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Multilateral Trade Negotiations

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THE ASSAULT ON AGRICULTURAL PROTECTIONISM IN THE
MULTILATERAL TRADE NEGOTIATIONS

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Agriculture is emerging as a key issue in the political economy of international trade. Because its international status cannot be divorced from domestic farm programs, foreign trade officials and others in the diplomatic community are being forced to confront complex issues of agricultural policy. As Italian foreign minister Giulio Andreotti lamented during a 1988 debate over European Community agricultural spending, "I sit there talking about soybeans, and I don't even know what the miserable things look like."

The complexity of agricultural protectionism has for many years served as a barrier to popular and political understanding. This lack of understanding has been useful to the special interests that benefit most from this protection, and has allowed a variety of myths to continue to surround the farm sector. Until fairly recently, the inconsistencies, inefficiencies, and lack of fairness which riddle farm policy were subjects of interest to a relatively small group of agricultural policy specialists. As President Kennedy reputedly told his principal agricultural policy advisor: "I don't want to hear about agriculture from anyone but you...Come to think of it, I don't want to hear about it from you either."

As long as the costs of farm programs were low and foreign markets for surpluses were growing, attention lagged in capitals and international economic fora. But in the mid-1980s, budget costs for agriculture rose dramatically in both the U.S. and Europe. Shrinking foreign demand led to falling farm incomes, yet price support programs continued to pay farmers far more than the market for their products. In recent years, these costs soared in both the U.S. and Europe to over 25 billion dollars annually, and still failed to prevent a record number of farm bankruptcies. In a desperate attempt to unload surplus production, export subsidies were used to dump grain and other commodities on world markets, lowering prices and threatening a global agricultural trade war. The result was increasing international attention to the problems of agriculture.

No where is this attention more apparent than in the ongoing multilateral debate in the General Agreement on Tariffs and Trade (GATT) in Geneva. This debate is part of a larger effort

to reform the global trading system. The reform effort, while difficult and slow moving, has been given new urgency by economic stresses reflected in national debt burdens, large trade deficits and surpluses, and stock and exchange market instabilities. The thesis of this essay is that much needed reform in agricultural policies will be the cornerstone of broader attempts at trade liberalization and reform under GATT. If these attempts fail, the consequences for world markets and global economic growth may be quite serious.

It follows that agriculture must now take a central place in the development of United States foreign trade policy. If this policy is to be liberal, rather than protectionist, it will demand greater market orientation in both domestic and foreign agriculture, reducing the distortions and protectionism that now separate domestic from global markets in many nations. Closing this gap will require more general understanding of the domestic causes of agricultural trade distortion. It will also require the political courage to discard certain myths that have protected ineffective and out-of-date agricultural policies from reform. Finally, it will require coordinated, multilateral efforts to rationalize domestic agricultural policies through international agreements. Without such efforts, agricultural trade disputes may incite global protectionism and stagnating growth. Renewing growth through trade, while important to the recession-prone OECD economies, is even more important to developing countries, where agriculture remains the foundation of economic progress.

I

Until the most recent round of trade talks, launched at Punta del Este, Uruguay in September, 1986, farm programs had been treated as a notable exception to trade policy rules. The Uruguay Round, the eighth multilateral trade negotiation (MTN) since World War II, is the first to take aim at a wide variety of thorny agricultural trade barriers based in domestic farm policies. This eighth round of GATT talks confronts a legacy of failure in previous rounds to stem the rising tide of nontariff protection and special waivers granted to agriculture.

Prior to the Uruguay Round, largely at the insistence of the United States, the European Community, and Japan, agriculture was treated under GATT as a special case, immune from the principles of trade liberalization that have otherwise guided the General Agreement. So special was the case of agriculture that it largely escaped the discipline of the basic principles on which the GATT is founded. These are (1) nondiscrimination and reciprocity in trade; (2) protection through measures that are "transparent," in the sense that they can be easily measured and monitored; (3) the establishment of "bound" levels

of protection through negotiation; and (4) notification, consultation and arbitration in the event of disputes.

Despite attempts to bring agriculture under GATT rules in the Kennedy Round (1963-67) and the Tokyo Round (1973-79) of negotiations, it would not be an exaggeration to say that since World War II, trade in agriculture has become more discriminatory, less transparent, less bound, and less subject to multilateral consultation and negotiation. Although the basic principles of nondiscrimination and reciprocity expressed in Articles I and II of the GATT were intended to apply to agricultural and nonagricultural trade alike, agriculture has escaped from the prohibitions against quantitative import and export restrictions under Article XI, and against export subsidies under Article XVI. In addition to general exceptions granted to agriculture under these GATT articles, the United States demanded and received special treatment under a 1955 waiver that allows quantitative import restrictions on products affected by domestic price supports. Without this waiver, it would be impossible to reconcile United States obligations to nondiscrimination with domestic agricultural support measures that require import fees and quotas, authorized under Section 22 of the Agricultural Adjustment Act of 1933, the law underlying U.S. farm programs.¹

