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IMPLICATIONS OF ALTERNATIVE TRADING INSTITUTIONS

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Introduction

The reality of the growing interdependence of nations means that governments must, simultaneously, pursue national economic objectives in the international arena and pay regard to the external effects of policies which are primarily domestic in focus. In this sense, foreign economic policy has become domesticated and domestic policy internationalized. Indeed, to retain the traditional distinction between the two is untenable and dysfunctional.

Of no sector is this more true than agriculture, where the key features of national farm programs and of agricultural trade policies are but two sides of the same coin. And in no country is this development more evident than in the United States because of the importance of its trade in farm products to the performance of the national food sector and larger economy. This is also because of the pivotal role of America's production, consumption, and trade in farm and food products in the functioning of the world food system.

Moreover, the United States is no ordinary country in world affairs. Its leadership (or acquiescence) is still decisive in determining the agenda for international discourse and action on world order issues pertaining to food and agriculture. Its interests, priorities, and preferences still have great weight in determining the character of the institutional framework and arrangements that are created by the global community to guide agreed international policy.

There exists a bewildering variety of institutional arrangements within which nations conduct their economic relations with each other. Intergovernmental institutions are multilateral, regional, plurilateral, and bilateral in their coverage. In form, they range from treaty-bound obligations to informal mechanisms for mediation and for non-binding consultation. Intergovernmental arrangements are importantly supplemented by the institutionalized influence of transnational business associations, corporations, and elites. And matters pertaining to trade are interwoven with other aspects of

international relations in institutions with other primary mandates as well as being the domain of specialized trade institutions.

A common characteristic of all the diverse arrangements by which nations regulate their contacts is that they are the means by which their governments seek mutual advantage by avoiding negative sum outcomes from their international interaction and, more positively, attempt to maximize cosmopolitan gains. A second characteristic is that institutionalized international interaction and mutual accommodation in an expanding and tightening web of interdependence entails curtailment of national sovereignty and freedom of action in setting policy priorities and program parameters.

A systematic taxonomy of alternative institutions as they pertain to agricultural trade, detailed analysis of their characteristics, and categorical judgments about the utility of alternative arrangements are beyond the scope of this paper and the competence of its author. Instead, an attempt is made to identify some of the salient issues of agricultural trade arrangements among and between three major groupings of countries: the advanced industrial societies, the less developed countries, and the centrally planned economies. The emphasis then is on policy alternatives and their implications for United States farm, food, and trade policies rather than on the institutions *per se*, but institutional issues are identified as they arise.

The Response to the Developing Countries

Preoccupation with the LDCs has diminished somewhat in the past two years. But since it is impossible to conceive of a peaceful world political order, an expanding and stable economic order, or an acceptable moral order, if basic human needs are not provided and if the developing countries are not permitted to play a constructive role in the collective management of global interdependence, their concerns constitute durable issues.

The international agenda as it pertains to developing countries is dominated by three world order tasks: (1) according them more influence in, and responsibility for, a renovated international system; (2) accelerating their general economic development and eliminating absolute poverty; and (3) eradicating hunger and enhancing world food security. Items (2) and (3), which are closely related, have a significant agricultural trade policy content.

Trade Arrangements and the LDCs

The proposals of the LDCs for measures which would accelerate their economic development are subsumed in their demand for the creation of a new international economic order. This encompasses every facet of the relationship between the industrialized countries and the developing world. More especially to our purpose, it entails the establishment of a global strategy for the production, pricing, and exchange of primary products, the so-called "integrated program

for commodities." The key objective of such a strategy would be to increase the trend rate of growth of the LDC's earnings from their commodity exports and to reduce their variability. Integrated policy measures which would lead to that end include commonly funded commodity agreements and improved access to western markets for LDC agricultural exports.

These proposals are of profound importance to U.S. agriculture for three reasons.

First, measures which would accelerate economic growth in developing countries and raise and stabilize their foreign exchange earnings would extend their capacity to purchase foods from western sources. Potentially, these countries offer the most dynamic future markets for U.S. farm exports.

Secondly, however, the manner in which commodity earnings are to be raised and stabilized is of paramount concern. And, in particular, U.S. authorities have resisted proposals for the establishment of a continuous, comprehensive regulatory regime for commodities, having income redistribution as its primary goal, and with the levels and shares of production and trade and the terms of trade established by political decision rather than market forces.

