

PolicyPennings by Dr. Daryll E. Ray

It is no wonder agriculture has been a Doha stumbling block

A recent Wall Street Journal editorial said, "the G-20 can do more than talk... by making the compromises necessary to complete the Doha Round of trade liberalization. Beggar-thy-neighbor trade and currency policies [protectionism] contributed to the Great Depression, and a Doha failure would mean that the world's protectionists are on the march" (http://online.wsj.com/article/SB122662346962726733.html?mod=todays_us_opinion).

Agricultural issues were at the center of the stalemate that stymied completion of the World Trade Organization Doha trade negotiations before the recent election. The subsequent discussion has often degenerated into an argument over free markets vs. protectionism as if the only choice is a polar extreme.

Yet, few economists really believe in such a stark black or white choice. The issue of trade is a lot more complicated than that. There are shades of grey.

Shades of grey that are not a repudiation of the pure economic theory of free-market international trade but reflect realistic constraints on it.

For example, few would argue that the Department of Defense should be required to purchase munitions from the worldwide-low-cost producer even though not doing so would violate free market principles.

From our point of view, it would be equally unreasonable to expect developing (and developed) countries not to produce food to the extent that they can.

That expectation does not undermine the concept of comparative advantage, the bedrock concept of trade theory. Nor is that expectation an affront to free market or free trade principles in anyway.

The expectation simply recognizes reality; a reality that constrains, but does not diminish, the overarching economic benefits of international trade.

What does that mean? One thing it means is that countries with higher production costs than the procurement price available on the international market will decide to produce a portion of the food that they consume. The range of countries that will decide to produce a portion of their staples despite high production costs is indeed wide.

At one end of the spectrum we have a cash and oil rich country like Saudi Arabia that has invested in its agriculture so that it was able to move from being a country that imported two-thirds of its wheat needs in the 1970's to one that now produces 98 percent of the 90 to 100 million bushels it consumes.

Saudi Arabia has also increased its production of broilers from just under 200 thousand tonnes in 1985 to 564 thousand tonnes today, while maintaining domestic production at approximately 54 percent of its needs.

At the other end of the economic spectrum, developing countries that chose to increase domestic production saw a greater improvement in the nutritional level of its citizens than those countries that focused on developing an export-oriented agriculture.

We saw the same thing in the US between the end of the Civil War and the Great Depression. During this period, many African-American sharecroppers in the South were forced to focus on the production of cotton to the exclusion of using some of the land they rented and some of their time to produce food for their households. The result of this focus on cash crop production was significant malnutrition.

During the recent run-up in agricultural prices, we saw some 25 or more countries restrict their exports of foodstuffs to protect their populations.

It is one thing to lecture countries on economic principles, it is another to recognize that they made

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political decisions and would make the same decisions again under similar conditions.

Contrary to the predominant reaction by economists, such actions do not repudiate nor diminish the desirability of free markets and free trade. They reflect reality constraints, no more, no less.

Countries make decisions like that because they recognize as Bill Clinton put it, we shouldn't be "treating food like it was... a color television set. It isn't. It is different."

But this fundamental difference, between how the leaders and populace of countries view food compared to color television sets, does not get

adequately reflected in the discussion of international trade agreements.

Until it does, it should be no surprise that agriculture and food issues are major stumbling blocks in the Doha round.

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