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# Food Shortages and Farm Prices

by Hugh Corbet, London \*

**In the forthcoming GATT negotiations attention is expected to focus more than in any previous round on the problems in international agricultural trade. The author suggests a set of courses that might be able to restore some semblance of order in world agricultural markets.**

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**W**hile the World Food Conference in Rome, conducted under the auspices of the United Nations, may highlight on the present disarray in international agrarian markets, it is to the negotiations in Geneva under the General Agreement on Tariffs and Trade (GATT) that governments must look for solutions<sup>1</sup>. The latter were formally launched in Tokyo in September last year. So far though the Tokyo Round negotiations have been marking time, waiting for the Congress of the United States to afford the Administration (no pun intended) a negotiating authority. And the European Community, too, has to settle its detailed "negotiating directives"<sup>2</sup>.

## Access to Supplies and Markets

In the negotiations attention is expected to focus more than in any previous GATT round on the problems in international agricultural trade. For that trade has been increasingly disrupted and distorted over the past decade by severe import controls and export subsidies and, more recently, by various export controls<sup>3</sup>.

With the development of world-wide shortages of major farm commodities, particularly of cereals (a key determinant of prices for livestock products), rural interests have been lobbying more militantly than ever for increased government support for agricultural production. Many of these shortages have their origin in under-investment in the fields concerned — reflecting a distortion in the allocation of world resources.

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<sup>1</sup> For a fuller discussion of the issues raised in this article see Hugh Corbet, *Agriculture's Place in Commercial Diplomacy*, Ditchley Paper No. 48 (Enstone: Ditchley Foundation, 1974). This is a report on the deliberations of a high-level group of officials, farm leaders and economists from the European Community and the United States, besides Japan, Canada, Australia and New Zealand, that was convened by the Ditchley Foundation in England to consider farm-support policies as a source of difficulty in international trade.

Greater self-sufficiency at high cost is therefore not the appropriate answer to shortages of supply. International agreements should instead be sought on security of access to supplies and on security of access to markets. The opening of commercial markets for agricultural products is required in order to stimulate production in low-cost areas of the world. For increased production will not be undertaken without some assurance of a market for the resulting goods.

## Causes of World Shortages

In the 1950s and 1960s, the United States built up large stockpiles of grains, almost as a by-product of its farm-support policies. These stocks accounted for the bulk of world reserves and helped to moderate the price effect of swings in production. But a number of developments contributed to the depletion of these reserves: famine relief, a succession of bad harvests in various major exporting countries, purchases in the world market by China and the Soviet Union and increased livestock production. By the late 1960s the world's reserves of grain were getting low.

Also by the late 1960s the European Community's common agricultural policy began to make a substantial impact on international trade in temperate-zone commodities — especially cereals. Surpluses generated by high support prices (protected by variable import levies) were being increasingly dumped, with the help of export subsidies, on the "world" markets of the traditional exporting countries.

<sup>2</sup> These "negotiating directives" should not be confused with the broad negotiating position agreed by the Council of Ministers on 26 June 1973, as set out in *Overall Approach to the Coming Multilateral Negotiations in GATT*, Document I/135 e/73 COMMER 42 (Brussels: Commission of the European Community, 1973).

<sup>3</sup> In this connection, see D. Gale Johnson, *World Agriculture in Disarray* (London: Macmillan, for the Trade Policy Research Centre, 1973).

These last, such low-cost cereal producers as the United States, Canada and Australia, were thus confronted with depressed prices, which induced them to cut production. These cuts contributed to the problem of tight supplies<sup>4</sup>. In an economic activity that is subject to so much government intervention, it is impossible for politicians to absolve themselves, as most of them do, from responsibility for the disarray into which world agriculture has fallen.

Since commodity prices have been buoyant, thus relieving governments of the pressures normally associated with depressed prices, the general climate for trade liberalisation has improved<sup>5</sup>. But the situation is not likely to last for very long. For costs of production are rising and many of the income benefits from high prices are being capitalised into higher values on farm assets – which farmers will soon take for granted.

### Strategy for Commercial Negotiations

What is needed is a broadly accepted strategy for commercial negotiations. The underlying principle might be that governments should limit the extent to which the burden of domestic adjustment in the agricultural sector is shifted, through trade measures, to producers in other countries<sup>6</sup>.

□ Negotiations should accordingly bear down on the measures which have been most disruptive of international trade. For a start governments should have no difficulty reaching an understanding, especially in a period of tight supplies, on the use of export subsidies.

<sup>4</sup> This point is elaborated upon in Corbet, op. cit., pp. 14 and 20.

<sup>5</sup> European and American Interests in International Negotiations on Agricultural Trade, Staff Paper No. 2 (London: Trade Policy Research Centre, 1973).

<sup>6</sup> Such a principle was urged by the Director-General of the GATT Secretariat, Oliver Long, "International Trade in the 1970s: Some Immediate Problems", an address to the Bundesverband der Deutschen Industrie, Bonn, 26 January 1970.

□ Another objective, at this level, should be the negotiation of codes of conduct with respect to the various technical measures which – by either design or accident – impede imports of agricultural products. By these are mainly meant the wide range of health standards and regulations relating to food additives and so on which can be "over-zealously" applied with protectionist intent<sup>7</sup>.

□ Just as export subsidies disrupt markets when supplies are plentiful, so also do export controls when supplies are tight, creating uncertainty in world markets and in policy-making circles everywhere – and providing much scope for commodity speculators. Reaching an understanding on export controls will be much more difficult while shortages persist.

□ Commodity shortages have made importing countries realise that they must be prepared to share the responsibility, and therefore the cost, of stockpiling instead of leaving it all to the exporting countries. With the importing countries interested in the security and stability of supplies, the Tokyo Round negotiations should be able to reach agreement on the financing and management of reserve stocks of storable commodities, mainly grains<sup>8</sup>.