This raises the issue of the role of inter-governmental commodity agreements in the international trading system. Are they to be regarded as aberrant and transitory in a system of international exchanges that is agnostic as to income distribution and dominated by arms-length trading by private individuals responding to competitive market forces? Or are the economic wastes of unregulated commodity markets so large as to provide net economic advantages from continuous interventions designed to avoid indeterminate market instability? And should they be viewed yet more positively as providing a vehicle for the international community to supervise the development of effective but regulated pricing, production planning, and shared adjustment to changing market conditions?

If the developed countries wish to avoid the more dubious or odious proposals of the LDCs on commodity trade and other economic matters, it is imperative that they offer constructive alternatives. The resumption of economic growth, restoring stability in the monetary system, expanding resource transfers, improving compensatory financial arrangements and more general measures of balance of payments support, and opening their markets to LDC exports are obvious candidate — policies.

This last is the third issue of particular relevance to U.S. agriculture. The LDCs are asking in GATT and elsewhere for improved access to western markets for the exports of their raw and processed agricultural products. To this end they are seeking a general lowering of tariff barriers, the restructuring of tariff schedules so as to provide reduced rates of effective protection to agricultural processing

activities, expansion of import quotas, and a reduction in the protection afforded to rich country producers of competitive products by national farm programs.

Acceding to these requests would have diverse effects on U.S. agriculture. Commodity groups that look to the LDCs primarily as markets would benefit from an expansion in the purchasing power of their customers. This is pre-eminently the situation for grain growers. By contrast, producers of competitive products would experience increased competition in the domestic market. Producers and processors of many fruits and vegetables, beef, tobacco, oilseeds, cotton, and sugar are in this situation.

The issue is whether national commodity groups are prepared to accept intensified competition from LDC suppliers, and whether national authorities are prepared to change domestic farm programs and associated trade regimes to accommodate the legitimate interests of LDC exporters.

At this level the matter is one of contending economic interests rather than conflicting trade principles. However, the LDCs have asked for "special and differential" treatment including, *inter alia*, non-reciprocal concessions, bound preferences, sanction for preferential regional trading arrangements, freedom to use export subsidies, exemption of their exports from safeguard measures, and permission to meet lower standards in the area of health and sanitary regulations. If these conditions were granted, U.S. exporters would face intensified competition from LDC suppliers in third country markets as well as at home. Whether U.S. producers are prepared to accept competition on these terms is a matter we should address.

A second aspect, and perhaps a more profound one, is whether permitting a self-designated group of countries a special status within the GATT will not weaken the integrity and the observance of GATT's rules and obligations, and lead to the further debasement of that institution. In the longer term, the viability, or the universality, of the agreement itself may be placed in jeopardy.

The Eradication of Hunger and the Strengthening of World Food Security

The availability of a minimally adequate diet is now being counted as a basic human right. And improved nutrition is regarded as a necessary condition for the improvement of the productivity of the masses of the hungriest people in the poorest countries. A commitment to eradicate hunger in the LDCs in this generation, and to improve nutrition, was made by the global community at the 1974 World Food Conference.

Western countries have accepted an obligation to help the LDCs increase the rate of growth of their agricultural production to four percent per annum. This should enable them to meet the greater part

of the growth in effective demand for food of their peoples from indigenous sources. Increased flows of western resources are being made available to raise agricultural output and promote rural development in the LDCs. Food security is an elusive concept requiring multiple improvements in world food systems for its attainment. In the long term, food security will best be assured by improving trend rates of increase in per capita world food supplies and eliminating absolute poverty.

In the short term, improved food security implies the capacity to avoid sharp reductions in available supplies of basic foods and sharp increases in their prices to levels which poor countries and poor people in those countries cannot afford to pay. Policy elements which can contribute to these objectives include strengthening the functioning of world food trading systems, the orderly pricing and marketing of grains, the maintenance of adequate reserve stocks of grains, and the provision of food aid.

No one seriously disputes that the provision of an adequate food supply for the rising populations of the LDCs must come primarily from an increase in their indigenous production. Nonetheless, there is some cause for concern that the contribution of expanded food trade to the solution of the problem of world hunger is being neglected. More especially, to some observers it appears that the principle of comparative advantage is being subordinated to the principle of self sufficiency or "self reliance." Also that inadequate attention is being paid to the need to strengthen the functioning of world food markets and to adapt world trade and monetary arrangements in ways which would extend the capacity of the LDCs to purchase foods from external sources.

