
International Studies & AAE 374
Growth and Development of Nations

Lecture 9
1 October 2009

I. Last Week's Lecture by Joe Glauber (1981, AAE alum)

- A. Lots of detail on recent history of US trade policy – Too many colored boxes for those who went...
 - 1. But, what was the punch line of his talk about past 20 years of US farm and trade policy?
 - 2. Ironically, where did he do his Peace Corps service 30+ years ago?
 - 3. What did this mean about his view of US trade policy in cotton?
- B. What did C.Ford Runge (1984, AAE alum) say about US farm-trade policy? 4 Forms of dysfunction that threaten US democracy.
 - 1. Executive dysfunction –
 - 2. Congressional dysfunction
 - 3. Development dysfunction – agencies responsible for promoting economic development
 - 4. Research and development dysfunction in bioenergy
- C. More on each of these:
 - 1. Executive dysfunction – 2000 to 2008: US government retreated from multilateralism in international affairs. US in many important areas of international conduct went it alone. Obvious cases involved military and strategic adventures. Spilled over into ag and international env policy. US hegemon approach ate into political and moral capital of government in negotiations of all types. Made the jobs of negotiators difficult. Forcing way into power that was delusional. Emanated from highest levels. Cast a pall over a variety of multilateral negotiating processes – Doha round and again with upcoming Copenhagen round. Real cause had to do with legislative instruments of 02 and 07, farm bills.
 - 2. Legislative dysfunction – 2002 and 2007 bills were retrograde re-assumption of protectionism, led to Brazil and India becoming aggressive. We agreed to a final outcome of Uruguay round, and other LDCs made considerable concessions in the realm of international property rights. Now they say to US, you are not holding up your end of bargain. That game is over now. So, the effect of this Congressional dysfunction (both parties tried to outbid themselves in protecting crop farmers) is that we retreated from high ground in trade negotiations of 1990s. We were now in contradiction with trade and farm policy. So, if executive branch lost foreground, Congress did same in ag via Farm Policy.

3. Development dysfunction – 1960s, CGIAR and domestic development agencies, USAID and NGO sector – inability to effectively confront and deal with problems of poverty in developing countries. Institutional efforts, such as the MC, have failed to be implemented and pursued. Challenge of poverty and poverty alleviation, especially among the poorest 20% around the world, has meant the aggravation in numbers of poor and hungry (roughly 1 billion or 1/7 people living on earth). Relates back to executive dysfunction – imposing and demanding conditions on “democracy” – tough to have high ground in argument when you are obliterating Iraq.
4. Research and Development of Biofuels Dysfunction – Rapid gains in ag productivity from 1960-1990 are continuing to show increases in yields – Pardee and Alston – but that rate of increase is decreasing. Making progress but not at rate we were. Big reason – lack of considerable investment in research around world and in US to LGUs like UW-Madison. Investment returns in ag yields are high but peak takes about 20 years to reach, and persist after that. If one wants to maintain the lead in the Malthusian race, one needs to invest to stay ahead. 10 to 20 years from now poverty growth could be worse. Our research expenditures have been diverted into the illusion of substituting biofuels for petroleum energy. Even converting every single acre of corn to biofuel, it would compromise 15% of our energy needs. 1/3 of corn does go to ethanol. Price spike of 2008 is behind us. But, sustained pressure of biofuel combine makes prices more unstable. And, what could be more absurd than our 54cent per gallon tax on sugar ethanol produced in Brazil or elsewhere where it can be made for cheaper than corn ethanol.

II. The politics of free trade

- A. World Trade Organization (WTO), Base Politics, and Politics of the Base
 1. WTO – Created in January of 1995, evolved from GATT (General Agreement on Tariffs and Trade) which started in 1947.
 2. WTO/GATT – negotiate and enforce trade agreements that set rules for trade, foreign investment, protection of intellectual property rights, and so on.
 3. Hold rounds of talks – most successful one was the Uruguay Round (names come from where first round of talks is held). Most recent one has been the Doha round – aimed at being a “development” one, where the interests of the poor countries were supposed to take first priority, because of the widely acknowledged poverty and divergence in the world economy in the 1990s.
 4. It is not hard to argue that “base politics” where narrow interests dominate over broader social welfare have led to the collapse of the Doha

- round. At the heart of this collapse is US/European protection of agriculture with the US as the leading edge in latest rounds.
5. Politics of base in the US, especially pressure on Southern members of the House of Representatives, is where the action centers, but the tentacles of ag lobby organizations reach much further including into the heart of New York City and Chicago.

B. Background Lite (Slides 1 and 2)

1. The Doha Round/Doha Development Agenda & its Collapse:

Latest round in summer of 2008, failed on a dispute regarding provisions for what developing countries could do to protect domestic farmers from subsidized imports. US torpedoed this item for not being strong enough in restricting the power of developing country governments. But, that item immediately preceded the cotton subsidy item on the negotiation agenda, and the proposal on cotton would have required a 70% reduction in US subsidies. So, many believe US undercut the talks on preceding item to avoid being called out on the subsidy issue.

2. 2005 WTO Ruling on US Cotton ('step 2' payments—US congress in Feb 2006 agreed to eliminate step 2 but had not by 2008). Case originally brought in 2002 by Brazil. Backed by West African countries. US lost final appeal to WTO in Summer of 2008. Brazil has recently (late August of 2008) asked the WTO for the right to levy \$4 billion in countervailing duties on US imports of movies, music, and other services that have "intellectual property right" protection (e.g., copyright). Won the case in September of 2009 but for less than they asked for. It is clear that the US is way out of compliance with WTO in ag cotton case and others, too.

