FARM POLICY AS FOREIGN POLICY*

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I. Introduction

International trade in food and fiber now surpasses $200 billion. Individual nations' agricultural policies and programs frequently have international repercussions on this trade, both intentionally and unintentionally.

Recognizing the crucial importance that agricultural trade plays in nurturing the people of the world and in contributing substantially to the world economy, United States policymakers have long attempted to use farm policy constructively to accomplish foreign policy goals.

This paper will point out some positive and negative ways that the United States has interrelated farm policy and foreign policy. It then analyzes the philosophy underpinning United States farm policy and briefly looks at goals for the future.

II. Food for Peace

One of the jewels in the crown of United States farm policy has been Public Law 480 (P.L. 480).[1] Not only has P.L. 480 made an invaluable humanitarian contribution to the world's needy, it has also been an efficient, effective program that benefits United States farmers.

The evolution of P.L. 480 began with food shipments to Europe in the aftermath of World War I. These shipments followed actions of various United States church and voluntary agencies who had even earlier established a policy of donating food for international relief.

The United States government, however, would not undertake a long-term commitment to allay world hunger until after World War II. That commitment, undertaken in response to critical shortages in Europe, North Africa, and the Far East, was initiated by President Truman in the nine-point program which came to be known as the European Recovery Program. It included food conservation in the United States in order to allow greater supplies for overseas shipment.

Under the European Recovery Program, known also as the Marshall Plan, economic resources and aid deliveries greatly increased in the late 1940s. These resources provided the basis for restarting agricultural produc-

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1. Food for Peace Act of 1966, Pub. L. No. 89-808, 80 Stat. 1526.

tion in Europe.

In 1949 Congress added Section 416 to the Agricultural Act of 1949. This amendment authorized the donation of surplus commodities owned by the Commodity Credit Corporation to needy people overseas. This Act also provided that commodities could be donated through voluntary agencies for distribution in recipient countries. Section 416 was the forerunner of some of the provisions of P.L. 480.

When war deliveries ended in the early 1950s, United States farmers' production capabilities far outstripped domestic demand. As surpluses accumulated, greater interest developed in international trade and in a more effective system of food aid.

This interest culminated in the passage of the Agricultural Trade Development and Assistance Act, or P.L. 480, popularly known as the Food for Peace Program.[2]

Its principal objectives are the same today as they were then: (1) to support economic development within developing countries; (2) to expand international trade and develop markets for United States agricultural products; (3) to provide humanitarian assistance; and (4) to promote the foreign policy objectives of the Unites States.

The first P.L. 480 agreement, a concessional sale to Turkey, was signed in 1954 and had a market value of $17 million. It was the beginning of a program that would provide $38 billion in food assistance to millions of people in over one hundred countries in the following years. This level of assistance turned out to be more than that of all other nations combined. It was also a program that would provide a constructive outlet for United States food surpluses.

Concessional sales, outright donations, and technical assistance have given recipient governments the fiscal breathing room to undertake their own economic development programs. By providing this aid, the United States also has helped itself. Many former P.L. 480 Third World nations have continued to come to the United States for their commercial agricultural purchases.

At last report, eight of the top ten markets for United States agricultural goods are countries that have graduated from food aid recipients to cash customers. Japan is probably the most dramatic example. Once in the P.L. 480 ranks, Japan is now the top single-country market for United States agricultural exports, with cash purchases totaling more than $6 billion.

Summing up the effects of P.L. 480, Secretary of Agriculture Richard Lyng put it this way: "Over the years, P.L. 480 has evolved into more than a commodity supply management tool; it has been an important vehicle for developing commercial export markets, for meeting humanitarian food

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2. *Id.*

needs, and for spurring economic and agricultural growth in the developing world."[3]

III. Embargoes: Frustrating Free Trade

If food can be used as a vehicle for peace, it also may be used as a weapon in times of frustration and disappointment. However, peaceful goals are best served by facilitating agricultural trade, rather than frustrating it.

In the past we have seen several instances of sales suspensions and controls. The agricultural community has learned—at tremendous cost—that this strategy does not work. The fact becomes painfully clear when we review some of our past experiences and examine agricultural trade sanctions in terms of costs and effects.

The United States has employed agricultural trade sanctions a half dozen times over the past thirty years, and in each case the total flow of agricultural imports into the target country remained approximately the same. Although there are many reasons for this, the major reasons are the refusal of other countries to cooperate in imposing a trade embargo and the fact that agricultural commodities can be grown, and shipped from, almost anywhere in the world. If an agricultural embargo does not succeed in denying food products to the target country, it cannot effectively alter the behavior of that country.

