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False Promises on Trade

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The *New York Times* editorial (7-20-03) on the developed countries' agricultural subsidies and trade barriers massively overstates the potential gains that developing countries might get from their elimination. While many of the agricultural subsidies in rich countries are poorly targeted, and in some cases hurt farmers in developing nations, it is important not to exaggerate these impacts. The risk of doing so is that it encourages policymakers and concerned NGOs to focus their energies on an issue that is largely peripheral to economic development, and ignore much more important matters.

To put the problem in perspective: the World Bank, one of the world's most powerful advocates of removing most trade barriers, has estimated the gains from removing all the rich countries' remaining barriers to merchandise trade -- including manufacturing as well as agricultural products -- and removing agricultural subsidies. The total estimated gain to low and middle income countries, when the changes are phased in by 2015, is an extra 0.6 percent of GDP. In other words, an African country with an annual income of $500 per person would then have $503, as a result of removing these barriers and subsidies.

The *Times* editorial misrepresents current economic research on this topic in a number of ways. For example, the $320 billion in annual agricultural subsidies in rich nations is a highly misleading figure. This is not the amount of money paid by governments to farmers that would be less than one-third this size. The $320 billion figure is an estimate of the excess cost to consumers in rich nations that results from all market barriers in agriculture. Most of this cost is attributable to higher food prices that result from planting restrictions, import tariffs and quotas.

This distinction is important, because not all of the $320 billion ends up in the pockets of farmers in rich nations. Some of it goes to exporters in developing nations, as when sugar producers in Brazil or Nicaragua are able to sell their sugar in the United States for an amount that is close to three times the world price. The higher price that U.S. consumers pay for this sugar is part of the $320 billion in subsidies to which the *Times* editorial referred.

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For more information see “The Relative Impact of Trade Liberalization on DevelopingCountries,” by Mark Weisbrot and Dean Baker.

Another important misrepresentation is the idea that cheap exports from the rich nations are always bad for developing countries. When subsides from rich countries lower the price of agricultural exports to developing countries, this will benefit consumers in the developing countries. This is one reason why a recent World Bank study found that the removal of all trade barriers and subsidies in the United States would have no net effect on growth in sub-Saharan Africa ("Unrestricted Market Access for Sub-Saharan Africa: How Much Is It Worth and Who Pays," [http://econ.worldbank.org/files/1715_wps2595.pdf].

There is also a very important issue concerning the displacement of people employed in domestic agriculture but this issue does not arise in the standard economic models used by multinational institutions such as the World Bank and the International Monetary Fund, or generally accepted by the editorial board at the *New York Times*. It took the United States 100 years -- from 1870 to 1970 -- to reduce our employment in agriculture from 53 to 4.6 percent of the labor force, and the transition nonetheless caused considerable social unrest. To compress such a process into a period of a few years or even a decade, by removing remaining agricultural trade barriers in poor countries, is a recipe for social explosion. Removing the rich countries' subsidies or barriers will not level the playing field -- since there will still often be large differences in productivity -- and therefore will not save developing countries from the economic and social upheavals that such "free trade" agreements as the WTO have in store for them.

Insofar as cheap food imports are viewed as negatively impacting a developing country's economy, the problem can be easily remedied by an import tariff. In this situation, developing countries would benefit far more if the ones that want cheap subsidized food have access to it, whereas the ones that are better served by protecting their domestic agricultural sector are allowed to impose tariffs without fear of retaliation from rich nations.

This would make much more sense, and cause much less harm, than simply removing all trade barriers and subsidies on both sides of the North-South economic divide. It is of course good that such institutions as the *New York Times* are pointing out the hypocrisy of governments such as the United States, Europe, and Japan, for their insistence that developing countries remove trade barriers and subsidies while keeping some of their own. But their proposed remedy will not save developing countries from most of the harm caused by current policies.

It is important to realize that from the standpoint of developing countries, low agricultural prices due to subsidies have the exact same impact as low agricultural prices attributable to productivity gains. If the Times considers the former to be harmful to the developing countries, then it should be equally concerned about the potentially harmful impact of productivity gains in the agricultural sectors of rich countries.

While reducing agricultural protection and subsidies in rich countries might in general be a good thing for developing countries, the gross exaggeration of its importance has real consequences, because it can divert attention from issues of far more pressing concern. For example, the IMF continues to play the role of an enforcer of a creditors' cartel in the developing world, threatening any country that defies its edicts with a cutoff of access to international credit.

One of the most devastated recent victims of the IMF's measures has been Argentina, which saw its economy thrown into a depression, after the failure of a decade of IMF-supported economic policies. Argentina's fate is widely viewed in the developing world as a warning to other countries that might diverge from the IMF's recommendations. One result is that Brazil's new president, elected with an overwhelming mandate for change, must struggle to promote growth in the face of 26 percent interest rates demanded by the IMF's monetary experts.

Similarly, most of sub-Saharan Africa is suffering from an un-payable debt burden. While there has been some limited relief offered in recent years, the remaining debt burden is still more than the debtor countries spend on health care and education. The list of problems imposed on developing countries can be extended at length bans on the industrial policies that led to successful development in the west, the imposition of patents on drugs and copyrights on computer software and recorded material, inappropriate macro-economic policies imposed by the IMF and the World Bank. All of these factors are likely to have far more severe consequences for the development prospects of low and middle-income countries than the agricultural policies of rich countries.