C. Absolute Advantage Figures (imagine what comparative advantage would look like) (Slide 3)

D. Cotton Subsidies & Cotton Market (slide 4)

1. Permissible versus non-permissible subsidies
2. Peace clause

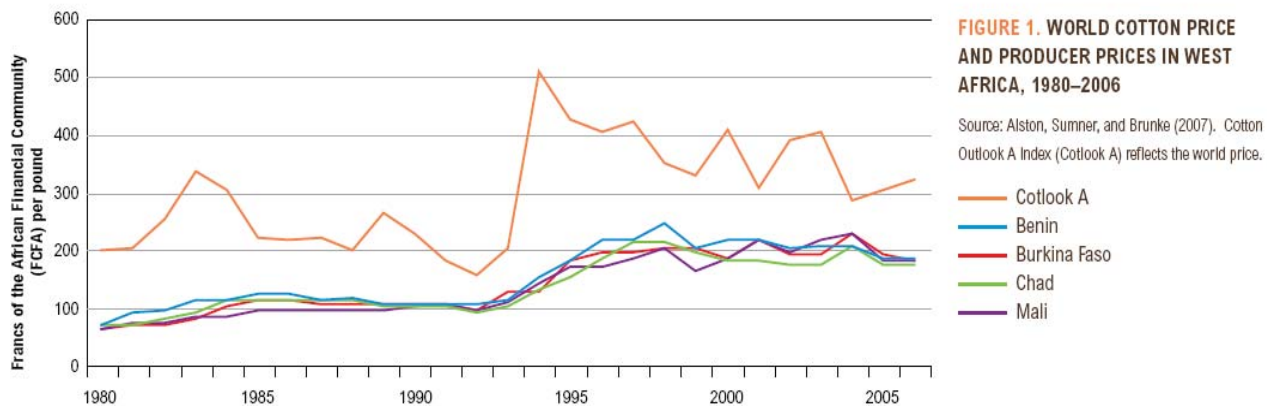
3. US stats (Anderson & Valenzuela note that US subsidies would be 56% with Step 2, and 46% without step 2)

4. World prices and trade

E. Framing the issue from West African Perspective

1. Oxfam's framing

(1) Prices (more later on impacts of reform on world and WAfrican farm prices of cotton) (Slide 5)



(2) Lost export revenues (vs. foreign aid) (Slides 6-8)

- US Exports rising in the decade of 2000 even though they are one of the world's highest cost producers.
- How is that possible? Only with big subsidies
- If US withdraws only the export subsidy, then we get the additional revenue from estimated price increases and export volume increases for other countries.
- Note that the numbers for African countries are “peanuts” by US standards.
- But, they are on the same order of magnitude as US aid to the region in that year.

2. Let's think more about how subsidy removal would work;

(1) Logic: (s & d responses, producer and consumer)

(2) Price Transmission estimates from Alston, Sumner and Brunke (note that these are after 'step 2' reform estimates) (Slide 9)

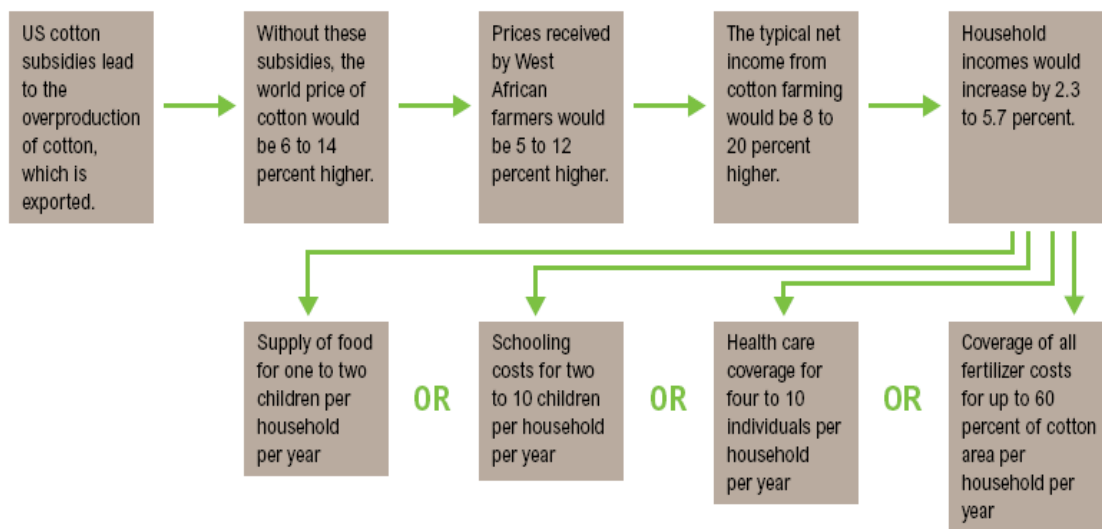


FIGURE 2. LINKING US SUBSIDIES TO THE WEST AFRICAN FARMERS

(a) Farm price impacts

(b) Human impacts

3. Additional consideration from GTAP (Global Trade Analysis Project) model (Slides 10-13)

(1) General equilibrium effects (explicitly, allowing to see gain to consumers)

(2) Multiple reform scenarios

(a) Technology constant scenarios (slide 10)

(i) Full vs. partial cotton reforms

(ii) Complete global liberalization

(iii) Farmer income (US & WAfrican)

(b) GMO Scenarios (Slide 11)

(i) W/out WAfrican adoption

(ii) With WAfrican adoption

(iii) Combined Trade/GMO scenarios

F. Framing from the US perspective (slides 12, 13)

1. farmers only

2. consumers

G. Framing from a global perspective

These reforms are very small relative to the magnitude of gains from trade associated with free trade changes. Base power politics of cotton growers clearly at work in US.

Add example of Belizean “citrus” case in the 1980s.