

# GATT offers trade barrier reform

*The following are excerpts from a keynote address given by Thomas C. Griffith, executive vice president and chief operating officer of Central Soya Co. Inc., at the AOCs business breakfast Monday morning, May 9, 1988, in Phoenix, Arizona. Griffith delivered the talk in place of David Swanson, Central Soya's chief executive officer and president, who was unable to attend.*

History has shown us time and again that barriers, however well-intentioned, are counter-productive in any endeavor.

Perhaps most counter-productive today are the barriers that nations have erected between themselves. These are the barriers that become the heaviest burden on taxpayers, cause unstable prices and stand in the way of better diets for those in lesser-developed countries.

The most paralyzing of these is the inability of the world's nations to work in concert for the betterment of all. These keep us from shifting unnecessary government and consumer expenditures away from the production of costly surpluses and toward more worthwhile products and services, and toward further research efforts.

There are certain facts of life that have led to these national barriers, which most often take the form of agricultural subsidies and protectionist trade restrictions. Probably the most compelling motivation is the almost universal belief among nations that they must be self-sufficient in food production. It's been noted that wars have been fought, won and lost over food, and sometimes Americans underestimate the depth to which that feeling goes in many parts of the world.

In the U.S., there is a philosophy and a confidence that mankind generally is better off under free trade than under highly managed trade. In other parts of the world, wars, inflations, depressions and other instabilities have been less kind. Many countries feel strongly that the benefits of free trade, however efficient, do not outweigh the risk factor involved.

Virtually every country wants to maintain and, in some cases, increase its agricultural self-suffi-

ciency. Subsidies and trade barriers have produced surpluses in at least 30 countries. To one degree or another, however, even some of the most protective countries feel that the pendulum may have swung too far and that costs are out of hand. Even the most cautious countries recognize the powerful dynamics behind the law of comparative advantage that says each society will have a better standard of living if it produces what it can do best and trades that product or service with other countries that likewise produce what they can do best.

Today, one need only to look at Korea or any of the four "Asian dragons" that demonstrate what a free market economy can do even in countries with few natural resources. We have many comparative advantages in the U.S., but potential further gains associated with international specialization are being thrown away by protectionism in agricultural markets. The lowering of barriers could allow each country's specialization to make the whole world richer.

Policy makers now have an opportunity to make real progress in trade liberalization and agricultural reform at the upcoming General Agreement on Tariffs and Trade (GATT).

For years, strong domestic political forces in many countries kept any serious discussion of agriculture off the agenda out of fear that freer trade would mean abandoning farm support programs. There were occasional efforts to control the worst agricultural trade violations, but for the most part they were toothless and half-hearted. Now, governments are calling on the GATT to negotiate both international and domestic policy reforms to alleviate tensions in global agricultural trade.



Agriculture's move from low to high priority in the international arena can be attributed to a number of factors. First is the skyrocketing cost of farm programs. The U.S. farm program cost taxpayers almost \$26 billion in 1986, compared to \$3 billion just six years earlier. In the European Economic Community (EEC), costs have doubled in the past seven years and will reach almost \$25 billion this year. As the U.S. and EEC fought subsidy wars to retain their markets, other exporters have seen their budget outlays increase and export earnings plummet.

Second is the unhappy combination of shrinking markets and expanding supplies. In the 1970s, demand for agricultural products grew about 3%, and supply increased about 2.6% annually. This led to one of the biggest booms in agricultural history, with soaring farm income and commodity prices. In the 1980s, growth in demand dropped to 1.4% annually, while production increased at a pace of almost 3%.

Third is the unhappy outlook for continued lower growth in demand than in supply. The debt-ridden developing countries, which accounted for most of the increase in global trade in the 1970s, are likely to be in for a long struggle. Despite massive debt restructuring, total foreign debt for all but two of the 15 most heavily indebted countries has actually increased. Meanwhile, global production seems poised for continued expansion. Countries have made significant and to a large extent irreversible investments in agricultural production. Also, new technologies are coming on line that will lower pro-

duction costs, increasing both productivity and competition.

Few gain from the current disarray. Consumers lose (prices are kept high to support farmers), taxpayers lose (governments support their agricultural sectors), farmers lose (government-financed competition tends to force prices lower) and agribusiness loses (trade slows, and production cuts are enforced).