This maze of restrictions and waivers make the U.S. case for trade liberalization in other areas of GATT more difficult, and is in itself a cause of distortions in world trade flows. But the United States is hardly alone. Other contracting parties to the GATT engage in a wide array of nontariff agricultural protection that is neither transparent nor widely understood. Even before the Dillon Round (1960-61) of negotiations, the formation in 1958 of the Common Agricultural Policy (CAP) of the European Community (EC) made it necessary to grant Europe the right to replace national tariffs with common border measures, including "variable levies" on imports to help shore up domestic prices in what was then a large net importing region of the world. With continued economic expansion and increasingly generous farm subsidies, however, Europe emerged in the 1970s as an agricultural exporter, and export subsidies ("restitutions") were used to dispose of its mounting surpluses. In addition to the U.S. and E.C., Japan has evolved a complex set of customs duties, import quotas, and other border measures, combined with direct government payments to producers and a wide array of other domestic subsidies, designed especially to protect its rice market.

Together, the agricultural protectionism of the U.S., E.C. and Japan puts each of these major capitalist economies in the difficult position of seeking to enlarge the scope and level of world trade, while continually pleading that their agricultural

producers could not sustain greater trade liberalization. This position is often skillfully exploited in GATT by developing countries, such as India and Brazil, that desire access to U.S. markets yet wish to protect certain sectors of their own from developed country competition. Even the few agricultural measures that are bound under GATT, such as the guaranteed access of U.S. soybean shipments to Europe (the "zero duty binding"), are under steady attack by those who would seek to raise additional barriers to access. (Ironically, in the case of soybeans, this attack is made by Europeans otherwise committed to liberalizing the internal European market, which is claimed to require "closing the CAP" to soybean imports.) Finally, the consultation and dispute settlement process in GATT is weak, and has often led the parties to revert to bilateral retaliation due to the failure to gain satisfactory settlement of disputes under the system of GATT panels established for the purpose. The most notable examples of these bilateral disputes in recent years have been in agriculture.

In the face of increasing cynicism in political and private sector circles over the capacity of GATT successfully to resolve these issues, in July, 1987 the United States launched what amounts to a make or break proposition for international agricultural policy reform. The proposal startled many jaded trade negotiators by stating that GATT's contracting parties should eliminate all trade-distorting forms of domestic support to farmers over a period of ten years.

This proposal, which in Geneva was dubbed the "double zero option," dramatically indicated U.S. resolve to stop treating agriculture as a special case. While careful provision was made to allow direct payments to farmers as a "safety net," all forms of support that encourage production in excess of market demand would be eliminated. In essence, the proposal would shift the target of agricultural policy from supporting farm prices to supporting farm income. In the jargon used by the agricultural policy community, payments to farmers would be unrelated to specific crops and planting requirements, and hence "decoupled" from production. Farmers could still receive direct income support, but would be free to grow whatever crops were in market demand.

While roundly condemned as "unrealistic" by the European Community and Japan, the proposal was endorsed in principle by a variety of exporters and importers for whom the U.S./E.C. subsidy wars of the mid-1980s had brought nothing but low prices and stagnant demand. The most notable impact was to add strength to a loose confederation of countries, known as the "Cairns Group," which had been a key force in bringing agriculture into the Uruguay Round. It also stimulated the

E.C. and Japan to develop their own proposals (which essentially defended the status quo, while admitting that short term relief was called for), and helped other countries to develop more comprehensive agricultural policy options. These proposals are now on the table in Geneva, awaiting serious negotiations.

In December, 1988, trade ministers will meet in Montreal for a "mid-term review" of progress in the Uruguay Round. This review will set the tone and direction for the subsequent negotiating process. With the approach of the mid-term review, pressure increases to go beyond general statements and to commit to actual measures of liberalization as a "downpayment" on the final agreement hoped for in 1990. Yet despite the desire to move forward at mid-term, many governments are politically shy of committing too early in the game. In part, this shyness is a result of overlapping European and U.S. political pressures. The French presidential election in May, 1988, followed by the U.S. nominating conventions and elections, lead both French and U.S. politicians to protect themselves from charges of "appeasement". No European politician desires to appear soft in defending farmers who have profited handsomely from E.C. policy, and newly elected French politicians will have few incentives to bargain seriously with a lame duck U.S. administration. Because of its central role in the EC, French intransigence will affect the willingness of European ministers to bargain seriously in Montreal and beyond.

These political pressures yield deep pessimism in some circles over the ability truly to liberalize agricultural trade through multilateral negotiation. Added in evidence is the fact that the European Community achieved a seeming budget compromise over agricultural spending in February, 1988. While offering no real prospects for reduced export subsidies or enhanced budget discipline (a leading West German agricultural economist dismissed it as "a drop of water on a hot stone") the arrangement nonetheless equips the E.C. to avoid reforming the CAP for several more years, while demanding "credit" in GATT for essentially cosmetic short term efforts to reduce the level of agricultural production. These efforts include modest price cuts in the event that production exceeds a predetermined ceiling, together with "set-asides" of agricultural land. However, the price cuts have a variety of escape clauses, and the "ceiling" of 160 million metric tons of grain is less impressive when it is noted that the figure is seven million tons greater than production in 1987. In the face of pessimists at home, U.S. negotiators must thus also confront a Europe seemingly more able to finance a continuation of the status quo abroad.

