Agricultural Policy Reform and the Uruguay Round: Synergistic Linkage in a Two-Level Game?

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Explaining Agricultural Policy Reform

Domestic agricultural subsidy policies in the United States and in the European Union (EU) underwent substantial liberal reforms between 1990 and 1996. In the United States in 1990, Congress reduced acreage on which farmers could receive income-support payments (deficiency payments) by 15 percent under a budget reconciliation act. In the EU in 1991–92, the Common Agricultural Policy (CAP) was dramatically modified under a set of reforms (the MacSharry reforms) that reduced internal cereal price guarantees by 29 percent over three years and obliged larger EU farmers to leave 15 percent of their arable land idle as a further check on excess production. Then in 1995–96, the U.S. Congress passed the Federal Agricultural Improvement and Reform (FAIR) Act, a sweeping measure that eliminated for at least seven years all deficiency payments to farmers as well as all annual land-idling programs. U.S. Senator Richard Lugar, chair of the Senate Agriculture Committee, asserted that this new law would "change agricultural policy [in the United States] more fundamentally than any law in sixty years."[1]

What role did multilateral negotiations play in helping to secure these domestic policy reforms? Agricultural subsidy reform in industrial countries had been a priority concern of the governments that launched the 1986–93 Uruguay Round of multilateral trade negotiations in GATT (General Agreement on Tariffs and Trade).[2] High

For many hours of profitable discussions I am indebted to Dale Hathaway, Henry Nau, Don Paarlberg, David Orden, Robert Putnam, Fred Sanderson, and Robert Thompson. I received helpful comments on earlier drafts of this article from John Odell and several anonymous reviewers.

1. Quoted in Eric Schmitt, "House-Senate Committee Agrees on Overhaul of Farm Programs," *New York Times,* 22 March 1996, A1.

2. The Ministerial Declaration at Punta del Este emphasized the "urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions . . . so as to reduce the uncertainty, imbalances, and instability in world agricultural markets." It then went on to call for reductions in "all direct and indirect subsidies, and other measures affecting directly or indirectly agricultural trade." See *Ministerial Declaration on the Uruguay Round,* Punta del Este, Uruguay, September 1986.

International Organization 51, 3, Summer 1997, pp. 413–44
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https://doi.org/10.1162/002081897550410 Published online by Cambridge University Press

priority was consistently given to agriculture in the Uruguay Round, despite the troubles this caused for other sectors. Both the 1988 midterm review conference and the final 1990 Brussels ministerial conference deadlocked over agriculture. Only when the agricultural deadlock was finally broken, by the so-called Blair House agreements reached between the United States and the EU in 1992–93, did the rest of the Uruguay Round come to a conclusion. Was this long-running international agricultural policy negotiation in GATT the key to advancing the dramatic domestic policy liberalizations of 1990–96?

Before viewing this case as a victory for international cooperation, several empirical questions must be answered. How many of the reforms of 1990–96 would have been undertaken even in the absence of a multilateral negotiation or a final agreement in GATT? Were all of the links between the multilateral negotiation and the ensuing domestic reforms positive? Did the Uruguay Round contribute enough to the reform process in agriculture to justify the delays that were encountered in reaching and implementing agreements on the more numerous nonagricultural parts of the negotiation?

These are important questions for trade policy practitioners and agricultural policy reform advocates who are now wondering how to design future multilateral multisector negotiations, including the next round of multilateral trade negotiations in the World Trade Organization (WTO). Is it wise to link the fate of such negotiations (as in the Uruguay Round) to a liberal reform agreement on agriculture?

Larger issues emerge as well. When the designers of the Uruguay Round agreed to seek reductions in "all direct and indirect subsidies" affecting agricultural trade, they were explicitly agreeing to place *domestic* policy instruments on the international trade negotiation table. This seems appropriate for agriculture, where international market distortions are so often an indirect result of intrusive domestic policy instruments, such as price or income guarantees to farmers.[3] Yet by trying to move from at-the-border to behind-the-border rule making in agriculture, the Uruguay Round negotiators would be moving GATT into difficult new territory. They would be challenging directly one part of Ruggie's postwar compromise of embedded liberalism: the presumption that industrial states, in return for accepting more liberal rules at the border, should be granted wide policy autonomy behind the border.[4] Movement from at-the-border to behind-the-border multilateral rule making has been described as the major policy challenge now facing nations that wish to progress from shallow to deeper economic integration.[5] Was this challenging shift successfully made in the case of agriculture in the Uruguay Round?

A deeper issue with both practical and theoretical implications arises at this point. When should the domestic policy reform problem be internationalized? Behind-the-border policies (including agricultural policies) can have disagreeable external consequences, yet most of the welfare gains, losses, and transfers generated by these

3. For the classic discussion of this problem in agriculture, see Johnson 1950. For a more contemporary analysis, see Sumner 1995.