We need to beware that we do not neglect opportunities for specialization and exchange based on enduring differences in resource endowments. Incautious encouragement of "self-sufficient" food policies in developing countries may erode badly needed future commercial sales opportunities.

Thus, it is imperative that attention be paid to measures which will raise and stabilize the LDC's foreign exchange earnings. Simultaneously, however, attention needs to be paid to the question of reducing the risks to the LDCs that attach to their being dependent on external food sources. From their viewpoint, the major factors that determine the level and variability of world grain prices and the availability of supplies are the agricultural and food trade policies of the rich countries. Hence, the readiness of the LDCs to make fuller use of world food markets is materially influenced by the policies that the United States and other developed countries are willing to embrace. This would be in respect to matters as diverse as agricultural productivity enhancement (to lower the long-run supply price of food exports), maintaining adequate production incentives for farmers, abjuring the use of export controls, allowing

prices to ration domestic consumption in periods of shortage, and the creation of international arrangements for the orderly marketing, stocking, and pricing of grains. Without assurance on these matters the LDCs will be inclined to follow food supply policies which stress self-reliance and de-emphasize trade, even if their foreign exchange positions are generally satisfactory.

A more stable and reliable world trading system for grains is a prime requirement for enhanced food security. A new international wheat agreement would contribute to that goal. In particular, an agreement having the provisions proposed by the United States would provide, *inter alia*, for the holding of adequate stocks to attenuate price increases and maintain consumption in periods of world grain production shortfalls and surges in commercial demand, for some insurance against market-induced or policy-determined production cutbacks in periods of over-supply and price collapse, and a means whereby the opportunity cost of honoring an expanded food aid commitment might be lowered.

These are benefits when looked at from the viewpoint of LDC grain importers. However, the national implications for the U.S. are also positive over the long haul to the degree that a more secure world food system would help ensure that international food trade played a growing role in meeting rising world food requirements.

Non-market Economies in the World Food System

The rapid expansion of mutually beneficial economic exchanges between the western democracies and the centrally planned economies has opened up important markets for western agricultural exports. One hopes too that commercial exchanges encourage cooperation on other matters. However, a number of features of this trade present problems.

First, unequal access to information between monopsonistic procurement agencies and uncoordinated sellers can result in an uneven distribution of the gains from commerce, witness the "Great Grain Robbery" of 1972.

Second, the variability and unpredictability of the Soviet Union's demands on western grain supplies has had destabilizing influences on world food markets and national agricultural sectors. It also has complicated macro-economic management and commercial relations between exporters and their regular customers.

Third, the possible non-participation of the centrally planned economies in a stabilization-oriented international wheat agreement may jeopardize the effective operation of such an agreement, and hence its negotiability.

Fourth, the GATT is a multilateral commercial treaty designed to govern the conduct of trade between countries with predominantly market economies. Its core premises and its specific content are

not readily applied to command economies and to state trading. For these and additional reasons, the growing but variable demands of the centrally planned economies on the world food system has raised questions about the nature of the institutions and arrangements that should govern trade with non-market economies in general, and with the Soviet Union in particular.

Bilateralism is the preferred style of the socialist countries and this route was taken by the United States in attempting to regulate its grain trade with the USSR following the disorders and perturbations associated with the USSR's grain purchases in 1972/3 and 1974/5. Canada has also entered into "framework agreements," especially with the Peoples Republic of China, that include long-term purchase and supply obligations with respect to quantities, but not to price.

This approach has its limitations. It is doubtful if bilateral arrangements made much contribution to general market stability or to the overall export trade of the exporter participants, or stabilized the net trade position of the USSR. And the assured access accorded the USSR to U.S. grain supplies may have weakened its incentives to participate in an international reserve system.

Multilateralism seems hardly less promising. Unlike some of the East European countries, the USSR and China have shown no interest in adhering, even nominally, to the GATT. And it is not easy to see the relevance to agricultural trade of the proposal recently made by the Trilateral Commission that all bilateral commercial agreements between OECD and COMECON countries conform to a uniform set of internationally negotiated trade rules.

