Bruce Gardner is a professor in the Department of Agricultural and Resource Economics at the University of Maryland, College Park.

Commentary

Bruce Gardner

Tim Josling's paper is lucid, accurate, comprehensive, and sensible. I have a few comments on details, but I would like to focus more on issues that follow up the ones he covered in his paper, particularly about the economic consequences of a new agreement. What difference will it make? Of course, it is premature to pretend to answer this question about the Millennium Round in any but the broadest strokes. We might hope, however, to have some evidence about the effects of the Uruguay Round Agriculture Agreement (URAA). But, the Tangermann papers that Josling cites, as well as others, have said that changes resulting from the URAA in its first years are too modest to have expected substantial observable effects.

This is not to deny that the URAA is a considerable achievement. It lays the foundation for significant liberalization of agricultural trade and, possibly as important, places an obstacle in the way of increases in agricultural protection around the world that might otherwise result in further trade restrictions. (I am taking it for granted that trade liberalization in agriculture is a desirable end for the same reasons that trade liberalization, in general, is desirable; namely, it permits a larger worldwide real income to be obtained from the resources available. In the case of U.S. agriculture, there is a gain to the nation as a whole that also is a gain to farmers, since the United States is a net agricultural exporter and higher world-commodity prices under liberalized trade will benefit producers more than it will cost consumers. Therefore, when arguing for liberalized trade in agriculture, one does not have to rest one's arguments on the gains to consumers, who are hard to engage. Unfortunately, because the United States imports some farm products that we also produce [sugar, dairy products, winter fruits, and vegetables] there are farmers who stand to lose from liberalized trade, and they tend to be more sensitive to their potential losses than are the larger number of farmers who gain to their potential gains.)

The URAA was significant for several reasons. It:

(1) Established a framework in which commitments were made to discipline agricultural policies that distort trade;
(2) Required countries to quantify a baseline in each disciplined area from which reductions are to be made at an agreed-upon rate; and
(3) Encouraged broader domestic policy reforms that would fit with URAA requirements.

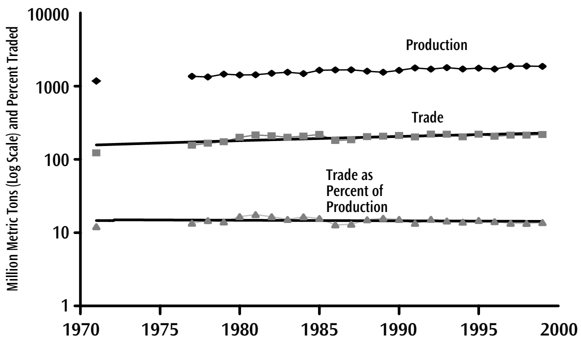
However, almost every country was able to set its baseline levels high enough for almost every commodity so that reductions would have little or no effect for several years after the agreement came into effect on January 1, 1995. In this respect, continuation of reductions in the Millennium Round is the key thing to negotiate; and it means the negotiations will be really difficult. Nonetheless, increased imports have been created because of minimum access commitments, and the European Union and the United States have both begun to implement some policy reforms. In the U.S. case, the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 replaced deficiency payments and supply manage-ment for grains and cotton by a seven-year schedule of fixed payments. (During 1998 and 1999, however, the payments were modified, and it is now practically certain that outlays for those payments will be larger than outlays would have been under the pre-1996 programs.)