4. Ruggie 1982.

5. Lawrence, Bressand, and Ito 1995, 5–14.

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policies may remain strictly *within* the borders of the states (or regions, in the case of the EU) embracing the policy. When should the reform of such primarily domestic policies be made an issue for international negotiation? This question recalls an international debate now at least half a century old, originally waged between postwar reformers (many of whom were from the United States) who wanted to advance international liberal reforms through international negotiations and international conferences ("from above"), versus those (especially led by German neoliberals, such as Wilhelm Ropke) who wanted the foundations of liberal internationalism to be built first at the state level ("from below").[6] The "from above" school remains dominant among U.S. scholars today, despite the work of a few "from below" dissenters, led most visibly by Henry Nau.[7]

The logic of two-level games provides some useful language for sorting out this debate, but only up to a point, since Putnam and his followers never quite address the question of when national policy leaders should internationalize issues. In Putnam's account of the two-level game problem, national political leaders are assumed to be "at both game boards" at all times,[8] an assumption that blurs the practical question of whether to launch reforms from above or from below. Agricultural reformers in 1986 saw the Uruguay Round as a chance to pursue liberalization from above and made a conscious decision to place agricultural reforms at the top of the multisector agenda for the Uruguay Round. What was the payoff (or the penalty) for this decision to internationalize the domestic reform issue?

By implication at least, Putnam sees large potential payoffs from internationalization, since prior agreements abroad can create more space for political action at home. His favorite example of this kind of "synergistic linkage" is the 1978 Bonn economic summit, where an international exchange of pledges on energy policy change and macroeconomic stimulation made easier the subsequent task of implementing those policy changes at home.[9] Putnam makes no formal claim as to when or how often the international game board can be used by national leaders to weaken domestic opposition (either their own opposition or that of their counterparts) in this fashion. Were the 1990–96 agricultural reforms in the United States and the EU another case of successful "synergistic linkage"?

Several preliminary and hence inconclusive efforts were made by two-level game thinkers to answer this question while the Uruguay Round was still underway.[10] Now

6. Sally 1994, 468.

7. Nau 1984–85; and Nau 1990. For another application of "from below" thinking, see Paarlberg 1995.

8. Putnam 1988, 434.

9. Putnam 1988, 447. For a largely supportive view of Putnam's interpretation of the Bonn summit pledges, see Ikenberry 1988. One part of this deal struck in Bonn (the nonenergy part) was later challenged on substantive grounds, since inflation followed in 1980–81. See Dobson 1991, 15. Still, on procedural grounds the 1978 summit example shows how prior agreements abroad can at times weaken political opponents of change at home. Synergistic linkage has also been asserted in the case of the U.S. Structural Impediments Initiative (SII) with Japan. See Schoppa 1993.

10. See Avery 1993, especially the selection on Japan by David P. Rapkin and Aurelia George; the selection on Australia and Canada by Andrew F. Cooper and Richard Higgott; the selection by Paarlberg on the United States; and the selection by H. Wayne Moyer, which envisions the EU agricultural policy reform problem as a three-level game.

https://doi.org/10.1162/002081897550410 Published online by Cambridge University Press

that both the round and the 1990–96 reform period are complete, an improved assessment is possible. To provide that assessment here, one must ask how much of a contribution the Uruguay Round made, alongside other factors, in triggering the liberal agricultural policy reforms of 1990–96. I present evidence (based on domestic and international reform sequences and on a close comparison of the content of these reforms) that the Uruguay Round contributed little to the 1991–92 MacSharry reforms at the EU end and almost nothing to the 1990 and 1995–96 reforms at the U.S. end.

At the EU end, external political pressures did help speed some internal reforms,[11] but the pressures that mattered most were bilateral pressures from the United States (backed by threats of sanctions). These pressures derived not from the dynamic of the Uruguay Round but from a separate dispute-settlement process linked to an EU concession (a zero-duty obligation on nongrain feed ingredient imports) made thirty years earlier in the Dillon Round, that the United States would have defended with sanctions threats even if no Uruguay Round had occurred. At the U.S. end, the Uruguay Round process added virtually nothing to the content or the speed of policy reform that would have occurred anyway. The U.S. reforms of 1995–96 were triggered not by the Uruguay Round but instead by a sudden change of party control in the U.S. Congress plus a sudden change in world grain market conditions. In some cases at the U.S. end, the Uruguay Round may have delayed the embrace of reforms (an example of *negative* synergistic linkage from internationalization).

These claims will emerge from a three-part analysis: first, a brief history of the domestic farm-policy reform problem; second, a review of the advantages that architects of the Uruguay Round thought they might gain from internationalizing this reform problem (plus a review of potential disadvantages from internationalization); and third, an examination of the Uruguay Round itself, to see whether the final agreement on agriculture added anything to the content or pace of domestic policy reform and to see if enough was added to justify the slowdown implied for the other sectors and other matters under negotiation in the Uruguay Round.

Agricultural Subsidies as a Domestic Reform Problem

Ironically, among OECD (Organization for Economic Cooperation and Development) countries, the most costly and market-distorting of all "industrial policies" have always been found within the agricultural sector.[12] Industrial-country farm-support policies were relatively easy for political leaders to justify during the depres-

11. This was an outcome that surprised some specialists. Moyer and Josling had reached a contrary conclusion, only a few years before the Uruguay Round ended, that "international political pressures do not play a major role in domestic agricultural policy reform." Moyer and Josling 1990, 211.

