

# Does GATT Mean Economic Growth?

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Does freer trade mean economic growth to the United States agriculture industry? This is an important question, since there is significant skepticism among farmers with their relationship to the General Agreement On Tariffs And Trade (GATT) and economic prosperity.

In a changing global economy, hard choices must be confronted and compromises must be made. The significant choices to agriculture prosperity can come from either the domestic economy, the American taxpayer and consumers, or from improved farming efficiency to compete in global markets.

The current agriculture problems will not be solved by current governmental programs. The United States' economy cannot grow rapidly enough to absorb the output from the steady rise in farm productivity. Trade liberalization of global markets is very critical to United States agriculture.

The United States was once very dominant in exporting products to feed the rest of the world. Now there is strong competition with other countries for world markets. Trade balances, political policies, international debt, and growing populations make the issues very complex.

On December 15, 1993, the United States concluded the seven-year Uruguay Round negotiations within GATT. This multilateral acceptance of the historic

GATT accord, signed on April 15, 1994, was of major significance to United States' agriculture. This will become a major strategy in promoting growth in U.S. farm income.

The agriculture negotiations in the Uruguay Round focused on the causes of unfair competition in world agriculture trade. Increasing levels of government supports and protection for agriculture globally in the mid 1980s reinforced the need for globalism in agriculture trade.

### Federal Budgetary Outlays For Agriculture

United States farmers had a large stake in the negotiations in the trade liberalization of GATT. Because of federal budgetary restraints, outlays for agriculture will continue to decline in the future years.

The Office of Management and Budget (1994) reports that nutrition spending would rise, while outlays for many farm-subsidy, soil conservation, and other programs will be eliminated or cut. Outlays for the agriculture department's big crop-subsidy program would fall 30 percent to \$8.5 billion, a projection based on expected lower harvest during calendar 1994.

These budgetary projections for agriculture programs show a reduction from \$16.9 billion in 1994 to \$13.6 billion in 1997.

With less governmental intervention, U.S. farmers would be in better position to produce efficiently for the international market, increasing the productivity

and competitiveness of U.S. agriculture and the nation as a whole. As a result, this would free scarce federal funds for other purposes, reducing taxes, or reducing deficits.

The USDA (1994) reports that 30 percent of all U.S. crop acres are exported. United States farm income has become increasingly dependent upon agriculture exports. Trade has become the key source for growth in farm revenue and employment.

The Agricultural Outlook (1994) reports that export subsidies, especially in the European Community, have retarded U.S. trade and reduced farm income during the past decade. The European Communities' high domestic prices have been protected by variable levies on imports that spur domestic production; and the resulting surpluses have been dumped on world markets, using the export subsidies. As a result, the European Community has transformed itself from a net importer to a net exporter of many commodities, including grain, beef, and dairy products.

The Uruguay round agreement would discipline the budgetary outlay and the quantity of subsidized exports to ensure that countries control the use of subsidies in all kinds of market conditions.

### Structure Of The Uruguay Round Agreement

The USDA (January 1994) reports that agricultural provisions on the Uruguay Round GATT agreement will emphasize the new disciplines for international agricultural trade. This includes a description of the principal provisions addressing trade distortions caused by market access barriers, export subsidies, internal support, and unjustified sanitary measures. The goal of the negotiations on agriculture would be to bring all

measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines.

Gradual cuts in GATT in years and percentages calls for reduced internal supports (a 20 percent reduction from the 1986-1988 base period during the next six years), a reduction in export subsidies (during the next six years, a 36 percent cut in quantities exported under a subsidy and a 21 percent cut in the amount of money spent), and more open markets (a 36 percent cut during the next few years from the 1986-1988 base, plus minimum access of 3 percent of the internal consumption during the base period, which will be gradually increased to 5 percent).

### Market Access

The USDA (1994) summarization of the Uruguay Round market access provisions calls for the following:

- Reduction of import barriers will improve exporter access to overseas markets. All countries will replace non-tariff measures primarily with quotas, or with tariff equivalents (tariffication). All agricultural tariffs will be bound and reduced.

- The replacement of non-tariff measures with tariffs will include two complementary disciplines: countries will open up minimum access opportunities where there has been little or no trade, and countries will ensure that current access opportunities are maintained.

Under this provision, the United States will be required to replace the highly protective quotas on sugar, dairy products, and peanuts with tariffs that provide comparable protection. Since these new tariffs, beginning in 1995, will gradually be reduced during a six-year period, stiffer competi-

tive pressure from overseas supplies is expected.

### Export Subsidies

As the result of the Uruguay Round, significant cuts in export subsidies, especially by the European community, will reduce the level of unfair competition in world markets.

In the GATT agreement, export subsidies will be reduced by 21 percent in terms of quantity and by 36 percent in terms of budgetary outlays by the end of the six-year period.

USDA (1994) reports only a small portion of U.S. agricultural exports is subsidized. This multilateral cut in subsidization of exports will greatly benefit the United States. By reducing the quantity of exports that can be subsidized on world markets, the agreement will create trade opportunities for the U.S. producers who are more efficient than producers elsewhere.

### Internal Support

The agricultural provisions of the Uruguay round includes another major internal support.

The USDA (1994) reports that all countries must establish ceilings for the amount of support afforded producers through internal support programs. Average support provided to measures linked to production is totaled across all commodities for the 1986-1988 period. Developed countries must reduce this total level of support in equal annual installments by 20 percent by the year 2000.

Because of changes in support programs in recent farm and budget legislation, the United States does not need to make reductions in internal support.

### Sanitary and Phytosanitary

The sanitary and the phytosanitary (plant sanitary) agreement will impose GATT discipline on

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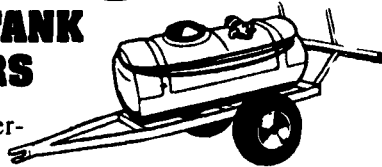
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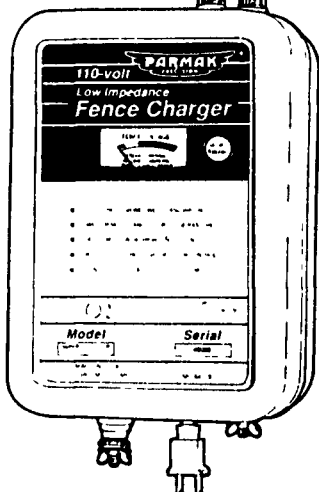
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