

AGRICULTURE IN THE WORLD MARKET . . .

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Mr. Chairman, and Gentlemen: Early in August of 1945 a long and vicious war was terminated with the dropping of an instrument known vulgarly as a "whammy." It introduced the nuclear age, and perhaps that was the most important thing that has happened in this twentieth century. A few years ago a satellite went up and the space age opened. That may have been the most important thing that has happened in this twentieth century. And yet in 1952, obscurely, without much publicity or propaganda, another development occurred that may very well be vastly more important than the "whammy" that brought nuclear power to us, or the "sputnik" that opened space to us. In 1962 a Coal and Steel Community was developed in western Europe. It had some difficulties at the start. Two years later efforts were made in western Europe to open up a Defense Community, and a Political Community. Both of them failed. Yet, in 1958, the common market, the European Economic Community and the European Atomic Community were developed. They have been vital, they have prospered, and the economic community especially is going ahead at a rate that may well make it true that this is the important development of this century in which we live.

The communities came mainly out of efforts for rehabilitation and defense. Some of the people in western Europe knew clearly that they couldn't indefinitely depend on things like ECA and charity from the United States; they couldn't depend indefinitely and continuously on defense instruments like NATO; and so they wanted to develop their own institution. I think there were three major motives: one of them was to solace, if possible, the ancient enmity of the French and the Germans and not merely to solace the ancient enmity out of which millions of people had died, but to find affirmative participation by these two peoples who had hated each other for so many years in their rebuilding process. And the second thing they wanted to do was to integrate the entire area of western Europe into one economic entity, competitive in nature, protected internally, and to try to get the same industrial efficiency through the same basic methods that the United States had used in this country. And, thirdly, they wanted a third-power force.

They knew, as we know, that we have lived not just for fifteen years but for thirty years in a

two-force world where the forces are hostile, where war has been on the edge of a razor, and in that context it was not mere economics, not mere business, but the development of a power intermediate between the Americans and the Russians through which there might be some possibility of survival to the nations of western Europe. They understand clearly, and we should understand clearly, that this is not simply an economic machine. This is—ultimately—the development of a supranational power with its own institutions and its own sovereignty. The six nations now in it are sovereign entities; the community itself is a sovereign state; we cannot dictate to it; we have to live with it; it is there. From our viewpoint, overall, it is a good thing it is there. Yet, again, it is a national power and its ultimate objective, and not so ultimate either, is the development of a United States of Europe in all respects: military, political, foreign relationship, and business. There is already actual power now in the common market. There is some political power, some political sovereignty, and the capacity to enforce its own decisions. The British did not originally participate for good and compelling reasons, but now the British probably will participate. And when the British participate, this may mean over the long-run the death of the commonwealth, the death of the sterling block commercially, and the emergence of a power whose rate of growth has been faster than our own, and the strength of which is now clearly defined. That power will be intermediate between us and the Soviet.

They have recognized, and they have stated when all of the early work that was done in developing this community, that they want an organization which will protect them against changes that have occurred and changes only shortly ahead of us, technically, in terms of capacity to produce; in terms of military strategy and military capacity; and in terms of the raw, naked power that has governed the relationship of most of the earth for most of three decades. They know, as you know, that the relative power of the Communists has increased. They know that there is a capacity now given to man to destroy the earth. This is not exaggeration; this is not hyperbole; this is the cold and difficult fact with which those people of that community and ourselves, and everybody else, must live. They know that they must have defense and they must have power, but they also know they need growth; they need substantial equalization of an ancient social system, more feudal than modern; they know that most of their basic institutions must change drastically; and, especially, they know that to survive there must be European unity. So, ultimately, and again not so ultimately either, within twelve years at the most—and if the same rate of performance goes on in the second and

third stages as has occurred in the first, within eight years—there will be a fully integrated western Europe' fully integrated economically and, to a very large measure, fully integrated politically and in every other way. Their performance in the first four years has been almost fantastically successful.

In all respects they have been ahead of schedule on everything they have tried to do, bar one, and that is to develop a common internal agricultural policy. It may surprise Americans who live in an agricultural economy which is relatively free of government intervention—except for the 14-¾ billions dollars that may be used for price supports and except for the associated production controls and the marketing quotas and the export dumping and the tariff prohibition—to understand that the poor, simple, peasant farmers of western Europe are potent politically. In England, the division of the vote usually is less than six per cent and the organized farmer constitutes something more than six per cent of the electorate. In Italy, almost fifty per cent of the people work on farms and many of them work on farms that are as ancient, as feudal, as much afflicted with the ills of a peasant society today as they were a thousand years ago. The distribution system, the marketing and processing systems, are as much afflicted with the evils of guild control as they were a thousand years ago. Yet, these people vote. Their problem is not an acceleration of technical efficiency which spews out agricultural goods and "shuffs" off agricultural labor faster than other markets and other industries can absorb them. Their problem is small scale, strip, separated, peasant production: primitive, inefficient, and poverty stricken. And so, out of this economic integration comes a frankly protectionist internal agricultural policy for western Europe.

