Can Agricultural Policy Be More than a Zero Sum Gain?

By Sophia Murphy

GLOBALIZATION IS INCREASING THE ROLE of international trade in every country's economy due to the liberalization of the flow of capital between countries and, consequently, the rapid diffusion of new technologies. International trade largely determines who grows food, where, and at what cost—and at what price they can sell it.

A common argument in trade and development circles is that U.S. agricultural policy is one of the largest barriers to balanced development in poorer countries. Trade partners have repeatedly called for an end to domestic and export subsidies for agriculture in the United States, which have increased in recent years. The 2002 U.S. farm bill—the Farm Security and Rural Investment Act—which called for $17 billion a year in public expenditure on agriculture, confirmed just how big the U.S. government's role in agriculture has become.

At the same time, for the past 20 years, in bilateral, regional, and global trade talks, the United States has pursued an agenda of trade liberalization and deregulation, aiming to remove impediments to the movement of goods, services, and capital across borders. As the crucial vote at the World Bank and the International Monetary Fund, the United States has used the developing countries' dependence on external capital to force them to unilaterally liberalize their economies through structural adjustment programs. These reforms include an end to public subsidies and price supports and a shift to export-driven agriculture.

In order to give poor farmers in the Southern hemisphere more room to develop agriculture for food security, employment, and as a source of critically needed foreign exchange, the United

US Farmers, Subsidies and Agribusiness

Some people argue that the current downturn in U.S. production of some cereals despite very high subsidies demonstrates that the high level of public expenditure on agriculture in this country is a symptom of over-production rather than a cause. For example, John Dittrich, an analyst with the American Corn Growers Association, insists that ever growing subsidy levels in the United States are the result of a switch from a minimum wage system—where the government maintained price floors by intervening when prices dropped too low—to a welfare system. In his analysis the government fills the gap between prices that keep farmers (more or less) afloat and the lower price of an uncompetitive market controlled by a few large processors who have access to world markets. If you look at net farm income, rather than subsidy levels, you get a much truer picture of life on the farm in modern America: it is close to zero for the majority of the country's producers.

In effect, the U.S. government assumes a portion of the cost of production that profitable processors of cereals and their customers should pay. In other words, the government no longer regulates to ensure that prices remain fair; rather, it subsidizes agriculture to allow farmers to keep paying their bills in a market dominated by a small number of buyers who purchase at prices depressed by subsidies.

Increases in the production of many cereals have occurred in both countries with subsidies and in those without. Experience in Brazil, Canada, Australia and elsewhere suggests that production in the United States would continue without government support. However, without regulation to ensure fair prices at every level, prices will drop for cereals in developed and developing countries alike.

Sophia Murphy

States must stop subsidizing domestically the one sector in which developing countries are said to have a competitive advantage.

Agriculture in Developing Countries

World trade policy increasingly affects farmers' access to resources (land, water, credit, seeds) and their relative economic power. Although many farmers in developing countries remain subsistence producers, they increasingly face competition from internationally traded goods in their local markets while, at the same time, many of them face pressure to turn to export production. This is in part due to their growing need for cash—to pay school fees, hospital bills, or for farm "inputs" that are no longer subsidized by the government because of structural adjustment programs supported by U.S. trade and financial policy. Often agricultural exports are explicitly promoted by domestic and international aid programs as a way to increase foreign currency earnings. Domestic producers are being displaced, feeding further dependence on imports to meet basic food security needs (FAO Symposium 2002). This diverts scarce foreign exchange from products that many developing countries cannot produce for themselves, such as oil or engineering know-how. A recent UN Food and Agriculture Organization (FAO) review noted that farms are being consolidated at the expense of farm labor and small farmers. Sectors critical to food security and rural employment are shrinking as they are forced to compete with export production and dumped imports.

Developing Economies and U.S. Agricultural Policies

Consider maize (corn) producers in Mexico. The North American Free Trade Agreement (NAFTA) allowed Mexico to phase in increasing imports over time. Responding to pressure from corn exporters based in the United States and their subsidiaries in Mexico, howev-

The Chess Game U.S. Policy Makers Play with WTO

Until 1996, the United States required farmers to opt-in to a voluntary acreage set-aside program in order to be eligible for various kinds of government payments. While not very effective, these were technically production-limiting programs, and as such, fell into the category of subsidies targeted by the WTO Agreement on Agriculture (AoA). Production limiting programs were also targeted by agribusiness (processor) companies who were interested in the low prices fostered by overproduction. Set-aside programs were discontinued under the1996 Farm Bill (dubbed the "Freedom to Farm Bill"), and were replaced with diminishing payments based on historic, not actual, production levels, and also with dramatically increasing disaster payments. Neither of these is subject to any spending limit under the WTO's AoA. Thus subsidies increase, production increases, and prices continue to drop. Who benefits? Agribusiness, which has reaped record profits in the last few years by paying less and less for input crops.