So far as domestic marketing arrangements are concerned, it has been claimed that in dealing with state-trading countries some advantages derive to countries like Canada in which the export marketing of grains is controlled by a central agency, the Canadian Wheat Board. These advantages are said to include the ability to deal head-to-head with the state-trading organizations of the socialist countries on the basis of near parity of information, to ensure that an appropriate level of stocks is on hand, to enter into "multi-annual" framework agreements, to systematically allocate available supplies among regular customers and sporadic claimants, and to deal on a destination weight and grade basis for contract settlement.

These advantages are not inherently available to the United States where international grain merchandising is in the hands of private business. However, the U.S. has been able to retain the numerous advantages (for itself and for other exporters) of a competitive marketing system while minimizing the dangers of instabilities induced by sporadic "raids" by its trade agreement, by strengthening its monitoring of export sales, and by the adoption of a conscious national grain inventory system.

There remains the question of the relationship of the non-market economies to the proposed multilateral grain reserve system. There is no indication at the time of this writing that the USSR or China will participate as full members. Despite this it might be possible to operate such a reserve under two circumstances.

First, the members could attempt to minimize the "free-rider" benefits to non-members by systematically and cooperatively discriminating against non-participating importers in periods of grain market stress.

Second, the USSR might "respect" and facilitate the operation of a multilateral reserve system to which it was not a party by holding and operating a national stabilization reserve (as opposed to its strategic reserve). Information on the status of its stabilization reserve might be provided in return for an assurance of non-discrimination in grain purchases, most favored nation status, access to export credits and technology, or other trade concessions that it seeks from the West.

Agricultural Trade Among the Developed Countries

With the Tokyo Round of multilateral trade negotiations (MTN's) and the parallel negotiations on an international grains agreement entering their final phase this very week, one hesitates to be too categorical about future agricultural trade arrangements among the industrial democracies.

The overall purpose of the MTNs is to avert a reversion to the beggar-my-neighbor protectionist policies which threaten the world in a period of inflationary recession, severe monetary instability, and high unemployment. Put more positively, the MTNs are concerned to re-affirm the commitment to a liberal trading system of those countries willing to meet the rules and obligations of a predominantly market-oriented international economy.

The negotiations are attempting to secure a general lowering of both tariff and non-tariff trade barriers, and to strengthen the provisions of the agreement itself so as to define more precisely what constitutes acceptable trade conduct. Further objectives are to provide additional benefits for the LDCs, and to strengthen the institution as a forum for high-level consultations on trade policy issues.

So far as trade in agricultural products is concerned, four inter-related and synergistic issues are being addressed in the MTNs in Geneva and in the organically linked discussions being held under UNCTAD's auspices on a new international wheat or grains agreement.

The first priority is to secure conditions of freer trade in temperate zone farm and food products. Improved access for low cost exporters to overseas markets entails lowering the degree of protection accorded to high cost production in importing regions by

national agricultural support programs and associated agricultural trade policies.

Second, an attempt is being made to exert more multilateral discipline over the conditions of trade in farm products. *Inter alia*, this involves agreement on strengthening the provisions (and the application) of the GATT's rules on such matters as the granting of temporary protection against imports, the use of subsidies and countervailing duties, and the trade distorting effects of government procurement practices, national health and sanitary regulations and other technical barriers to trade.

The third objective is to devise arrangements which would enhance the stability of world markets for farm products. Greater world market stability is a necessary requirement which must be fulfilled before countries will contemplate following less autarkic national food policies. That is, stabilization of world food markets is a necessary condition (and perhaps a pre-condition) for their liberalization. Furthermore, a stable international environment is needed by all countries for the orderly conduct of their national macro-economic policies and their domestic agricultural and food policies. Stabilization of world food markets also has an important contribution to make to strengthening food security for all countries, but especially for the LDCs. The pursuit of the stability objective requires close multilateral cooperation in the production, marketing, and pricing of temperate zone agricultural products, and especially grains.

The fourth area being addressed in the agricultural component of the MTNs is that of burden sharing. At present, national farm and food trade policies insulate producers and consumers from changing world conditions and force the effects of structural and temporary supply-demand imbalances on to the world market and the few countries with relatively open food economies. This is an unacceptable situation and ways are being sought whereby the responsibility for adjusting production and consumption to changing market conditions can be shared more widely.