That which is most discussed in the performance of this community is the development of a common external tariff. Parts of that were done on March 7 when the GATT agreements between the United States and the common market were published. The cries of anguish which rose from some parts of California agriculture could be heard from Karachi, to Rhodesia, to Brussels where the document was signed, and to Washington where it was released. Internally, their objective with respect to the agricultural industries is frankly, to protect it, to insulate it, and to use essentially the same devices we have used. But, basically the community involves a far broader set of objectives. They want, first, to eliminate all internal barriers. The six nations, the original corps, have committed themselves through binding treaty to that end. They want uniform external barriers and they have almost gotten them. In four years they will have them completely against the rest of the world. First, then, no barriers to any type of movement within the nations now participant in the community or those which will come in later. Second, common barriers, equal, in all of the countries against the rest of the world, and third, a single negotiating a-

gency, and that already has been achieved.

This country will never again negotiate separately with France, Italy, Germany, Luxembourg, Belgium, or the Netherlands. This country will negotiate henceforth on all matters of trade with the common community which has some of the national sovereignty once formally vested in each of those states. They want and to some measure they already have eliminated all barriers on the movement of labor within the community; all barriers in the movement of capital within the community; all barriers against the movement of services and business enterprises. They seek to coordinate their entire monetary and fiscal system, and this alone means national sovereignty if tax powers, budget powers, monetary powers are in one common agency and not in six or seven others. They want and to a surprisingly successful measure they have succeeded in getting a common agricultural policy. In all respects, again, the performance has exceeded anything ever anticipated or found in any set of nations anywhere.

In the four years in which the first stage of the community was finished, the average increase in real income in the community was some forty-five per cent. The volume of trade has gone up sharply, the competitive position of the common market is vastly improved over what it was four years ago, and they are one year early on schedule. They have cut their internal duties by thirty per cent. They have cut them on agriculture by twenty to twenty-five per cent. The common market is not anything to talk about in the future; the common market is here. It is strong. Its total dimensions now set off against our own are in some ways almost as big as us. In many ways, they are already a substantially more powerful economic unit than the Soviet block. It is here, it is a fact, and from our viewpoint it is a good fact, I think. They have developed executive agencies to exercise the supernatural power of the community. They have developed commissions for each one of the areas in which the nations have yielded up part of their individual sovereignties. They have developed a parliamentary system which within four years is to be elected by the individual voters of the nations now in the community and those who are waiting in line to come in later.

Their major problem, again, has been agriculture. But, what they are intending to do in agriculture is not difficult really to see. Our people dislike them for it. Our people have already realized on the official level that which all of us will have to realize on the personal level: that this community which is to expand very sharply very soon is now here, a fact, a powerful fact, and an agency with which we will negotiate and not one to which we can dictate. They have decided in agriculture to do this simple thing. There is to be a price support

(Continued On Page 12)

Agriculture . . .

(Continued From Page 9)

system. The price support system will be somewhere between that in France, which is the low one, and that in West Germany, which is the high one. Gradually all agricultural products will move at prices determined by their government and supported by the communities financially just as we support that with which the farmers of this country have been blessed for thirty years. Secondly, they are going to put out, as they already have put out, common external tariffs against agricultural products. But, they are going to do two other things. They have agreed, and stand ready by July 1 of this year, to use variable duties. In short, wherever any European products of agricultural origin are produced by present or future members of the community and can not be sold at artificially high price supports within that community, then there will be variable duties. This is a euphemism for saying that if imports come in at a time when they have surpluses, large or small, they will raise those duties on a short-term basis high enough to keep the foreign competition out. If that doesn't work, any one of the nations can lower or embargo any imports of agricultural products from anywhere else so long as it is necessary to protect the price support program of the common market nations, subject to review by community agencies.

