Journal of Rural Developement 23 (Winter 2000): 253~274

AGRICULTURAL COMMODITY PROGRAMS IN THE UNITED STATES: REFORM, REVERSAL AND WTO IMPLICATIONS

DANIEL A. SUMNER
CHOI JUNG-SUP*

ABSTRACT

American farm programs have gradually evolved over decades, and the FAIR Act continued the significant changes in form of the subsidy by reducing the effects on production. The large recent payments to U.S farmers continue to affect trade somewhat. But, these payments should not limit progress in the new WTO agricultural round if it focuses on border measures. For this WTO round, the U.S. could facilitate liberal trade by proposing the elimination of agricultural tariffs, export subsidies, and export taxes or embargoes. Limits on the use of anti-dumping duties or barriers to block import "surges," reform of rules related to countervailing duties, and keeping science-based Sanitary and Phytosanitary rules are also vital to facilitate progress in negotiations.

As with much of activist government subsidy and regulation in America, government attempts to control prices and quantities of farm commodities date only from the early 1930s. For the last

---

* Daniel A. Sumner is Professor, Department of Agricultural and Resource Economics, University of California, Davis, and Director, University of California, Agricultural Issues Center, and Choi Jung-Sup is Senior Fellow, Korea Rural Economic Institute. Parts of this paper are based on material prepared for the *Historical Statistics of the United States*, Millennium Edition, forthcoming Cambridge University Press, and on material presented at a conference on "Global Agricultural Trade in the New Millennium," New Orleans, May 2000.

two thirds of the 20th century, government was a major participant in the market for farm goods produced or consumed in the United States. Interventionist farm policies have taken many forms and have had many, varied, and sometimes subtle consequences.

A new age in agricultural policy began in 1862 with the passage of the Homestead Act, the Morrill Act and the establishment of the United States Department of Agriculture (USDA). The Homestead Act extended earlier periodic programs for the distribution of federal lands and granted 160 acres of federal land to settlers who had satisfied some minimum requirements. The Morrill Act endowed the land-grant system of colleges of agricultural and mechanical arts.

Budget authority for what is now the USDA began in 1839 with $1,000 of authorized outlays. From that year until 1862, identifiable authorizations for activities subsequently undertaken by USDA were allocated to the Patent Office and the Department of Interior. These outlays were devoted mainly to data collection and the distribution of seeds of new crops or varieties. By 1862 authorized outlays had grown to $64,000 (Rasmussen and Baker). In the 19th century however, policy important for agriculture was general economic and development policy. Despite several agricultural depressions that created great political ferment in the farm belt, no widespread agricultural subsidy programs were seriously contemplated until after World War I.

The Creation and Persistence of New Deal Farm Policy

During the period when agriculture comprised the bulk of the economy and farming was the primary occupation of the population, there was little direct subsidy and nothing of what we now know of as farm programs. That changed in the 1930s about the time that the farm population fell below half of the total U.S. population. The first two decades of the 20th century were a

period of farm prosperity. But, when prices fell in the 1920s the first response was to raise agricultural tariffs as a part of a general increase in U.S. tariffs. When high tariffs did nothing to raise farm incomes, there was a clamor for direct government action to support farmers and regulate farm markets.

Finally, with the economy-wide Great Depression that began in 1929, conditions were ripe for a dramatic change in the role of government in agriculture and the economy more broadly. These changes started during the Hoover administration, but the major and lasting changes took place after 1933, with the introduction of Roosevelt's New Deal (Ellfand, Benedict). Figure 1, which shows a timeline of major federal farm legislation from 1933 to 1999, indicates the regular changes made to a core set of programs.

Beginning in 1933 there was a torrent of new programs that within a few years changed fundamentally the economic policy landscape of agriculture and the nation. After a few years of flux, that included legal challenges, permanent farm subsidy legislation created the major farm program components of the 20th century. The most significant new tools were price support programs under which the government would acquire and store crops if the market price did not reach some pre-specified level. Additional and supportive policies included: mandatory land set-asides, which required participating farmers to idle cropland that would have been planted to basic crops, marketing or production restrictions to limit which crops were planted and sold, explicit export price subsidies, import quotas, and direct payments when prices were low and the farmer agreed to idle land. These policies applied for a handful of major field crops. For other commodities, including milk, which also had a price support program, various government-authorized cartel-like marketing orders were established. In addition, the Federal Crop Insurance Corporation was created to subsidize multi-peril insurance of crop yields. All of these policies continued until 1996, and many are continuing into the 21st century (see Benedict; and Bowers et al.).

