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CURBING AGRICULTURAL SUBSIDIES TO OPEN INTERNATIONAL MARKETS

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INTRODUCTION

The political fight over agricultural protectionism in Western capitalist democracies began in earnest with the British Parliament's passage of the Corn Laws in 1815. These laws erected tariffs on imported grain to inflate domestic prices artificially and shield farmers from competition from abroad. The issue of free trade being an essential line of demarcation in British politics, the Corn Laws also sparked a backlash so intense that *The Economist* magazine was founded in 1843 to promote their repeal, which eventually was achieved in 1846. Although much progress has been made in ferreting out agricultural protectionism in the years since, we are in many ways still litigating the same policy debates today, although the focus largely has shifted from tariffs to domestic subsidies.

Over the last two years, free trade has been unfairly maligned by politicians on both the left and the right. While this may be a winning political tactic, it fails on the merits, as the policy case for trade liberalization, particularly agricultural trade, remains as strong as ever.

There is little doubt that American farmers, ranchers and consumers have benefited from trade liberalization efforts since the end of World War II. The creation of the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO); the rise of trade agreements[1]; and the impact of cutting edge technologies all have contributed to the United States becoming the largest agricultural exporter in the world. In 2015 alone, U.S. agricultural exports totaled $133 billion[2] and supported more than 1 million jobs domestically.[3]

Nor does the United States only benefit from exports, as there are a host of demonstrable benefits from agricultural imports. Imported agriculture allows Americans to enjoy more products year-round, rather than being limited to when they are "in season" domestically.[4] Likewise, Americans enjoy lower prices from imported agriculture, some of which (like grain) is used by farmers and ranchers in the production of their own crops and agricultural products.[5]

Accordingly, domestic agriculture was set to be one of the largest net winners of improved market access offered by the Trans-Pacific Partnership (TPP), a 12-nation multilateral trade pact. Among other provisions benefiting the United States' agricultural industry was the elimination of virtually all agricultural tariffs among member nations, as well as the elimination of all agricultural export subsidies.[6] In short, the TPP would have been a much-needed boon to domestic agriculture. It therefore is regrettable that this promising agreement was jettisoned by the Trump administration, particularly the provisions that concern domestic agricultural interests.

Further, the administration's recent notification to Congress of its intent to renegotiate the North American Free Trade Agreement (NAFTA) has made farmers and ranchers who export their products to Mexico and Canada increasingly anxious about what the future has in store.[7] For these reasons, the time is right to begin the conversation about liberalizing agricultural trade.

As Congress begins drafting and debating the next farm bill, the current version of which is set to expire in 2018, it is important that policymakers understand the benefits of liberalization and why distortionary domestic subsidies ultimately undermine free trade; thereby hurting American farmers, ranchers and consumers.

HOW DOMESTIC SUBSIDIES STIFLE FREE TRADE

While most people think of tariffs as the primary barrier to trade liberalization, nontariff barriers like onerous regulations and domestic subsidies are often just as damaging to the free flow of goods between nations. The United States spends about $15 billion yearly on various agricultural subsidy programs,[8] much of which flows to the wealthiest farms.[9] These programs range from crop insurance premium support to more recently initiated commodity payments like the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs. And yet, despite their large price tag, the costs of these subsidies far outweigh the benefits, as they have devastating consequences for the environment,[10] hinder global trade and harm farmers and ranchers in developing nations.

When the United States subsidizes an individual agricultural product, the cost consumers pay for that product may be lowered artificially. Where this happens, similar foreign agricultural products would become uncompetitive in the domestic market. This "lock out" of some agricultural imports artificially impedes trading activity, particularly trade with farmers in developing countries who wish to sell their products in the world's largest market.[11]

Domestic agricultural interests often rationalize their support of – and intense lobbying for – generous agricultural subsidies on the basis that other countries offer similar subsidies. The logic here is that if the United States unilaterally cut its subsidy programs, foreign governments' subsidies would enable their producers to undercut our domestic farmers and ranchers; unfairly tilting the playing field toward imports.