12. For a concise history of the modern emergence of agricultural protection in industrial Europe, see Tracy 1964. For the best history of U.S. agricultural policy, see Benedict 1953. For a more recent survey of all industrial democratic country farm policies, see Sanderson 1990. The nondemocratic industrial countries of the former Soviet block managed their intersectoral terms of trade to the disadvantage of farmers. Most nonindustrial countries also tax the farm sector heavily. See Schiff and Valdes 1992.

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sion years of the 1930s (when commodity prices suddenly collapsed) and then during the war years of the 1940s (when food security concerns were acute). However, following postwar economic recovery, these illiberal OECD farm supports emerged as a serious domestic policy reform problem. By then the application of modern science to agriculture was generating a revolution in farm productivity; commodity production costs fell, and governmental efforts to maintain high and fixed commodity price levels—as under the 1962 CAP of the EU—began generating structural surpluses. These internal production surpluses, in turn, destabilized and distorted international agricultural trade.[13]

Not all industrial countries promote their own domestic farm production to the same degree. Masayoshi Honma and Yujiro Hayami have demonstrated that the level at which internal prices are guaranteed tends to vary, country by country, depending mostly on the relative disadvantage of the agricultural sector compared with the industrial sector.[14] Where the agricultural sector has become highly disadvantaged relative to industry (as in Japan, or in Germany where productivity gains in farming have not been enough to keep up with productivity gains in other sectors), nominal rates of agricultural protection (measured as the internal-to-border price ratio) have tended to be very high. Where the farming sector is not so highly disadvantaged relative to the nonfarm sector (as in Australia, New Zealand, or, to an extent, Canada and the United States), nominal rates of farm protection are still positive but may be quite low.[15]

This industrial transformation approach to explaining levels of farm-sector protection is robust across time as well as across countries. Where the industrial sector is rapidly gaining comparative advantage over the farm sector (in industrializing countries such as South Korea or Taiwan), nominal rates of agricultural protection have shifted upward quickly. In both Korea and Taiwan these rates went from significantly negative to strongly positive over a period of just several decades after World War II.

13. By the early 1970s, D. Gale Johnson could argue persuasively that these internal support policies had left world agricultural trade in "disarray." See Johnson 1973.

14. Honma and Hayami 1986.

15. In a powerful demonstration of this link between sectoral disadvantage and protection, Honma and Hayami use measures of industrial comparative advantage within countries to account for 60 to 70 percent of all variation in nominal rates of farm-sector protection across countries. This "industrial transformation" approach to understanding farm-sector protection differs from Rogowski's factor-endowment approach, which focuses more on political cleavages than on actual policy outcomes, and which says little in the end about the nearly universal tendency of industrializing countries to provide increasing protection to comparatively disadvantaged farm sectors. Also, Rogowski is obliged to step outside of his parsimonious three-factor model in order to explain the extreme resistance to free trade exhibited by farmers in countries such as Japan and France; here he invokes, in a less systematic way, "rent-seeking" behavior. He also chooses to view the continued movement of labor out of these protected farm sectors (in Europe under the CAP and in Japan) as evidence that they are not in fact being protected. See Rogowski 1989, 20, 101–102, 172–74.

Paul Midford uses a multifactor approach to address anomalies generated by Rogowski's simple three-factor model but admits that the factor-endowments approach cannot fully account for current levels of agricultural subsidization. Like Rogowski, he steps outside of his model and invokes "rent-seeking" behavior to account for these subsidies. See Midford 1993, 552.

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What can explain this close association between industrial comparative advantage and policies to protect the internal farm sector? Honma and Hayami hypothesize the existence of an internal "political market" for agricultural protection in which farmers in nations that are industrializing rapidly gain both the incentive and the ability to organize for political action and to make demands for protection at the same time that nonfarmers (especially more numerous urban food consumers) are losing their incentive and ability to organize to resist such demands. As industrialization proceeds, a concentration of farm subsidy benefits in the hands of fewer farmers, plus a diffusion of subsidy costs onto the shoulders of larger numbers of wealthier nonfarmers (both consumers and taxpayers) help shift policy outcomes in a pro-farmer direction.[16]

This public choice explanation for farm protection in the industrial world has been criticized, yet it accurately implies that the political origins of most agricultural protection policies are domestic.[17] Such policies grow out of changing power relationships among producers, consumers, and taxpayers within individual states more than out of any international or cross-border political dynamic.

Although most agricultural policies are lacking in cross-border origins, they certainly generate cross-border consequences. Behind-the-border market interventions designed to hold internal commodity prices above border prices cannot function without an accompanying set of policies to intervene in cross-border trade. The United States and the EU have traditionally used a mix of both import restrictions (including tariffs, quotas, and variable levies) and export subsidies for this purpose. Although the operation of such policies generates frequent trade friction abroad, the deep source of such policies remains rent seeking by farm producer lobbies at home.[18]

The urge to reform such market-distorting industrial-country farm policies has waxed and waned, sometimes in response to the obvious inequities generated by these policies but more often when changing market and macroeconomic conditions have generated higher or lower governmental budget costs.[19] During periods of inflationary growth (for example, the 1970s), when farm commodity prices in free markets are on the rise, governments can affordably offer their domestic farm lobbies increasingly generous price guarantees, but these guarantees become unaffordable when global growth is replaced by contraction and free market commodity prices fall. Strong budget-driven policy reform pressures will usually develop at such a point.