Barbara Dudley, guest forum editor

Who's Dumping on Whom? China and the Pacific Northwest

Following the passage of the 2002 U.S. Farm Bill, trade and agriculture officials in China (as in other developing countries) intensified their accusations that the United States was "dumping" bulk grains on the world market. As the article by Sophia Murphy in this issue details, the case for such accusations is increasingly strong, particularly if the $17 billion per year in the bill is added to tax credits at the state level and other, less direct forms of government support for on-farm production. Among farmers in the Pacific Northwest, however, there is a feeling that it is the Chinese who are flooding the market with products too cheap to bear. Questioning just who is dumping on whom reveals some of the problems in using a political term like dumping to address market failures. It also shows that farmers on both sides of the Pacific are caught in the same bind as overproduction and saturating markets drive prices down.

Many farmers in the Pacific Northwest do not grow the bulk commodities covered by traditional, federal farm subsidies. Our region is a major producer of apples, pears, cherries, berries and vegetables both for the fresh market and (at least until recently) through a regional canned and frozen processing industry. These "value-added" products have found markets domestically and overseas without massive, direct government subsidies. However, beginning with apple juice concentrate in the early 1990s, Northwest farmers and processors ran into a big problem: world market saturation by extremely cheap Chinese exports. Pacific Northwest farmers cried foul, believing that they were being hammered by state-subsidized production from China.

Is China dumping? Chinese agriculture is characterized by a hybrid "socialist market economy" that makes it virtually impossible to determine the cost of production in any meaningful sense. Under the peoples' communes of the 1970s all agricultural production was effectively state owned. When the communes were dismantled in the 1980s, local govern

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ments continued to play an important role in steering agricultural development. Land is still state controlled and chemical inputs, irrigation, storage, processing, and marketing continue to show varying degrees of direct or indirect government involvement. As commodity grain production has become unprofitable, these local governments have used this involvement to push farmers toward value-added agricultural production.

Sometimes market saturation results from well-intentioned rural development and poverty relief projects. Throughout the late 1980s and early 1990s local governments in northern China, in cooperation with international governmental organizations such as the World Bank, put lots of public resources into planting apple trees. Supposedly this would reduce erosion on hillsides and increase farmer income through integration into value-added export production. In effect, it saturated the global apple concentrate market (and is now saturating the fresh market) to the point where farmers who had put labor, land and other resources into the projects lost everything. By 1997 farmers were cutting down apple trees just to avoid the costs of pesticides. Of course farmers in the U.S. Pacific Northwest see only that they are being "hammered" by cheap Chinese imports and call for export subsidies and other anti-dumping retaliation.

Despite retaliation and market saturation, this situation is likely to continue as local governments in thousands of Chinese villages push farmers toward new crops. During recent trips to China I have interviewed farm managers, local government officials and Ministry of Agriculture planners all searching for the latest value-added entry point into the international market. They know that China's accession to the WTO will further erode the profitability of grain production and are desperate to increase farmer income and generate enough of a local economy to keep local schools and hospitals open. Well beyond apples and pears, they are working to out-compete first world producers of cherries, strawberries, greenhouse vegetables (both fresh and processed), seeds, herbs and certified organic products of all kinds. In all cases, you can point to government resources going into agricultural development projects, eventually resulting in overproduction and below cost prices. Is that global dumping or local develop ment? If all government actions to pro-

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er, the Mexican government allowed dramatic increases in levels of imports all at once. Some of the largest corn mills in Mexico began importing nutritionally inferior, yellow maize grown in the United States because it was cheaper than the white maize traditionally used to make tortillas.

Consumers, reeling from the shock of an economic crisis that had sent the cost of food in Mexico soaring, chose the inferior product; as did the millers, glad for a cheaper input. Mexican maize farmers watched prices for their corn collapse as their customers switched to flour milled from subsidized maize that was grown in the United States to feed livestock.

Thus an economic sector that provided livelihoods to millions and played a fundamental role in the culture of Mexico remains devastated to this day. The steady stream of migrants flowing from rural Mexico to the United States is one of the symptoms of this economic and social disaster.