The failure in all previous encounters in the GATT to negotiate more liberal, stable, disciplined, and equitable trade arrangements for temperate zone farm products should caution against expecting too much from the agricultural component of the MTNs. Indeed, the negotiations could founder on a failure to reach agreement in the area of agriculture. One of the more troublesome issues to be considered is the consequences for American agriculture if U.S. authorities make good their threat to decline to complete the negotiations as a whole unless they secure their farm trade objectives. The possibility of a wave of protectionism being unleashed and of a pattern of escalating trade warfare being established cannot be ruled out. Such a development would bode ill for U.S. agriculture.

Fortunately, there are grounds for cautious optimism that a mutually acceptable accord on agricultural trade can be reached.

These include fear of the consequences of a failed negotiation, appreciation that the viability of the GATT system itself is linked to the extension of its authority to agricultural trade, awareness of the mutual benefits to be derived from more stable world food markets, and de-escalation of costly competition among contending national farm programs. There is also the feeling that the negotiations are but part of the wider task of devising durable arrangements for the concerted management of a better functioning interdependent world food economy.

The possible elements of an agricultural package can only be sketched in the time available. The arrangements embrace measures specific to particular commodities, the selective application to agricultural trade of strengthened general codes, and the creation of improved consultative procedures.

It may be anticipated first, that significant binding and lowering of tariff and non-tariff barriers will be possible for numerous commodities under the bilateral requests and offers procedure.

For grains, a wheat trade convention in a new international wheat agreement could provide for a measure of stability in world wheat prices and, equally important, for the sharing by all major countries in the adjustment of production and consumption to changing market conditions. A Food Aid Convention would commit participants to provide annually, on an equitable basis, 10 mmt. of grains as food aid to the LDCs. Such arrangements, however, pertain only to wheat, and address only the objectives of stability and co-responsibility for market management. Improved market access could be provided for both wheat and feed grains by such measures as contractual bindings of levies, reduced-levy or levy-free quotas for particular types of grains, minimum quantitative purchase obligations, and constraints on the use of export subsidies under a strengthened subsidy-countervail code.

The drift of the discussions in the dairy products sub-group would indicate that a comprehensive arrangement on dairy products might contain the following elements: a permanent mechanism for intergovernmental consultation, confrontation, and dairy policy harmonization, minimum export prices for an expanded range of dairy products, "concerted discipline" in the pricing of cheeses, and improved and assured conditions of access to import markets. This last might be provided by the establishment of quotas where they do not now exist, the binding of discretionary quotas, and commitments on their programmed expansion. Additionally, exporters would be required to adhere to a subsidy-countervail code which effectively curbed the use of export subsidies.

The negotiations on meats may also lead to some form of framework agreement. Key features of such an arrangement might be a permanent consultative mechanism, effective surveillance of a strengthened safeguards code, and a series of bound bilateral

minimum access obligations which, stitched together, would give the exporters the improved and assured access they seek.

Particular importance attaches in the MTNs to the establishment of improved consultative procedures pertaining to agricultural trade. These might be of two forms. First, there would be those that are commodity specific, e.g. the International Wheat Council, a body responsible for a consultative agreement on coarse grains, and the permanent consultative mechanisms envisioned for dairy products and meats. Secondly, it appears that consideration is being given to the establishment in GATT of an over-arching consultative forum on agricultural policy and trade issues. One function of the latter body might be to oversee the operation of the understandings and arrangements worked out for various commodities, and the application to agricultural trade of the improved codes of trade practice.

Beyond that, however, the forum might be used for articulation of principles and guidelines for the conduct of national farm and agricultural trade policies, for the review of national programs and trade measures against these consensual standards, for the monitoring of policy and market developments, for advance consultation on policy changes, and for dispute settlement. In short, a multilateral forum in which countries would be held to account for their domestic and foreign agricultural policies, and in which together they could exercise their co-responsibility for the smooth functioning of a progressively more open, discipline, stable, and secure world food system.

The implications for U.S. agriculture of an MTN outcome with some or all of these features would be far-reaching, complex, mixed, and evident only over a long period.