The prime mover behind the creation of these farm policies was a desire to boost low commodity prices. In 1932, the index of real farm prices stood at about 65 percent of what it had been in the high price years of 1910 to 1914, and the price of wheat was only 44 percent of what it had been in that period. Of course, low prices were themselves a consequence of the existing supply and demand conditions and the New Deal policies did little to change those conditions in a fundamental or lasting way. Higher prices led to more quantity supplied and lower quantity demanded, with the government taking the surplus its policies created. Thus, while providing some relief for farmers, these measures also tended to maintain conditions that perpetuated the "over-supply" problems.

Over the remainder of the 20th century, American farm programs did not solve any basic supply and demand imbalances underlying economic problems in agriculture (Gardner, 1996). Farm prices continued their secular decline despite massive government efforts. Prices rose from 1933 to 1937 in response to acreage reduction programs and poor crop yields, but fell back again in 1938 and 1939. Likewise farm income improved initially and then fell in the late 1930s. It took World War II to bring cash farm income back to its 1929 level. Figure 2 provides data for corn prices relative to the government support prices that show how intervention worked for this important commodity. In particular, Figure 2 shows the jump and subsequent fall in corn prices.

Agricultural policy history in the ensuing decades has been unsettled and filled with contention. An early consensus among farm leaders and some economists that the programs had dealt successfully with deep structural problems in agricultural markets evaporated gradually as market dislocations recurred. The war years provided an interlude of high market prices, but as World War II ended there was a concern that farm prices might again collapse, leading politicians to renew the programs of the 1930s. Some attempt was made to restrict the scope for active market intervention by the government, but the Agricultural Act of 1949,

which remains the "permanent" farm legislation to this day, continued the depression era programs. Since 1949, periodic farm commodity legislation has usually taken the form of temporary amendments to the 1949 Act (Orden et al.). What had begun as a temporary response to a perceived emergency had become capitalized into the price of farmland and thoroughly established as a perennial crop in the landscape of Washington.

The 32-year period from 1949 through 1981 saw a few periods of high market prices when programs had relatively little effect. These prosperous years were often followed by periods of low farm prices when program weaknesses became apparent and policymakers adjusted a few program details. Over this period, Congress and the USDA attempted to maintain farm price and income support, while responding to inevitable forces that led to large government budget costs, excessive commodity stockpiles, or unpopular supply controls. This period also saw a massive migration of farmers off the farm. So while farm programs attempted to maintain farm incomes, farmers in unprecedented numbers were leaving for better opportunities in town.

Figure 3 shows the fluctuating pattern of government-held stocks and mandatory land set-asides. Over the post WWII period stocks rose rapidly, declined briefly during the Korean War and then reached politically unsustainable levels in the early 1960s. By that time about 60 million acres of cropland were idled under annual commodity programs and an additional several million acres were idled under long-term land bank programs. With massive idling programs, stocks were gradually reduced until the commodity price boom of the early 1970s briefly eliminated government stocks and allowed relaxation of the requirements that farmers idled part of their cropland. One may see the correspondence between these policy measures and the pattern of prices by juxtaposing Figure 2 with Figure 3.

In the early 1980s, government stocks began building and massive land set-aside soon followed, peaking at almost 80 million acres (about forty percent of the program crop acreage) in the early 1980s. In addition, government payments to farmers

grew and export subsidies were introduced to slow the growth in stocks and temper the pressure to idle even more land. Despite significant political changes with the 1980 election and the pro-market positions of the new Administration, the 1981 Farm Act largely continued the 1977 Act. In expectation of more inflation, and in accordance with farm lobbyist demands, the support prices and target prices used for direct payments were both scheduled to rise in each of the four years of the Act. Despite these features many farm groups opposed the Act as not being generous enough with price support and related features (see Bowers, et al.).

Gradual Policy Reforms and Reversals: 1985 through 1995

Problems resurfaced and intensified as soon as the 1981 Act was signed. As Figure 3 shows, government-owned stocks and idled cropland were both near zero at the end of the 1970s. Those conditions changed rapidly, as it became evident that the escalating support prices were wildly inconsistent with market realities. As government stocks built and outlays on direct payments expanded the USDA responded with ad hoc programs to reduce production and remove commodities from stockpiles. None of these actions solved the farm income concerns of producers and gradually farm policy leaders began to accept the lesson that the half-century-old programs simply were not working.

Two major alternatives were considered in 1985. The first was even higher support prices made accompanied by tight supply controls and export subsidies to avoid surpluses. The second alternative called for no supply control, but relatively large transition payments. The policy adopted, a combination of the two, continued supply control and export subsidy together with large payments. However, the gradual reduction of support prices and increase planting flexibility signaled a change in policy direction. The new export subsidy schemes allocated more

than $1 billion per year to direct export bonuses, mainly for wheat. A new long-term Conservation Reserve Program paid landlords to remove from production erodible cropland for a 10-year period. In most years since 1986, about 36 million acres have been idled under this program.

