

## **A SHORT HISTORY OF U.S. AG AND TRADE POLICY**

**EXCERPT FROM:  
"US AGRICULTURE POLICY AND THE URUGUAY ROUND:  
IMPLICATIONS FOR FOOD SECURITY AND GLOBAL DEMOCRACY"**

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Prior to the 1950s, U.S. agriculture was organized around the principle of full cost accounting called "parity" by the farm movement. After the devastating "Dust Bowl" of the 1930s--the ecological manifestation of the economic impacts of the Great Depression, President Roosevelt established the Commodity Credit Corporation (CCC), a "non-recourse" loan program which forced the grain companies and other food manufacturers and exporters to pay farmers a minimum price in the marketplace. When the market price fell below "parity", a price calculated to rise and fall along with farm costs, participating farmers could take out a government loan worth up to 90 percent of the parity price and withhold their crops until later in the year when prices would usually rise due to the withholding. If prices remained low, the farmer could keep the loan and the government kept the crop. The program was highly successful; throughout that 20-year period, farmers received payment for their crops worth 98.2 percent of the parity price--99 percent of it through the marketplace--and most loans were repaid with interest. In fact, the federal government had actually made a \$13 million profit over those 20 years by selling the stocks that it had retained.

Roosevelt's New Deal farm programs included two other important elements price ceilings to protect consumers and inventory control programs that included regulation of imports and domestic supply management through production controls. These programs became law in the Soil Conservation and Domestic Allotment Act of 1936 and the Agricultural Adjustment Act of 1933. By the late 1940s, the New Deal - which also generated publicly-sponsored industrial jobs through the National Recovery Act and many other social programs--came under attack as socialist, centralized planning, and even "Bolshevik."

During Dwight Eisenhower's presidency, agribusiness continued to lobby against federal price support, purportedly "because of their dangers to democratic government and free competitive enterprise" but in fact to lower their own costs of purchasing from farmers the raw materials of the food trade. And sure enough, the U.S. Congress adopted much of Eisenhower's proposals, gradually lowering price supports and initiating the process of delinking farm prices from the full cost of production. From 1955-1977, farmers were paid on average of just 75 percent of parity.

Indeed, the phrase "agribusiness" was coined by John H. Davis, President Eisenhower's first Assistant Secretary of Agriculture in charge of price supports and marketing--who later moved to head up a Harvard Business School project endowed by the Corn Products Refining Corporation (now CPC International.) In a 1956 issue of the Harvard Business Review, Davis wrote, "In the dynamic era ahead the term 'farm problem' will become more and more a misnomer; farm problem will be recognized as being also business problem and vice versa. More precisely, farm problems will be agribusiness problems."

For agribusiness, the problem became one of a "persistent excess of resources, particularly labour." A committee of university presidents, economists, and corporate executives--from Heinz

and Hormel, Ford and General Motors, American Telephone and Telegraph, IBM, and the King Ranch, to name just a few--declared that the "movement of people from agriculture has not been fast enough to take full advantage of the opportunities that improving farm technologies, thus increasing capital, create." Formed in 1942 to help plan the post-war transition and how to deal with the anticipated mass unemployment, this Committee for Economic Development (CED) advised the White House on economic planning for several decades.

In 1962, the CED recommended "moving off the farm about two million of the present farm labour force, plus a number equal to a large part of the new entrants who would otherwise join the farm labour force. Kenneth Boulding, a prominent agricultural economist from the University of Michigan, quoted in *American Agriculture News*, described their plan bluntly: "The only way I know to get toothpaste out of a tube is to squeeze, and the only way to get people out of agriculture is likewise to squeeze agriculture. If the toothpaste is thin, you don't have to squeeze very hard, on the other hand, if the toothpaste is thick, you have to put real pressure on it. If you can't get people out of agriculture easily, you are going to have to do farmers severe injustice in order to solve the problem of allocation."