16. Honma and Hayami argue, from a regression analysis combining cross-section and time-series data, that the internal political market will continue to supply increasing levels of protection only so long as the farm population remains greater than 5 percent of the total population. Peak protection levels will tend to be reached when the farm population is below 10 percent and falling toward 5 percent. Once the farm population falls below 5 percent of the total, the political market may begin to supply *decreasing* levels of protection. See Honma and Hayami 1986.

17. For a sympathetic critique of Honma and Hayami, see Paarlberg 1989.

18. Out of a total of seventy-eight "unfair trade practice" petitions accepted by the U.S. Trade Representative (under Section 301 of U.S. trade law) between 1974 and 1989, thirty of these petitions (39 percent) involved trade in agricultural products, and more than half were complaints directed at the EU or countries within the EU. See Vogt 1989, 12–13.

19. Moyer and Josling 1990, 217.

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TABLE 1: *Annual benefits of agricultural support to producers and costs to consumers and taxpayers, 1986–87 (in billions of U.S. dollars)*

	Gross producer benefit	*Consumer costs*	*Taxpayer costs*
United States	26.3	6.0	30.3
European Community	33.3	32.6	15.6
Japan	22.6	27.7	5.7

Source: U.S. Department of Agriculture, ''Economic Implications of Agricultural Policy Reforms in Industrial Market Economies'' (Washington, D.C.: Economic Research Service, August 1989), 25, tab. 8.

This is what happened when global commodity prices first boomed in the 1970s and then slumped in the mid-1980s. Between 1980 and 1986, the annual budget cost of U.S. farm programs increased roughly five-fold in real terms, to reach $26 billion. In the EU, between 1975 and 1986, real annual budget outlays for farm programs doubled.[20] At this point consumers as well as taxpayers became more heavily burdened by the operation of farm support policies, especially in the EU and Japan, where a larger share of support to farmers is arranged through market distortion rather than through taxpayer-financed cash payments. Table 1 provides a summary of estimated consumer and taxpayer costs, and the producer benefits, of agricultural support policies in the United States, the EU, and Japan in 1986–87, the year that the Uruguay Round negotiations began.

As the budget costs of farm supports grew, political leaders in both the United States and the EU began looking for new paths toward policy reform. The ''from below'' approach to reform had seemingly faltered in the United States in 1985, when Congress rejected as ''dead on arrival'' a Reagan administration proposal for deep, unilateral domestic farm support cuts.[21] In the end, significant unilateral cuts were made by Congress in the final 1985 farm bill (price-supporting loan rates were cut by more than 20 percent, and target prices were frozen in nominal terms, which meant they started to fall in real terms), but by then a mood had grown—at least within the Reagan administration—to seek more rapid progress through an internationalization of the problem.

The ''from above'' path to reform was strongly advocated in an influential 1985 study by the Trilateral Commission, a report that stressed the importance of simultaneous reform actions by all industrial nations.[22] A new round of multilateral trade negotiations was just then getting underway in GATT, and reformers seized upon this as a setting in which all industrial countries might be able to solve their domestic farm policy reform problems at the same time. One of the chief architects of this

20. Blandford 1990, 400–401.
21. Rapp 1988, 19–26.
22. Johnson, Hemmi, and Lardinois 1985, 45.

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strategy for agricultural policy reform was Daniel G. Amstutz, the undersecretary of Agriculture for International Affairs and Commodity Programs, and later the top U.S. agricultural negotiator in GATT. Amstutz argued, "We must reject the 'go it alone' approach, and move toward a global solution. The new round of trade negotiations is a major opportunity for making that move . . . . The international bargaining table is where the solution lies."[23]

Advantages of Internationalization

When U.S. officials decided to make farm policy reform a centerpiece of the new Uruguay Round, they thought they were gaining at least two practical advantages. First, they knew that an international sharing of the policy reform burden among farm producers in all countries would reduce the actual burden that producers in any one country would have to bear, thus presumably reducing farm-sector resistance to reform. Second, putting farm policy reform into a multisector international negotiation would take the farm policy initiative away from illiberal domestic agricultural-sector coalitions and would also dilute any veto power those coalitions might seek to exercise over the final outcome. Consider these presumed advantages briefly.

Reduced Pain to Farmers

Although the majority of farm-sector protection comes at the expense of domestic consumers and taxpayers, as noted earlier, a substantial portion functions to offset the illiberal policies of other nations. For the United States in 1986–87, the year the Uruguay Round began, roughly 43 percent of the gross producer subsidy benefits in Table 1 merely offset the depressive effect on world prices of subsidy policies in other countries, particularly the EU. For the EU, roughly 37 percent of gross benefits performed a similar international offset function.[24] The United States and the EU thus had an important hypothetical opportunity: if they agreed to cut subsidies at the same time, the pain to their own farmers of ending subsidies could be reduced. Although a unilateral total policy liberalization would have taken an estimated $26.3 billion away from the U.S. farm sector in 1986–87, a multilateral total liberalization (among all industrial countries) would have taken only $16.2 billion away, implying a 38 percent pain-reduction benefit from international cooperation. For the EU, a unilateral liberalization would have taken $33.3 billion away from the farm sector, and a multilateral liberalization only $22.7 billion. President Reagan used such pain-reduction calculations in promoting the internationalization approach: "No nation can unilaterally abandon current policies without being devastated by the policies of

23. Letter from Daniel G. Amstutz, undersecretary for International Affairs and Commodity Programs, U.S. Department of Agriculture, published in *Choices* (fourth quarter 1986):38.
24. Blandford 1990, 408, tab. 9-3.

