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THE WORLD AGRICULTURAL SITUATION: POLICIES AND TRADE PROSPECTS

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I SPEAK to you today primarily as a professional agriculturalist with some experience in the discipline of economics. I find it is no longer possible, however, to speak and to be heard as an economist only. Inevitably my remarks will reflect to some extent on my official capacity. Even if they did not, someone would believe that they did. Years ago, as a practising economist sometimes advising governments, I had occasion to recognize the limits of political feasibility. Now as an official and, to a degree, a politician I have often discovered the limits of professional (some even say) scientific objectivity. I am not so far removed from my first profession, however, that I have forgotten the merits of objective analysis in helping to find solutions. And I have come to Sydney to urge you to put your best men and best minds to work in finding such solutions.

It is, in my view, an excellent time to raise and to explore the most fundamental questions about the domestic agricultural policies that have been, and are being developed around the world, and of their effect upon future trade trends. The Kennedy Round of trade negotiations has just been completed. With the greatest difficulty, major progress and yet limited progress was made in liberalizing agricultural trade. This was not done by accident. It was done, rather, by virtue of a strong determination at the beginning that this be one of the results. It was done with great patience over a four-year period. Negotiators languished in Geneva while countries, after doing little, endeavoured to array themselves into a posture which would permit a successful conclusion on agricultural trade. Forging an unbreakable link between industry and agriculture at the start by stating that the two areas were inseparable carried with it the grave political risk that, in the end, failure to achieve a respectable bargain in agriculture would doom the entire Kennedy Round. A philosopher said long ago that 'A hair perhaps divides the false and true'. Just such a hair divided success from failure over agricultural questions in Geneva.

The successful conclusion of the Kennedy Round was achieved also by virtue of a willingness to postpone major progress in certain important areas like meats and dairy products, where comprehensive trading arrangements to govern expanded trade had been the goal.

It is too early to make precise judgements about the trade impact of the Kennedy Round. It will take time to judge where it has led us with respect to future prospects for agricultural trade expansion. There is general agreement, however, that the Kennedy Round will, over time, increase agricultural trade for a great many countries. Some have estimated the result as 5–10 times better than any previous agricultural negotiation.

In the United States we have told our farmers that the Kennedy Round will help them, and for the most part they accept this. I know that the governments of most of the other countries have told their farmers that they, too, can expect to realize gains. Happily, this is as it should be. It is a rare pleasure in this world to have participated in a contest in which all participants were winners.

We should be careful not to overstate the degree of success of the agricultural negotiations. Even for those farm products for which protection comes mainly from fixed tariffs, the average reduction achieved was only about 25 per cent compared with the *over-all* industry cuts of about one-third. From the earliest stages of the Kennedy Round it was recognized that many agricultural products were protected in ways that made them relatively secure against liberalization in the traditional kind of trade negotiations.

Despite strenuous efforts to arrive at arrangements which would expand trade and stabilize prices in meat, dairy products, and grains, a significant success was achieved only for grain. Even then, in the end, coarse grains were not a full partner in the grain agreement. That agreement does break some new ground, however. It makes a modest start toward a multilateral sharing of the world's food-aid needs; it recognized the need for stable pricing at remunerative levels; it includes more precise means of monitoring world wheat prices than we have had under the International Wheat Agreement.

The inevitable question raised in Geneva immediately after 16 May was 'Where do we go from here?' Feelers went out from Geneva almost before the ink was dry on the 16 May settlement asking when and how to continue discussions in areas where the greatest obstacles to trade still remain. Agriculture was prominently mentioned among the sectors where more progress must be made the next time and where we must start now in order to do better the next time.

In the United States the President commissioned his Special Trade Representative, Ambassador Roth, to head a long-range study leading toward proposals for future trade policy. Others have done or will shortly do this.