In reality, embargoes are not effective in denying food products to target countries. They are also costly to taxpayers and they reduce the economic growth and efficiency of the nation that imposes them. Even a limited, short-term food embargo can have serious effects on the trade growth of the nation imposing it. An example is the United States general embargo on exports of soybeans and other oilseed products in the summer of 1973. Imposed because of an extremely tight supply situation, it lasted for only five days. Yet it created serious doubt as to the reliability of the United States as a supplier. It also caused Japan to seek new sources of supply, and encouraged new competitors for the world soybean market.[4]

The 1980 embargo on sales to the Soviet Union, intended to extract a "significant price" from the USSR for its behavior in Afghanistan, is a second case study in failure.[5] The objective of the embargo was to cause a major reduction in the availability of livestock and poultry feed to the Soviets. Supporters of the plan predicted that limited feed supplies would result in distress slaughter of herds and flocks that could not be fed, leading to a significant reduction in Soviet meat production.

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3. Foreign Agricultural Service, United States Department of Agriculture, Food for Peace: 1985 Annual Report on Public Law 480 (Sept. 1985)(cover letter).

4. Economic Research Service, United States Department of Agriculture, Staff Rep. No. AGES860910: Embargoes, Surplus Disposal, and U.S. Agriculture, ch. 7, at 1 (Nov. 1986).

5. *Id.* at 8.

But the plan backfired. The Soviets reacted by increasing grain imports from other sources. Argentina, Canada, Australia, and the European Community lined up to fill the gap. Despite the drastic need to alter buying and shipping plans, the Soviets increased grain imports to a record 34.5 million tons in 1980-81. As a result, the USSR was not forced to liquidate herds and flocks as some United States policymakers had predicted. After one year of the embargo, cattle and hog inventories on state and collective farms were virtually unchanged, and poultry inventories had increased slightly.

In contrast, the United States paid a heavy price. The immediate results were additional costs incurred by those whose contracts were canceled, a sharp decline in grain prices, and substantial market uncertainty caused by the imposition of the embargo. This further aggravated the decline in net farm income already under way because of inflation in producer costs and higher interest rates.

In the final analysis, the embargo had a devastating effect on United States farm product sales to a market that had become important to United States farmers. In 1970 agricultural exports to the Soviet Union amounted to about $16 million. By 1979 this market had grown to over $2 billion—about one-tenth of the total export market for United States products. This growth came to a sudden halt in January, 1980. United States farm product exports to the USSR fell to $1.5 billion in fiscal 1980, and the lifting of the embargo in April, 1981, resulted in only a moderate recovery in these exports. Beyond this direct loss of sales, the United States also suffered other enormous long-term costs related to the growth in output in competitor countries and the loss of the confidence of other buying countries, a vital market factor that the United States agricultural sector worked many years to build.

A simple shift in trade patterns did not occur, as previously expected. Our competitors were able not only to service larger Soviet needs, but also to supply their traditional customers. Before the embargo, the Soviets bought over 70% of their grain from the United States. Since the embargo, we have supplied about 30% of the Soviet grain market. Without question, agricultural trade policy took a beating in the aftermath of the embargo. Our reputation, which is so valuable in our trade dealings with other countries, also took a beating.

The choice we face for the future is whether to use agricultural trade policy as an offensive weapon, or as an instrument for improving international relations. There is no doubt which choice best serves the United States farmer.

IV. Protectionism: Trade Interference for Better or Worse

Embargoes are an extreme form of protectionism, representing the exact opposite of what the United States is aiming for—trade without barriers. Protectionism also can take less radical forms which may not always be deleterious. Historically, protectionism has played a role in the development of Europe's agricultural infrastructure. In 1962 the European Community chose a system of high protected support prices to encourage production. The ultimate goal was to achieve self-sufficiency, using export subsidies to move surplus production into the world market.

For a while the system worked well. In less than a quarter century, the European Community developed from a net importer of most food commodities into the most productive agricultural system in the world. Accomplishing this goal has not been without cost. The European Community's continuing espousal of subsidies and protectionism is draining the European Community economically and distorting the world market. This policy will ultimately damage the long-term potential for growth of agriculture as an industry, not only in the European Community, but elsewhere in the world.

The United States is not without guilt either, and we should know better from our past experiences. Growing protectionism in the early 1900s led to the passage of the Smoot-Hawley Act of 1930. This Act established duties on nearly all United States imports and accomplished the opposite of what its framers had desired. Within two years, exports dropped by more than half to $2.4 billion, and imports fell by a factor of three. The Act did nothing to ease unemployment or assuage other problems of the Great Depression.

