PolicyPennings by Dr. Daryll E. Ray

Trade goals

All of the discussion about President Bush's proposed cuts to agriculture have refocused attention on the WTO trade negotiations, particularly the Agreement on Agriculture. Recently, a spokesperson for a large general farm organization said that a level paying field in international trade would stabilize US agriculture. This person also argued that there should be no cuts in US agricultural payments until a new trade agreement is negotiated. The reason for this is so that the trade negotiators can use the current payment levels as leverage to force other countries to make the kinds of changes in their trade policies that are desired by the US. Before coming to any conclusion about these assertions, let us take a few moments and look at both our expectations for trade negotiations and our experience.

Time and time again I have heard people boastfully say, "Give us (American farmers) a level playing field and we can out compete anyone." Trade negotiators, using a more diplomatic approach, simply say, "Opening up world markets provides the US with an excellent opportunity to achieve gains in market penetration.

For years, the prospect of expanding demand for meat by China's growing middle class has been used to justify more open trade policies. The argument has been that China will need to import feed grains and oilseeds from the US to feed out the hogs and chickens grown to meet this demand. In 1996 it was expected that China would be importing nearly 800 million bushels of corn by 2005.

The bottom line is that some US ag leaders and our US trade negotiators were totally confident that agriculture would benefit big time from freer trade. Little or no thought was given to the issue of increased competition for both international and US customers.

US ag and trade leaders relished the prospect of 1) the reduction of trade barriers to US agricultural products, 2) the end of state trading entities, 3) protection of US Intellectual Property Rights, in part for agriculture, 4) the institution of "non-trade distorting" decoupled payments, and 5) an enforceable trade dispute resolution mechanism.

Given all the expectations, the results have been less than stellar. To start with, US imports of agricultural products (people hardly talked about those) have been increasing at a faster rate than the US export of agricultural products. In fact, as regular readers of this column know, ag imports are supposed to equal exports in 2005.

Crop farmers benefit from the export of bulk commodities and for corn and wheat the volume of exports has been down to flat since the 1979-1981 peak. Taking the place of bulk exports are value added products, where most of the additional income is captured by the processors.

For the most part, globalization has benefited the multinationals not farmers. As part of the trade liberalization agenda, the multinationals have been using their resources to increase the productive capacity of the countries that US farmers expected to have as insatiable customers.

We would argue that the whole WTO process shows a complete lack of understanding that food and agriculture are different. First, the economic response is different. Aggregate agricultural markets do not readily self-correct—lower prices neither induce people to increase their intake of food nor induce farmers to plant fewer acres.

Second, the political response is different. Food security and other social objectives often trump all other considerations in the case of food and agriculture.

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