We do not know precisely the degree of protectionism that will still remain in our world agricultural economy after the Kennedy Round results are fully implemented. Nor do we need to know in order to take the next steps. We never know exactly what results will flow from specific steps to reduce trade barriers further. We do know that agriculture remains a highly protected industry around the world and that potential gains to be made from further specialization and trade are large indeed. It is no secret that in certain countries and for certain commodities levels of protection are extremely high.

Agricultural economists around the world have a particular responsibility to their countries and to the world community to see to it that these potential gains from trade realized over time. As governments and officials recover from the rigours of the Kennedy Round, they will be re-examining trade policy in many forms. The U.N.C.T.A.D. is about to convene again. The O.E.C.D. and F.A.O., too, are forums where clear thinking and plain speaking on trade policy can make a great contribution in the remaining years of this decade.

In no area is this more crucial than in the relationship between agricultural price and income-support policy and trade policy. These two policy fields, in fact, are inseparable.

In 1962 the Ministers of Agriculture of the O.E.C.D. countries agreed that agricultural policies should be formulated 'in the light of international trade responsibilities as well as domestic considerations, adopting solutions to domestic agricultural problems which do not jeopardize international trade in agricultural products'.

Governor Christian Herter, who was the U.S. spokesman at the first G.A.T.T. Ministerial Meeting in 1963, stated on behalf of the United States that 'My Government is prepared to negotiate its production, price, export, and import policies on a reciprocal basis.'

Sicco Mansholt, Vice-President of the European Economic Community and Commissioner for Agriculture, at the same meeting stated: '. . . I think that what we have to do is to deal with national agricultural policies not only from the trade aspects but as a whole . . . It is my opinion that national agricultural policies are decisive . . .'

These are fine words, but they are not easy to turn into action. The Kennedy Round showed us how difficult it will be ever to do it. The pledge to bring domestic agricultural policies into the negotiations became, in fact, the great platitude of the agricultural phase of the Kennedy Round.

What I have said may surprise you, for it has been said by some that the pledge was carried out. Indeed millions of words and millions of dollars were expended by the negotiators in explaining their agricultural policies to each other. This was largely an educational exercise and as such it may have been worth the cost. It was not, however, a negotiation on domestic agricultural policies. From the start it was clear that countries were not willing to alter and to bind major elements of their national agricultural policies in the interest of trade expansion.

Whatever initiative there has been in this decade for agricultural policy reform around the world has come primarily from other causes—not from a policy of trade expansion.

In Japan this decade has seen continued import growth. Physical as well as fiscal necessity had long dictated an agricultural policy of reduced self sufficiency.

In the United States changes in agricultural policy, with some exceptions, have had the effect of expanding exports, especially for grains. But the failure of past policies to prevent surplus accumulation, the necessity to avoid the costs of further surplus accumulation, and a need to raise farmer incomes—not trade policy motives—were the prime movers in this agricultural policy reform.

In Europe agricultural policy formulation under the Treaty of Rome seems to have been guided primarily by political factors, and not by any desire to profit from the fact that much of the world produces most agricultural products more efficiently than does Europe. In recent days press reports sounded the ominous warning that even present levels of protection may not meet the political test.

Certainly it is legitimate and necessary for governments to protect and improve the income and living standards of their farm people. It is no less legitimate for countries which are efficient producers of farm products to defend their right to markets for those products wherever they are.

It is these conflicting self-interests which must be resolved as the world once more takes up the struggle for liberalized agricultural trading rules.

It may be that there are countries where the need for protection is so great, or the potential for income transfers within the economy so limited, that little can be done to protect farm income without harmful effects upon trade. But for a large and rich country or group of countries willing to consider various techniques for maintaining a strong agriculture and achieving expanded trade, there are ways and means of providing income support at home that protect also the legitimate claims of the agricultural producers in other friendly countries.

There are examples of this from our own experience in the U.S. and in many other countries. There was a time, for example, when we supported farm prices and took steps to reduce production for some of our major export crops without at the same time taking steps to maintain our export volume. Since we had a large share of the world's production of these items, world prices tended to move up to our own internal prices. This worked well enough in the short run but through a war and post-war eras led to great difficulties as soon as foreign producers were able to expand their own output in the later post-war period 15–20 years ago.

