By Daryll E. Ray

International trade competitors severely criticize 2002 Farm Bill

While the domestic response to the 2002 Farm Bill has been mixed, the international response has been unanimously critical. The stinging criticism prompted House Ag Committee Chair Larry Combest to remark, "This bill is not for rural Mexico; it's not for rural Canada; it's not for rural Europe—it's for rural America."

While nothing is definite at this time, Australia, joined by Brazil, the European Union, Thailand, Canada, and possibly others, may make a complaint against the U.S. before the World Trade Organization. The goal would be to force a rollback in U.S. farm subsidies or to allow those countries to establish countervailing tariffs.

The complaints center around several distinct but closely related themes: trade liberalization leadership, increased level of subsidies, encouragement of surplus production in the U.S., guaranteed continuation of current low commodity prices, and negative impact on less developed countries.

Australia's Agriculture Minister, Warren Truss, recently declared that the 2002 Farm Bill, with its high subsidy levels, raises questions about the kind of leadership role the U.S. can exercise in future trade negotiations. Many wonder how the U.S. can call for free trade while providing trade distorting subsidies to its own agricultural producers. "The U.S. preached free trade, but did not act on it when it came to its home turf," said Ian Donges, president of the National Farmers' Federation in Australia.

In the U.S., farm bill proponents put a positive spin on the subsidy levels. They suggest that by establishing the U.S. subsidies at near WTO limits, the U.S. in future trade negotiations will have something to offer in exchange for concessions by other countries.

Many of the complainants assert that the 70 percent increase in farm subsidies compared to the previous legislation will encourage increases in production by U.S. farmers. What this type of complaint misses is that the new bill provides major-crop farmers with about the same level of subsidies as they have received since the 1998 crop. The only difference is that now the emergency payments do not need to be voted on by Congress each year. Instead "emergency payments," in the form of counter-cyclical payments, are now pre-approved for each year they maybe needed.

The other concern I have with this complaint is the assumption that if the farm bill sent less money to farmers, U.S. crop output would drop considerably, bolstering prices. I highly suspect that the level of total U.S. crop production would be nearly the same whether government payments were at X, 65% of X or 125% of X. The price of land might change and who farmed that land might change by payment level, but those considerations have no impact on how much a Nigerian farmer receives for corn.

A recent Washington Post report contained a comment by an unnamed senior World Bank official who said, "A few American farmers will benefit, but at the expense of a very large number of poor people in developing countries." A South African senior official in commenting on U.S. treasury secretary Paul O'Neill's visit to his nation said, "It is strange that Mr. O'Neill is in Africa talking about debt relief, giving with one hand and taking with the other." His comment on taking with the other is in direct reference to the 2002 Farm Bill which some South African leaders believe will "imperil Africa's ability to grow out of poverty."

The international community has several concerns. One concern is that cheap subsidized U.S. imports will displace farmers in the less developed nations and make these countries more dependent upon imports and thus exacerbate their growing international debts. Another concern is that the new farm bill policies will lead to a continuation of a string of low-price years and further diminish farm export earnings for these less developed nations. Thus, their balance of trade gets hit twice: increased imports and lower valued exports.

Undoubtedly the 1996 and 2002 farm bills significantly impact the international community. For producers around the world, the bills do nothing to short circuit low prices. Apparently, the only thing that will bring improved prices is a significant crop failure in several crops somewhere in the world. Neither the last nor this farm bill contains policy instruments to turn things around. Perhaps other countries should focus less on the level of spending and more on the lack of supply control and other policy mechanisms that, in the past, have influenced production and, hence, prices and incomes.

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