The following communication dated 24 February 1989 has been received from the delegation of Australia with the request that it be circulated to contracting parties.

The Government of Australia has decided to circulate for the information of contracting parties an independent study entitled "Japanese Agricultural Policies - A Time of Change".

The study has been prepared by the Australian Bureau of Agricultural and Resource Economics. The Bureau is an independent economic research agency responsible to the Minister for Primary Industries and Energy. It is not subject to direction as to the research methods employed or conclusions reached. It disseminates its findings widely through published reports.

The study is of direct relevance to on-going and future work in the GATT and in the Uruguay Round.

The contents of the study underline the importance of the high priority being given to negotiating measures to liberalize agricultural trade in the Uruguay Round. This objective is shared by the majority of contracting parties and circulation of the study is designed to assist them and others to realize this objective.

Some of the key findings of the study are that:

(i) After years of inertia, 1988 has been a year of significant change in Japanese agricultural policies. While there is still a need for further reform of Japan's policies, there are now grounds for greater optimism regarding Japan's commitment to re-open world markets for agriculture.

(ii) Support prices for a number of commodities, including rice and manufacturing milk, have been reduced in recent years. In addition, the new procedures, which have been developed...
to set the prices producers receive for grains, should result in Japanese farmers receiving lower grain prices in the future.

(iii) The number of product groups protected by import quotas will fall from twenty-two in 1988 to twelve by 1991 when quotas on beef and oranges are removed. In place of quotas, greater use will be made of tariffs. Thus world prices will have a greater influence on the prices that Japanese farmers receive and the prices that Japanese consumers pay for agricultural products.

(iv) The replacement of import quotas by tariffs will introduce greater transparency into Japan's agricultural policy, since income between farmers, consumers and taxpayers will be more visible than is usually the case with quota protection.

(v) Studies have shown that Japan's agricultural policies have lowered world prices for a number of agricultural commodities, have led to greater price variability in international markets where these commodities are traded and have reduced the volume traded. Ruminant meat provides an example of the magnitude of these effects. Japan's policies are estimated to have lowered world prices for this meat by 7 per cent, increased the variation in these prices by 59 per cent and reduced world trade by 27 per cent.

(vi) Japan's agricultural policies have harmed the incomes of farmers in agricultural exporting countries, such as the United States, Australia and New Zealand, as well as the economies of these countries. Developing countries have also been disadvantaged, since many of these countries rely heavily on agricultural exports to finance development and balance-of-payments obligations.

(vii) The policies used in Japan for much of the past forty years have become increasingly complicated as additional measures have been introduced to offset the effects of existing policies. For example, land diversion programmes, which result in farmers planting less rice, have been necessary to control rice production, while at the same time farmers are given an incentive to grow rice by government policies which in recent years have meant that rice prices were up to eight times the level of world prices.

(viii) Japanese policy-makers have sought to improve the incomes and living standards of Japanese farmers by providing them with prices many times world prices. This has proved to be very costly since the cost to Japanese consumers and taxpayers of transferring US$1 to Japanese farmers in the early 1980s has been put at US$1.44.
(ix) The cost of Japan's agricultural policies falls most heavily on low income households as these households spend a high proportion of their incomes on food. Operators of large farms receive most of the benefit from the heavily supported agricultural prices, yet these are the farmers who are least likely to require income support.

(x) Since so many of Japan's farm households are now involved in farming on a part-time basis (around 85 per cent), government policies do not make much difference to their levels of income. In 1986, for example, 40 per cent of farm households operated 0.5 ha. or less of cultivated land and agricultural income provided only about 2 per cent of household income. A further 28 per cent of farm households operated 0.5-1.0 ha. of cultivated land and received less than 8 per cent of their household income from farming. Therefore, abolition of price support would have relatively little effect on the incomes of around 70 per cent of Japanese farm households.

(xi) The effects of Japan's agricultural policies spill over into other parts of the Japanese economy, as is evidenced by growing domestic pressure for agricultural reform. Land in the crowded cities is used for agriculture rather than for other uses, such as housing and sport and other recreational uses. Wages in the manufacturing sector are lowered by agricultural protection since manufacturing output and hence employment demand are reduced by too many resources being attracted into agriculture through agricultural protection.