Throughout the 1960s, they squeezed. The U.S. Congress enacted farm legislation that continually shifted the percentage of farm income derived from supported market prices to various forms of government payments to farmers, often in conjunction with programs intended to reduce surpluses by removing land from production.

By the time Richard Nixon became President, the United States faced its first trade deficit in 125 years. With the advice of Cargill and other grain corporations, Nixon tried to rebalance U.S. trade by significantly increasing agricultural exports--not only by devaluing the dollar after decoupling it from the gold standard but also, so that the grain exporters could offer more competitively priced products in the world market, by forcing farm prices still lower.

The shock to rural America, however, forced the Congress at that time to negotiate a politically-acceptable compromise: taxpayers would offer farmers a "deficiency payment" to partially compensate for the lower prices: "It was a cunning policy," explains Mark Ritchie, director of the Institute for Agriculture and Trade Policy, "because these payments that appeared to be direct subsidies were going to agribusiness." It was, he concludes, "in essence, a money-laundering scheme."

Since then, the Congress has periodically set a "target price" slightly above what the grain corporations are willing to pay farmers in the market--usually about half to two-thirds of the cost of production, not counting externalized environmental costs. In order for some farmers to survive, the federal government then sends a cheque to those farmers who will follow a number of Department of Agriculture rules, to cover the difference between the low market price and the legislated target price, the checks are called "deficiency payments."

Of course, farmers have to cover the rest of the balance--that is, the difference between the real cost of production and the target price--on their own. Many depended upon the federal farm loan system and private bank loans; when interest rates soared in the 1980s, many thousands went bankrupt. Others were forced to externalize more and more of the real costs of production--by planting on marginal lands, abusing their own health, and shirking other expenses in the family budget. By the end of the decade, agribusiness policymakers had succeeded in reducing farm prices in the U.S. to about 55 percent of parity, squeezing more than three to four million U.S. farm families off their land and into the cities.

## Dumping, Food Aid, and Market Expansion

The practice of selling cheap products abroad at prices below the cost of production is called "dumping". Agricultural dumping has made it impossible for many Third World producers to thrive, even in their national markets. In conjunction with export-oriented conditionalities of structural adjustment imposed by the IMF and World Bank, which have obliged many governments to convert their domestic food production to agro-industrial commodity crops in order to generate foreign exchange with which to pay their debts, dumping has made developing countries generally dependent upon food imports--and extremely vulnerable to fluctuating prices in the world marketplace.

Since Bretton Woods, dumping has been considered illegal. Article VI of the original GATT agreement defines and condemns dumping, as seen in the text below. Article XI in the original GATT test permits governments to adopt domestic supply management, even allowing restrictions on imports that might favour domestic producers, in order to control production levels and avoid the temptation to export surpluses and to relieve "critical shortages of foodstuffs."

### *GATT ARTICLE VI.*

#### *Paragraphs 1 and 2:*

#### *Anti dumping and Countervailing Duties*

1. *The contracting parties recognize that dumping by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry. For purposes of this Article, a product is to be considered as being introduced into the commerce of an importing country at less than its normal value if the piece of the product exported from one country to another*

*(a) is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country; or,*

*(b) in the absence of such domestic price, is less than either*

*(i) the highest comparable price for the like product for export of any third country in the ordinary course of trade, or*

*(ii) the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit.*

*Due difference shall be made in each case for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability.*

2. *In order to offset or prevent dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect of such product. For the purposes of this Article, the margin of dumping is the price difference determined in accordance with the provisions of paragraph 1.*

*--General Agreement on Tariffs and Trade, 1969.*

From the beginning, some countries negotiated exceptions to the rules based on the "Protocol of Provisional Acceptance," the flexibility clause designed to encourage them to join the GATT agreement by excluding pre-existing national law from its terms. In 1955, the U.S. used this clause to negotiate a permanent waiver from the GATT Council for its domestic agriculture policy.

