MEASURING THE DEGREE OF AGRICULTURAL PROTECTION

Note by the Delegation of the United States

The United States delegation indicated to the secretariat its intention to make a few remarks, in this session of Committee II, regarding the problem of measuring degrees of agricultural protection. It also indicated its willingness to expound the essence of those remarks in a paper that could be circulated to the Committee well in advance of the meeting that is to take up questions of this kind. The secretariat expressed the wish that such a paper be in fact distributed. It is in compliance with this wish that the United States delegation made this note available.

The terms of reference under which GATT Committee II operates do not in fact call for a measurement of agricultural protection in individual countries. Rather, they require the Committee to assemble and consider the facts relevant to its main mandate: to examine the effects of protection on trade and the adequacy of the rules of GATT and of their application to promote the expansion of trade on a reciprocal and mutually advantageous basis.

However, the expert report on Trends in International Trade (GATT, October 1958) suggested that FAO and GATT make a study, for various countries, to measure degrees of farm protection. The experts who authored the report thought that the best way of measuring "would be to measure the percentage by which the price (including subsidy) received by the domestic producer exceeded the price at which the product was available from foreign suppliers or could be sold to foreign consumers."

It may be well to note, in this connexion, that attempts in this direction have been made in the past by a number of economists. Thus, in Sweden, Eric Swedborg and Karl Säkk measured the degrees to which farm prices in various countries exceed the import prices - excluding duties - for comparable products.

H. Bachmann and W. Gasser in Switzerland were not satisfied with a simple calculation of the costs of farm support for their country - the sum total of all direct and indirect subsidies plus the difference between domestic farm prices and import prices excluding duty; they also calculated the cost of existing protection in the other segments of the economy. A comparison of real incomes as they existed with those that would have obtained if there had been no protection for either industry or agriculture yielded the startling result that, under such circumstances, the farmers' real income would, from 1949-50 onwards, have been higher than it actually was under all-round protection. (In 1935-33 it would have been the same.)

Similarly, Professor Austin Robinson, long a student of "the cost of agricultural import-saving", was not just interested in measuring the degree of agricultural protection in the United Kingdom. He set his sights upon a far more pertinent approach, still more inclusive than that of Bachmann and Gasser, though he did not attempt a detailed quantitative answer, as Gasser and Bachmann did. He directed his efforts towards answering the question whether a reduction in agricultural protection could appreciably add to the real income of the United Kingdom population at large.

There is no indication in the experts' report that their suggestion for measuring protectionism contemplated such more comprehensive inquiries. Yet it would seem that studies of the problem must be of a broader scope if valid conclusions are to be drawn. This approach must supplement any computations of the differences between farm prices and import prices, plus subsidies paid. For the real question is: How economic are countries making of their total resources of land, labour and capital?

In view of the problem at hand, the first step towards an answer to this question might be taken through an inquiry to determine whether an elimination or moderation of agricultural protection could, ceteris paribus, improve total resource allocation and thus raise the real income of a country's population. An affirmative answer to this question would establish a tentative presumption that the extent of the existing agricultural support is damaging to the country concerned; and that it is also damaging internationally, for the reason that uneconomical resource allocation in one open economy must of necessity be paralleled by uneconomic resource allocation in others. And "paralleled" may mean "caused by" or "the cause of" or a condition of functional interdependence in which the situations in all countries feed upon each other. Conversely, a negative answer to that question would establish a tentative presumption that the extent of existing agricultural support is not damaging.


Conclusions thus arrived at would be only tentative because of the ceteris paribus assumption: if nothing were to change, or could be changed in other segments of the economy concerned, or, for that matter, in other economies. Further steps in such an analysis, therefore, would have to contemplate a similar inquiry, first, with respect to other segments of the country concerned. For it is obvious that an elimination or moderation of protection in other industries might increase the comparative profitability of agricultural production as against industrial production in the country concerned — with the reverse result in other countries, and, additional inquiries would have to ferret out information on other countries also. It may be argued that the extent of import-saving induced by agricultural protection in Country A is justified by other countries' industrial protection that would preclude Country A's exporting more industrial goods to pay for larger agricultural imports. There are still other ramifications and inter-relationships that would have to be examined; the crucial point is not so much what other segments and other countries do now as what they might do in the future that plays a rôle in this context.

It is also obvious that the complexity of studies of this kind would defy all attempts at quantitative approaches. Therefore, more modest and thus more realistic goals for partial and tentative and thus more feasible examination of the impact of protectionism would have to be sought if it were decided that measurement there must be. But it is well to be forewarned that no policy-maker could be induced to trust an unfinished job. Even in a partial and tentative examination of agricultural protectionism — taking industrial protection and what other countries do for granted and inevitable — the student of this problem would be confronted with formidable difficulties. He cannot hope to find a quantitative measurement; at best he will be able to make a qualitative statement of the kind to which Professor Robinson and Professor Nash (who has also done highly significant work on this subject) wisely confined themselves; the one finding that real income would not have been higher if, through less agricultural support, fewer resources had been devoted to agricultural import-saving; the other, that in present circumstances, farm output is above the optimum and there would be some economic advantage to the country in releasing from agricultural use some of the resources absorbed by farming in recent years. Incidentally the lesson of these findings should not be lost on us in another respect as well: two careful researchers examining the same problem have come to opposite conclusions.

1 Cf. Austin Robinson, l.c.

2 Cf. E.F. Nash, "The Sources of our Food Supplies", in Agriculture in the British Economy, Oxford 1957.
Finally, it should be remembered that, if society elects to maintain agriculture at uneconomic levels for reasons of national defence or social policy, agriculture cannot in fairness be charged with all of the cost of farm support. In these cases, would all this cost be an element in the "degree of agricultural protectionism?" That this question will arise on top of all other methodological problems is an indication of how difficult it would be to arrive at meaningful appraisals of the degree of agricultural protection. Moreover, most students of the problem would in any case agree that a moderation of all the protectionism we find today is desirable. The benefits of such moderation are clear on theoretical grounds and, in a sense, need to be "measured" to be understood.