(xii) Political, cultural and social factors play an important part in Japan's agricultural sector and changes in these during recent years have improved the climate for further reforms. The political influence of the rural electorate seems to be declining. Japan's farmers are much older than the rest of the population and farming in its present form does not appeal to the younger age groups, and the Japanese diet is becoming more Westernized. Many of Japan's agricultural policies were developed when the structure of the Japanese economy was quite different from today's. It is only recently that policy-makers have begun to take account of this development.

It should be noted that the report is not an official report of the Australian Government. The analyses and contents are solely the responsibility of the Australian Bureau of Agricultural and Resource Economics. The Australian Government, while agreeing with the conclusions of the report, has welcomed the recent agricultural reform undertaken in
Japan, and would encourage all participants to continue with their efforts to bring about a liberalized world agricultural trading environment.

Two copies of the full study by the Australian Bureau of Agricultural and Resource Economics on "Japanese Agricultural Policies - A Time of Change" have been distributed to each contracting party.

A copy of the summary of the study (English only) is attached to this document.
Japanese agricultural policies
A time of change

Australian Government Publishing Service
Canberra

AUSTRALIAN BUREAU OF AGRICULTURAL AND RESOURCE ECONOMICS
Project 11325
THE JAPANESE ECONOMY is in the midst of a transformation as Japan’s leaders are advocating new directions for the economy. For the past forty years, Japan’s economic success has been based on the ability of its manufacturing sector to compete on world markets. Political and industry leaders were acutely aware that their country’s income could be raised in the long term if Japan’s manufacturing industries could succeed in a rapidly growing and an increasingly interdependent world economy. And so policies were designed to ensure that Japan’s manufacturing industries were able to succeed in export markets. As a result, manufacturing exports have been largely responsible for Japan’s rapid economic growth since the Second World War.

In recent years, economic interdependence combined with trading imbalances involving, most notably, the United States, Japan and the Federal Republic of Germany have prompted Japan to adopt new economic policies and to alter fundamentally the internal structure of its economy. This is to make it depend less on export industries for economic growth and more on domestic demand. Japan’s participation in the world economy should increase as a result, since its demand for imports will grow, so helping to assure the future of the world’s trading system with which Japan’s own economic prospects are so intertwined. Also, Japan’s citizens should be able to enjoy more of the benefits normally associated with living in a country which has the world’s second highest income per person.

Japan’s agricultural sector is now to be a part of the change taking place. Recent announcements indicate that Japan’s decision makers are beginning to reform agricultural policies. Unlike the policies for the Japanese manufacturing sector, these policies have for so long effectively isolated the agricultural sector from international market forces and the need to compete. For a number of agricultural industries, reforming agricultural policies essentially involves reforming trade policy, as trade barriers have been the main instruments of protection.

Although Japan’s agricultural policies aim for the most part to achieve national objectives, because of the size of the
Japanese economy the trade effects of Japan's agricultural policies have been of legitimate concern to its trading partners and to other countries exporting agricultural products. Gone are the days when policies could be designed and pursued for domestic purposes only and Japan could enjoy being a 'free rider' on the international trading system by taking advantage of an increasingly open trading system for manufactured goods and services while restricting agricultural imports on the Japanese market. The economies of the world will become even more integrated in coming years as further institutional and technological advances remove the barriers between geographically separated markets.

Against this background, Japan has responded to domestic and international pressure for agricultural policy reform. However, there is scope for further major policy change which will confirm Japan's commitment to an open multilateral trading system.

Nature of Japan's agriculture
The importance of agricultural, forestry and fishing industries to the Japanese economy has been declining, at least since 1955. In that year, 23 per cent of the gross domestic product was produced by these industries, but by 1984 their share was 3.2 per cent. In 1965, agricultural, forestry and fisheries products accounted for 7 per cent of the value of Japan's exports and 42 per cent of its imports, but during the next twenty years their shares declined to 1 per cent and 20 per cent, respectively. Japan's share of world imports of agricultural, forestry and marine products has averaged 9.2 per cent since the mid-1970s.

Historical, cultural and social factors are important influences on the way agricultural policies have developed in almost all countries, and Japan is no exception. Rice, which is the basis of the Japanese diet, is of religious and symbolic importance to the Japanese people, and therefore has dominated Japan's agriculture. Religious and social factors have also influenced developments in the livestock industries. Prior to the second half of the nineteenth century, livestock products were not widely consumed in Japan because of religious prohibitions. But more recently, new technologies, Westernisation of Japanese tastes and lifestyles, and higher incomes have increased the demand for animal protein and caused a rapid expansion of the livestock sector.