Total annual outlays for farm programs peaked at $26 billion in fiscal 1986 and direct payments peaked at $17 billion in fiscal 1987. In addition, there was major ad hoc disaster payment programs enacted in the late 1980s that allocated several billion dollars in direct payments to farmers. In the Uruguay Round of GATT trade negotiations that were launched at the end of 1986, the U.S. supported a complete global elimination of trade distorting farm programs.

Budget pressures and moves to further liberalize farm policy led to several reforms in 1990. These included fewer acres eligible for deficiency payments, additional planting flexibility, lower loan rates than had been used as price support, and frozen nominal target prices used to determine direct payments. Export subsidies and the Conservation Reserve Program were continued with some reforms. The 1990 legislation replaced the price support program for grains and oilseeds by a "marketing loan" program under which payments rather than government stock accumulation were triggered whenever an average local market price was below the local loan rate. Since loan rates were set at between 75 percent and 85 percent of the moving average of past prices, the expectation was that few payments would be triggered by this new payment scheme. In fact no payments were triggered until 1998 (Orden et al. and Sumner).

Throughout the late 1980s and early 1990s, the Uruguay Round trade negotiations proceeded. The final agreement was signed in 1994 and began to be implemented in 1995. The implications for internal U.S. agricultural policy were minimal. The agreement included no effective limits on payment programs, loan rates or other internal program instruments. The modest requirement to reduce import barriers caused only minor changes in peanut, sugar and dairy markets. The use of export subsidy

instruments was restricted, but the limits have not been binding for most commodities.

FAIR Policy and the Recent Reversals

As the 1990 farm legislation neared expiration, several forces combined to encourage further reforms (Orden et al.). First, there was a continuing dissatisfaction (among farmers and economists) with how farm programs actively directed crop choice and attempted to control market prices, and those favoring more market orientation (mainly Republicans) had gained political clout. Second, there was continuing pressure to reduce projected outlays on farm programs for the next budget period. Third, farm prices were initially projected to be relatively low for the post 1995 period and then, subsequent to setting official budget parameters, those price projections were raised. Given an arcane loophole in congressional budget rules, this last point turned out to be crucial to the reforms that finally became law in the Federal Agricultural Improvement and Reform (FAIR) Act of 1996.

The new FAIR Act payment scheme eliminated the explicit link between market conditions and deficiency payment rates. Programs no longer required farmers to idle land or plant minimum acreage to specific crops in order to receive the contract payments. The FAIR Act also scheduled the dairy price support program for rapid phase-out and eliminated immediately the Farmer Owned Reserve storage subsidies (Young and Westcott).

Despite widespread accounts to the contrary in sources such as the New York Times, the FAIR Act did not schedule a phase out of farm commodity subsidy programs or even schemes that affected market prices directly. For example, trade barriers and export subsidies continued as before (as modified by the Uruguay Round agreements of 1994) and the dairy marketing order program continued with little change. The FAIR Act was not a radical departure from the policy path of the previous

decade. In a sense, program changes in 1985 and 1990 were more significant for farm policy reform than those in 1996. But, by reinforcing and consolidating changes that took place over a decade, the FAIR Act policies seemed to have changed the face of commodity subsidy for American agriculture.

The FAIR policy for cotton and grains operated as planned in 1996 and 1997 when large payments accompanied high farm prices. But, the payment contracts did not hold after prices fell in early 1998 (Figure 2). Rather than receiving moderate payments together with remarkably high prices, growers of wheat, feed grains and cotton were faced with moderate payments and low prices. Not only that, in some (politically potent) regions, growers has missed the benefits of the high price years by suffering small crops due to poor weather. Low prices automatically triggered massive payments under the marketing loan program, most significantly for soybeans, which had not received significant amounts of direct support in the past. Then, in October 1998, contract payments, which had been set in advance for seven years by the FAIR Act, were raised by 50 percent and ad hoc disaster payments were provided to growers who had low yields. In all, subsidies jumped from about $4.6 billion in fiscal year 1996 to $19.2 billion in fiscal year 1999. When farm prices remained low in 1999 and 2000 even more lucrative packages of direct payment subsidies were enacted as "emergency" measures. Direct payments probably exceeded $25 billion in fiscal 2000, with total outlays exceeding $30 billion (Table 1). The FAIR Act turned out to be an excellent contract for farmers. Taxpayers, however, found that the contract was jettisoned as soon as market prices fell and a Washington budget surplus had arrived.

Reforms of the 1980s and 1990s that made farm programs more efficient were not reversed, but the attempt to limit amounts of farm subsidy in times of low farm prices proved unsustainable when budget pressures were eliminated by surpluses and when congressional power of reformers was weakened. Obviously, farm policy clout remains a powerful force as we enter a new century.