Dumping on Farmers

U.S. farm policy, by subsidizing the largest grain producers without restricting production or controlling price, allows a cartel of the world's largest processing companies to buy U.S. grain at less than the cost of production. This has bankrupted thousands of farmers in this country and leaves the survivors dependent on handouts from the government. The corporations buy the commodities at a dis-

counted price, increasing their profit margin on processing, shipping, and livestock operations. The lack of regulation brings prices down for producers everywhere, in developed and developing countries alike. *(See sidebar "US Farmers, Subsidies and Agribusiness"—ed.)*

Endemic dumping of U.S. cereals in world markets has ruined people from Mexico to Zambia to Mindanao in the Philippines. Comparing the full cost of the production of wheat in the United States with its export price in 2000 shows a dumping margin of 40 percent. That is, the export price was 40 percent less than the full cost of production (costs reported by farmers, input costs met by government programs, and an estimate of transportation and handling costs). For maize the dumping margin in 2000 was 32 percent; for rice 20 percent. These low prices translate into unfair competition for producers around the world. Not only do farmers in developing countries find that they too cannot command prices sufficient to cover their production costs, they also cannot rely on their governments to support them.

Longstanding Problems

Governments have always struggled with the question of how to intervene in agricultural markets. Agricultural production is central to food security, which in turn is central to the integrity of the state. Short-term supply is uneven and remains, even today, overwhelmingly dependent on the weather. Meanwhile demand is constant; people need to eat to survive but cannot endlessly increase their consumption if prices fall.

There are failures built into in the market as a result of uneven power between hundreds of thousands of farmers and the much smaller number of buyers who have the capital to operate a mill, or to maintain a store in the city for urban consumers. Today's favored solution—to let the market dictate agricultural production—flies in the face of centuries of experience in agricultural policy. Ending farm subsidies in the United States would be a good thing and would reduce

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mote local development can be included in a dumping charge, what about public support for a cooperative extension service, or the deepening of the Columbia River?

Dumping is a subjective, political term without objective meaning in global market exchanges. The concept of dumping is based on three false assumptions. First, that production in very different political economies can be analyzed on the same balance sheet with general agreement about what the numbers mean. Second, that price is determined by costs when, in fact, price is a combination of what the market will bear and what politics will impose. Third, that the most significant difference between farmers is the country on their passports rather than their scale and methods of production and their level of vulnerability to chronically oversupplied global markets. Since none of these assumptions is true, battles over "dumping" won't do farmers much good.

While the economic and political strength of the U.S. government can be used to protect U.S. farmers for a time, this one-country strategy won't work for long. China's low wage "advantage," based on poverty, massive unemployment and other social problems, will continue to drive down the price of specialty agricultural products around the world. It has been estimated that China already makes 70 percent of the world's toys. With enough foreign investment of capital and technology, there is no reason to believe they won't eventually produce similar percentages of the world's berries, cherries, Christmas trees and grass seed. But Chinese farmers won't see much of the profit. Remember that a substantial portion of China's current export surplus (what we in the U.S. call the trade deficit with China) is made up of internal transfers of products within multinational corporations. These are the corporations who made the initial investments in capital and technology that made the cheap production possible in the first place. Profits from such non-competitive transfers are captured by the corporation and passed on to shareholders and consumers, not producers. So consumers may see cheaper strawberries and fruit juice at Costco, but farmers on both sides of the Pacific are going to be squeezed by lower prices at the farm gate.

The thing that ties American and Chinese farmers together, and puts "dumping" in its proper context, is overproduction. Overproduction brings prices below costs, always. Overproduction causes bankruptcy, poverty and hunger in rural communities worldwide. Why do grain and fruit farmers in both the U.S. and China overproduce? Whose interests are served? What collective solutions to localized overproduction have farmers found in the past and how can these solutions be applied across national borders? Only by putting aside the nationalistic jargon of dumping and asking these deeper questions can the farmers of the Pacific Northwest begin to discover what is happening to them and what can be done about it.

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A Response to Sophia Murphy:

Fair Prices are Not Subsidized

The basic thrust of Sophia Murphy's article is on target: that the United States creates substantial problems by subsidizing farming and that this is not consistent with free trade. However, the author then goes on to argue for keeping prices artificially high, which is just a continuation of farm subsidies in another form. The basic economic fact is that rising productivity in farming has freed up resources for other production; this should encourage shifting resources to other sectors of the economy. Misguided subsidies are an attempt to protect farmers from economic reality.

