

— DISCUSSION —
POLICY DYNAMICS IN NORTH AMERICAN AGRICULTURE

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Senator Lugar said recently in commenting on the report of the Commission on International Trade, Development and Cooperation, “it is always fun to read something that agrees with my biases”. That Tim Josling says little with which I can disagree is comforting, but at the same time it makes for difficulty in finding something meaningful to add in my comments.

After providing the ambitious objectives of the paper and a very useful conceptual underpinning, the paper attempts definitions of three processes (harmonization, convergence and compatibility) by which policies and programs affecting the agri-food sectors of member countries of Free Trade Agreements (specifically the members of North American Free Trade Agreement (NAFTA)) come together either in form or effect as a result of implementation of the agreement. On first reading I must admit to coming away with the impression that the differences were primarily semantic in nature, maybe more confusing than enlightening and that the remainder of the paper could have been just as well written or read without worrying about the terms or their definition. After a second reading and a little thought, I think that there is real difference and that the distinctions are useful in differentiating between economic and political pressures shaping policy and for distinguishing between form and effect of policy instruments.

If I understand the definitions, harmonization and convergence are processes by which the policies, instruments, rules and regulations of member countries of a FTA come to be similar. Harmonization occurs through joint political decisions of the member countries to adopt common policy instruments that are sometimes formulated and administered by supranational institutions. Convergence, on the other hand, occurs through political decisions of the individual countries in response to pressures, largely economic I believe, growing out of the implementation of the agreement. There is minimal, if any, reliance on supranational institutions. Convergence might be thought of as unintentional harmonization and harmonization as intentional convergence.

Compatibility is the process by which conflicting effects of national policies are reduced or eliminated but not necessarily by adopting the same or similar policy instruments. Tim notes that compatibility has the disadvantage of lacking visibility — I wonder if that

isn't an advantage instead of a disadvantage. It may be a problem for economists who are trying to classify policies as being compatible or incompatible, but if they are incompatible, we will find out before too long and the advantage is that compatible policies are off the political radar screen. One disadvantage may be that by not being able to identify incompatible policies until there is conflict, the solution is forced into the conflict resolution rather than the conflict avoidance arena. Conflict resolution is by nature adversarial and the conflict likely to be settled on legal and political grounds while conflict avoidance can be cooperative and there is a better chance of reaching a settlement on economic efficiency grounds.

The middle part of the paper is a very interesting discussion of the issues raised by implementation of the NAFTA and World Trade Organization (WTO) by the NAFTA member countries with the discussion organized under the three processes. One of the real contributions of this part of the paper is that it is both backward and forward looking and thereby succeeds in defining the trade policy agenda for the United States, Canada and Mexico within the context of the further implementation of NAFTA and of the mini-round in the WTO.

HARMONIZATION

The discussion of harmonization deals primarily with the issue of national sovereignty and differences in attitude (or conditions) in Europe and the North American countries, especially the United States and Canada, as explaining why the former chose harmonization while the latter chose convergence as processes for implementation of FTAs. I have nothing to add to this discussion except one thought that occurred on reading this section, that is that sovereignty, like beauty, is in some sense in the eye of the beholder. Opening borders and integrating markets, whether financial or goods, reduces the ability of nations to control the behavior of the opened market through national policies. Politicians sometimes seem not to mind (or maybe not to recognize) the loss of sovereignty (ability to exercise control over the sector) so long as they have the "sovereignty" to pass laws or impose policies **intended** to control. The U.S. Congress doesn't seem nearly as concerned with the loss of control over the financial sector as it is to be told that the WTO does not allow it to impose a ban on the importation of tuna caught with a certain type of net.

CONVERGENCE

The discussion of the convergence process and related issues does an excellent job of organizing most of the issues that have been, are being, and will likely be confronted by NAFTA. It is for this reason that I first thought that the paper would have been just as useful

and easier to read had Tim just skipped over the attempt to define the three processes. This section did stimulate a few reactions that might add to the discussion.

The discussion, even within the section on internal pressures for convergence, sometimes seems to assume that open markets exist and talks about the pressures these open markets exert on internal domestic policies to converge. At other times the focus is on pressures, internal or external, for convergence of trade or border policies i.e., the process of integration. What seems to receive little or no attention are the kinds of pressures exerted for convergence of internal domestic policies by the **continuing process of convergence of border policies**. In other words does the process of opening borders exert the same kinds of pressures on internal policies as does the existence of open borders?

In discussing the unlikelihood of governments giving up all sectoral policies, the paper concludes, "In practice the question is how to constrain policies that give a marked incentive to expand the production, or reduce the consumption, of a product of export interest to a trading partner." In practice, this is probably the question. But doesn't restricting the question to the interest of the export interest of the trading partner reflect the producer/exporter bias of trade policy negotiations and analysis? Why aren't the consumer interests of importing trading partners of just as much importance? Why did the Uruguay Round deal almost exclusively with those policies that distort export supply upward and import demand and world prices downward? Why are export subsidies bad and export taxes not?

In discussing the reluctance of countries to give up their "cherished institutions" such as national and state/provincial marketing boards, the conclusion seems to be that the FTA will weaken their power and that accommodation will be found to avoid conflict. If this is true and it results over time in defanging these institutions, won't their reason for being and their political support erode and won't they eventually either disappear or become irrelevant?

The discussion of wholly or partially decoupled programs raises a question about "payments per hectare". Isn't the relevant question not whether payments are made on a per-unit-of-land basis, but what requirements affecting the use of the land entitle the owner of the land to receive the payment?

COMPATIBILITY

This discussion emphasizes the important role that compensation and transition payments can make to reducing the resistance to trade liberalization and policy reform. The historical failure of the U.S. to effectively use such payments exposes the Congress and the Executive to unnecessary political pressure to make accommodations that are much more costly in both the long and short term than necessary.

The final paragraph of the discussion of the international dimension of compatibility makes what may be the most important conclusion of the paper -- "there are no longer clear

distinctions between domestic and trade policies, nor between regional and multilateral trade processes. It may not matter much what is the order of policy actions, the forum in which agreement is reached, or the label under which the action is taken". The lack of distinction between domestic and trade policies came to be widely understood and accepted during the Uruguay Round. I was not aware that the substitutability of regional and multilateral trade processes was so well accepted. It agrees with my biases and, if true, gives much more cause for optimism that progress is being made toward more open and efficient world markets.