Our agricultural people are not pleased with that arrangement, but briefly, this is one part of what the community is. The community intends to compete on exports of non-agricultural goods. It intends, as it has already done rather sharply, to lower its non-agricultural duties and perhaps even to remove the quotas, the quality controls, the packing standards, the exchange limitations which have been far more restrictive of trade. Yet, again, on the whole with the present performance and status of this community, it is to our national advantage. It is difficult for a man who ships raisins to see Greece be given associate membership in the community because Greece, then, will have almost, but not quite, the completely free entry into the western market that the full members get. It is not pleasing to some of our people, and particularly the California people, to see the almost inevitable participation by the United Kingdom in an internally duty-free community where full preference will be given to Italy which is the Mediterranean state of the community, as we are the Mediterranean state of this nation. However, again these are the facts with which our people have to live.

The raisin shipper is an American. As an American he can not really take exception to specific activities that are not designed merely to fatten the real income of our own people. For better or for worse, we are the United States and we are the major power of the world. As a major power of the

world we have obligations against a hostile system quite clearly dedicated to our own death. We can't, therefore, cut loose Japan and we can't therefore cut loose the Indians, whose behavior sometimes may be a little bit disturbing, because we can't permit the complete overrunning of Asia by the Communists. We can't even do that in Latin America because if we do this country becomes a fortress, and fortress life is much more costly than our present kind of life and vastly less pleasing as a way to live. So the overriding objectives of the American government are not simply trade and not simply the business or economic welfare of our individuals. The overriding objective is the necessity that impinges on our people to protect ourselves in a world at war. Then, there are our own foreign policy operations which are required to meet those objectives. Finally, there is the general welfare.

Two things seem superficially to be quite separate matters. The European economic community overall is consistent with that which we need. But, we also have another system about which quite a few of our people are unaware that doesn't have too much immediate sex appeal and not too much apparent relevance to the daily work and the daily thought or speech of our people as individuals. This is reciprocity. The reciprocal trade system of this nation is also a fact. It has been a fact for twenty-eight years. The round of negotiations with thirty-two other nations that was announced a week ago is the fifth such round. The act dies on June 30, 1962. That act was a system whereby we and thirty-nine other nations negotiated together, usually for as much as eighteen months at each individual sitting, to come up with concessions on our part for entry into our market, which we traded off for concessions that they gave us. We have also lived for those twenty-eight years under a system of most-favored-nation treatment such that if we give any concession to any GATT member—and now to any common market member—that concession is automatically and fully available to every other nation of the world with the exception of the Communist bloc.

A week ago, before the House and Ways Committee an instrument designed by its perpetrator, if you are a Republican and by its distinguished and scholarly author if you are a Democrat, the President of the United States, was described as an instrument that was bold and new—and in some sense it is bold and some sense it is new. This is really what it does: it would give the President the power to cut our duties against the rest of the world, and we are a very low tariff nation, up to fifty per cent over the five-year period ending on June 30th of 1967. It also gives specific powers to the President beyond that major provision in dealing with the present and the future common market. The present market has six nations. Before long it will have England almost surely, Norway, perhaps Sweden, and perhaps Switzerland. It will have to rule on present or future applications of Israel, Spain and the applications of Portugal and others

as full or associate members. Here, the President asks for power to eliminate tariffs completely if they and us together do eighty per cent of the trade in any category or any article; to wipe out any agricultural duty that is now five per cent or less, and in short, to operate on a bloc basis, category by category, broadly, instead of the item by item system we now use. A set of administrative procedures, a set of escape clause provisions, a set of peril point provisions, a set of powers to eliminate imports if the national security be threatened by them is also written in. The second part, the part that may be bold and new, provides for adjustment. Here, the government of the United States would commit itself to provide training, to provide capital, to provide low cost credit, to provide new facilities, plants, equipment for workers as individuals, for workers as groups, for enterprises as individuals and for industries as groups if a flood of imports were seriously to affect them. This goal is as pious and as desirable and as far beyond argument as the institutions of motherhood and justice and beauty and truth. Operationally, to the agriculture of California they may be almost totally irrelevant. It is very difficult to readjust a citrus orchard which may take seven years of gestation before yields come. It is difficult to readjust an olive orchard which may have a life of fifty or seventy-five years. It is obvious that the adjustment provisions were made without real reference to the operating facts of agriculture and specifically to the operating facts of agriculture like our in California.