V. GATT Negotiations: An Opportunity to Put Trade on Track

Despite negative experiences, like the effect of the Smoot-Hawley Act and the Great Depression which followed, there is at the moment a good deal of protectionist sentiment in both the Senate and the House to develop trade bills which include provisions which could remove our discretion to pursue the goal of free and fair trade. I might note in passing that we in the administration are continuing our efforts to work with the Congress to refine the bill into one which will help United States exports without resorting to protectionism.

Despite protectionist pressures, the United States continues to support the General Agreement on Tariffs and Trade (GATT) as the best vehicle for liberalizing trade to ensure the most efficient use of the world's resources. We are now standing at the beginning of another round of multilateral negotiations under the GATT. This, the Uruguay Round, launched on September 20, 1986, is shaping up to be a critical, timely opportunity for us to resolve international trade problems. It is an opportunity we may not have again in the foreseeable future.

United States Trade Representative Clayton Yeutter recently observed that:

> One of the major shortcomings of the GATT during its 40 year existence is that it has never effectively confronted agricultural trade policy problems. It has done a reasonably good job in the industrial area over

> the past four decades, but very little has happened to provide any discipline over the way agricultural trade is conducted.[6]

In this round, the United States has placed on the negotiating table every type of program which could be interpreted as a trade restriction. The fundamental fact for most basic commodities is that domestic programs of support and protection inhibit growth in demand, stimulate excess production, and in so doing provoke more frequent use of import restrictions and export subsidies.

The administration was convinced that the time had come for an international approach to remove the domestic programs that restrict growth in world agricultural trade. This simple idea has taken a long time to gain acceptance, but better late than never. The statement issued in Paris at the conclusion of the ministerial meeting of the Organization of Economic Cooperation and Development (OECD) was the consensus for which we have long hoped.[7] The section on agriculture, agreed to by all the industrialized countries, recognizes that long-term reform of domestic programs is essential, and declares that the Uruguay Round should establish the framework in which this reform can take place.

In keeping with this sentiment, on July 6, 1987, in Geneva, the United States submitted its formal proposal for the reform of agricultural trade under the GATT. The proposal is easy to describe, but sweeping in concept. We are seeking the elimination of all direct and indirect subsidies and all import barriers that affect agricultural trade. We have proposed that these subsidies and restrictions be phased out over ten years.

We are not proposing a simple swapping of tariff cuts or other concessions, product by product. We are linking subsidies and access barriers together in order to phase out whole systems of excess support and protection. Only by eliminating the source of the problem can we put an end to price-depressing surpluses and restore fairness to international competition.

Our proposal concerning the GATT also seeks an internationally agreed upon approach to ensure that the development and application of health and sanitary regulations are based on scientifically verifiable needs and not on the desire to restrict trade. Individual countries now have their own health and sanitary regulations. Commodities produced and exported under strict health standards in one country must conform to differing regulations in different importing nations, complicating trade. Standardizing health and sanitary rules worldwide would help facilitate the flow of trade.

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6. White House Press Briefing on the United States Agricultural Trade Proposal Submitted to the General Agreement on Tariffs and Trade, in Geneva, Switzerland (July 6, 1987) (statements of Clayton Yeutter and Richard Lyng).

7. ORGANIZATION OF ECONOMIC COOPERATION AND DEVELOPMENT, FINAL COMMUNIQUE OF MEETING OF MINSTERS §§ 19-25 (May 13, 1987).

VI. Conclusion

The United States proposal for negotiating in the new round of multilateral trade negotiations is a perfect example of the union of foreign policy and farm policy. Its purpose is to uncouple domestic farm programs from international trade. The world's agricultural producing nations can no longer afford to have domestic farm programs that ignore the international ramifications of those programs. Long-range growth for the world's agricultural system depends on adapting and changing current policies so that the industry is responsive to market signals.

The United States cannot do this unilaterally—we must have the cooperation of other nations. The Uruguay Round of trade negotiations presents a major opportunity for us to solve many of our trade problems.

We are investing a lot of effort in the new multilateral trade negotiations. Our objective is to create an environment in which all countries can compete fairly for the world's commerce. In its *World Development Report for 1987*, the World Bank warned that "without a new commitment to the principles of GATT, the trading system will see an increase in bilateralism, a further spread of non-tariff barriers . . . and greater use of domestic trade laws to obstruct imports."[8]

We share those concerns. Without question, international cooperation remains essential. All nations must renew their resolve to improve the world trading system that has contributed so much to world economic growth and security.

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8. World Bank, World Development Report for 1987 159-60 (1987).