There are significant issues with this line of reasoning. First, subsidies impose a cost that must be borne by taxpayers, which lowers standards of living in the country providing the subsidy. Should the United States punish its citizens just because a foreign country punishes its own? Of course not. Likewise, while foreign subsidies may harm agricultural producers in the United States, they benefit American consumers by enabling lower prices. As Nobel Prize-winning economist Milton Friedman and his wife, Rose, noted in their classic book Free to Choose, foreign subsidies are tantamount to foreign aid to consumers in the United States.[12] The goal of foreign trade and international commerce is to serve consumers, not to reward politically connected special interests.

For these reasons, the United States' unwillingness to cut domestic subsidies poses the most significant hurdle to trade liberalization in agriculture. In order to make a credible case for further liberalization, we must lead by example and cut our own agricultural subsides. Once this happens, developing nations will be more likely to come back to the multilateral negotiating table to discuss curbing theirs, as well.

SUBSIDIES AND THE COLLAPSE OF DOHA

Before delving into specific policy recommendations, it is important to understand the recent historical context of the fight over agricultural subsidies in the international arena. On the heels of the wildly successful completion of the 1986 to 1994 Uruguay Round of multilateral trade liberalization efforts, which created the WTO, member nations embarked on an ambitious agenda for the next round. Dubbed the "Doha Development Round" and launched in 2001, the WTO's member nations began negotiating "about 20 areas of trade, including agriculture, services trade, market access for nonagricultural products, and certain intellectual property" with an eye toward improved development outcomes, particularly within emerging economies.[13]

Out of the Doha Round, agriculture emerged as the most prominent issue – specifically, measures to lower barriers to agricultural trade in order to promote global development.[14] In particular, member nations began their push to eliminate tariffs and curb domestic subsidies. According to the Congressional Research Service, "Developing countries [viewed] reform in agricultural trade as one of their most important goals. They [argued] that their own producers cannot compete against the surplus agricultural goods that the developed countries, principally the EU and the United States, are selling on the world market at low, subsidized prices."[15] Eventually, however, these negotiations broke down. When negotiators failed to revitalize them at the 10th WTO Ministers Conference in Nairobi in 2015,[16] it essentially signaled the death of Doha.

While there is plenty of blame to go around for Doha's failure, the United States – as the world's most important economy and largest agricultural exporter – is especially culpable, particularly with respect to our tepid offers to cut subsidies.[17] In any event, the demise of Doha was a blow to the credibility of the global trading system, as well as to prospects for multilateral trade liberalization.

The United States now is in a unique position to jump-start this agenda, but bold leadership is necessary. Leading the charge in this regard would pay enormous dividends, not only here at home but to the rest of the world.

PROPOSALS TO EXPAND AGRICULTURAL TRADE LIBERALIZATION

Rather than our current tit-for-tat approach on subsidies, the most beneficial thing for farmers, ranchers, consumers and American taxpayers is agricultural trade policy that would open markets and eliminate barriers. The potential gains from global agricultural trade liberalization are too great to ignore. A 2006 study from the Congressional Budget Office noted, "If all policies worldwide that distort agriculture trade were phased out [between 2005-2015], the likely annual economic benefit to the world by 2015 would be roughly $50 billion to $185 billion, which is about 3 percent to 13 percent of the value added by world agriculture. [...] In studies that also incorporate effects of productivity growth rates, the benefits are 50 percent to more than 100 percent larger."[18] In short, there are enormous possibilities from complete liberalization of agricultural trade, but this depends on leadership from the United States.

Policymakers in Washington should take two specific steps to put the United States, and eventually the world, onto a path to eliminate harmful agricultural subsidies: First, we should unilaterally curb our own domestic agricultural subsidies. Doing so would benefit American taxpayers by cutting wasteful spending that primarily benefits wealthy agribusinesses. An added bonus, for those concerned about improving global poverty, would be to help farmers from developing nations export their products to the United States. And finally, curbing domestic agricultural subsidies would give the Office of the U.S. Trade Representative (USTR) much-needed moral authority to credibly press other trading partners, including those at the WTO, to do the same. Further, once the United States sets such a standard, it will be better positioned to use the WTO dispute settlement process to confront other nations about their refusal to abide by WTO obligations. But this credibility must be earned by setting a strong example.

