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President's Half-Acre
by
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For the last fifteen years, I have followed closely the agricultural trade negotiations at the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). The excitement of following these negotiations has been compared unfavorably to the excitement of "watching paint dry." Progress is measured in decades. However, since we must export 85% of our crop, we have much to gain from the development of international rules to open markets and stop the unfair practices of our competitors and customers. This month, I want to explain why I believe strengthening the WTO rules governing wheat trade could be very beneficial.

Until the mid-1980's, U.S. wheat growers didn't think about trade agreements. Our focus was solely on the domestic farm program. Since then, two very worrisome changes have taken place in the world wheat market. Both involve foreign governments artificially stimulating wheat production with high price supports. One change is the rapid increase in EU wheat production and exports. The other is the effort by our customers to reduce wheat imports by stimulating their domestic production.

Europeans bought political union in the 1950's by creating the Common Agricultural Policy (CAP) to heavily subsidize their large farm sector. By the early 1980's, the CAP's very high price supports were causing their wheat production to grow so rapidly that the EU went from being a net importer of wheat to being a major exporter. Since then, EU wheat production has increased more than 80% and the EU has increased its share of world wheat exports to more than 15%. This increase in exports came at our expense, since U.S. market share declined during the last 20 years from 45% to 25%. The EU solved its rural problems by massively stimulating its agricultural production and then using export subsidies to dump the excess on our markets. Something had to be done and the U.S. responded by making agriculture trade a major issue in the GATT Uruguay Round that started in 1986.

While increased EU exports were reducing our market share, our customers have been stimulating their wheat production and reducing the world demand for wheat. I have not yet seen a good discussion of the effects of farm programs in developing countries. However, in an effort to understand why countries such as Pakistan, India, and China have gone from being big wheat importers to being largely self-sufficient, I have been collecting price support data from U.S. Wheat Associates' newsletters. In 2000, Pakistan guaranteed its farmers the equivalent of $5.77 per bushel. China guaranteed its farmers between $3.75 and 3.88 per bushel and India supported prices at $3.60 per bushel. This happened at a time when U.S. farmers were guaranteed $2.58 per bushel and actual U.S. market prices were near or below that level. With a price support of $5.77 per bushel, is it surprising that Pakistan's wheat production has increased dramatically? Is it surprising that China has gone from being the biggest wheat importer in the world in the 1995/96 marketing year to being largely self-sufficient?

Some may feel that it is hard-hearted to object to poor countries stimulating their food production. However, the most rapid growth in world wheat consumption will occur in developing countries as incomes rise. Our future depends on expanding exports to these markets. We have two good arguments against attempts to achieve food self-sufficiency with high price supports. First, the price supports are very expensive and are supporting inefficient agricultural sectors. China is spending billions of dollars on its wheat program. It would develop faster if it invested its scarce resources in industries where it has a comparative advantage. Second, developing countries want to increase their exports to the U.S. China already has a $50 billion trade surplus with the U.S. If developing countries want us to continue to provide markets for their exports, they must not artificially restrict the demand for U.S. farm products.

During successive trade rounds over the last 50 years, the WTO has developed rules that have greatly increased international trade in manufactured goods. These rules ban price supports and export subsidies and require that production decisions be based on market prices. The last GATT Round, which concluded in 1994, attempted to apply these rules to agriculture, but only in a very watered down way. As the discussion above indicates, we have much to gain in tightening the rules banning government programs that artificially stimulate wheat production.

I should emphasize that WTO rules do allow governments to help their farmers. Help just must be given in a way that does not distort trade by artificially encouraging production. Our AMTA payments are a good example of a government program that isn’t trade distorting. The AMTA payments are fixed, so a farmer can’t increase the payment by producing more wheat. A farmer doesn’t even need to produce wheat to receive them. Our loan and LDP programs do artificially stimulate production if they are set above the market prices, since they raise the return on extra bushels. However, the loan rate is set at such a low level that, when market prices are less than the loan, wheat production in the U.S. has been declining.

If the WTO negotiations are successful, government programs that artificially stimulate wheat production will gradually be eliminated and producers around the world will make production decisions based on market prices. Is this a good or bad thing? The downside is that restrictions may be placed on U.S. farm programs, such as the counter-cyclical payment now being discussed in Congress. In the long run, limiting the ability of our competitors and customers to increase their wheat production with government subsidies will increase our exports and also increase the world price of wheat.

As Clint Eastwood said in his “Dirty Harry” movies, it comes down to “Do you feel lucky?” If the U.S. government continues to be willing to protect us from the low prices caused by the other countries’ farm programs, we may not want the restrictions of future WTO agreements. If future U.S. government support is less generous, we may desperately need the higher prices that these agreements will produce.