

THE POLITICAL ECONOMY OF AGRICULTURAL TRADE & POLICY

*Toward a New Order for
Europe and North America*

edited by Hans J. Michelmann,
Jack C. Stabler, and Gary G. Storey

Westview Press

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Preface

The chapters of this volume are the revised versions of papers presented at a conference entitled "The Political Economy of European–North American Agricultural Policy and Trade," held March 7-9, 1990, in Saskatoon, Saskatchewan, Canada. The conference was one of a series held annually by the Canadian Council for European Affairs on issues of importance for Canadian–European relations, often with the cooperation of institutions having compatible objectives. Hence the co-sponsorship of the conference by the University of Saskatchewan's Department of Agricultural Economics and Department of Political Studies.

The subject matter of the conference and volume is particularly timely. For most of the 1980s and at least until the conclusion in the near future of the Uruguay round of GATT negotiations, if not well beyond that time, one of the most perplexing issues for economic relations among the European Community, the United States, and Canada, was, and will continue to be, the rationalization of international agricultural trade. That issue is at the very heart of the present round of GATT negotiations. If it is not resolved, it may well impede the resolution of other trade issues and thus doom the Uruguay round to failure because of the connection made by many participants between solving agricultural trade problems and solving other trade issues.

Saskatoon was chosen as the venue of the conference not only because its organizers are affiliated with the University of Saskatchewan but also, and more importantly, because agriculture is central to the economy of Saskatchewan and because much of the province's agricultural production is destined for export. Hence the organizers, who are also the editors of this volume, felt that the Saskatoon context and ambience would be appropriate for the meeting and that its subject matter would be attractive to a large number of prairie agricultural producers and producer organizations. It is because the conference was held in Saskatoon that the concluding remarks, particularly those by Jack C. Stabler, are directed toward the implications of the presentations for Canada and Saskatchewan.

It is clear, however, that the subject matter of the conference and this volume are also relevant to a much wider audience, viz., Europeans and Americans and indeed all those interested in agricultural policy and trade

worldwide. Areas outside the North Atlantic triangle were not explicitly examined at the conference because of its focus on European–North American relations and because of time and resource constraints. Nonetheless, the magnitude of agricultural exports by the EC, the U.S., and Canada and the importance of the interactions among these three for international agricultural trade makes this volume significant for anyone interested in trade issues.

The production of an edited volume based on papers presented at a conference involves a large number of persons and organizations and, for the editors of the volume, engenders an equally large number of debts, which we hereby willingly acknowledge. We are grateful, first of all, to all those in the University of Saskatchewan and the Canadian Council for European Affairs, the two primary sponsoring organizations, who helped us in planning, organizing, and holding the conference. Foremost among those at the university are Murray Fulton of the Department of Agricultural Economics and George James of the Division of Extension and Community Relations. The division provided invaluable infrastructural help, without which a major conference cannot be efficiently organized and held. We also wish to thank the university's colleges of Agriculture and of Arts and Science for financial support and encouragement.

Individual members and donor organizations of the Canadian Council for European Affairs who deserve special recognition for their support and advice include Ambassador John G.H. Halstead and Professor Panayotis Soldatos, council chairman and vice-chairman, respectively. Among the primary conference donor organizations was the Delegation of the Commission of the European Communities in Ottawa, whose head, Ambassador Jacques Lecomte, encouraged the whole project from its initial phases, helped to assure a secure financial base at the outset, and then participated well beyond the call of duty in Saskatoon. Roy Christensen, head of Press and Information at the delegation, contributed to the project during all its stages. We are grateful to External Affairs and International Trade Canada, a second major donor, and to Agriculture Canada, which also provided substantial funding. The Ministry of International Affairs, Government of Quebec, the Ministry of Intergovernmental Affairs, Government of Ontario, and the Bank of Montreal contributed as donor organizations of the council.

We particularly wish to thank our co-authors, because without their contributions neither the conference nor the present volume would have been possible. We are grateful, also, for the expeditious manner in which manuscripts were delivered to us for editing. Nora Russell expertly read all manuscripts, making improvements in clarity and assuring consistency in

style. We are grateful to Mary Frances Schmidt for typing a camera-ready copy of the manuscript. Lyle Yuzdepski aided in proofreading and walked many miles in transferring chapter manuscripts between the offices of various participants in the editorial and production processes. Finally, we wish to thank Mary Kay Scott of Westview Press for advice and encouragement.