Figure 1 shows the recent history of world production and trade in cereals (wheat, rice, corn, barley, oats, sorghum, rye, and other grains). Trade is increasing slightly, but no more than the worldwide increase in production, as one can see in the chart showing that the share of world production in international trade is constant over the last two decades.[1] Thus,

[1] Note that there is some ambiguity in what constitutes agricultural trade—should food aid be counted, how much processing—do we count cookies (no), sausages (yes), farmed fish (no), margarine (yes), wine (yes), rubber (yes), silk (yes), cotton textiles (no)—and what about trade between countries of a customs union? In the Food and Agriculture Organization (FAO) statistics on agricultural trade, which U.S. data mostly use, food aid is counted as trade, the commodity questions are answered as above, and trade between members of all the main free-trade areas is counted. Since 1992, FAO counts transactions among most former Soviet republics as international trade, whereas before these were all domestic transactions. Since 1993, trade between Slovakia and the Czech Republic is international. Similarly complicated, but quantitatively trivial changes, have been made for the former Yugoslavia.

Figure 1

World Grain Production and Trade

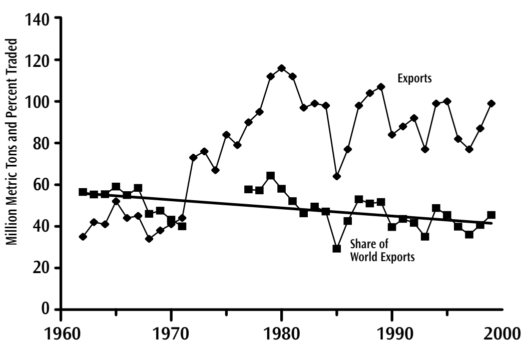


NOTE: Grain includes wheat, feed grains, and rice.

SOURCE: World Bank and USDA

Figure 2

U.S. Grain Exports and World Market Share



NOTE: Grain includes wheat, feed grains, and rice.

SOURCE: USDA

there is no evidence here that 1995 marks any kind of departure in trend.

Figure 2 show trends in U.S. grain exports. Grain is important in the U.S. view of the URAA because we (I say "we" because I worked at the Department of Agriculture [USDA] between 1989-92 and was involved in the discussion)[2] wanted above all to achieve something concrete that farmers could immediately see as beneficial to them. By far the best candidate for such an achievement was an agreement that would require the European Community to reduce its export subsidies immediately. In fact, the U.S. proposals, even after being scaled back, would have accomplished this. More importantly, so would the compromises floated by the General Agreement on Tariff and Trade (GATT) facilitators in Geneva, who, during and after December 1990, were impressively active and creative. The threat of immediate constraints upon European Community scope for action, however, is precisely why it took four more years to reach the Blair House agreement, which ultimately found a time and manner of implementation that would not lead to substantial immediate constraints upon the European Community. Also, as Figure 2 shows, it is hard to see any favorable effect on U.S. grain exports after 1995, although year-to-year variability makes changes in trend tricky to detect.

Figure 3 expands the U.S. picture to consider all agricultural trade. Such immediate effects as the URAA had appeared to be mainly minimum access requirements usually implemented through the tariff rate quotas that Tim's paper discusses, which should have helped U.S. rice producers in particular. Figure 4 could be read optimistically to see an effect in higher rice exports after 1995, but Figure 3 cannot. It seems more plausible that agricultural imports were increased after 1995, but this is likely a continuation of the import demand effects of continuing recovery from the recession of 1990. One detail may bother you. Why does the value of agricultural exports in aggregate decline during the last three years, while the volume of grain exports in Figure 2 rise? The culprit is the large decline in commodity prices that has occurred, which also triggered large supplements to the previously-thought-to-have-been fixed payment to farmers during 1998 and 1999.

The absence of concrete results so far is a factor behind the reduced enthusiasm of farm groups for the Millennium Round as compared to the Uruguay Round—and there were lots of nay-sayers about the Uruguay Round, too. For a survey of the state of opinion around the country, see the transcripts of the USDA and United States Trade Representative "listening sessions" held in 1999—transcripts on