An important historical influence on Japan's agricultural sector was the land reform program introduced after the Second World War. This gave tenant farmers ownership over the usually very small plots of land they farmed. Partly because of the restrictions these reforms have imposed on land ownership, only a limited amount of farm land has been sold to other farmers. As a result, the distribution of farms...
according to cultivated area has been almost unchanged over the past forty years. In 1950, for example, about 73 per cent of Japanese farm families had less than 1 ha of cultivated land, while in 1987 the proportion was still 68 per cent. The proportion of farm households with 5 ha or more of cultivated land increased from 1.3 per cent to only 1.9 per cent over the same period.

Although the distribution of farm households by cultivated area has changed little there has been a large decline in the total area cultivated because of urban and industrial encroachment and the diversion of land to forestry. This has been accompanied by a dramatic decline in the farm population. In 1986, about 11 per cent of Japan’s households were defined as farm households, and about 16 per cent of the population lived in those households, proportions considerably below those in 1970 — 19 per cent and 26 per cent, respectively.

Because Japan has little land suitable for agriculture, it may come as a surprise that such a high percentage of the population are members of farm households. Part of the explanation lies in the way farm households are defined in Japan. In 1986, to be defined as a farm household, a household had to cultivate only 1000 m$^2$ of land in Eastern Japan or 500 m$^2$ of land in Western Japan, or obtain ¥100 000 from the sale of agricultural products. This meant that households only had to have, for example, one or two cows to be in the beef industry or a very small area of rice to be in the rice industry.

Of course, not all members of farm households work on farms. In 1950, about 50 per cent of the 6.2 million farm households were classed as part time because at least one member worked off the farm. By 1986, of the 4.3 million farm households, 85 per cent were considered part time. Almost 82 per cent of the part time farm households in that year earned the major part of their incomes off the farm. Japan’s rapid industrialisation in the 1950s and 1960s, and technological developments which resulted in labour saving farm machinery and in high speed public transport provided the opportunities for farm household members to engage in off-farm employment. Relatively attractive off-farm wages provided the incentive.

The increase in off-farm employment among farm households has had a number of important effects on agriculture. For example, it has led to less double cropping, because farm households have found it more profitable to increase the number of hours spent working off the farm than to grow two crops a year. Consequently, the intensity of land use has been falling. Also, it has meant that many farm households have concentrated on growing rice since it is a crop which is easily managed by the part time farmer.
Many farmers are elderly

Rice is also the crop grown by Japan’s many elderly farmers, a very distinctive characteristic of Japan’s farm population. In 1985, 29 per cent of that population were over 65 years of age, while in the population as a whole the proportion was 10 per cent. Given the current age distribution of the Japanese population, 43 per cent of the farming population could be over 65 years old by 1995, compared with an estimated 14 per cent of the population as a whole. Apparently, farming in its present form does not appeal to the younger age groups.

Japanese farm households have been an important political force for many years. There are a number of reasons for this. First, they have had a disproportionate share of elected representatives in the lower and upper houses of the Japanese parliament. This is largely because the boundaries of electoral districts established after the Second World War have not been sufficiently changed to reflect the movement of population from rural to urban areas. Second, the agricultural cooperative movement, which has almost universal membership of farm households, has been a very effective political lobbyist for Japan’s farmers. Third, Japanese political parties do not have strong local organisations able to provide a sound financial basis for the party or to mobilise voter support. An implication of this is that individual candidates are forced to bear the main burden of mobilising voter support, which means they are sympathetic to interest groups, including farmers.

Recently, however, there has been greater recognition of the importance of urban voters by the major political parties, and there has also been public criticism of some of the activities of the agricultural cooperatives by government officials. There has also been some redistribution of seats in the Japanese parliament, which has reduced the disparity in representation of rural and urban voters. These developments indicate that the political influence of farmers and of the agricultural cooperatives may be declining.

Goals and policy instruments

Japan’s agricultural policies aim to provide living standards for farm households that are comparable with the living standards of neighbouring non-farm households, to maintain the vitality of rural communities, to increase the level of agricultural productivity, to provide stable prices to farm households and consumers, and to ensure adequate food supplies.

In the 1950s and early 1960s, when Japan’s manufacturing sector was growing rapidly, the major concern of Japan’s policy makers was to raise the incomes of farm households so that their living standards would be comparable with those of households involved in other industries. More
recently, the need to raise agricultural productivity has been stressed in policy documents.