□ Having established a framework in which some semblance of order might be achieved in agricultural trade, the negotiations should take up, and carry a stage further, the *montant de soutien pro-*

<sup>7</sup> For a review of these devices, see J. S. Hillman, Quota and Technical Restrictions on Agricultural Trade, Agricultural Trade Paper No. 5 (London: Trade Policy Research Centre, 1974).

<sup>8</sup> Among the proposals made for food reserves and stockpiling are the following: Fred Waugh, Reserve Stocks of Farm Products. In: Presidential Commission on Food and Fiber, Food and Fiber for the Future, Technical Papers Volume V (Washington: US Government Printing Office, 1967); T. E. Josling, An International Grain Reserve Policy (London, Washington and Montreal: British-North American Committee 1973); Director-General of the Food and Agriculture Organisation, World Food Security (Rome: FAO, 1973); and Hillman et al., The Impact of an International Food Bank, Report for the Senate Committee on Agriculture, Congress of the United States, 1974.

Horst Rinne

## Tabellen zur Finanzmathematik

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posal of the European Community<sup>9</sup>. Rather than argue about appropriate and inappropriate *methods* of farm support, the negotiations should concentrate on the *levels* of support, leaving governments to decide for themselves — as they will anyway — what are the most appropriate forms of support in their circumstances. What this would involve first of all is agreeing a basis on which to determine the level of effective protection afforded to agricultural producers by the various methods of support. Those levels might then be “bound” and afterwards gradually reduced by negotiation<sup>10</sup>.

□ In the course of consultations and negotiations, which might be a more or less continuous process, the effectiveness of farm-support policies should come to be questioned more closely. After all, there is little evidence that they are fulfilling their objectives, however much governments may pretend otherwise. (a) How much have agricultural policies increased net farm income? (b) What effect have agricultural policies had on farm output and on domestic consumption of farm products? (c) How much do agricultural policies cost taxpayers and consumers? (d) How are the economic benefits of agricultural policies distributed between high- and low-income families in agriculture? (e) What part of the total costs borne by consumers and taxpayers actually accrues to farm people as additional income?<sup>11</sup> These are the questions that need to be answered if ever the fundamental problems of agricultural trade are to be overcome.

### Higher Prices and Small Farmers

In this connection the effectiveness of supporting the incomes of small farmers by raising higher and higher the “managed” prices paid for their products needs to be queried more. There is, indeed, a growing recognition in the European Community that a policy of high prices is insufficient to provide an acceptable minimal standard of living for many elderly families on small farms<sup>12</sup>.

But the need to improve the incomes of small farmers has to be reconciled with the necessity to avoid overcommitment of resources and excessive capitalisation on the largest farms. While

price support policies in the Common Market have enabled a significant number of medium-sized commercial family farms to adapt to changing conditions and to finance their growth, they have also brought disproportionate benefits to those large and highly specialised farms which could be able to adjust to a changing environment even at lower price levels.

Political decisions tend to be based on short-run considerations, but their effects are long lasting. The European Community needs explicitly to accept responsibility for long-run development policy. Immediate decisions, moreover, should be consistent with long-run aims. Agricultural adjustment is a continuous process. The need for a consistent policy to share the benefits and to distribute the burdens of growth is perhaps more important in agriculture than elsewhere in the economy.

Price policies alone are unsuited for such functions, particularly where price decisions are unduly influenced by short-run considerations. The variety of demands made on the common agricultural policy requires a more flexible use of present instruments and the possible use of additional policy measures.

### Conservative Nature of Rural Voters

When considering policy changes it sometimes seems that political leaders are over-impressed by the militancy of farm lobbies. Not only observation, but also opinion surveys, suggest that rural communities are so conservative they would not shift their voting habits however much agricultural policies were changed.

The conservative nature of rural voters, even at times when their sense of grievance over prices is running high, was remarked on by François Mitterand just after the French general elections in 1973. “On Monday”, the Socialist leader said, “the farmers of Brittany dumped their artichokes in the courtyard of the Prefecture. On Tuesday it was the turn of surplus potatoes. On Wednesday they barricaded the roads and protested still more. On Thursday they began breaking windows. On Friday they blocked the traffic around the Paris Opera and demonstrated outside the Ministry of Finance. On Saturday I don’t know what they did. But on Sunday they voted for the Government!”<sup>13</sup>

<sup>9</sup> This proposal was first advanced during the Kennedy Round of GATT negotiations. See Ernest Prægg, *Traders and Diplomats* (Washington: Brookings Institution, 1971), pp. 73 and 146.

<sup>10</sup> Professor D. Gale Johnson, of the University of Chicago, proposed this course in a paper prepared for the Presidential Commission on International Trade and Investment Policy in the United States. It was subsequently developed in Johnson, *op. cit.*, and taken up in other studies. See, for example, Edward Fried et al., *Toward the Integration of World Agriculture*, a Tripartite Report by Fourteen Experts from North America, the European Community and Japan (Washington: Brookings Institution, 1973).

<sup>11</sup> Johnson, *op. cit.*, pp. 249-66.

<sup>12</sup> For an analysis of the income-distribution effects of farm-support policies in the United Kingdom, both under the deficiency-payments system and under the variable import-levy system of the European Community, see Josling and Donna Hamway, *Distribution of Costs and Benefits of Farm Policy*. In: Josling et al., *Burdens and Benefits of Farm-support Policies*, Agricultural Trade Paper No. 1 (London: Trade Policy Research Centre, 1972).

<sup>13</sup> Evening Standard of 16 March 1973.