Despite these obstacles, it is evident that the next president and administration will inherit a set of chronic agricultural policy problems, with interlocking domestic and foreign elements. The Chairman of the Senate Agriculture Committee, Patrick Leahy, has emphasized that if progress in the Uruguay Round is not forthcoming, the House and Senate are more than prepared to draft a highly protectionist Farm Bill in 1990, the effect of which would be to restart the subsidy wars of the 1980s. It is the midterm review in Montreal that will give the Congress its first clear signal whether progress is achievable. An opportunity now exists to evaluate and appraise the remarkable assault on agricultural protectionism that has been proposed in Geneva, to determine why this battle should be fought, and whether it will be won.

II.

Before examining the prospects for trade policy reform, it is useful to ask why agriculture has for so long been considered a special case, immune from the liberalization that has been applied to other sectors under GATT. Many who defend it as a special case claim that farm and food production are too important to be left to market forces, and that without substantial government manipulation, the food and fiber production system would fail. This argument has several subthemes, including the strong emotional bond between farmers and society as a whole, the political influence of farm groups, and broader concerns with "food security," which are often used to suggest that artificial price supports and self-sufficiency are preferable to the caprice of markets and international trade in assuring supply.

While some degree of food and income security in agriculture is undoubtedly appropriate, there are few who would argue that current programs do not need improvement. When the production of the United States, Europe and Japan achieved levels in 1985 leading to world stocks of grains almost twice the levels of consumption, it suggested that government encouragement to grow crops may have been overdone. Of course, the welfare of farm families is a social as well as an economic judgement. Many compassionate citizens are struck by the plight of heavily indebted small farmers, and imagine that the answer lies in additional government price supports. Yet the evidence, after over fifty years of such transfers, is that domestic farm programs based on guaranteed prices paid on a per acre basis are increasingly skewed in favor of large farmers, who are then in a stronger position to gobble up their neighbors.

In short, when payments are made on the basis of acres in production, as they are in both the United States and under the European CAP, there is a powerful incentive to acquire and

plant more acres. The bigger the farm, the bigger the payment. The complexity of agricultural programs has served as a smokescreen for these transfers, allowing them to be defended, despite their extreme regressivity, as salvation for the "family farm." In fact, the evidence suggests the opposite: government price supports have speeded the demise of smaller farming operations and thus increased the rate of rural unemployment.

These programs have also reduced the level of diversification typical of traditional agriculture. In the United States, farm enterprises are paid by the government to produce a selected number of "supported" commodities, including rice, cotton, corn, wheat, soybeans, barley, oats, dairy and tobacco. Roughly 80 percent of these payments are made to fewer than 20 percent of the nation's farmers. These farmers respond rationally to the incentives provided by price guarantees in a relatively few commodities: they specialize in the supported crops. Often, they produce little else, since specialized monoculture with government price guarantees is nearly always preferable to diversification. (In contrast, the uncertainty of the market demands diversification to assure survival.) "Program crops" are produced intensively, utilizing large quantities of pesticides, fertilizer, and other inputs. This intensive production is expensive to the farmer, and encourages the acquisition of large levels of debt to purchase additional land, equipment, fertilizer and chemicals. It is also expensive to society, since it encourages cultivation practices that lead to erosion and chemical pollution of lakes, streams, and the underground water of local communities.

The sources of trade policy conflict are directly rooted in these domestic price support programs, which create surpluses that must find foreign outlets. Ironically, many of the supported crops are already in excess supply, and cannot be profitably sold. Hence, the government stands ready to acquire them in lieu of repayment of loans taken out (at subsidized interest) in order to plant them in the first place. After surrendering these crops to government storage, farmers receive a "deficiency payment" for their effort. In recent years, market prices have been so weak that huge quantities of the program commodities have entered government warehouses, and deficiency payments have accounted for a larger and larger share of net farm income. USDA's 1986 National Financial Summary indicates that total government payments as a percentage of net farm income from all sources rose from six percent in 1980 to 26 percent in 1984, and to 31.5 percent in 1986. For many individual farmers, the percentage is much higher, making them utterly dependent on a system that continues to reward the production of commodities that nobody wants. Despite attempts by USDA to pay farmers in kind through

a form of fiat currency ("Payment in Kind Certificates"), the budget outlays for these programs have been enormous. Total agricultural program spending in 1986 exceeded twenty five billion dollars, up almost eightfold from the highest level achieved in the 1970s. It is little wonder that many farmers cynically refer to "farming the government," as more profitable than plowing their fields.