Out of that experience we built our present system of price supports, generally—but not entirely—geared to competitive world market prices, with income payments to farmers who observe certain production guidelines. This allows for maximum consumption at home, competitive pricing in world markets with minimum use of export subsidies, and avoids surpluses which otherwise could damage producers in other countries.

There is no point in minimizing the difficulties of putting either U.S. or other national agricultural policies to the test of trade liberalization. It may in fact be one or two decades too early for significant progress in this area of concern. One of the lessons of the Kennedy Round is certainly that it is too early today.

The record of that negotiation is filled with complicated offers to bind elements of domestic farm policy along with various duties and levies. But these offers for the most part were clever and complicated window-dressing. They were not appropriate in a negotiation designed to expand trade. Some of the offers to bind domestic policy had at least a little merit, in that they would have set an upper limit to the trade restrictive effects of domestic policy decisions taken or about to be taken. Others, however, would actually have increased the barriers to trade. None, to my knowledge, was truly 'trade expanding'.

Apart from the great need to gear domestic policies wherever possible, to the goal of trade expansion as well as income protection, the question of the place of developing countries in world trade looms as one of the largest and most pressing agricultural issues in the years just ahead.

The Kennedy Round will help to speed the recent trend to world economic integration in both agricultural and non-agricultural sectors, a trend now well advanced. World trade increased around 80 per cent between 1959 and 1966 while world production grew between 30 and 40 per cent. This is progress. We are becoming more dependent on one another economically, and this may have some long-range stabilizing effect on the political relationships among countries.

This trend toward integration is not general, however. The record of the less-developed countries is rather different from the record of the remainder of the world and the Kennedy Round will do relatively little to redress this balance. The L.D.C. share of world trade has actually declined since 1959. This stems partly from efforts at import substitution, which led Brazil, for example, to reduce imports in absolute terms. But it stems largely from the inability of the low-income countries to increase production for export of the things the world wants to buy.

The less-developed countries should be of special interest to this body because they are largely agricultural. Around 40 per cent of their production is agricultural; two-thirds of their people are cultivators; over two-thirds of their foreign-exchange earnings derive from agricultural exports, compared with about one-third for the higher income countries. They have on the average, increased their gross national product by over 4 per cent per year in the 1950s and nearly 5 per cent per year in the 1960s, but these gains have been heavily discounted by a population growth-rate averaging 2·5 per cent per year.

The higher-income countries have increased production at about the same rate. But a population growth of roughly 1·0 per cent per year has given *per capita* incomes in developed countries a rate of growth nearly double that of L.D.C.s.

National planners have traditionally devoted their attention primarily to industrialization. Agricultural growth was correspondingly neglected until quite recently. Not surprisingly industrial growth has outstripped agricultural growth. Now the latter must be speeded, perhaps in many cases at the expense of the former. Agricultural and related trade policies can be made to serve this objective.

Some of the prospects for progress in the near term include regional integration, preferences, commodity arrangements, and diversifications. Each has its pitfalls; each can be used for protectionist ends as well as for trade expansion, as experience has demonstrated.

The developing countries have long tried to develop industry—on a national basis—each shielding its infant enterprises behind protective walls. The result, by and large, has been high-cost, inefficient industry with little growth potential. By joining together with their neighbours and dismantling the trade barriers among them, they can produce for a wider regional or sub-regional market. In the larger market their industry would not be limited as it is today to light consumer goods. Shielded *for a time* by outer walls from the export competition of the advanced countries, enterprises would be exposed to more tolerable competition within the broader regional market and would reach a competitive position in international markets much earlier and more effectively.

Recognizing the benefits that could come from a continent-wide market such as the United States enjoys and spurred by the example of the European Common Market, low-income countries have been moving together to develop free-trade areas and common markets.