Progress Towands WTO Liberalization

Now let us put this review of U.S. agricultural subsidy policy in the context of the WTO negotiations. The WTO website states,

"The WTO is the only international body dealing with the rules of trade between nations. At its heart are the WTO agreements, the legal ground-rules for international commerce and for trade policy. The agreements have three main objectives: to help trade flow as freely as possible, to achieve further liberalization gradually through negotiation, and to set up an impartial means of settling disputes." (http://www.wto.org/wto/about/)

The core of this section investigates the extent to which U.S. WTO positions and farm policies may create barriers to progress in WTO negotiations toward more liberal agricultural trade. Although it is too early for detailed formal positions, in public statement and WTO submissions, the United States continues to favor agricultural liberalization (Barshefsky). Given the history just reviewed it is reasonable to question whether this position is consistent with existing U.S. farm policies and thus whether those programs create obstacles for progress even as defined by the U.S. government. A second question is whether current U.S. farm policies create conflicts with seemingly liberalizing negotiating positions of other countries. Before turning to the U.S. policy consistency with WTO liberalization we should consider a few other issues that will affect negotiating progress.

There are a host of potential barriers to progress in the WTO negotiations in agriculture. Some of these are traditional (Josling, Tangermann and Warley). Some we might classify as "post-Seattle" in the sense that event raised the general awareness of these issues. A few comments on each of these broader potential barriers are appropriate before turning to a discussion of agricultural policy directly.

The WTO is an organization of nations. WTO members negotiate, sign agreements and resolve disputes using an agreed

framework. A member that does not comply with its WTO obligations as agreed either pays "compensation" to those injured or, in extreme cases may lose its privileges of membership. Assurance of national sovereignty probably allows the WTO to make more progress than otherwise.

The WTO garners opposition both from those who think it represents oppressive world government dominated by foreigners, and from others who think the WTO respects national sovereignty too much. In the past, trade negotiations have been a part of overall foreign policy and, in particular, the struggle of the cold war. This linkage is muted after the fall of communism in Europe, but it is still possible for trade concessions to be offered to gather support for non-trade initiatives. Certainly agricultural interests in the United States often express concern over such concessions.

Agricultural negotiations are mainly concerned with details of tariff cuts and similar specifics. Nonetheless at the highest level of government the tradeoffs inherently include non-trade relationships between nations. Just as non-trade concerns affect the tradeoffs in trade negotiations generally, within the negotiations there is natural spillover across otherwise separate areas. In the Uruguay Round, the consensus view is that progress in agriculture was aided by gains that some countries that generally resist opening agricultural markets expected in non-agricultural negotiations. The current round does not yet have such linkages and agricultural progress may be limited as a consequence. It is interesting in this regard that governments in Japan and the EU currently support a broader round that will allow them to claim victory even if their initial positions are not adopted in the agricultural segment of the negotiations. However, this spillover across areas many be less helpful to progress toward agricultural liberalization this time because there is less left to gain from liberalization in the non-agricultural goods markets. Further, agricultural forces that support protection understand that they are vulnerable to the general linkage across industries and issues.

Extremely low global farm prices have at least four potential effects on the negotiations underway. The first effect aids progress, the next three of these effects may act as obstacles to progress. First, low prices emphasize the urgency of removing barriers and allowing more trade to raise world prices. This idea is consistent with the hypothesis that low farm prices at the beginning of the Uruguay Round provided impetus for reform. Second, anti-trade forces emphasize that the opening achieved in the Uruguay Round did not solve the problem of low world prices and thus it is false to attempt to solve the problem with more market opening. Third, in the U.S. these low prices have spawned a massive infusion of popular farm subsidies that may seem vulnerable to international negotiations. This vulnerability is heightened by the recent arguments to subsume all farm support, including "decoupled" payments, in the category of policy to be controlled (Tielu and Roberts, Schmitz 2000, Sumner 2000). Fourth, low market prices in global markets reinforce the concerns and resolve of those commodity interests in the U.S. and especially in other countries that do not want to be exposed to world market forces or want to be able to export their own commodity market problems.

U.S. Agricultural Policies and Progress in the Current WTO Round

One reason that GATT progress in agriculture was limited before the Uruguay Round was that more open borders was inconsistent with the policies that countries had established to protect and support agricultural interests (Josling, Tangermann, and Warley, Sumner and Tangermann). Open borders were clearly threatening to industries that relied on government protection and subsidy and governments have been unwilling to apply support policies that were compatible with trade liberalization. Any country may choose unilateral free trade in agriculture. Most do not. Some policies are pursued as responses to policies of other countries that would be reversed in a multilateral reform, but many WTO

members governments act as if opening agricultural markets is not in their interest. It is hard to see what is likely to change that policy behavior in the short run.