While different in design, the policies of the European Common Agricultural Policy (CAP) have the same effect. By paying prices far in excess of world market levels and allowing European farmers to sell surpluses to the E.C., the CAP has accumulated staggering quantities of agricultural commodities. The EC then exports these surpluses under "export restitutions" by covering the difference between the internal EC price and the world price. A particularly absurd result of these policies has been recent European Community purchase of surplus low grade butter, which is then disposed of by feeding it to calves.

In both the U.S. and Europe, a major part of "farming the government" involves being paid not to farm at all. In response to a persistent pattern of surplus production, programs have evolved that require farmers growing program crops to remove a certain proportion of their corn acreage, for example, from corn (and generally from other surplus commodities) in order to receive a deficiency payment. These "set asides" amount to attempts to hit the production control brakes while simultaneously pressing the price support accelerator. Again, farmers respond rationally, by diverting those acres which are least productive. As a result, the brakes slip. Experience has shown that from two to three acres must be diverted in order to reduce output by the yield of an "average" acre. Acres left in production, meanwhile, are farmed more intensively than ever, raising both yields and the level of environmental damage. Proposals to make such programs mandatory, in effect shutting down millions of acres of productive land, have recently been endorsed by "supply control" advocates both in the U.S. and Europe, although the failed record of existing programs raises major questions concerning their feasibility.

Spurred on by price supports as much as four times world prices for some commodities, both the European Community and United States have accounted for the lion's share of world surplus production. At the end of 1987, the EC held over 1 million metric tons of surplus butter, 708,000 tons of surplus skimmed milk powder, 725,000 tons of beef and more than 10 million tons of cereals in Community stores.² The estimated cost of total E.C. agricultural spending in 1987 is 27 billion ECU's, up from 22 billion in 1986, of which 7.4 billion went to export

subsidies, and 4.4 billion for storage of surpluses. At the beginning of 1988, the Commodity Credit Corporation, the U.S. Department of Agriculture's surplus purchaser, owned 3 billion bushels of grain of its own, and paid storage fees on another 2.3 billion bushels held on farms, at a cost of \$2.5 billion in storage costs alone.

These data do not capture the losses of other trading nations due to the price and income effects of surpluses on world markets. In addition to taxpayers in the U.S. and E.C. (for whom relatively cheap food is some compensation), the obvious losers have been poor farmers in developing countries, where earnings from crop production have been driven to new lows by the subsidy wars of the North. The only unambiguous winners have been grain importers, notably the Soviet Union, who have played the Western allies off against each other to receive absurdly low subsidized prices. So cheap is the grain bought by the Soviets that they have been able to buy more than they need and then "donate" it to poor countries in the South, making the United States seem niggardly in the bargain.

When criticisms of these policies are made, it is typically in the context of the need for more aid and assistance targeted to financially strapped, diversified, environmentally benign "small farmers." Yet as noted above, the pattern of assistance to agriculture, especially in the United States and the European Community, has primarily benefitted large, specialized farms, contributing to the elimination of the diversified producer. To many (including many farmers) the culprit is a system in which cropping decisions are excessively manipulated through government-administered prices and acreage retirement schemes, rather than allowed to reflect the forces of supply and demand. It bears emphasis that moving in a more market-oriented direction does not imply that farm income would be abandoned as an object of policy. Rather than the indirect object of price supports coupled to specific crops, it would become the direct object of income payments. It is increasingly clear that farm income security cannot be accomplished through price supports which create incentives to plant too many acres of too few varieties of crops, far in excess of market demand.

Despite the dubious record of farm programs' achievement, domestic political pressures have been insufficient to force needed changes. It is for this reason that the international attention focussed on agriculture in GATT emerges as so important. While the general public remains largely unaware of the failure of farm programs, and often assumes that farm bankruptcies result from too little in the way of price supports, large payments to large producers continue to insure well-organized lobbying and campaign contribution efforts by

farming's big boys. The lobbies defending these programs, organized commodity by commodity, are tenaciously attached in Washington to the subcommittees that determine the levels of price support. As long as farm policy is formulated on a commodity by commodity basis, rather than as across-the-board farm income payments, the subcommittee system will assure Congressional pressure to keep these prices high. Price support programs appeal to the local politics of congressional districts dependent on particular crops, rather than on broader policy and trade objectives.

Breaking this hold on the public purse would be an important consequence of direct income supports paid to farm families now being called for in GATT. Although direct income supports could be expensive, they would at least be transparent, rather than hidden, transfers. While often criticized as no more than welfare, such transfers are clearly superior to the current system--which is worse than welfare--in the sense that the biggest farms get the biggest payments. There is, moreover, no reason that farm income supports should not be tied to increased obligations to improve the rural environment, converting a one-way payment into an exchange of income security for a variety of social and environmental benefits. This relationship is particularly significant in Europe, where environmental damages from farming are major political issues. In contrast, price support programs have been disguised transfers that protect domestic agricultural constituencies from market forces with little scrutiny from taxpayers, and even less regard for their environmental and global trade effects. With all of their domestic failings, it is these global effects that have emerged from the sidelights to take center stage in the GATT. Farm policy, especially as world markets have become increasingly integrated, is more and more difficult to separate from trade policy.³

III.

