A TEN YEAR PLAN TO END FARM SUBSIDIES

The United States, the European Economic Community (EEC) and many of the world's other food producing nations for years have engaged in an expensive strategy of subsidizing farm production and exports in an effort to protect their farmers and gain a larger proportion of world agricultural trade. As the cost of this strategy has spiralled for each country, none has dared draw back for fear of losing market shares. The time has come, however, to end this practice of massive subsidies which raise costs of food and distort world markets. The Reagan Administration is proposing a bold plan to "build down" these subsidies. If executed by the U.S. and its trading competitors, this plan would expand U.S. farm exports and cut substantially agricultural spending in all the nations concerned.

At the latest round of trade liberalization negotiations under the 93-member General Agreement on Tariffs and Trade (GATT), underway in Geneva, U.S. trade officials proposed the elimination of all trade barriers to farm products, together with all agricultural production and export subsidies, by the year 2000. The U.S. plan also calls for food health regulations to be standardized to eliminate the use of such regulations as non-tariff trade barriers. This plan deserves the highest priority both in the GATT and in the U.S. Congress.

Falling Exports. America is one of the world's major producers of agricultural goods. In recent years, however, the value of these exports has fallen drastically, from $43.8 billion in 1981 (when the U.S. agricultural trade surplus was $25 billion) to only $26.6 billion in 1986 (with only a $3.4 billion surplus).

This decline is due in large part to America's own farm subsidies program. The federal government sets price floors for major farm commodities; when prices drop below these levels, the federal government subsidizes farmers by purchasing these products at this above-market price. Not surprisingly, these price guarantees encourage overproduction, driving up the cost of the subsidies. The cost to the U.S. taxpayer of federal farm subsidies has soared from $4 billion in 1981 to nearly $26 billion last year--equal to the value of U.S. agricultural exports. The government-maintained price also makes it difficult for American farmers to export their products since U.S. prices are higher and thus are less competitive. Government subsidies then are required for exports.

In Europe, the situation is no better. The EEC spends approximately the same amount as the U.S. to subsidize its farmers. And the EEC's Common Agricultural Policy, widely known as CAP, earmarks heavy subsidies for exports. As a result, huge farm surpluses are dumped on the world market, further depressing world prices and making it more difficult for U.S. farmers to compete. The EEC, Japan, the U.S., and many other countries, moreover, also restrict food imports to protect their own agriculture markets. This costly and destructive face-off costs the world's taxpayers $150 billion annually. It has contributed to the massive U.S budget deficit and has placed serious strains on the EEC budget.

While the idea of a mutual lowering of subsidies is not new, the Reagan plan is perfectly timed to break the impasse. The reasons:

1) **European taxpayers are more hostile** than ever to tax increases to pay for higher EEC farm subsidies.

2) **Britain is threatening to withhold** future contributions to the EEC until there are fundamental reforms in the CAP.

3) **A recent study of agricultural subsidies** by the Organization for Economic Cooperation and Development, a Paris based group representing the governments of developed, non-communist countries, provides the hard data needed as a basis for serious negotiations on subsidy reductions.

The Reagan Administration's farm subsidy "build-down" strategy would require GATT agreement on those farm commodities and subsidy and trade policies to be covered by reform. Each country would have the flexibility to detemine the best way to implement reforms. The Administration seeks agreement by the end of 1988 for a ten-year phase out of all trade barriers to farm goods and all agricultural export and production subsidies. In the U.S., the Reagan plan would coincide with steps to "decouple" federal aid to farmers from pricing and production. The latter would be determined by the free market, not the federal government. Direct aid would be given to farmers to help them through the transition period. While an elimination of subsidies would encourage inefficient farmers to move out of farming into other sectors of the economy, most U.S. farmers would gain by being better able to export their products in a world without trade barriers and subsidies to agricultural goods.

Reform of international agricultural trade would help American farm exports and cut tens of billions of dollars from the federal budget deficit. But for U.S. negotiators to gain international agreement for the plan, congressional support is essential. Congress, in conjunction with the Administration, must develop and approve the details of a plan to phase out U.S. farm subsidies and import restrictions on agricultural products. The Reagan Administration deserves praise for its bold initiative. Congress should give full backing to the plan.

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For further information:

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