Discussion of U.S. Domestic Policy and U.S.-E.C. Trade

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Discussion of U.S. Domestic Policy and U.S.-E.C. Trade

Abstract
I would like to congratulate Bruce Gardner for providing a thorough and lucid presentation of the main features of U.S. agricultural policies that affect agricultural trade. His main conclusion is that U.S. commodity programs no longer increase U.S. output; if anything, they result in less U.S. output for some major commodities. Thus, the implications of these policies for trading partners such as the Economic Community (E.C.) should be reassuring. Furthermore, Gardner notes that: (1) the income of U.S. farmers no longer provides a rationale for agricultural price support because farmers have become relatively prosperous; (2) there is continuous political pressure to reduce government spending; and, (3) emerging environmental concerns may further constrain agricultural output growth. All of this reinforces his main conclusion: The tendency of (current) U.S. agricultural support policies to decrease output is very likely to persist in the future. I find myself in substantial agreement with the theses presented in this chapter. I only have minor qualifications, which I would like to discuss briefly.

Disciplines
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Comments
Discussion

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The basic elements leading to Gardner’s conclusions are: first, a large proportion of U.S. cropland is currently being idled; second, there are no program-specific incentives to overproduce on the land being harvested because program yields are frozen (so that deficiency payments are, essentially, decoupled); and third, a related point, “slippage” is an important feature but not enough to offset the effect of acreage reduction.

That a large fraction of land is being idled is clear. Whether or not this translates into a considerable reduction in production depends on the “slippage” coefficient. Quantifying slippage, of course, remains a difficult problem. Gardner’s regression of harvested acres on idled acres provides evidence of “acreage slippage,” as he correctly notes. What matters at the end of the day, however, is “production slippage,” which may be considerably higher for a number of reasons. Love and Foster (1990) estimate slippage rates for wheat ranging from 29 percent to 37 percent and for corn ranging from 48 percent to 58 percent. The fact that idled land now is mostly land retired under the Conservation Reserve Program (CRP), a program that is most attractive for marginal land, suggests that such relatively high slippage rates may in fact be the relevant ones. On the whole, however, Gardner appears on sound grounds in arguing that the acreage reduction effect
dominates so that, *ceteris paribus*, output of program crops at present is being negatively affected by commodity programs.

The "loan rate" policy may deserve some additional comments. As pointed out by Gardner, the loan rate essentially makes U.S. domestic demand infinitely elastic and thus provides a floor for the market price. The fact that the 1990 Farm Bill set the loan rate for program crops at a low level makes this parameter less important than in the recent past. However, with government stocks of program commodities at fairly low historical levels, it remains to be seen whether the policy of low loan rates will continue in the future. At any rate, it should be clear that a floor price policy need not be binding to affect production decisions and the equilibrium market price. Given price uncertainty, a loan rate policy truncates the probability distribution and thus raises the expected price, which affects the output of both participants and nonparticipants alike. Risk aversion on the part of producers is not necessary for such an effect, although it would increase its importance.

The discussion above clearly applies only to "program" commodities. For a number of other commodities not covered by these provisions, import quotas represent the main instrument of protection. Among these commodities, dairy and sugar are probably the most important from the point of view of U.S.-E.C. trade. The stiff import restrictions in these sectors allow for a considerable indirect price support for domestic producers. In addition, the arbitrary allocation of import quotas to exporting countries introduces an additional source of friction amongst trading partners.

Gardner's analysis of the potential impact of emerging environmental regulations attacks a potentially important new dimension of U.S. policies affecting agriculture, and his detailed exposition of the main issues in this matter are useful. Clearly, the eventual changes in agricultural output and trade due to environmental policies are difficult to gauge at the present time.

To conclude, I concur with Gardner that at present time U.S. policies are perhaps reducing, rather than increasing, for most commodities. Of course, this was not always the case. In the past, U.S. policies have often resulted in increased U.S. output for program crops. Perhaps the best evidence in support of this is the fact that the Commodity Credit Corporation has periodically accumulated large amount of stocks. Among the creative ways that the U.S. government has devised to dispose of these stocks, includes financing the ongoing Export Enhancement Program (EEP) and this has surely attracted the attention of trading partners. This suggests that, in analyzing the trade effects of U.S. policies, it may be wise to take a longer view. What U.S. domestic policies are capable of doing is perhaps just as important as what they are doing at the present time.
It remains true that supporting farm incomes in the United States is no longer a compelling rationale for intervention, as Gardner has persuasively argued here and elsewhere (Gardner, 1992). Whether this consideration will lead to a decrease in the proven political clout of the farm lobby remains to be seen. Given the current concerns on the size of the U.S. budget, however, it is very likely that the United States will not increase overall farm spending in the near future, and possibly look for ways to reduce financial outlays. A relevant implication for the issues addressed in this chapter of this somewhat new political attitude concerns the financing of the expensive CRP. Currently, CRP is responsible for most of the land that has been taken out of production, and the large amount of farmland being idled is crucial to the conclusions reached in this chapter. Whether it will continue to be feasible to keep a large share of U.S. farmland out of production as the ten-year contracts start expiring in a few years is an important and unsettled issue.

Notes

1. One could quibble with this simplification. Program yields have been frozen since 1985, but before that they were based on farmers' proven yields. Insofar as farmers expect program yields to be updated in future Farm Bills, the incentive to overproduce may still be present. However, I agree with Gardner's implicit assumption that such an effect is of secondary importance.

2. The program yield for the wheat acreage base retired under CRP is 28 bu/acre, well below the national wheat program yield average of 33 bu/acre. In fact, the time profile of the wheat base acreage retired under CRP provides some support for the notion that the least productive land is the first to go in acreage reduction programs. The program yield of the wheat base acres retired in the first three sign-up periods (1986) was 26 bu/acre, whereas for the last three sign-up periods (1991-1992) it was 34 bu/acre (Osborn, Llacuna, and Linsenbigler, 1992).

3. Stock acquisition by the CCC through the loan rate program would work in this fashion if the stock is permanently removed from the market. If CCC stocks are released in the domestic market in periods of higher prices, then the program will be more like a stabilization program. If producers are risk averse, such stabilization effect may still have supply effects.

References