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TABLE 2: *Changes in producer prices and production in the industrial world with trade liberalization (base period, 1980–82)*

	Wheat (%)	*Coarse grains (%)*	*Dairy (%)*	*Sugar (%)*
Prices				
United States	−11	−1	−36	−25
EC-10	−15	−22	−27	−30
Production				
United States	−3	+6	−22	−7
EC-10	+3	−20	−10	−17

Source: R. Tyers and K. Anderson, ''Distortions in World Food Markets: A Quantitative Assessment'' (Canberra: National Center for Development Studies, Australian National University, 1986).

other countries. The only hope is for a major international agreement that commits everyone to the same actions and timetable."[25]

Yet reduced pain is still pain. The reduced pain to the farm sector from cooperative as opposed to unilateral liberalization still left liberalization an unattractive option to most farmers. Farm policy liberalization, even if multilateral, still promised to take welfare away from the farm sectors of most industrial countries, including the United States. Table 2 provides an estimate of price and production effects for several key commodities following a simultaneous farm policy liberalization in all industrial countries from a 1980–82 base period for the farm sectors in the United States and in the EU (the EC-10 at that time).

Table 2 indicates that except for coarse grain farmers in the United States the combined price and production consequences of multilateral sectoral liberalization would still have been adverse.[26] Rich-country farmers thus lacked the sectoral self-interest in multilateral liberalization that so often facilitated postwar customs tariff reductions among rich-country industrial sectors. But this is where the second presumed advantage of the internationalization strategy might come into play.

Reducing Farm-sector Initiative and Power

Reagan administration officials never said in public that their goal was to weaken and defeat domestic farm lobbies (including their own) through a two-level game synergistic linkage strategy, but this was a second possible payoff from the internationalization strategy. By internationalizing the farm-policy reform problem in GATT, the Reagan administration might have hoped to take the day-to-day initiative away

25. Rapp 1988, 50.

26. Table 2 presumes full liberalization. The actual Uruguay Round result fell far short of full liberalization, as will be noted later, but it is still projected to result in reduced wheat production in both the EU and North America and in reduced coarse grain production in the EU. See FAO 1995.

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from rent-seeking domestic farm lobbies, since the negotiations would not be in the hands of the institutions (such as the agriculture committees of Congress and the USDA) most conspicuously captured by those lobbies.[27] They might also have hoped that the multisector quality of the Uruguay Round would dilute farm lobby strength. Agriculture was to be just one of fifteen separate negotiating groups in the Uruguay Round, and actors in other sectors (such as services) that had strong interests in a liberalizing outcome might presumably have been willing to help pressure agriculturalists to achieve such an outcome. During the final ratification stage agriculturalists might then be further weakened, since rejection of the agricultural component of a packaged Uruguay Round outcome would mean rejecting the rest of the outcome as well, including the results for services, intellectual property protection, dispute settlement, investment, tropical products, and all the rest. ‘‘Fast track’’ congressional approval procedures would have helped, at the U.S. end, by allowing the president to seek GATT ratification on a deadline-driven, no-amendment, limited debate, up-or-down vote basis. These were the mechanisms of ‘‘synergistic linkage’’ through which U.S. officials might have hoped that internationalizing the issue would create more political space for reform.

Disadvantages of Internationalization

Unfortunately, internationalizing a domestic reform process risks generating negative as well as positive synergistic linkages, a danger that Putnam does not consider and reform-minded U.S. officials apparently failed to appreciate. Three risks stand out: unilateral national reforms in one country will be unnecessarily delayed if linked to the slow-moving pace of reform commitments in other countries; national reforms will be slowed by domestic rent seekers who will be able, in the context of an international negotiation, to recast needed domestic reforms as ‘‘concessions’’ to foreigners; and the use of a multisector negotiation to speed gains in one sector (e.g., agriculture) will block or delay gains in other sectors (e.g., services, intellectual property, and dispute settlement).

Missed Reform Opportunities and Needless Delay

Linking reform in any one nation to the completion of an international negotiation risks needless delay, particularly in the case of agriculture where windows of reform opportunity tend to open and close in response to unpredictable and fast-changing domestic budget or political circumstances (which are frequently out of cycle with

27. In the United States, agricultural support programs are written by the agricultural committees of Congress, which are still dominated by farm state members, and then implemented by the U.S. Department of Agriculture, whose budget is controlled by those committees. Within the EU, CAP price support decisions are made each year by the Council of Agricultural Ministers, in response to proposals made by the agricultural directorate inside the EC Commission. For descriptive details on policy processes, see Brooks and Carter 1994; Gardner 1995; and Moyer and Josling 1990.