In the pursuit of these objectives, which are also important in many other countries, Japanese policy makers have developed complicated policies to protect many of Japan’s agricultural industries from import competition and to encourage domestic production. Imports have been discouraged by quotas, tariffs, mixing regulations, grading standards, state trading and health regulations, while domestic production has been encouraged by price support and stabilisation and by production subsidies. In using these instruments, Japanese policy makers have not fully acknowledged the role of the market in providing price signals to producers and consumers. This has reduced the market’s usefulness as a source of information which would help the economy to adjust to changes in its environment and operate at its maximum efficiency. Many of the policies have been developed in a piecemeal fashion, adding to their complexity and general lack of transparency, so hampering policy debate in both Japan and the international community.

In place of market determined prices, in such important industries as the rice and dairy industries the government pays producers prices which have been set on the basis of results obtained from surveys of producers. It is commonplace for industry representatives to have a major role in the price setting process. Their involvement may have slowed the pace of change in Japan’s agriculture since each industry has a strong vested interest in at least maintaining its level of support. For some commodities the price setting process is sufficiently imprecise to allow adjustments to be made to prices to account for the political climate at the time. The reductions in the government price paid to producers for rice in 1987 and 1988 are therefore noteworthy, as these reductions were the first since the 1950s. But the price is still almost nine times the world price, so rice producers continue to be heavily subsidised.

Basing support prices on cost of production surveys means that producers with large farms receive the greatest income benefit since they are likely to have the lowest unit costs and the highest levels of output. It is unlikely that the income positions of low income households in, for example, the dairy industry, have been improved much by price support, as 80 per cent of farmers in that industry produce only 10 per cent of the output. As well as this distributional effect there are the impracticalities of deriving cost of production estimates on multiproduct farms.

The disparity between the prices received by Japanese farmers and the prices in international markets has widened dramatically as Japan’s economy has developed. In 1955 the
Some quotas soon to be removed

prices paid to Japanese farmers were on average about 20 per cent above international prices, but in 1986 they were a little over three times international prices. Such price differences are largely the result of the government tightly controlling agricultural imports. Commodities not produced in Japan — for example, feed grains — have generally faced few import restrictions and so have prices closer to international levels.

For many years Japan’s use of import quotas has been the focus of foreign criticism of Japan’s agricultural policies. The reason is that quotas are a particularly onerous form of border protection since they break the nexus between domestic and international prices. For example, when the world price of wheat fell in the mid-1980s the Japanese wheat market did not undergo any major adjustment. Instead, the adjustment burden, in the form of lower and more volatile international wheat prices, was borne by the countries not employing such protection. In the Japanese beef market, the import quota, and the way the quota has been administered, has prevented Japanese consumers from fully benefiting from the yen’s appreciation as they do not have access to imported beef at world market prices. The major beneficiaries in such cases have been the quota holders.

Although the number of agricultural, forestry and marine product groups affected by import quotas declined from 102 in 1962 to 22 in 1974, Japan resisted international pressure to remove more quotas until 1988, when it agreed to lift import quotas on ten agricultural product groups by 1992. The quotas on beef and oranges — a major source of friction between Japan and its trading partners, particularly the United States — are included among the import quotas to be removed.

For many of the industries whose quotas are to be removed, tariffs will be used to provide protection against imports. One major advantage tariffs have over quotas is that they allow movements in international prices to be reflected in domestic prices. As a result, resources are allocated more efficiently and incomes in the world are higher. There is less uncertainty about the effects of tariffs on the incomes of Japanese consumers and farm households than there is when using import quotas, and tariffs are the only form of border protection acceptable under the General Agreement on Tariffs and Trade.

Replacing import quotas with tariffs should result in a reduction in the level of agricultural protection in Japan. In the case of beef, although the nominal rate of protection under the tariff arrangements which will apply from 1991 could be as high as 95 per cent, it will be no more than half the rate of protection in 1986. More importantly though, any assistance in addition to the tariff which the beef industry

Protection to be reduced and more transparent
might receive following the removal of quotas will almost
certainly need to appear as an explicit item in the govern­
ment budget. This should eventually lead to a more reasoned
political choice about whether the income transfers which
have characterised the industry are really the income trans­
ers the Japanese people want. The same should be true for
the other industries which are soon to have their import
quotas removed.