Murphy ties short-term supply, the weather, and the idea that people cannot "endlessly increase their consump-

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"dumping" of U.S. agricultural products in developing nations. This, however, can only happen when prices again reflect a more competitive market—when the government again accepts the need to enforce fair prices in agricultural markets so as to correct the imbalance of oligopoly of agribusiness buyers.

Every state is obliged to protect the human right to food; supply is hard to predict in the short-term while demand must be met. We accept monopolies in the energy sector, but then regulate them to ensure they do not abuse their power. Different products require different kinds of economic structures; the free market does not adequately address agricultural realities.

The starting point is to create agricultural systems in developed and developing countries alike that reflect the ecological and economic realities of agricultural production and markets: The challenge is to develop models for agriculture that strengthen public goods such as food security, resilient ecosystems, vibrant economies, and genetic diversity.

This will take local, regional, national, and multilateral policies. There is no magic formula. In international trade rules, we should stop fighting about which subsidies distort trade and which do not and start looking instead at production costs and supply management. All forms of agricultural dumping should be illegal. *(See sidebar "Who's Dumping on Whom? China and the Pacific Northwest"—ed.)* The publication of accurate and complete cost of production data for all crops that a country wants to export could be used either to generate an export tax, to bring the export up to its cost of production value, or to justify a tariff at the border of the importing country.

Farmers have the Same Problems Everywhere

International trade rules should also reflect the real and important differences between countries at very different levels of development. Agriculture represents about two percent of economic activity in industrialized countries such as the United States. In most developing countries the figure is 40 percent or more, and in some of the poorest, it is as high as 80 percent. Such countries need investment, preferential trade rules, and flexibility to manage their borders in a way that protects existing livelihoods and enables development.

Farmers wherever they live need many of the same things: access to seeds, water, breeding stock, land, credit and other inputs. They need protection from the exploitation of large-scale input-suppliers and buyers. A variety of marketing systems can provide this; all of them depend on standing up to agribusiness interests and insisting that prices for commodities be fair and transparent *(that is, indicating subsidies and reflecting true costs—ed).* All farmers need access to markets—local, national, and, in some cases, international. They should not be crowded out of their markets by the produce dumped by others. Bring a maize farmer from Chihuahua together with a corn farmer from Iowa and both would pretty much agree.

REFERENCE:
Background paper, FAO symposium, The Experience with Implementing the WTO Agreement on Agriculture and Special and Differential Treatment to Enable Developing Countries to Effectively Take Account of their Development Needs, including Food Security and Rural Development" October 2, 2002, Geneva. Documents on-line at http://www.fao.org/trade/index.asp?lang=en

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tion if prices fall" to the need to set prices for agricultural products. From an economic perspective, she is wrong. Food can be stored or purchased from other parts of the world. It is largely this misguided view of farming that has led to the massive intervention by government, and the many problems associated with agricultural policy in the US.

The fundamental problem has been that productivity in farming has been growing over a long period of time, requiring fewer resources and fewer people to produce food. Low prices are caused by this productivity and serve as an inducement for people to find more productive uses of their labor. Governments intervene to try to "protect" farming from this decline. This leads to persistent over-supply and other distortions and attempts to "protect" existing livelihoods and this is one of the surest ways to promote inefficiency and to prevent economic development.

It is a myth that there are natural "failures in the market as a result of uneven power between hundreds of thousands of farmers and the much smaller number of buyers." The market failure has been due to government intervention in the United States and elsewhere to prevent the reallocation of resources away from farming.

The fact that net farm income is close to zero for the majority of the United States producers indicates that we are wasting too many resources on farming. There is an inherent contradiction in the notion that the United States produces too much food but that the price of that food must be kept artificially high.

Murphy is absolutely right, however, when she says in her sidebar on agribusiness "without regulation to ensure fair prices at every level prices will drop for cereals in developed and developing countries alike." Fair prices are exactly what is needed to get resources out of unproductive farming and into more valuable activities.

Tony Rufalo

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Barbara Dudley's Response to Tony Rufolo:

Tony Rufalo's remarks are premised on the idea that "food can be stored or purchased from other parts of the world" Food security is, possibly, the only thing more vital to a country than energy security. In light of the current debate over our country's dependence on Middle Eastern oil, it would be ironic to succumb to the assumption that the theory of comparative advantage demands that the United States or any other country depend entirely on imported food.