In the ensuing decades, the impact of agricultural surpluses and falling farm prices in the United States rippled throughout the world. Because of the dominant market position of U.S. food industry, the U.S. target price becomes a virtual ceiling in the global marketplace. Agribusiness enjoyed low raw materials prices worldwide and cheap U.S. grains flooded marketplaces throughout the world. By 1986, world cereal reserves, held mainly by the U.S. and Europe, reached 316 million tons--equivalent to one-quarter of annual global consumption or 2.5 times annual world trade.

In 1954, U.S. Public Law 480 (the Agriculture Trade Development and Assistance Act) was enacted to dispose of U.S. surpluses abroad. The law created an authority for selling surplus commodities for foreign currency, instituted emergency shipping for hunger relief, and to barter farm products for strategic material. Billed as a humanitarian effort, this so-called "Food Aid" was little more than an instrument of foreign policy created to strengthen U.S. exports by literally dumping agricultural surpluses on foreign markets.

Research by the Institute for Food and Development Policy, better known as "Food First" in California, shows that the major benefactors of the below cost sales are the large grain companies which captured markets from peasants, who experienced "price slumps, stunted development, and decreased production" as a result of the impossible competition. Criticized by a wider range of social and economic justice organizations from around the world, Food Aid experienced a period of reform culminating in the 1990 Farm Bill, which moved food distribution from the hands of the government to those of private voluntary organizations and NGOs. Though the Food Aid program has increased its efficiency and distribution, it continues to further U.S. agribusiness interests.

For their part, the Europeans established their Common Agriculture Policy (CAP) in the early 1960s. Part of the Common Market established by the Treaty of Rome, the Common Agriculture Policy has never been approved by the GATT Council-but neither was it disapproved. With a Common External Tariff and policies gradually eliminating internal barriers to trade, many European countries became agriculturally self-sufficient by 1968 and surpluses began to accumulate there, too. The CAP featured a two-tier price system: a higher price in the internal market protected by a "variable levy" to discourage cheaper imports and another with which to expand their overseas markets.

Throughout the 1970s, both U.S. and European exporters enjoyed expanding markets in the Third World where demand was spurred by a flood of petrodollars and the two competed intensely. Between 1978 and 1981, there were as many unfair trade complaints filed at the GATT than in the prior 30 years altogether. In the early 1980s, the Europeans gained against U.S. exporters thanks to the Reagan dollar which reached an all-time high in 1985. When the value of the dollar fell shortly thereafter, the U.S. exporters enjoyed a boost in their competitive position.

In 1985, the U.S. Congress created a new subsidy for U.S. agribusiness paid by the taxpayers. Under the Food Security Act, the new Export Enhancement Program would bring the price of certain exports further below the already low world price--ostensibly to offset the "unfair practices" of European rivals. Also in 1985, Congress further reduced farm prices, setting some at levels roughly half the cost of production. Minnesota's Senator Rudi Boschwitz stated clearly that the objective was predatory. "If we do not lower our farm prices to discourage these developing countries from aiming at self-reliance now," he told the other members of the U.S. Senate, "our world-wide competitive position will continue to slide." By 1989 there were only 20 corporations in the world controlling 94 percent of food trade. The U.S. share of the world grain market went from 40 percent in 1970 to about 70 percent in 1980.

All of this dumping became legal with the conclusion of the Uruguay Round negotiations of the GATT. Under the new agreement signed in April 1994, countries are obliged over a period of six years to "phase-out" export subsidies by 21 percent in volume and 36 percent in monetary terms from the 1986-90 base period. But, as Indian farm advocate Vandana Shiva explains, "This is not a removal of subsidies. It is a perpetuation of subsidies."

In other words, governments may now plan permanently to spend as much as 64 percent of their prior outlay to dump as much as 79 percent of the vast tonnage of discounted foods already disrupting the world marketplace and small farming communities throughout the Third World. Indeed, the U.S. Department of Agriculture released a new "Long-Term Agricultural Trade Strategy" in October 1995 that reveals its plans to increase farm exports by 50 percent before the year 2000, primarily by increasing promotions and reducing "unfair" trade barriers.

The Uruguay Round does not help farmers anywhere, even in the North.