This section does not catalog why the positions and policies of countries that clearly oppose general progress are inimical to a more liberal trading system in agriculture. Many sources such as the OECD or the USDA, list such agricultural programs and policies and how they would need to change if liberal trade were to prevail. Clearly countries such as Korea, Japan, Norway, and etc. have powerful agricultural interest groups that command sympathy from the rest of the population. These nations have generally defined progress in WTO negotiations as the exact opposite of the way we use the term used here or as it is used in the very definition of the WTO quoted above. The EU is at least partially in this camp. Canada is more mixed. The grains industry wants open markets and the dairy industry want to keep Canada's market closed. The government claims to think having both is feasible. Obviously, the biggest problem for a liberal agreement is that many governments of WTO member states do not want agricultural liberalization. But, in the rest of this paper we want to discuss how policies of the U.S. itself may be inconsistent with stated position of the U.S. on liberalization or at least with achieving the goal of liberalization.

The simplest case relates to policies where the U.S. maintains high tariffs. The U.S. has made clear in the past that these policies are on the block and would have to change radically if the goal of liberal agricultural trade were to be achieved. As we have seen, the current negotiating position of the United States does not specify a zero option on tariffs. But, it does suggest that the United States continues to push for more market access. Of course, there are many remaining tariffs for U.S. agricultural goods. While few industries volunteer for unilateral tariff reductions, many industries with tariffs support multilateral tariff liberalization. But, clearly any reduction in border protection is a threat to U.S. industries that produce

products such as sugar, peanuts or frozen concentrated orange juice. The political power of these commodity groups and the trade barriers that they enjoy are the most obvious U.S. obstacles to liberalization, but it may not be the most important.

Two other policies in the area of market access get less attention than high tariffs. First is TRQ administration. Much of the benefits from U.S. TRQs go to historical exporters into the U.S. market. There is less U.S. rent seeking with respect to the distribution of those rents than there is rent seeking by exporting nations. Some of these are odd cases. For example, since the Uruguay Round, New Zealand and australia have enjoyed rents from the TRQ for beef into the United States. If this tariff were eliminated the market would be open to Argentina and Uruguay, who because they entered the market late, have a very small share of the current low-tariff quota. New Zealand and Australia meat interests might then lose from opening this market, even though they pushed hard for further liberalization back in 1993, before Argentina and Uruguay had controlled Foot and Mouth Disease. In another case, the U.S. introduced a new TRQ for lamb in 1999, and this one directly harms New Zealand and Australian exporters. As a part of the Uruguay Round agreement countries may create new trade barriers if a surge of imports harm a domestic industry. The U.S. applied this safeguard to limit imports of lamb from New Zealand and Australia, even though no unfair trade practices were suggested. The U.S. government is in the awkward position of creating trade barriers to protect a U.S. industry simply because someone else has comparative advantage. This application of U.S. trade law may have been within WTO rules (the case is pending) but it surely sent an anti-trade signal to the world.

The United States is one of the most vigorous users of WTO provisions that allow countries to limit access when "unfair trade practices" are behind imports that harm a domestic industry. Anti-dumping and countervailing duty cases have high profile in the affected industry and a remedy for industries that lose standard protection. Both countervail and anti-dumping have

economic underpinning in theory, but both have problematic aspects in practice, especially in agriculture. The idea behind countervailing duties is the notion that if a government subsidizes the production of a product it is unfair to allow the product to hard domestic producers of the same good. This idea is not necessarily based on domestic welfare, if an exporting government wants to subsidize welfare increases for the importing country consumers. But, it is accepted as a part of trade law and the GATT. The problem in agriculture is that many of the most traded commodities and products have some element of domestic subsidy. Thus, if all countries were to pursue countervail vigorously, much farm trade might be blocked. The peace clause in the Uruguay Round agreement was designed to avoid just this outcome.

Dumping involves exporting below cost or below domestic market prices. The theory here is that of predatory pricing. A firm with market power may lower prices in the short run to drive out competition so as to raise the price later. As defined in the United States however, costs are determined in such an arcane and biased way that dumping is found just about every investigation. The two main problems with applying this concept in agriculture is that predatory pricing seldom makes much sense and farmers regularly sell below (ex post) cost in competitive and variable commodity markets. The use of anti-dumping in agriculture looks to be protection to replace other lost trade barriers. And, even when foreign industries expect to prevail, the cost of litigation may serve as deterrent to serve the U.S. market.

In the WTO meeting in Seattle, the U.S. faced a majority of nations that wanted a review of these policies to be a part of the current trade round. However, one way the negotiators maintain support for liberalization is by assuring import competing industries that they will be assured of protection in the case of import surges or unfair trade practices. This set of issues is one where U.S. policy and its current negotiating position may be an obstacle to progress.