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circumstances in other nations or poorly matched to the preset schedule of a large negotiation). For example, U.S. and EU internal farm-budget pressures for reform were higher during the first two years of the Uruguay Round (1987 to 1988) than during the second two years (1989 to 1990). EU interest in farm policy reform had been strong when the Uruguay Round began in 1986, but since the international negotiations were then still in their initial posturing phase, the crisis had to be momentarily resolved through measures taken unilaterally in Brussels. These proved to be, at best, half-measures: a 1988 decision to embrace a combination of mild farm policy reforms (a so-called stabilizer agreement for cereals subsidies) plus a hefty new 25 percent increase in EU revenues.[28] Yet these half-measures brought just enough short-term budget relief in Brussels to weaken official interest in a GATT agreement during what was supposed to have been the critical 1989–90 hard-bargaining phase of the process. Severe budget pressures did not re-emerge inside the EU until 1991, one year after the originally scheduled end of the Uruguay Round.

In the United States as well, the arbitrary timing of the international negotiation did not fit well with the waxing and waning of domestic farm budget and policy reform pressures. The U.S. political system was keen for reform in 1986–87, but serious bargaining in GATT normally does not begin to replace posturing until several years into the round, and by 1989–90 U.S. domestic farm budget pressures had been partly diminished, thanks mostly to the market-tightening effects of a severe 1988 summer drought. The negotiators tried to solve this problem of timing by giving credit in GATT for any unilateral reforms undertaken while the round was underway. However, this device undercut pressures for additional reforms at the end of the round. It left the negotiators mostly building the final agreement around reforms that would have been taken even if there had never been a negotiation.

Shifting Blame to Foreigners and Arming to Disarm

Internationalizing a reform debate gives domestic rent seekers (e.g., farm lobbies) a potentially attractive means to shift blame for their rent-seeking conduct onto foreigners. In the context of an international negotiation, it is easier for farm lobbies to describe their own subsidies as necessary to offset the impact of competitor subsidies abroad (even though this is generally the smaller part of their function, as noted earlier). It also becomes possible for them to ask for more subsidies as "bargaining chips" to gain a better deal at the international bargaining table. This strategy might produce a better deal relative to the interests of farm lobbies abroad, but it tends to generate a worse deal for consumers and taxpayers at home.

Once the Uruguay Round negotiations got underway, domestic farm lobbies in the United States and in the EU employed such newly available arguments to good advantage. In 1989 the chair of the Senate Agriculture Committee, Senator Patrick Leahy of Vermont, rejected a proposed $2 billion reduction in U.S. domestic farm subsidies by representing it as a giveaway of bargaining leverage in GATT: "If that is

28. Moyer and Josling 1990, 94–96.

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not telegraphing unilateral disarmament, I do not know what is,'' Leahy said.[29] In the EU, the two most powerful farm organizations rejected price cuts recommended by the EU Commission in 1989–90 by calling first for ''reciprocal measures taken by our GATT partners.''[30]

Such arguments, putatively designed to protect bargaining leverage, were especially easy to make at the U.S. end once Reagan administration officials described the GATT negotiations over agriculture as analogous to arms control negotiations. Farm subsidies are not at all like military arms, since they are deployed primarily against consumers and taxpayers at home rather than against competitors abroad. Yet the Reagan administration invited use of the arms control metaphor when it labeled its opening agricultural position in the GATT negotiations the ''Zero Option'' (a 1987 proposal to eliminate, over a ten-year period, all farm subsidies that had a distorting effect on production and trade). The same label had previously been applied to a U.S. position in the intermediate-range nuclear forces (INF) negotiations with the Soviet Union in Europe, so it evoked an imagery of international conflict. This imagery, although badly misplaced in the agricultural negotiation, was one that farm lobbies were eager to embrace. By likening the negotiation to an international security policy issue, and by likening farm subsidies to instruments of national defense, the arms control metaphor helped farm lobbies to distract attention from, and hence escape political accountability for, their rent-seeking behavior at home.

Once the arms control metaphor came into widespread use, farm lobbies learned not only that they could reject unilateral reforms as akin to unilateral disarmament, they could also ask for additional subsidies as bargaining chips to strengthen the hands of U.S. GATT trade negotiators (much as the Pershing II and cruise missiles Reagan had deployed in Europe strengthened the hands of U.S. INF negotiators). In 1990, the U.S. Department of Agriculture was thus pressured into accepting a new ''marketing loan'' subsidy program for soybeans. Secretary of Agriculture Clayton Yeutter had earlier opposed this new domestic subsidy option but finally yielded on the argument that it would provide more ''bargaining leverage'' for the United States in the GATT negotiations.[31] Earlier in 1987, while he was still U.S. Trade Representative, Yeutter had also been persuaded by domestic farm lobbies to expand use of U.S. export subsidies, under the Export Enhancement Program (EEP), as a ''tactical tool'' that might help make EU negotiators more compliant at the bargaining table in GATT.[32] Later, U.S. farm lobbies attached a ''GATT trigger'' provision to the 1990 domestic budget reconciliation act that obliged the Secretary of Agriculture to spend more on export subsidies in the event of a failed Uruguay Round.

