize that we must sell as well as buy. We are willing to give them competitive access to our market—asking only that they do the same for us."

At home we need a greater public recognition of the importance of agricultural trade, not only to farmers and to agribusiness, but to industry and to consumers as well. We need an increased readiness to look at the total picture of over-all advantage of market access and expanded trade. We need greater awareness of the relationship between trade and aid, and of the relationship between our policies on trade and aid and the potential for progress, prosperity, and peace—in our nation and in the world—in the years ahead.

PART III

Farm Policy Issues–1965 and Beyond