In the area of export competition the U.S. has a long

history of programs (Ackerman, Smith and Suarez, Sumner 1995). The U.S. government, through the Commodity Credit Corporation a government owned and operated entity, sells commodities from its stocks, administers the international food aid program, finances export credit guarantees, finances export price subsidies (EEP), and funds export promotions. In its current position statement the U.S. ignores export programs other than explicit price subsidies and this allows others, such as the EU, to downplay the U.S. seriousness to really discipline export programs.

The recent increase in outlays has caused the U.S. direct farm payment policy to attract more attention than other parts of farm policy. This was true also back at the beginning of the Uruguay Round (Miller). It is still true in trade policy circles even though since 1996 the main program was supposed to be in the so-called green box of minimally distorting program (Burfisher, Robinson, and Thiefelder; Young and Westcott 1986, 2000; Tielu and Roberts; Roberts et al.) Sumner argued several places that it is counter productive to devote scarce negotiating resources attempting to discipline the great variety of domestic programs, all of which have some aspects of supply impact (Sumner 2000). The Uruguay Round disciplines on domestic supports are widely accepted to have had little if any trade effects (Silvis and van der Hamsvoort; Konandreas and Greenfield).

The Agricultural Risk Protection Act of 2000(P.L. 106-224) added about $6 billion in ad hoc payments that are clearly linked to low market prices for some commodities, about $5 billion in marketing loan benefits that are tied directly to very low prices for wheat, feed grains, soybeans, rice and cotton, and $3 or 4 billion in crop insurance or ad hoc disaster benefits to the almost $6 billion in "contract" payments that were based on a history of production of certain crops (Young and Westcott 2000; Westcott, and Email press release USA Rice). This is a lot of money even by U.S. farm program standards. And almost all of it is associated with the soybeans, grains and cotton industries

that comprise less than one third of all U.S. agriculture.

Our question here however is not whether this set of payments is good policy for the U.S. Rather, the question is what does this sort of policy mean for progress in the WTO negotiations. The idea underlying the colored boxes (red, yellow, blue and green) of the Uruguay Round was that various farm programs tended to have different effects on trading partners. Some farm support policies had minimal trade effects and these would be accepted as inevitable policies to deal with externalities, public goods and even political power by influential constituencies. The general idea that governments have a variety of reasons to transfer resources to agriculture underlies the notion of multifunctionality that has been getting attention in the context of the current WTO Round (Bohman et al.).

The current spate of payments to U.S. farmers resulted from the confluence of a budget surplus, relatively modest automatic new payments in the FAIR Act, and some unique political configurations. Do these payments affect trade? Of course they do. Do they block progress in the current WTO Round? They do not if the round focuses on border measures. We see no chance that the U.S. would give up farm compensation programs outright in the short run, and no chance that this is a feasible part of a WTO bargain. That is, we see no chance that the United States would eliminate farm payments in exchange for similar pledges elsewhere.

Concluding Remarks

For this WTO Round, deadlines are still quite loose. However, as Ambassador Barshefsky noted in March 2000, while no deadline for the conclusion of negotiations has yet been established, the expiration of the peace clause at the end of 2003 should encourage countries to proceed expeditiously. Because it is related to the relationship between border measures and internal supports, the peace clause focus may help negotiators along the lines that Summer has advocated.

We see a compromise of the following sort. The U.S. agrees with Korea, Quebec and Norway that supporting farmers is the business of the sovereign governments. It agrees with the Cairns group and Western Canada that markets should be open. The United States then pushes to eliminate all border measures including credit and promotion subsidies, curb the use of new barriers in the case of import surges, eliminate the use of anti-dumping in agricultural cases, reform rules for countervailing duties to make them harder to apply in agriculture (say by showing direct and substantial effects on exports) and maintaining the line on the Sanitary and Phytosanitary agreement.

Table 1. Selected Farm Program Outlays

Unit: $ Million

Year	Direct Payments	Total	Outlays for Rice
1992	5,847	9,738	715
1993	9,143	16,047	887
1994	5,057	10,336	836
1995	4,134	6,030	814
1996	5,807	4,646	499
1997	7,017	7,256	459
1998	8,431	10,143	491
1999	13,861	19,223	911
2000*	25,877*	32,341*	1,729*

* Estimate.

Source: U.S. Department of Agriculture, *Agricultural Outlook*, November 2000, table 35, from data compiled by the Farm Service Agency.