When considered from an international perspective, however, American agriculture appears less a problem than a leading sector in beating foreign competition, which if unshackled from many government programs that misdirect the allocation of resources, could be even more competitive over time. As an example of this misallocation consider programs which encourage dairy production on factory-like farms in the deserts of Arizona, through arcane "milk marketing orders" which support prices in inverse proportion to the distance from Eau Claire, Wisconsin. Minnesota farmers, meanwhile, are encouraged by sugar price supports 400% above world prices to grow sugar beets rather than graze dairy cattle. The losers are poor producers in the Caribbean, for whom the U.S. sugar program makes the "Caribbean Basin Initiative" a grim joke.

The advantages of U.S. agriculture are enormous, but not so great that they cannot be squandered through misdirected policies. North America is one of the world's great breadbaskets, united by temperate climates, rich soils, and advanced farm skills and technology. Vernon Ruttan, one of the foremost students of agricultural technology change, describes it as "one of the nation's last indisputable world class industries." While a few might argue that this results from government price supports, the underlying causes are rapid productivity gains fueled by public and private sector research. (Whether this research constitutes an implicit export subsidy will no doubt arise in the context of the U.S. proposal in GATT.) Over the last 25 years, productivity gains greater than in any other sector of comparable size have made U.S. farm products highly competitive in foreign markets.

These markets, especially in developing countries, increasingly underpin prosperity in the Farm Belt. From 1962-1971, an average of 49.5 percent of U.S. wheat, 13.0 percent of U.S. corn, and 31.1 percent of U.S. soybeans flowed into international trade. From 1971-1983, these proportions increased to 58.4 percent for wheat, 27.0 percent for corn, and 39.4 percent for soybeans. The land area planted to these three crops increased 54 percent between 1970 and 1981, while their farm production value increased by 50 percent. There is substantial evidence that without the export market, the sickening skid in farm land prices of the last few years would have been even worse. Like many other U.S. industries, the American heartland is heavily trade-dependent.⁴

This increased dependence on foreign markets emerged in the 1970s when global shortages appeared to guarantee unlimited demand for U.S. farm products. Major grain sales to the Soviet Union and to LDCs were accompanied by what one observer termed the "scarcity syndrome." Despite enormous quantities of arable acreage and rapid progress in yield-increasing technologies, food and the land required to produce it were declared by a variety of research centers equipped with "global forecasting models" to be absolutely scarce. To increase production for a hungry world, investments in land, farm machinery, irrigation equipment, and other rural infrastructure seemed easily justifiable to farmers and bankers alike. Farm land and other inputs were bid up in price, reinforcing the cycle of bullish expectations. If the capital gains resulting from land price increases were not in themselves enough to justify these investments, government price supports reinforced them by taking the risk out of grain growing. High government price supports were politically painless as long as export demand continued to support the market.

Beginning in 1980-81, however, in the face of recession and growing LDC debt, foreign demand for grain crops began a steep

decline. As foreign demand declined, land, machinery and other fixed investments could not be removed from production as rapidly as they had been brought on line. Instead, they fell in price, setting off a commodity and land market bust which matched the boom of the 1970s. The "farm crisis" of the 1980s was the result. Both in the Farm Belt and in LDCs around the world, bank loans made on the basis of commodities price bullishness turned sour. By the early 1980s, the problem seemed not too little grain but too much. Barbara Insel, writing in these pages in 1985, deplored a "world awash in grain," and raised the disconcerting possibility that an agricultural production juggernaut might swamp us in our own abundance.⁵

In the face of this overproduction, both the U.S. and E.C. turned to export subsidies as a way of ridding themselves of unwanted surpluses, setting in train a subsidy war that lowered grain prices worldwide. While entrenched agricultural interests in the North demanded and received price supports well above world market levels, stimulating chronic excess production, in developing economies urban elites grown used to subsidized food received low prices at the expense of rural producers. The overproduction of the North flowed at subsidy onto world markets, keeping prices low and destroying the incentives of poor farmers in the South, while the bins and budgets of the North bulged.

While global surpluses have been unprecedented in the last three years, there is evidence that the tide is again turning, as acreage retirements and other government policies restrict supplies. As this cycle recurs, it is increasingly clear that instability in world agriculture is only modestly the result of natural interruptions, and is primarily the consequence of government policies. Excess supply, resulting from artificially high domestic prices paid to farmers, has been followed by massive programs of land retirement, as governments slam on the acreage control brakes. In the United States alone, over 75 million acres has been removed in order to slow the accumulation of stocks and reduce "budget exposure".