The most tangible positive feature would be improved access in foreign markets for U.S. agricultural exports. Maintaining a high level of agricultural exports is crucial to the U.S. achieving balance in its external accounts, maintaining the value of the dollar, and sustaining farm incomes and asset values without the need to return to the costly subsidy programs of the past. Additionally, enhanced general stability in world food markets would contribute to a de-emphasis on self sufficient food supply policies and expand the long-run opportunities for trade. Similarly, Americans would welcome more equity in the sharing of the burdens of coping with market variation, the supply of food aid, and the provision of improved trade opportunities for the LDCs.

There is, of course, another side to the picture. This is composed of two elements, "concessions" that the U.S. will have to make, and constraints on the freedom of national policy making that will have to be accepted.

It is hardly plausible to expect that U.S. authorities can avoid offering improved access to the U.S. market for agricultural imports.

The whole range of national border protection measures for farm and food products has been exposed to "requests" by countries with export interests to promote, and some will have to be met. The U.S. import regimes for dairy products, meats, fruits, and vegetables are obvious candidates for changes. Some U.S. commodity sub-sectors, regions, and individual producers will be disadvantaged.

Similarly, the interests of U.S. agriculture in the attempts being made in the MTNs to strengthen the GATT and its application to agricultural trade are ambiguous. To be sure, participants in the U.S. food and fibre system would like tighter rules and more multi-lateral discipline over the restrictive, unfair, and capricious practices of their foreign competitors. The catch is that observance of new codes of trade conduct could require changes in some questionable agricultural trade-distorting practices of the United States, limit freedom of national action, and adversely affect some groups.

Examples can readily be cited. Under a new safeguards code a sterner test would have to be met than hitherto before action could be taken against injurious imports, and stricter conditions would attach to such measures as were permitted to provide temporary relief. "Voluntary," "orderly marketing agreements" might come under international surveillance and sanction. And any number of U.S. programs that subsidized production and/or export might be called into question under a new code on subsidies and countervailing duties.

More generally, the creation of commodity-centered framework agreements and consultative arrangements, and the establishment of a permanent high level body within the GATT to scrutinize national agricultural policies and programs and progressively bring about their adaptation and harmonization in ways that are conducive to an open and disciplined trade order for farm and food products, would create the potential for other nations to have an important influence on national farm programs and derivative trade policies. According to foreigners a *droit de regard* is a long step toward the internationalization of domestic policy.

Concluding Observations

It will be evident that policymaking for agriculture in countries as deeply involved as the United States in an interdependent world food economy is different from policymaking in more closed economies. Policies aimed at domestic problems have international ramifications and foreign economic policies for food and agriculture have domestic impacts, and both must be heeded.

Devising "a comprehensive national food policy" in these circumstances means not only that farm policy must be embedded in food and fibre sectoral policy, and sectoral policy in turn in macro-economic policy, but also that farm and sectoral policy must be designed to contribute to the attainment of foreign economic policy

goals and the wider reaches of foreign policy. Equally, national policy must adapt to the constraints that are inherent in an interdependent world order if cosmopolitan benefits are to be secured, for good international policy begins with good national policy.

In contrast to its self-image, and despite its manifold constructive international initiatives, the United States is perceived by the rest of the world as an opportunistic, hypocritical, and self-serving actor on the world agricultural scene, as prone to ignore its international obligations and tailor its domestic farm programs and agricultural trade arrangements to the short-term preferences of domestic interest groups as other countries with lesser capabilities and responsibilities. This hardly seems adequate for the future.

The complexity of international issues pertaining to food and agriculture, their labyrinthine interrelationships with each other and with other aspects of international economic relations, and their non-separability from domestic farm and food policy issues, places additional demands on the policy making process. Decision making responsibility is shared between more departments of government, and the influence of departments of agriculture on "agricultural" matters is diluted. By the same token, extraordinary demands are placed on leaders of farmer organizations and their advisers if they are to understand issues and their interdependencies and contribute effectively to policy formulation. Here surely is a priority task for policy extension.

Finally, in the short run, there are few Pareto-optimum situations in international economic relations in the field of food and agriculture. Indeed, difficult accommodations and losses for some national food system participants seem inevitable. This being so, one views with some alarm a distinct lack of candor about which groups will be disadvantaged by changes in agricultural trade policies and the absence of sharply-focussed adjustment assistance programs to compensate the losers. This area, too, should challenge public policy educators.