In the U.S. and EEC, there is increasing recognition that expensive policies are helping not the smaller farmers for whom they are designed but are benefiting the largest and most profitable. Worldwide, there is concern that the subsidy battles and protectionist barriers in agricultural trade will spill over into other arenas.

These forces call for reform, but they do not promise what kind. Thus far, three major proposals have been placed before the GATT.

The U.S. is calling for the elimination over a 10-year period of all subsidies that distort production and trade. It asks for an immediate move toward this goal with no interim measures to provide short-term improvements.

The EEC calls for negotiations to reduce budget costs as soon as possible and then to reduce, but not eliminate, agricultural subsidies.

A third proposal has been submitted by the Cairns Group, a collection of 14 developed and developing, exporting and importing countries. Formed in 1986, it includes such players as Argentina, Australia and Brazil. Their ultimate objective is to achieve total trade liberalization, toward which they propose to move in three stages. They advocate the implementation of early relief measures by the end of 1988 or as soon as there is agreement on a long-term framework of free trade. There then would be a 10-year transition period to allow countries to adjust to that framework.

Other countries, including Canada and Japan, have submitted or will submit their own proposals in the coming months.

The proposals all support a move to freer trade while maintain-

ing some types of support for farmers. But it is not clear that GATT will be able to deliver. They are far apart on important details, including timetables, methods of measuring and monitoring compliance, and policy coverage.

More importantly, in each country there are weighty political forces resisting the reforms of the GATT proposals. The combination of political resistance to freer trade and economic imperatives for change may force individual countries to spurn multilateral solutions and enact ad hoc unilateral reforms that push domestic problems further onto the international market.

It is important that this not happen. While agriculture employs a small portion of the labor force in most developed countries, it accounts for a much larger portion of gross national product when food processing, fertilizers, retailing, transportation, exporting, marketing, machinery and petroleum are included. In the U.S., for example, just over 2% of the population is employed in farming per se, but almost 20% of total U.S. income is generated by the food and agricultural system.

Agricultural assets, such as real estate and operating loans, stand behind a substantial amount of bank and insurance company portfolios in developed countries. In most developing countries, agriculture is the main source of employment and the export earnings that repay international debts and drive international trade. If progress is not made in the GATT, farmers and agribusiness in both developed and developing countries and the economies that depend on them will be subject to increasingly volatile and stressful conditions.

Gains from agricultural and trade policy reforms for research and technology can be couched both in economical and in moral terms. It's obvious that spending \$26 billion in federal funds in the U.S. alone to produce surpluses that lay in government storage is not a good deal. Costs of this magnitude place substantial drains on economies. Producing commodities that have no markets is ultimately not sus-

tainable and hides the opportunities to satisfy new commercial demands. Multilateral "disarmament" in agricultural trade offers the possibility of shifting billions of dollars to productive uses.

This will not be an easy job, and progress will come slowly. The relationship between current farm policies and considerations of food security, environmental integrity and rural viability always will be confronted with difficulty. National governments, or factions within those governments, will continue to fret about possible instability in world agricultural markets. Insecurity of food supplies from "unreliable" sources will worry some, and be exploited by others fostering self-interest of domestic agriculture and agricultural industries.

The stakes are very high, in some cases life and death. Policy reform is perhaps the best way to provide relief from the unjustifiable paradox of industrial country surpluses and chronic famine in some developing countries. Accelerated development of poor countries comes, in part, through your efforts, perhaps through the development of seeds that can grow in near desert-like conditions. With increased volumes of lower-cost farm products available in a world without trade barriers, processing industries could look for expanding opportunities to use their existing capacities more fully and to expand efficient systems internationally. Farmers and processors could also spend more money looking for broader opportunities in industrial products such as new markets for plasticizers or genetically altered corn that converts more efficiently into ethanol.

Whatever strides we make in creating a world without barriers, a world that eats better, enjoys better health and has fewer living at subsistence levels, it's clear that the most unpardonable sin is complacency. Each of you, in your research projects, has the ability to alter our food and industrial complex for the better. This is a mission that is of profound importance.