The perception of senseless waste surrounding agricultural policy is now so serious from both a domestic and international perspective that a major assault on agricultural protectionism is a fundamental part of the Uruguay Round. Agriculture needs the attention of the Uruguay Round, but to succeed, the Uruguay Round needs progress in agriculture, which will affect the entire pace and pattern of the negotiation. The premise of the negotiations is that domestic agricultural adjustment programs, when practiced by large exporters or importers, spill over into international trade. The conclusion has been forced on major agricultural traders that the sector can no longer be allowed

to be granted special dispensation from reform. If the reform effort underway in Geneva fails, there are powerful political interests on both sides of the Atlantic prepared to take up positions for a long, costly and ultimately dangerous agricultural subsidy war.

IV.

What direction will GATT reform in agriculture take, if it takes at all? On the one hand, there are countries and interests that will seek a global system of "managed agricultural trade," analogous to domestic attempts to manipulate supply and demand. In contrast to these dirigistes, U.S. negotiators have argued that the global agricultural economy is too complex to direct, and that the rules and disciplines of GATT should be extended to allow greater market-orientation in agriculture. It is useful, in the context of these polar positions, briefly to examine the proposals for agricultural trade reform that have been put forward in Geneva, since their success or failure will serve as harbingers of policy reform in the United States and Europe in the 1990's and beyond.

The poles described above provide a basic orientation, from complete liberalization to the "managed trade" approach. At the polar position of complete liberalization stands the United States. The U.S. has advocated eliminating all tariff and non-tariff barriers, including trade-distorting health and sanitary measures, all export subsidies, and all domestic measures which affect trade over a ten year period. Only food aid and "decoupled" domestic programs which do not affect output would be permitted at the end of this period. The U.S. proposes that the contracting parties put forward and then "bind" commitments to phase out specific policies, utilizing an agreed measure of overall levels of support to help monitor progress. This "double zero option" is clearly the most unadulterated call for liberalization, and represents a major change from the way world agriculture (especially U.S. and European programs) are currently conducted. The U.S. proposal carries the strategic advantage of consistency and high purpose, while underscoring how far the U.S. and many of its trading partners would have to go in order to meet such commitments. Despite its effectiveness as an opening gambit, the distance from the proposal to current reality has not been lost on current beneficiaries of farm programs, nor on our negotiating opposites.

The Cairns Group proposal (and a separate but essentially similar proposal by Canada, a Cairns member), reflect a similar resolve to move radically toward greater market-orientation in agriculture. The group is notable for including both

exporters, importers, developed and developing countries: Australia, New Zealand, Canada, Argentina, Uruguay, Brazil, Thailand, Hungary, Chile, Colombia, Indonesia, Malaysia, and the Philippines. Like the U.S. the Cairns Group calls for eventual elimination of all domestic subsidies and border measures with trade distorting effects. Unlike the U.S. proposal, however, it has called for a set of early relief measures representing a "downpayment" on the eventual package. This downpayment includes freezes on border measures which restrict market access and production subsidies affecting trade, followed by an across-the-board reduction of a fixed percentage on all export and production subsidies and commitments to open market access. Following early relief, the Cairns proposal calls for a phase down of measured support levels by each country according to a national schedule in which priority attention is given to the most trade-distorting measures. While its implementation schedule is more explicit than the U.S. proposal, its objectives are similarly liberal: a new framework of GATT rules that would eliminate all import and export restrictions and all domestic subsidies with an impact on trade. Only measures for infrastructure improvement, disaster relief, and "decoupled" direct income support to farmers and consumers would be allowed.

At the other pole of the debate, the European Community proposal focuses heavily on short-term actions to correct supply-demand imbalances in high surplus commodities in the E.C. such as sugar, dairy, and cereals. Reflecting Brussels' internal concern with maintaining the CAP in essentially its present form (including its system of export subsidies and price supports), the proposal envisages one year "emergency" commitments to reduce cereals prices, sugar exports, and production in other surplus sectors, followed by longer term measures in which protection for some sectors might actually be increased (notably in soybeans). This second stage would involve new GATT rules on the conditions for the application of subsidies, demand-increasing measures, the role of state-trading, and other issues. Direct income supports have been acknowledged by the E.C. as a long term objective, though with little enthusiasm.

From the U.S. perspective, the E.C. proposal offers little or nothing in the way of liberalization, and could easily lead to much less liberal trade. U.S. reactions to the proposal noted that it mistakes surpluses for the problem, rather than as a symptom of underlying price support levels which are too high. The essential philosophy of the proposal is managed trade, in which the divorce of domestic and international prices underlying the CAP is extended to encompass the rest of the world. The CAP itself, often pointed to by the E.C. as the greatest achievement in market integration by the Community, is

not nominated for major reform. While this vision of trade reform has the virtue of "realism," in the sense that it departs little from business as usual, it has been roundly condemned by both the U.S. and Cairns Group, and by developing countries who foresee a "managed" solution as of primary benefit to the exporters of the North, and not to the poorer nations of the South.