29. Quoted in *Inside U.S. Trade,* 3 February 1989, 18.

30. USDA 1989, 8.

31. ''Yeutter Vows Personal Involvement in Working Out Final Farm Bill,'' *Inside U.S. Trade,* 17 August 1990, 20.

32. The EEP was never a cost-effective tool of leverage against the EU. For every added dollar the United States spent on EEP, trying to take wheat markets away from the EU, Brussels could fully offset the EEP by spending only twenty-three cents. See Haley 1991, 16.

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All this was certainly synergistic linkage, but it was negative rather than positive from a reform viewpoint. Reformers had hoped to use the GATT negotiations abroad as a path toward smaller subsidies at home, but farm lobbies were instead using the negotiations as an additional means to avoid domestic subsidy cuts and even as a means to seek larger subsidies.

Farm lobbies also found it easier, once the negotiations were underway, to resist reform by raising questions about fair burden sharing. At the time of the 1988 mid-term review conference for the Uruguay Round in Montreal, protectionist U.S. farm lobbies helped generate a deadlock by insisting that the U.S. administration not back away from its extreme Zero Option position. They claimed to be in favor of the Zero Option as the only sure guarantee of ''a level playing field'' abroad, but its real attraction was as a block to progress in the negotiation. Prior to the midterm review conference, Clayton Yeutter (then still the U.S. Trade Representative) at one point signaled his readiness to drop the Zero Option and move closer to the more realistic Cairns Group position that favored an ''early harvest'' of partial reforms. U.S. farm groups (led by heavily protected sugar and dairy producers, groups that had the least interest in liberalization) complained to the Secretary of Agriculture and pressured Yeutter into sticking to the Zero Option in Montreal. He did, which prolonged the deadlock.

Difficult or Disadvantageous Linkages to Other Sectors

Cross-sector linkages, even if they do eventually work to the advantage of reform in agriculture, can do so at a cost to the pace of trade policy progress in other sectors. In the Uruguay Round, the link between agriculture and other sectors did little to strengthen the terms of the agricultural outcome, yet this linkage delayed—probably for a year or more—conclusive outcomes in other areas. Negotiators in other areas put off exposing their final positions as long as the larger negotiations were being paralyzed by a deadlock on agriculture.

The inability of cross-sector linkage to produce a stronger agricultural agreement should not have been a surprise, since farm interests had been alert from the start to the threat of being sacrificed for gains in other sectors. As a means to avoid what they called ''unwarranted cross-sectoral demands'' they had insisted that the 1986 Punta Declaration contain an affirmation that ''balanced concessions should be sought within broad trading areas.''[33] When the final bargains were being struck, very little cross-sector deal making was in evidence.

If cross-sector linkages were going to produce a timely result for farm policy reform, they would have done so during the months and weeks just before the Uruguay Round's December 1990 ''final'' ministerial session. Powerful manufacturing- and service-sector interests on both sides of the Atlantic were by then heavily invested in the four-year-old round, but U.S.–EU disagreements over agriculture still blocked a successful outcome. In the fall of 1990, the chair of the agricultural nego-

33. Hoekman 1989, 696.

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tiations asked countries to submit final offers, and at this point the EU Commission should have been able to engage cross-sector linkages to gain greater authority to offer liberal farm reforms. Yet the Commission found itself paralyzed by criticism from the Agricultural Council of Ministers, which met seven different times over a period of several months to scrutinize the issue, only in the end to grant minimal added negotiating authority. As a consequence, the Commission's final offer had to be submitted late, it fell far short of the reform demands then coming both from the Cairns Group and from the United States, and the Brussels ministerial failed.[34]

Why did industrial interests inside the EU, especially the German industrial interests that had a strong interest in a liberal Uruguay Round outcome, not marshal enough influence at this point to override the Agricultural Council of Ministers? German Chancellor Kohl did involve himself in the struggle between the Commission and the farm ministers at this point, but he did so on behalf of German farm interests, not German industrial interests (he phoned the Commission president seeking concrete guarantees that any losses in farmers' incomes from GATT would be compensated). A German national election was scheduled in six weeks' time, and Kohl's traditional base of support included farm interests.[35] The German farmers' union traditionally delivered 80 percent of its vote to parties (the CDU and the CSU) that made up Kohl's governing coalition.[36]

U.S. negotiators even found it hard to arrange profitable linkages or trade-offs within the farm sector. An EU proposal to "rebalance" protection across commodities, which would have benefited U.S. wheat farmers but hurt U.S. oilseed and corn gluten producers, was unacceptable to the latter and hence consistently rejected by U.S. negotiators. Trade-offs between commodity interests had been equally difficult to arrange during earlier GATT rounds.[37]

In some respects, internationalization makes it more difficult to weaken farm lobbies by bringing reform pressures to bear from other sectors. Within individual governments, farm lobbies can at least sometimes be constrained within cabinets and legislatures by economy-wide budget trade-offs. International negotiations in GATT tend to weaken the impact of national budget trade-offs because separate sectors are covered in separate negotiations, because finance ministries and budget committees are generally excluded from the negotiation process, and because the rule-oriented language of GATT tends to ignore budget costs in any case. Nonfarm interests, including agribusiness interests, consumer interests, and environmentalists, as well as budget interests, may have more of a say over farm policy in a purely domestic debate (since cabinetwide committees must be consulted and since parliamentary or congressional majorities must eventually be assembled) than in a GATT negotiation over agriculture, where accountability to other sectors can actually tend to be diminished.