Figure 1. U.S. Agricultural Policy Timeline, 1933–98

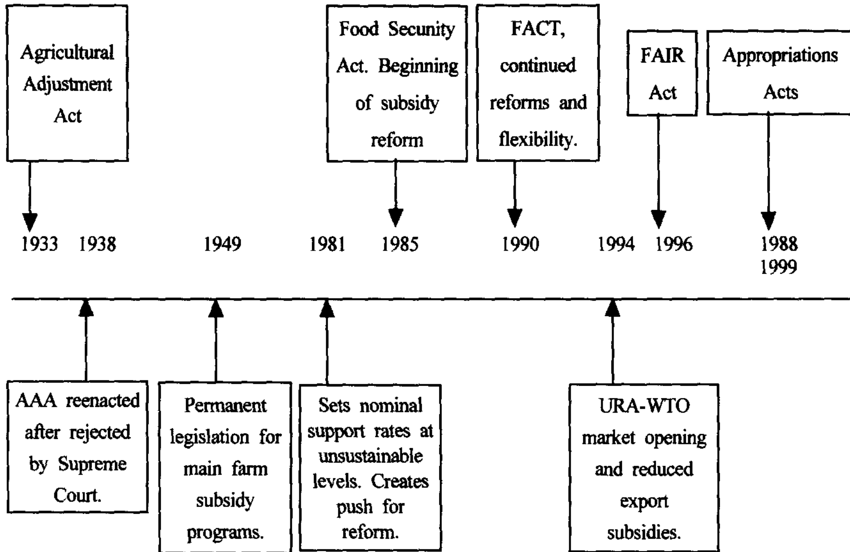


Figure 2. Corn Market Price and Support Price

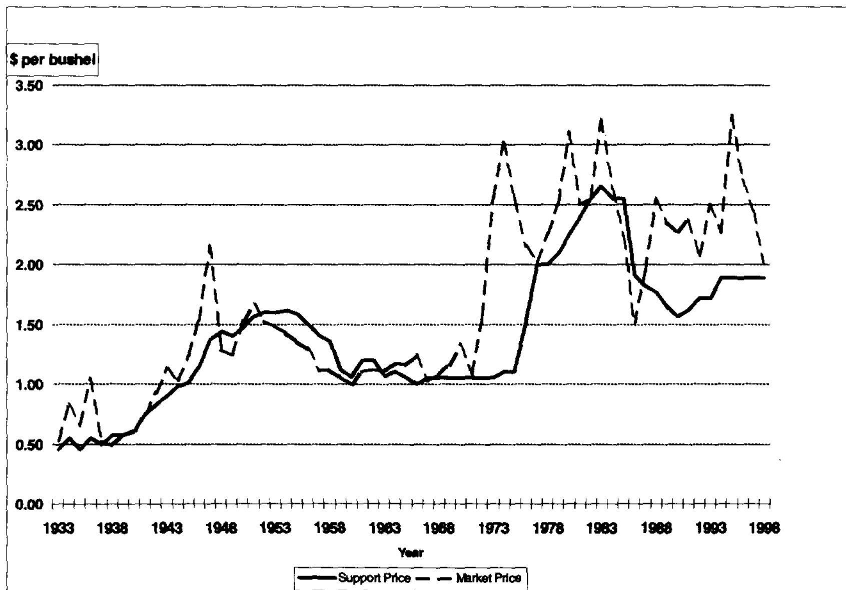
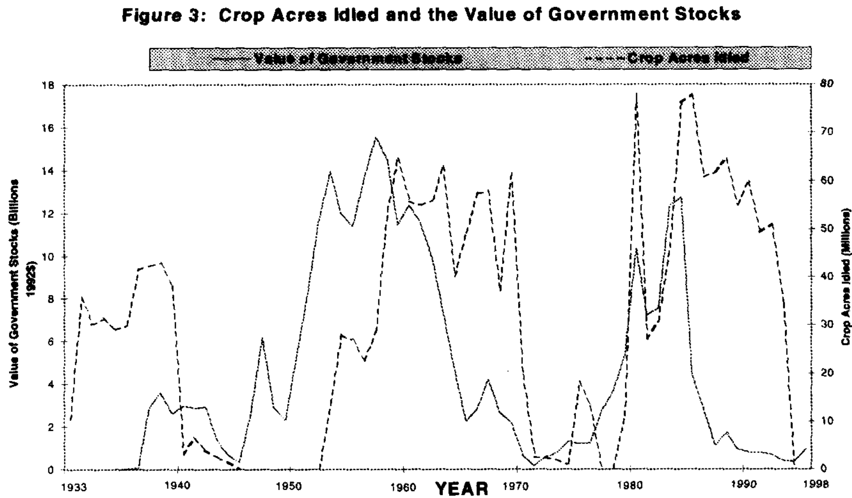


Figure 3. Crop Acres Idled and the Value of Government Stocks



REFERENCES

Ackerman, Karen Z., Mark E. Smith, and Nydia R. Suarez. 1995. *Agricultural Export Programs: Background to the 1995 Farm Legislation*. Agricultural Economic Report No. 716. U.S. Department of Agriculture.