The fourth major proposal tabled in Geneva comes from Japan. While not a contributor to the export subsidy wars, Japan holds a uniquely protectionist niche in world rice markets, as well in a variety of other agricultural commodities. While generally acknowledging the importance of liberalization in principle, the Japanese have clearly opposed greater market orientation in practice. Part of the Japanese approach has been to place great emphasis on the non-economic objectives of farm policies, including rural employment, environmental quality, and "food security." This last point is of particular importance in the context of Japanese attitudes to dependence on foreign suppliers of rice. Japan often cites the experience of 1973, when the Nixon administration embargoed shipments of U.S. soybeans in the face of a short crop and skyrocketing U.S. prices, as evidence of the untrustworthiness of foreign suppliers. It would appear that some form of GATT binding to honor contracted-for shipments will be important to Japanese willingness to concede to the demands of the U.S., which so far have met considerable resistance.

Clearly, the distance between these positions is great. Whether the ministers meeting in Monreal will be able to begin a process of reconciliation remains an open question. Especially as the Reagan administration complete its tenure, there will be a strong tendency to "wait and see" what a new administration will bring. While understandable, there remain basic reasons why the U.S. approach to agricultural trade reform should not be greatly altered, regardless of the outcome in the November elections. Nor is it likely to fade permanently away as a key issue, despite many politicians' ardent wish that it would.

The first is the budgetary cost of current policies, which have accounted for two-thirds of the total expenditures of the European Community, and over one-sixth of the amount of the U.S. budget deficit. While these costs have moderated somewhat, they remain the object of public criticism for the unfairness with which program benefits are distributed, and their adverse employment and environmental impacts. The second reason the battle for agricultural policy reform is likely to continue is the central role of the U.S. agricultural proposal to U.S. strategy in the Round as a whole, which has 14 other negotiating areas linked, in one way or another, to

agriculture. The U.S. is pushing reforms in GATT affecting areas such as services, intellectual property rights, and the capacity of the GATT system to resolve disputes, worth literally trillions of dollars in U.S. business. The fact that agriculture is central to the Uruguay Round strategy will make trade-offs between it and these other areas crucial to the ultimate "package" which the U.S. takes away from the bargaining table. To substantially revise the U.S. approach to agriculture would upset these linkages, threatening the entire package sought by U.S. negotiators. In short, the U.S. has drawn the attention of other GATT parties to the need to remove the waivers and exceptions behind which American agricultural interests have sought protection in the past, assuming these parties are prepared to offer significant concessions of their own. It will not be allowed to back down from this position without major negotiating losses.

In addition to these negotiating factors, the impact of U.S. leadership in the Uruguay Round cannot be divorced from the actions of individuals and groups in the American political process. Regardless of party, the new administration will not be able to avoid the problems of agriculture. A new president will find agriculture a lynchpin in a round of multilateral trade talks in progress, the failure of which would have global economic implications. In this global economic environment, any new administration will find continuation of the basic U.S. position on agriculture important. The combination of excessive budget deficits at home, and the need for market creation abroad, will dictate reduced agricultural spending on surplus commodities, and increased economic activity with developing countries, both of which may be materially advanced in the GATT.

There are, moreover, a wide range of domestic agricultural interests for whom the U.S. proposal offers the hope of a stronger, more independent agriculture, less dependent on the government subsidies that have turned individualistic and self-reliant Americans into virtual wards of the state. It bears noting that the U.S. proposal has been endorsed by a wide range of U.S. farm groups, on the assumption that other GATT members reform their agriculture in tandem with the U.S.

Nor, in a negotiating setting, can the particular personalities be discounted as factors in the eventual outcome. The current United States Trade Representative, Clayton Yeutter, is an agriculturalist by background and training, whose familiarity with farm programs has been a major factor in resolving a variety of agricultural disputes before GATT, and giving the Uruguay Round a major agricultural thrust. Yet regardless of the personal inclinations of the next USTR, the agricultural issue is now placed at the center of progress in the Uruguay

Round, and will be ignored only at the peril of international economic relations.

V.

In the final analysis, despite its importance, the assault on agricultural protectionism faces long odds. Politically, the most important question remains the capacity of the new administration, whatever its party, to maintain the momentum of the first two years of the negotiation. This may be less difficult than imagined by some pessimists, especially because the negotiations will impinge upon and affect the 1990 Farm Bill. By drawing the political economy of trade together with that of the 1990 legislative debate, the negotiations will become even more important to domestic interests than they are today, focussing attention in farm states on progress in Geneva.

Whether this attention will be constructive in advancing more liberal trade in agriculture, however, is a more difficult question. As Paarlberg and Hathaway have argued, the interaction of multilateral trade negotiations and domestic policies can lead to mutually reinforcing reforms. But a reverse dynamic--toward less liberal trade and greater protectionism--is also possible if progress in Geneva appears stalled.⁶ Here the distance between the U.S. and European proposals looms as a major challenge for the new administration, as well for the December meeting in Montreal.