Although exporting countries have focused their criticism
on Japan’s system of quotas, other trade barriers can be just
as restrictive. State trading organisations, for example, can
be just as successful — and therefore undesirable for Japan­
es consumers and for exporting countries — as quotas in
excluding imports if they have import control as part of their
state sanctioned activities. Among these organisations are
the Japanese Food Agency, which controls rice and wheat
imports, and the Japanese Raw Silk and Sugar Price Stabil­
isation Corporation, which controls sugar imports.

A number of other measures have also restricted the
access of imports to the Japanese market. Blending regula­
tions in the citrus juice industry require a certain quantity of
domestic juice to be used with imported orange juice, while
in the sweetener industry domestically produced potato
starch must be used with corn starch produced from import­
ed maize in the manufacture of high fructose corn syrup.
Other barriers include limited quarantine facilities for im­
ported live animals, and phytosanitary standards which
restrict some fruit imports. A number of these measures will
be either removed or relaxed over the next two to three years.
The blending requirement on imported orange juice will
disappear with the removal of the quota on orange juice in
1992, and the blending ratio of potato starch to corn starch is
being widened to accommodate more maize imports.

As well as border protection and price support, there are
other forms of intervention in Japan’s agriculture. Diversion
programs have been used to encourage farmers to produce
less rice and more of those commodities for which demand is
likely to increase with income. These commodities include
livestock products, some types of fruit and vegetables, wheat
and barley. The various programs have been expensive — in
the period 1982–85, ¥1200b was provided — and yet only
moderately successful in bringing about a permanent change
to Japan’s agriculture. This is because the programs have
not contained provisions to prevent farmers from moving
back into rice production after they have received the diver­
sion subsidies. It may also be because Japan’s rice
producers are mostly part time farmers not particularly
flexible in altering their output mix as fixed costs are a
relatively high proportion of total costs. Programs which
have been used in other industries to control production
Policies to increase farm size have had little effect

Many industry policies are linked

Budget expenditure on agriculture falling

include a buy-out scheme for dairy cows to control milk supplies, and subsidies to encourage mikan growers to grow other fruits.

Because of the small size of farms and their fragmentation and because of the reluctance of farmers to sell their land, the government is encouraging farmers to assign rights to the use of their land to agricultural cooperatives or to municipal authorities, usually for around three years, in return for rent. In some cases, municipal governments have provided funds to farmers to encourage them to do this. The land is rented to those farmers wishing to expand their operating areas to increase agricultural productivity. So far, these schemes have attracted little interest among Japan's farming population and have made almost no difference to the average farm size. Schemes have also been directed at elderly farmers, with lump sum payments being made to those farmers relinquishing ownership of their land. Again such schemes seem to have had little effect on farm size, possibly because of the appeal rural life has for elderly farmers. Reducing support prices could be expected to cause some farm households to leave agriculture. However, there would be a greater change in land use if the laws governing land use, including the taxation treatment of farm land, were reformed. The issue of land use is being given high priority by Japan's political leaders but, to date, reform has been limited.

There is a certain degree of interdependence between the instruments used in agricultural policies for the major industries. At least some of the funds which have been raised from levies on beef imports by the Livestock Industry Promotion Corporation — the state trading organisation responsible for administering the policies in many of the livestock industries — are used to fund some of the programs operating in the dairy industry. And the prices set in the wheat industry depend at least partly on those set in the rice industry because the funding of both industries comes from the one account in the budget, the Food Control Special Account. In addition, profits made by the Japanese Food Agency from importing wheat at world prices and then selling it at higher prices to Japanese consumers have been used to help fund the high prices paid to domestic wheat growers. Such linkages between industries have made the task of significant agricultural reform all the more difficult since an industry in which reform is proposed may be able to enlist the support of other industries in opposing change.

The budgetary cost of the agricultural policies has been criticised by the Ministry of Finance for a number of years. Perhaps as a result, the agricultural, forestry and fisheries budget fell each year in the period 1982–87. Its share of the national budget also declined, as did agriculture's share of
the MAFF budget. Since the early 1970s, the proportion of the agricultural budget allocated to price support has been declining — from 44 per cent in 1970 to 19 per cent in 1986. However, this has not prevented the levels of protection in agriculture from increasing, as the burden of supporting agriculture has been increasingly passed from taxpayers to consumers in the form of higher prices relative to world prices.