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Contents

<i>List of Tables</i>	vii
<i>List of Figures</i>	xi
<i>Preface</i>	xiii
<i>About the Authors</i>	xvii

Introduction	1
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Section One: The Political Economy of Agriculture

1 The Political Economy of Agriculture in the European Community, <i>Michael Tracy</i>	9
2 The Political Economy of Agriculture in Canada, <i>Grace Skogstad</i>	35
3 The Political Economy of Agriculture in the United States, <i>Gordon C. Rausser</i>	57

Section Two: The International Agricultural and Trading Environment

4 Structural Change in Canadian, United States, and European Agriculture, <i>George L. Brinkman</i>	95
5 The Crisis in European and North American Agriculture, <i>Michele M. Veeman and Terrence S. Veeman</i>	129
6 The GATT: Its Historical Role and Importance to Agricultural Policy and Trade, <i>Tim Josling</i>	155

**Section Three: Prospects for a New World
Agricultural Order**

- 7 Prospects for the Uruguay Round in Agriculture,
C. Ford Runge 175
- 8 A New World Agricultural Order? *Murray Fulton and
Gary G. Storey* 195

Section Four: Conclusion

- 9 Concluding Remarks, *Hans J. Michelmann and
Jack C. Stabler* 233

Tables

1.1	Agriculture in the Economy	16
1.2	Farm Structures	17
1.3	Farm Net Value Added (FNVA) per Agricultural Work Unit (AWU), 1987/88	18
1.4	Farmers' Other Employment (1987)	19
1.5	Self-sufficiency in Foodstuffs	20
1.6	EC Intervention Stocks	20
1.7	Trade in Agricultural Products in the European Community	21
1.8	Community Imports from Third Countries of Products Intended Primarily for Animal Feed	21
1.9	Community Expenditure on Agriculture	24
1.10	"Institutional" Prices—Selected Products	26
1.11	Indices of Producer Prices and Costs	27
2.1	Provincial Sources of Farm Cash Receipts by Commodity, 1987	41
3.1	Annual Gains and Losses from Income-Support Programs Under the 1985 Food Security Act and Trade Restrictions	66
3.2	Productive Versus Predatory Policy Interventions in U.S. Agriculture, 1982-1986 Average	74
4.1	Number of Farms and Average Farm Size, Canada, U.S., and the Euro 10 Economic Community, Selected Years, 1960-86	100
4.2	Farm Numbers and Percentage Distribution by Size in Acres, Canada, Selected Years, 1961-86	101
4.3	Farm Numbers by Size in Acres, United States, Selected Years, 1959-87	101
4.4	Farm Numbers by Size in Hectares of Agricultural Area Used (AA), Euro 10 Economic Community, Selected Years, 1960-85	102
4.5	Percentage Distribution of Farms and Gross Sales by Economic Class, Canada, 1976, 1981, and 1986	103

4.6	Percentage Distribution of Farms and Gross Sales by Economic Class, U.S., 1970, 1980, and 1988	104
4.7	Percentage Distribution of Farms and Gross Margin by Economic Gross Margin Class, Euro 10 Economic Community, 1975, 1980, and 1985	104
4.8	Distribution of Farms and of Farm Output (Gross Sales) by Economic Class, Canada, 1971, 1976, 1981, and 1986	105
4.9	Distribution of Farms and of Farm Output (Gross Sales) by Economic Class, Canada, 1971, 1976, 1981, and 1986 (Inflation Adjusted)	106
4.10	Average Capital Value per Farm, Canada and the United States, Selected Years (\$1,000)	108
4.11	Land and Building Values per Hectare, Various Countries 1971-1988	109
4.12	Percentage Distribution of Farms and Land Area Classified by Tenure of Operator and Land Arrangement, Canada, U.S., and the Economic Community, Selected Years, 1969-1987	111
4.13	Trends in the Organizational Structure of Agriculture, Canada and the United States, Selected Years, 1971-1987	113
4.14	Percentage Distribution of Farms by Days of Off-farm Work, Canada and the United States, Selected Years, 1974-1987	114
4.15	Distribution of Employment in Agriculture, Euro 10 Economic Community, 1975, 1980, and 1985	115
4.16	Selected Farm Data Classified by Indexed Sales, Canada, Selected Years	117
4.17	Indices of Prices Paid and Received by Farmers (1975 = 100), Canada, U.S., and the European Community, Selected Years, 1975-1988	122
4.18	Trends in Self-sufficiency Percentages, Selected Countries, 1970-1988	124
5.1	Key Indicators for Selected Developed Nations and Their Agricultural Sectors	130
5.2	Economic Trends in Western European Agriculture, 1977 to 1989	132
5.3	Economic Trends Relating to Agriculture, United States, 1973 to 1989	134
5.4	Economic Trends in Canadian Agriculture, 1971 to 1990	136

