

Farmers' GATT

The General Agreement on Tariffs and Trade, the basis of the world's prosperity, is now seriously threatened.

LAST week's summit meeting of the seven largest industrialized nations at Houston failed in its most important task — to find a formula that will allow a successful negotiation of the rules that govern international trade in agricultural produce. The issue is important because of the declared ambition of these same countries to negotiate an agreement on farm produce as a part of the attempt to extend the scope of the General Agreement on Tariffs and Trade, otherwise GATT. The negotiations have been under way for the past four years, but are due to end in December. The danger is that failure to agree on agriculture will bring the whole enterprise to a halt.

The consequences of that could be exceedingly serious. GATT is a club requiring of its members that they should follow certain rules in regulating their trade with other members. In particular, they are required in respect of manufactured goods not to use discriminatory legal and other devices for restricting imports of goods. It would, for example, be illegal under GATT for a country importing widgets of some kind to insist that imported widgets should come only from the manufacturers of neighbouring countries, or to say that it will allow the import of only a fixed number of them so that its domestic manufacturers could hope to build up their own businesses. Import tariffs are allowed, provided that they are not discriminatory, but even then there are rules that specify upper limits for substantial classes of manufactured goods. It is generally agreed that GATT has made possible the rapid growth of world trade since the Second World War, and that the whole world has profited as a consequence.

But GATT is not a once-and-for-all agreement, and can never be. For one thing, the diplomats of international trade cannot hope to anticipate all the changes of technique that lie ahead. For another, to the extent that the objective of free trade is to encourage between different countries an efficient division of labour of which Adam Smith (who died 200 years ago last week) would have approved, it is plain that the scope of the agreement must be steadily extended. In the current negotiations, for example, it has been agreed that the GATT agreement should be extended to cover financial services of various kinds. Countries which have been found to be less successful at manufacturing goods may nevertheless hope to pay for what they have to import by selling insurance, or other such services, to their trading partners.

Not before time, agricultural produce has now found its way onto the agenda. The explanation is simple — during the past decade, both the United States and the European Communities have offended trading partners such as Australia and Canada by their practice of subsidizing or otherwise encouraging exports of food. The European Communities, which spend \$10,000 million (out of a total

farm subsidy of nearly \$50,000 million) on export subsidies, are the worst offender. The trouble with last week's Houston meeting is that while the participants called for negotiations on this vexed issue, there is nothing in the declaration to ensure that even members of the European Communities, will negotiate in a different frame of mind than in the past.

The whole issue contains elements of the bizarre. The total cost of what Europeans call the Common Agricultural Policy is not simply the \$44,000 million the policy will have cost this year, but a larger subsidy of farmers by European taxpayers through the higher food prices people in Europe are compelled to pay for the privilege of growing their own food uneconomically. The same policy is likely to stand powerfully in the way of the fulfilment of Western Europe's ambitions to cement strengthened trading relationships with Eastern Europe — many states there will be unable to buy goods from the West because the levy on food imports into the Communities will prevent the customers paying in the obvious coinage — agricultural exports. Nobody would pretend that the Common Agricultural Policy could be swept away overnight without causing enormous disruption to rural communities in Western Europe, but not even the GATT negotiators are asking for that. The need, now, is merely to agree that the policy cannot last forever. Sadly, there are many members of the Communities who will not agree that even that stark truth should be stated openly.

In reality, GATT should be looking for much more. To the extent that GATT helps to determine trading relationships between developed and developing countries, it is generally restrictive. In the present negotiations, it has been agreed that a version of the Multi-Fibre Agreement, which allows rich countries to restrict imports of textiles from developing countries, should persist. The objective is, of course, to protect the textile industries of the rich countries. The consequences are that domestic consumers must pay extra for textiles, and that developing countries are less able to earn the funds with which to pay for the capital goods they need to buy from elsewhere. The consequences are that both the textile protectionists and their potential competitors are impoverished; the latter are saddled with low-tech occupations (or none at all) when they might be engaged in middle-tech occupations, the former by the extent to which the value they might be adding to raw material falls short of what they might be adding in more technically advanced pursuits.

If the present round of negotiations is eventually completed and signed as a treaty, the signatories will be painfully aware that they have signed an imperfect document — better than the existing treaty, but sufficiently far from the ideal as to be contemptible. That is why there is now a need to establish GATT on a different basis. The best solution would be that GATT should be turned into an international supranational court of mercantile law. The next best is that GATT members should be compelled to begin the next round of negotiations before the current round is complete. □