This shifting of the burden has increased the difficulty of accurately determining the level of assistance being given to agriculture. A more transparent strategy, and one Japan is likely to follow for the beef and orange industries when import quotas are removed, is to provide assistance to industries by directly allocating funds through the budget. This approach allows taxpayers and their representatives to scrutinise what assistance is being provided and increases the opportunity for well-informed debate within Japan about the costs and effectiveness of the policies being followed.

Effects of government policies

When most of the price support policies were introduced in the 1960s, agricultural income provided on average about 50 per cent of the total income of farm households. Since so many of Japan’s farm households are now involved in farming on a part time basis and control few agricultural resources, it is unlikely that government intervention makes much difference to their income levels and therefore living standards. In 1986, for example, for the 40 per cent of farm households with 0.5 ha or less of cultivated land, agricultural income provided about 2 per cent of household income, while for the 28 per cent of farm households with 0.5–1.0 ha of cultivated land, it accounted for just below 8 per cent of household income. Therefore, government assistance to agriculture has very little effect on the living standards of about 70 per cent of farm households.

The policies do, however, have effects which probably would not have broad community support within Japan if the general public were fully aware of them. While the policies have stabilised domestic prices, they have imposed significant direct costs on consumers. These costs arise because of the increase in import prices that accompanies trade restrictions. The increase in prices reduces the competition faced by domestic producers and so creates opportunities for the prices of domestic output to be increased. Also, import quotas limit the range of products available to consumers, since there is an incentive for only higher priced versions of the products to be imported by the quota holder. Even if quota holders do not make such substitutions, consumers are faced with less of a more expensive import.
Estimates suggest that agricultural protection in recent years has imposed costs of up to ¥250,000 a year per household.

Such costs fall most heavily on low income households, since they spend a higher proportion of their incomes on food. Calculations done in the course of this study indicate that in 1987 agricultural policies have effectively placed surcharges on income of about 8 per cent for the 20 per cent of households with the lowest incomes and about 5 per cent for the 20 per cent of households with the highest incomes. Therefore, existing agricultural policies not only provide little assistance to most farm households but also impose a relatively heavy direct burden on low income households.

As well as having these distributional effects, Japan’s policy of providing income support to farmers through prices for their products is very inefficient. Recently published research has shown that the cost to Japanese taxpayers and consumers of transferring US$1.00 to Japanese farmers in 1982 was US$1.44. Estimates of the cost of Japan’s sugar policies show that for every dollar transferred to Japanese growers, millers and processors in the period 1985–87 the cost to Japanese consumers was over US$2.20.

Much of the benefit of the high prices paid to Japanese producers as a result of government intervention has been capitalised into the limiting factor of agricultural production — land. So agricultural policies have caused the price of land to be higher than it would have been without agricultural protection. The higher rural land prices have had a spillover effect on the cost of housing in the major urban areas and have possibly been a factor behind the limited availability of land for social amenities and for use in leisure activities. Although the average income per person in Japan in recent years has been one of the highest in the world, the high price of land, together with the high price of food, has meant that the purchasing power of Japanese consumers has been about 30 per cent less than the purchasing power of US consumers and only broadly similar to the purchasing power of consumers in other industrialised countries. The high cost of housing in Japan has also contributed to the high rate of saving in that country. The significance of this is that an increase in domestic absorption — partly as a result of reduced household savings — is necessary if Japan is to contribute to a permanent correction of the current trading imbalances in the world economy.

Some parts of Japan’s agricultural sector will experience job and income losses in the short term as a result of the more liberal treatment of agricultural imports. This point has been used with effect by opponents of trade liberalisation who have been able to identify particular regions and industries which would be disadvantaged by the removal of
protection. For example, lobbyists for the dairy industry in Hokkaido have forestalled liberalisation for that industry by claiming that thousands of jobs would be lost — with dire consequences for Hokkaido's economy — should protection be removed.

Advocates of less protection have a much more difficult job in trying to argue that a more liberal treatment of imports could increase the efficiency of resource use in Japan and so lead to higher incomes and living standards in the longer term. This is because the costs of agricultural protection to the economy may not be fully understood by the Japanese people. Yet it is well established from empirical research that agricultural protection imposes costs on other sectors of the economy. These costs arise because the manufacturing sector, for example, has to compete with the agricultural sector for resources. The protection and support provided to agriculture attracts or keeps more resources in this sector than would normally be the case, reducing opportunities in the manufacturing and services sectors for existing industries to expand or new industries to establish. Recently published estimates indicate that Japanese agricultural protection taxes the manufacturing sector, where export earnings are about 3 per cent lower than they would be without such protection. This same study also concluded that the protection reduces average real wages of workers in the manufacturing sector by 2.5 per cent.