At first blush, broad-scale multilateral reform may seem unrealistic, given the failure of the Doha Round and the Trump administration's professed hostility toward multilateral negotiations. All is not lost, however. Thankfully, the administration's budget proposal would cut crop insurance subsidies and commodity support payments in ways that, if adopted by Congress, would curb agricultural subsidies by $38 billion over 10 years.

Likewise, recent progress has been made with the agreement at the 10th Ministerial Conference at the WTO in Nairobi in 2015. As part of the "Nairobi Package," WTO members agreed to curb agricultural export subsides. Specifically, the European Union agreed to abolish export subsidies and the United States agreed to end export credits. Further, in late May 2017, Australia became the first nation to eliminate export subsidies entirely.[19]

Despite its many exceptions and its incomplete implementation, the Nairobi Package is nevertheless an encouraging sign that trade negotiators are aware of the problems agricultural subsidies pose and that they are working to address them. Replicating this success will be difficult, but not impossible, especially if the United States makes good faith efforts to clean up its own act.

CONCLUSION

With domestic farmers and ranchers pining for improved market access after the collapse of Doha and the TPP, and given the uncertainty surrounding NAFTA renegotiations, the time is right to begin pursuing a free trade agenda in agriculture. The key to doing so is to curb U.S. domestic agricultural subsidies. As policymakers begin piecing together the next farm bill, they should avoid the temptation to kick the subsidy reform can further down the road. Delaying difficult but necessary reforms only hampers our ability to expand market access abroad.

ABOUT THE AUTHOR

Clark Packard is an outreach manager and policy analyst for the R Street Institute, where he works with the rest of the outreach team to advance R Street's policy agenda with relevant federal policymakers in Congress and the executive branch.

Clark joined R Street in May 2017 from the National Taxpayers Union, where he was counsel and government affairs manager, serving as the organization's point person on trade and financial services policy and providing legal counsel to the organization's senior officers.

ENDNOTES

1. This includes both multilateral trade agreements like the North American Free Trade Agreement (NAFTA) and the Central American Free Trade Agreement (CAFTA), as well as a host of bilateral ones.

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4. Scott Lincicome, "Promoting Free Trade in Agriculture," Heritage Foundation, July 11, 2016. http://www.heritage.org/trade/report/promoting-free-trade-agriculture.

5. Ibid.

6. Office of the United States Trade Representative, "The Trans-Pacific Partnership: Benefits for U.S. Agriculture," 2015. https://ustr.gov/sites/default/files/TPP-Benefits-for-US-Agriculture-Fact-Sheet.pdf.

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10. Marcelo Ostria, "How U.S. Agriculture Subsidies Harm the Environment, Taxpayers and the Poor," August 7, 2013. http://www.ncpa.org/pub/ib126.

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12. Milton Friedman and Rose Friedman, *Free to Choose: A Personal Statement* (San Diego and New York: Harcourt, 1980), passim.

13. Simon Lester, "Is the Doha Round Over? The WTO's Negotiating Agenda for 2016 and Beyond," The Cato Institute, February 11, 2016. https://object.cato.org/sites/cato.org/files/pubs/pdf/ftb64.pdf.

14. Randy Schnepf and Charles E. Hanrahan, "WTO Doha Round: Implications for U.S. Agriculture," Congressional Research Service, April 20, 2015.

15. Ian F. Fergusson, "World Trade Organization Negotiations: The Doha Development Agenda," Congressional Research Service, December 12, 2011. https://fas.org/sgp/crs/misc/RL32060.pdf.

16. They did, however, make some progress on export subsidies, which will be discussed in more detail below.

17. The high-water mark of agriculture negotiations was President Bush's 2008 offer to cut 70 percent of the U.S.'s overall trade-distorting subsidies (OTDS). However, this was almost universally rejected by WTO members as insufficient, and thus ultimately played a significant role in the collapse of Doha. See, e.g., Phillip I. Levy and Scott Lincicome, "For Obama, Free Trade is Key to Success," American Enterprise Institute, December 29, 2010. https://www.aei.org/publication/for-obama-free-trade-is-key-to-success/.

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