Ackerman Karen Z. and Praveen M. Dixit. 1999. *An Introduction to State Trading in Agriculture*. Market and Trade Economics Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report. No. 783.

Barshefsky, Charlene. 2000. "U.S. Agricultural Agenda at the WTO." Testimony of Ambassador U.S. Trade Representative, Trade Subcommittee of the Senate Committee on Finance, Washington, D.C. March 7.

Benedict, Maury R. 1953. *Farm Policies of the United States, 1790-1950*. New York: The Twentieth Century Fund.

Bohman, Mary et al. 1999. *The Use and Abuse of Multifunctionality*. U.S Department of Agriculture, Economic Research

Service. Online Publication.

Bowers, Douglas E., Wayne D. Rasmussen, and Gladys L. Baker. 1984. *History of Agricultural Price-Support and Adjustment* Programs, 1933-84, Background for 1985 Farm Legislation. Agricultural Information Bulletin Number 485. Economic Research Service, USDA.

Burfisher, Mary E., Sherman Robinson and Karen Thiefelder. 2000. "North America Farm Programs and the WTO." *American Journal of Agricultural Economics* 82 August.

Effland, Anne B.W. 2000. "*U.S. Farm Policy: The First 200 Years.*" *Agricultural Outlook.* Economic Research Service, USDA.

Gardner, Bruce L. 1996. "Why Experts on the Economics of Agriculture Have Changed Their Policy Tune." in J.M. Antle and D.A. Sumner (eds.). *The Economics of Agriculture: Volume 2: Papers in Honor of D. Gale Johnson.* pp. 225-243. University of Chicago Press.

Gardner, Bruce. 1999. "Agricultural Relief Legislation in 1998: The Bell Tolls for Reform." *Regulation* 22(1): pp. 31-34.

Johnson, D. Gale. 1950. *Trade and Agriculture: A Study of Inconsistent Policies.* New York: John Wiley & Sons, Inc.

Josling, T.E., S. Tangermann and T.K. Warley. 1996. *Agriculture in the GATT.* Houndmills and London: Macmillan Press.

Konandreas, P. and J. Greenfield. 1996. "Uruguay Round Commitments on Domestic Support: Their Implications for Developing Countries." *Food Policy* 21(4&5): 433-445.

Miller, Geoff. 1986. *The Political Economy of International Agricultural Policy Reform.* Department of Primary Industry, Australia: Canberra.

Orden, David, Robert Paarlberg and Terry Roe. 1999. *Policy Reform in American Agriculture: Analysis and Prognosis.* Chicago: University of Chicago Press.

Rasmussen, Wayne D. and Gladys L. Baker. 1972. *The Department of Agriculture.* New York: Praeger.

Roberts, Ivan et al. 1999. *Reforming World Agricultural Trade Policies.* Australian Bureau of Agricultural Economics, Research Report 99.12.

Silvis, H.J. and C.P.C.M. van der Hamsvoort. 1996. "The AMS in Agricultural Trade Negotiations: A Review." *Food Policy.*

21(4&5): 527-539.

Sumner, Daniel A. 1995. *Agricultural Trade Policy: Letting Markets Work.* Washington D.C.: American Enterprise Institute Press.

______. 2000. "Domestic Poliay and the WTO Negotiation." *Australian Journal of Agricultural Economics* 43(3): 457-474.

Sumner, Daniel A. and Stefan Tangermann. 2000. "International Trade Policy and Negotiations." in Bruce Gardner and Gordon Rausser (eds.). *Handbook of Agricultural Economics.* Amsterdam: North Holland Press. (forthcoming).

Tielu, A. and I. Roberts. 1998. "*Farm Income Support.*" *ABARE Cur. Issues*. 98.4.

Westcott, Paul. 1999. "Agricultural Policy: Marketing Loan Benefits Supplement Market Revenues for Farmers." *Agricultural Outlook.* p. 4. United States Department of Agriculture. Economic Research Service. *Agricultural Outlook.* P. 4

World Trade Organization. 1995. "United States Notification Concerning State Trading Enterprises." G/STR/N/1/USA.

World Trade Organization. 2000. (http://www.wto.org/wto/about/).

Young, C. Edwin. and P. Westcott. 1996. *The 1996 Farm Act Increases Market Orientation.* Agricultural Information Bulletin No. 726. Economic Research Service. USDA. Washington, D.C.

Young, C. Edwin and Paul Westcott. 2000. "How Decoupled is U.S. Agricultural Support for Major Crops?" *American Journal of Agricultural Economics* 82(August).