While the reform measures announced in 1988 have reduced the likelihood of confrontation between Japan and the United States over the access of agricultural exports to the Japanese market, until Japan removes its remaining agricultural protection its manufacturing exports still face the possibility of retaliation in the form of trade restrictions in other markets. Hence there could still be employment and income losses in industries with seemingly little connection with agriculture.

Studies have shown that Japan's agricultural policies have lowered world prices for a number of agricultural commodities, have led to greater price variability in international markets where these commodities are traded, and have reduced the volume traded. Ruminant meat provides an example of the magnitude of these effects. Japan's policies are estimated to have lowered world prices for this meat by 7 per cent, increased the variation in these prices by 59 per cent and reduced world trade by 27 per cent.

As a result, the policies have harmed the incomes of farmers in agricultural exporting countries, such as the United States, Australia and New Zealand, as well as the economies of these countries. Developing countries have also been disadvantaged, since many of these countries rely heavily on agricultural exports to finance development and...
Numerous changes soon to occur due to international and domestic pressures to meet balance of payments obligations. This means that the recent changes to Japan’s agricultural policies could benefit many people, not just the 120 million Japanese consumers.

1988 — a time of change

By 1992 a series of changes to Japan’s agricultural policies will have been introduced. These include simplifying the distribution system for rice; altering the method used to calculate the producer prices for wheat, barley and soybeans; reducing the producer prices of rice, manufacturing milk and beef; removing import quotas on beef, fresh oranges and some processed foods; modernising the beef grading system; and reducing tariffs on a range of products including grapefruit and some dairy products. Many of the changes are relatively minor if considered in isolation, but the fact that the decisions were made to implement these minor changes possibly made it easier for Japan’s policy makers to take the relatively difficult step politically to eliminate the import quotas on beef and fresh oranges.

Although international pressure, particularly from the United States, was no doubt important in making 1988 a year of change for Japan’s agricultural policies, internal forces were also important catalysts for change. These internal forces included:

- the restructuring of the Japanese economy and the increased emphasis on domestic demand in underpinning the rate of economic growth;
- the recommendations of the first Maekawa report — viewed as a blueprint for the Japanese economy — that price setting processes for agricultural products should be reviewed and that the access of agricultural imports to the Japanese market should be improved;
- the increasingly prevalent view by Japanese decision makers and opinion leaders that the Japanese people should be able to enjoy a standard of living commensurate with the strength and growth of their economy over the past four decades;
- the relatively high proportion of elderly people in the farming population and the apparent lack of appeal of farming in its present form to younger people;
- a decline in the electoral importance of rural voters and greater recognition of the importance of urban voters by the political strategists of the main political parties; and
- the cost of many of Japan’s agricultural policies to the economy and the inability of those policies to ensure an efficient agricultural sector able to keep pace with recent changes in the Japanese economy.

These internal pressures are pervasive, so there seem to be reasonable prospects for further changes in agricultural...
policies. If Japan's policy makers continue to move toward using more direct and transparent instruments in agricultural policies, particularly in industries still protected from imports by quotas, the Japanese people and the international community will benefit in terms of higher incomes. So the recent policy changes by Japan have to be part of a genuine and ongoing effort to reduce the overall level of government protection of agriculture.

When introducing policy changes, the Japanese government could provide adjustment assistance to facilitate the movement of resources such as land and labour out of agriculture and into other sectors of the economy. However, as pointed out earlier most farm households already have members in employment outside of agriculture, and there are many alternative uses for much of the land now in agriculture. Hence, any adjustment programs should be used only to hasten the rate of adjustment. In the short term they would probably make continued reform of policies easier if they offered retraining and relocation assistance for farmers or provided direct incentives for industries to locate in rural areas. They should not, however, attract additional resources into agriculture.

The development of agricultural policies in Japan, as in most other countries, is a complex process which requires tradeoffs to be made between groups in the economy with different interests. This means that a decision to change policies is never taken lightly, nor is it a painless process politically or economically. However, once change is made, the actual political and economic pain is often less than expected. It may be that 1988 will come to be viewed as the year in which the political will for change in Japan was sufficiently strong to set Japan on the path toward using its agricultural resources more efficiently, benefiting Japanese consumers, taxpayers and the economy, as well as other countries.