At the Latin American Summit Meeting in Punta del Este, the countries of Latin America undertook a commitment of major significance to move forward toward a full Latin American Common Market. The United States undertook a parallel commitment to help them with adjustment assistance when the common market gets under way.

Similar movements are needed among other developing countries not only as a positive force for economic growth and stability, but also for political cohesion. The difficulties are formidable, including the resistance of protected enterprises to exposure to increased competition and the concern of each country in the group to get a fair share of new enterprises. The benefits of integration can be realized only if the governments have the political will to push ahead. The political will, in turn, in the L.D.C.s often depends on encouragement and support by the rich countries. Progress in this endeavour will require the greatest skill of economic analysis and management, and, of course, exceptional political ingenuity and patience.

The U.S. has long felt that the best way to assist the developing countries is simply for industrialized countries to join together to help low-income countries. The developing countries themselves felt that a more desirable course of action would be to replace the network of existing preferences which are selective as to product and countries with a general system of trade preferences by all industrialized countries for the benefit of all developing countries, and without reciprocal preferences.

In early 1966 the United States, the United Kingdom, France, and the Federal Republic of Germany began to explore some of the issues involved in trade preferences under a mandate from the O.E.C.D. Ministers. U.S. participation in this exercise was severely circumscribed by our own position of scepticism concerning the workability of any scheme of preferences and, indeed, a basic reservation on the idea as a matter of principle.

After a searching re-examination the President indicated at Punta del Este that we are prepared to explore the feasibility of a system of generalized preferences. The President told his fellow chiefs of State:

> We have been examining the kind of trade initiative that the United States should propose in the years ahead. We are convinced that our future trade policy must pay

special attention to the needs of the developing countries in Latin America and elsewhere in the world.

We have been exploring with the other major industrialized countries what practical steps can be taken to increase the export earnings of all developing countries. We recognize that comparable tariff treatment may not always permit developing countries to advance as rapidly as desired. Temporary tariff advantages for all developing countries by all industrialized countries would be one way to deal with this.

We think this idea is worth pursuing. We will be discussing it further with members of our Congress, with business and labour leaders, and we will seek the co-operation of other Governments in the world trading community to see whether a broad consensus can be reached along these lines.

I wish to stress that this refers only to an exploration of preferences to see whether a consensus can be reached. There are many difficulties—both of technique and policy—to be overcome if we are to make progress.

When one considers the amount of talk and attention devoted to international commodity arrangements in the past thirty years, it seems remarkable that so little has been achieved. In recent years the trade only in coffee, among tropical products, and in wheat, of the temperate products, has been guided by international arrangements. Neither has been fully satisfactory, although both have been helpful in achieving legitimate objectives.

The recent failure of dairy and meat talks to get off the ground in the Kennedy Round, and current difficulties with the coffee agreement and with negotiating a cocoa agreement do no make us more optimistic.

There has come to be a general pessimism about international agreements. Looking at what has been achieved, perhaps the pessimism is justified. But as the poet said, 'the fault is not in our stars but in ourselves'.

The fault here is not with the concept of international agreements. Rather it is with the fact that to meet the objectives of exporter and importer countries alike, the arrangements must engage various elements of internal policies in developed countries, or they may require the beginning of diversification policy in developing countries.

So we have come the full circle. The limit to international commodity arrangements, like the limit to tariff cutting and other conventional means of trade expansion, is set by the degree to which nations will permit domestic policies to be circumscribed in the interest of reaping the gains from trade expansion.

To summarize, domestic agricultural policies consistent with trade expansion are essential to further progress toward economic integration, including greater trade linkage between developed and less-developed economies. It may be Utopian to believe that great progress can be made in this area in the next decade. It is not too much to expect that we must try. Agricultural economists have a key role to play in preventing wrong policy choices, and in furthering correct choices to this end.

The President rang the Cow Bell bringing the Thirteenth International Conference of Agricultural Economists to a conclusion