5.5	Producer and Consumer Subsidy Equivalents by Nation, 1984 to 1988	137
5.6	Total Transfers Associated with Agricultural Policies in Developed Nations	138
5.7	Direct Payments (Government Subsidies) to Agriculture, Canada and the Prairie Provinces, 1971, 1975, and 1978 to 1990	139
8.1	Seeded Acreage of Wheat—United States, Australia, Canada and Argentina	202
8.2	Wheat Production, Exports and Market Share, U.S. and EC, 1960-1988	213
8.3	Historical Wheat Prices, U.S. and EC, 1960-1989	217

Figures

3.1	Average Direct Government Payments per Farm by Sales Class, 1988	71
3.2	World Trade in Wheat, Coarse Grains, and Soybeans, 1972-1990 Crop Years	82
4.1	Distribution of Farms and Sales of Agricultural Commodities by Agricultural Sales Class, 1974, 1978, and 1982	107
4.2	Index of Relative Change in Land Values (1973 = 100)	110
4.3	Index of Multifactor Productivity Change, Canada and the U.S. (1977 = 100)	121
4.4	Farming: Myth and Reality	125
5.1	The Range of Policy Choices in European and North American Agriculture	148
5.2	Some Prevalent Myths that Relate to Agriculture in North America and Western Europe	152
7.1	Export-Distorting Policies	177
7.2	Import-Distorting Policies	178
7.3	Output-Distorting Policies	179
7.4	Oilseed Planting Trends	184
7.5	U.S. Soybean Exports and U.S. Soybean Meal Exports	185
8.1	Chronology of European-North American Agricultural Policies, 1800-1990	198
8.2	Two-Region Policy Transition Model, 1850-1990	206
8.3	The U.S. and EC Wheat Market in the 1960s	210
8.4	The U.S. and EC Wheat Market: Mid-1970s versus the 1960s	212
8.5	The U.S. and EC Wheat Market: Late 1970s/Early 1980s versus the Mid-1970s	214
8.6	Economics of Protection in the EC	216

8.7	The U.S. and EC Wheat Market: Mid-1980s versus the Late 1970s/Early 1980s	219
8.8	The U.S. and EC Wheat Market: Late 1980s versus the Mid-1980s	220
8.9	The U.S. and EC Wheat Market: Free Trade versus the Late 1980s	221
8.10	The U.S. and EC Wheat Market: Free Trade versus the Late 1980s, Inelastic Supply in the EC	223
8.11	The U.S. and EC Wheat Market: Production Control versus the Late 1980s	224

Introduction

The 1980s have been turbulent years for the agricultural sectors of most economies. Global agriculture has undergone substantial change and there are now concerns over the environment, increased international competition, declining prices and farm incomes, and increased pressure for further government intervention. The period 1985 to 1990 has been marked by the escalating trade war between the European Community (EC) and the United States (U.S.). The major cause of this impasse is the grain surplus that has resulted from the high price-support structure of agricultural policy in the EC and other exporting countries.

The situation is comparable to the disruptions in agricultural trade that took place prior to the 1930s, which resulted from grain surpluses in the four major exporting countries—Canada, the United States, Australia, and Argentina. These events, which led to disastrous conditions for farmers worldwide, were instrumental in causing governments to reassess their positions toward agriculture. The 1930s were a transition period during which governments began to intervene in the agriculture sectors of most developed economies, resulting in the abandonment of free trade. In the aftermath of the Second World War, agriculture and food came to be treated differently from other goods in terms of international trade policy. At the insistence of the U.S., for example, agriculture was excluded from the GATT when it was formed in 1947.

The year 1990 could prove to be pivotal for the future agricultural policies of Europe and North America. The GATT negotiations of the Uruguay Round will conclude in December. For the first time since GATT was formed, agriculture has been included as a main negotiation issue. The focus is on government support and protection policies, in the form of subsidies, that have been extended to agriculture.

Policy makers have come to realize, particularly given the crises in agriculture of the 1980s, that government intervention is not the solution to agriculture's problems. Instead of raising farm incomes, government subsidies have tended to be capitalized into higher land values, resulting in increased farm debt and lower farm incomes when the debt proved difficult to service in periods of declining prices. In addition, higher price supports and payments have encouraged greater technological development and thus