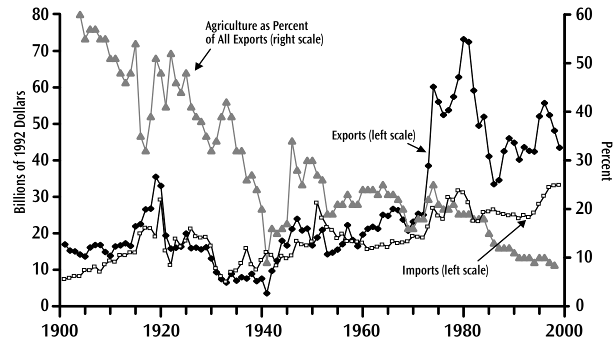
[2] "Discussion" is used rather than "negotiation" because there was so little negotiation in the sense of bargaining sessions between countries. As the December 1990 Brussels meeting approached, at which the Uruguay Round was to be concluded, one of the favorite sayings of the chief United States Trade Representative (USTR) agricultural negotiator, Julius Katz, was that it was hard to be optimistic about reaching an agreement when after four years of the Round (after the Ponte del Este kickoff in 1986) there had not yet been a single day of actual negotiating. Still, there were endless days of discussion within each country or group, i.e., negotiating with ourselves.

the website of the Foreign Agriculture Service of USDA <http://www.fas.usda.gov/itp/wto>. Nonetheless, it remains the case that exports have been an important source of real income gains for farmers, and it is hard to imagine a worse threat to the continued growth of farm incomes than stagnation of export growth.

I conclude with a point of detail in the Josling paper, which is, nonetheless, an important detail. He refers to "slow but fundamental" changes in agricultural policies in industrial countries. In 1993, it looked that way in the United States when Congress passed, and President Clinton signed into law, an end to the Wool Act, which had supported wool and mohair producers since 1954. It looked even more so in 1996 when the Agricultural Market Transition Act ("Freedom to Farm") ended deficiency payments that made up the difference between a legislated target price and the market price of grains and cotton, and removed the authorities for acreage set-asides of these commodities, installing instead a seven-year declining schedule of lump-sum payments. The political response to low commodity prices in 1998 and 1999, however, has changed this picture fundamentally. In 1999, without hearings, debate, or visible opposition in either the House or Senate, Congress passed a supplemental appropriation of $8.7 billion (doubling the Agricultural Market Transition Act payments scheduled, plus more for crop disaster areas). President Clinton approved this legislation while expressing reservations that it did not adequately restore the safety net that the 1996 Act allegedly removed.[3] Also, in 1999, import restrictions on lamb were introduced, which arguably are as distortionary as the Wool Act was. The abjuration of set-asides is the only important 1996 reform that remains in place—and I would not minimize the importance of this because set-asides were the most economically wasteful of the pre-1996 commodity programs. Nonetheless, in the case of the United States, I would not say the changes are slow but fundamental. Slow, and possibly transient, is a better characterization.

Figure 3

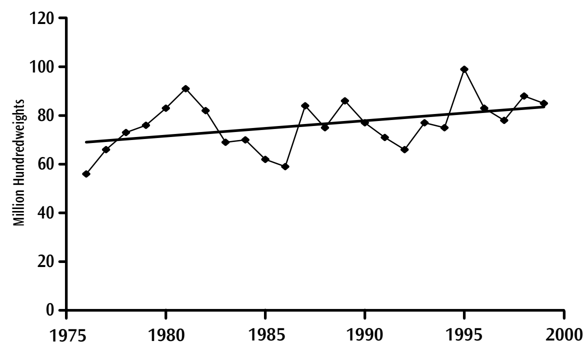
U.S. Agricultural Exports and Imports, Value in 1992 dollars



SOURCE: USDA

Figure 4

U.S. Rice Exports



SOURCE: USDA

[3] "Allegedly" because the 1996 Act left in place "loan deficiency payments" that were anticipated to cost little or nothing in 1996 (because the safety net was triggered by prices lower than the baselines of USDA or Congressional Budget Office (CBO), resulting in about $6 billion in payments during 1999—over and above Agricultural Market Transition Act (AMTA) payments.