Our stake in the common market and the reciprocal trade system, taking American agriculture as a whole, is clear beyond peradventure of doubt. Those people in Europe about whom prune and citrus growers in California are making rather unpleasant statements, because they got their duties bumped up last week, buy about ten times as much agricultural commodities from us as we sell to them. Yet, there is fear, suspicion, and mistrust among the agricultural people of the nation and especially among the agricultural people of this State with respect both to the common market and with respect to the present and future administration of our own reciprocal trade program. However, more broadly, we turn out about twenty billion dollars of exports a year and agricultural commodities run about twenty-five per cent of them. The State of California is not the heaviest export state of the fifty that comprise this Union, but in industrial commodities we are the third highest state. Our people export a total of 1.3 billion dollars. In agricultural commodities the State of California is the number one exporter with almost 500 million dollars, followed at the usual respectful distance by the sovereign republic of north, south, east, and west Texas, but at quite some distance behind us. Here are the difficulties really: in California we sell 200 commercial commodities. We are not a wheat state. We are not a barley state. We are not a soybean state. We are not a livestock state. We are not a corn state. We are a state with more than 200 quite different sets of commodities in it. Our biggest commodity is cotton, and it is also

our biggest export commodity, but cotton is only eleven per cent of our income.

Among the more than fifty groups with whom we in the University have talked in the last two years—not once has any California agricultural person said “I oppose what we have done to engender the common market.” Not once has any Californian been stupid enough or vicious enough to say that “my personal interests shall override the development of a political and military power in Europe which will be on our side and not on the Russian side.” Not once has any Californian objected to reciprocity, to the giving on our side in order to get from them. But, our people have taken two major exceptions, and these are proper, just, respectable, and consistent with the overriding needs of this nation. Our people want to know the standards in terms of which specific actions are taken. To our people, this is what really seems to happen: some unidentified person deeply buried in the black vastness of the State Department suddenly presents a thick book with thousands of items on which we state we are willing to barter in a poker game for decreases in duties up to specified limiting magnitudes. There is a second book, almost as thick, in which they say it is our intention to play poker to try to get specified concessions from the other side. Nobody really knows who puts the commodities on that list, or why. Nobody knows why sherry wine should be on it, and port and muscatel and angelica should not be on it. Nobody knows why dessert wines are on it and table wines or raisins or table grapes are not on it. Nobody knows why they pick a 25 cent decrease and not a 15 cent or 30 cent cut. There are no clearly defined standards. More important, there are no appraisals of the effect of the proposed limits. Last week two federal officials asked “why should we be able to say in advance what the effects of this is going to be on you or the benefit that they may get on the European side.” It was asked “why doesn’t the University’s Giannini Foundation do this?” The answer is that the University’s Giannini Foundation does not generate the decreases in duties. The Giannini Foundation doesn’t pick the products which are to be considered for concessions on the other side. It is more properly the obligation of the State Department to know something about the impact before they give a set of proposed negotiations to an industry which then must buck its way through a complicated and difficult process of a hearing. These, again, are facts, and they are the facts to which our people take exception: that the proposed concessions are generated in secrecy; and that to find means of adequate hearing is not simple and is often far beyond the capacity of small industries.

There are two agricultural industries in California about which no great worry need be had. Cotton is a politically sensitive item because it is big, and because the cotton industry, putting it bluntly, can put itself together about twenty-two senators. The industry may associate itself with

other large industries in the feed-grain states or elsewhere and it can make itself heard, and so can rice. Raisins are a big item here in the San Joaquin Valley. Coldly and brutally, raisins and most of the other specialty crops are not sensitive crops because the most you can put together in the raisin industry is a few congressman out of 435. There is no hostility in the State Department or else where to agriculture. Yet, inevitably, there is ignorance of specialty crops. There is danger—not to the big national commodities that are understood and represented—but rather there is danger from inadvertence or ignorance to those which are big in a state like this and little elsewhere. There is one problem. Another problem is standards: what for example are the criteria in terms of which the wine industry shall be subjected to further foreign competition; how much benefit must be gotten on that side against how much burden on this side in order to justify a specific decision; how do small industries get a hearing; how do small industries protect themselves in a difficult and political administrative contest against adjustments that are not needed in the national interest?

In summary then, the community is a third force. It is in a sense a new nation. It is a new nation which, with those who are preparing to join it, may some day be as big and as strong as we are. From the viewpoint of trade and our survival it is a good thing. Reciprocity, of one sort or another, is with us and we shall have to live with it. We should live with it, because overall it is the only instrument we can use to help assure survival in an age when survival is continuously in doubt. Our people, Nonetheless, ask and they should have the right to know the standards that govern these actions; the right of access, the right of appeal; and an avenue to protect themselves in a system that is beneficial taking all, but which inadvertently and perhaps uselessly damage respectable and honest people in the agriculture of this state.

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