The European position is set in the mold of the price supports and export subsidies of the CAP. Its new budget gives it "deeper pockets" should a subsidy war erupt anew. As for the U.S. position, its strength--uncompromising support for liberalization--is also its weakness, since any attempt to come down from so lofty a perch encourages others to pursue more market-sharing approaches. Yet failure to come down allows those less enthralled with liberalization to decry the continuing lack of "realism" in the U.S. proposal, and its distance from our own agricultural status quo. In this situation, there are strong incentives for either the uncompromising advocates of liberalization (the U.S.) or the compromising advocates of realism (the E.C.) to walk out of the negotiation, maintaining that they have held the high or realistic ground respectively. The problem is then one with which a new administration will have to deal.

Yet there remain certain areas in which discussion and potential progress is ultimately possible. First, it appears that "decoupled" direct payments to farmers will remain the principal alternative to current policies, although moving in this direction will be difficult. In order to make it operational from a negotiating perspective, decoupled policy

alternatives must be clarified so that affected farmers understand what such an approach would mean. Apart from these domestic program changes, the trade effects of agricultural policies must be ordered according to their relative distorting effects, allowing acceptable bounds to be established as a basis for further negotiation.

Second, social welfare objectives of agricultural policies will inevitably be a part of the discussion in GATT. These issues may appear tangential, but can be crucial to "selling" policy reforms with domestic interests. In the U.S. case, the agriculture committees of the House and Senate must be able to justify to their constituents (commodity and consumer groups) that the U.S. has gotten a "fair deal" in GATT. If this deal involves direct income supports to farmers, then the approach must find acceptance with farmers and the nonfarm public alike. Linking it to environmental policy reforms (in the 1990 Farm Bill and elsewhere) can not only enhance its attraction, but its impact on rural development and employment objectives. Similar programs can assist European and even Japanese politicians to sell direct income supports to farmers. Nor can the issue of food security be sidestepped, especially in Japan. It will be important to guarantee supplies to major importers as part of a final agreement, consistent with the rules of GATT.

Third, the issue of LDC treatment is likely to remain a ticklish matter. Insofar as possible, LDCs will be brought into the Round with promises of market access and, if necessary, special and differential treatment. But there are real risks in this approach. If the LDCs are exempted from GATT disciplines in agriculture that can be agreed to by the U.S., the E.C. and Japan, then why should the big three players trouble with multilateral negotiations at all? In this respect, short term gains by LDCs may wind up as long term losses, as the major players move outside of GATT to conduct agricultural negotiations, closing off LDC market access. If LDCs are exempted from disciplines on agricultural pricing policies that tax producers and have been criticized by the IMF and World Bank, GATT will have undercut these other multilateral institutions. On the other hand, a real opportunity exists to bring LDCs into the same framework of increased market-orientation as the developed countries (albeit in different ways). The role of GATT in improving LDC market signalling to increase output by eliminating taxes on farmers, and reducing trade distortions arising from import substitution strategies, may be even more important to growth in world trade than reforms in developed agricultural economies.

Still, given the profound difficulties facing agricultural policies, and the entrenched interests, the temptation to blame

foreign governments for failed domestic policies is strong. Agricultural negotiators in both the United States and European Community can engage in recriminatory charges and countercharges, followed by renewed subsidy wars, without serious short term losses in domestic political terms. Similarly, Japanese policy makers can continue erroneously to tout self-sufficiency as the only road to food security, using the experience of embargoes as justification for the perfidiousness of foreign suppliers. Net importers in the developing countries can rally their constituents by laying the blame (with reason) for low agricultural prices on the North, yet failing to acknowledge that a wide variety of distortions in their own economies discriminate against farmers and in favor of urban elites.

This style of negotiation is hardly new, and is part of what fuels pessimism over multilateral institutions such as GATT. Yet it is this institutional setting that provides the only current hope in forcing reforms. Writing in the wake of the disastrous Versailles Conference in 1919 of the onerous impact that reparations payments would have on the economic recovery of Europe, J.M. Keynes noted that retaliation would provide a fertile breeding ground for protectionism, economic depression, and political extremism.

We may still have time to reconsider our course and view the world with new eyes. For the immediate future events are taking charge, and the near destiny of Europe is no longer in the hands of any man. The events of the coming year will not be shaped by the deliberate acts of statesmen but by the hidden currents, flowing continually beneath the surface of political history, of which no one can predict the outcome. In one way only can we influence these hidden currents,--by setting in motion those forces of instruction and imagination which change opinion.⁷

Whether the assault on agricultural protectionism will succeed in the Uruguay Round will depend, like earlier conferences, less on diplomatic skill than political courage. It is high time that the myths surrounding current agricultural programs are cast aside, and that realistic programs are put in place that assure income security without locking in signals that distort markets and destroy incentives of farmers around the world to produce what is in fact scarce. But political courage may be the scarcest commodity of all.

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* During 1987-88, the author served as Special Assistant to the U.S. Ambassador to GATT in the Geneva Office of the United States Trade Representative, as an International Affairs Fellow and Ford Foundation Economist of the Council on Foreign Relations. Financial support from the Bush Foundation and the Northwest Area Foundation is gratefully acknowledged. All views expressed are those of the author.

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