34. This EU final offer contained no explicit assurance on export subsidy restraints, and it incorporated an objectionable "rebalancing" demand that would have reduced U.S. market access for some commodities, such as oilseeds and corn gluten.

35. Swinbank and Tanner 1996, 78.

36. Patterson 1997, 147.

37. Destler 1980, 176.

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Finally, by linking progress in all sectors to a liberalizing agreement on agriculture, the architects of the Uruguay Round had hoped to leverage a farm-sector reform without sacrificing the interests of other sectors. This hope quickly faded when paralysis in agriculture (first at the 1988 midterm review and then at the 1990 Brussels ministerial) placed the interests of other sectors increasingly at risk. Not until November 1992, almost two years after the failed 1990 Brussels ministerial, did the United States and the EU finally reach a sufficient agreement on agricultural reforms (the "Blair House" agreement) to allow the rest of the Uruguay Round to escape paralysis and move forward. Even at this point, French objections over the agricultural question (a charge that the EU Commission had exceeded its negotiating authority) forced another full year of delay. Not until the terms of the original Blair House agreement were somewhat weakened, in December 1993, was a final agricultural agreement reached, allowing the rest of the Uruguay Round to be brought, at last, to completion. This protracted delay over agriculture slowed the completion of agreements in other sectors, including industrial and service sectors much larger than agriculture and potentially far more important to future global trade expansion.

Assessing the Final Agreement on Agriculture

Internationalizing a domestic policy reform process thus can produce either positive or negative synergistic linkage. In the Uruguay Round, which form of linkage dominated? To answer this question one must examine the substance of the round's final agreement on agriculture and then make comparisons to what might have been achieved if the reform process had not been so explicitly or self-consciously internationalized. The terms of the final agricultural agreement required varying degrees of liberalization within three different policy areas: levels of internal support, levels and forms of border protection (market access), and levels of export subsidization.[38] Reaching an international agreement on reforms in these areas was a difficult task that tested the energy and ingenuity of negotiators on all sides. Yet the reforms themselves proved modest in substance, and most would likely have been attained through unilateral actions even if a Uruguay Round had never occurred.

Levels of Internal Support

As noted earlier, the architects of the Uruguay Round intended to discipline behind-the-border as well as at-the-border measures that distorted commodity production and trade. This pursuit of internal farm support reductions used up more negotiating time than any other single agricultural issue, and in the end an explicit result was obtained: an agreement to reduce some heavily distorting internal support measures by 20 percent from a 1986–88 base.

38. An authoritative summary of the agreement on agriculture can be found in Josling, Tangermann, and Warley 1996.

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This outcome was much less than the 100 percent reduction in trade-distorting supports sought under the Zero Option and much less than the 75 percent reduction sought by U.S. negotiators at the time of the 1990 Brussels ministerial. It was even substantially less than the 30 percent EU offer at Brussels that was (ironically) rejected by the United States as inadequate at the time. Still, as an unprecedented discipline on internal supports, it did at least represent a significant technical breakthrough for GATT.[39]

The support-level commitments were a technical breakthrough for GATT but not a substantial breakthrough for farm policy, since they added little or nothing to the pace or content of reforms that would have been undertaken without GATT. The commitments were carefully written to exclude some key internal policy support instruments (such as most kinds of cash payments to farmers) and to go no farther than the modest internal support-level reductions that were being undertaken anyway (for which "credit" was being given in GATT).

Parties to the agreement committed to reducing a specially constructed index of their "trade-distorting" internal farm supports—their Aggregate Measurement of Support (AMS)—by 20 percent from a 1986–88 base, over the six-year implementation period of the agreement (1995–2000).[40] The EU insisted on using a 1986–88 base period for calculating AMS reductions so that it could count toward its final GATT obligation the modest internal-support reductions it was already in the process of achieving unilaterally outside of GATT, under the 1988 "stabilizer" reforms as described earlier. Once credit for this earlier set of reforms was given, existing EU wheat and feed grain policies would automatically be in compliance with the 20 percent AMS reduction commitment in GATT and would require no additional reform.[41]

The AMS index for calculating internal support, already weakened by this granting of "credit" for earlier reforms, was then weakened further during the final stages of the Uruguay Round when the 1992 Blair House agreement effectively set aside two large domestic cash subsidy programs (U.S. deficiency payments to farmers and EU compensation payments) as not counting in AMS calculations.[42] Deficiency payments are a principal instrument of U.S. domestic farm support (they totaled $8.6

39. According to an evaluation by the International Agricultural Trade Research Consortium, "For the first time in any sector, multilateral agreement has been reached to identify the types of domestic programs that are judged to have little or no impact on trade, and to accept commitments to place a ceiling on and to reduce support provided through other more trade-distorting domestic policies." IATRC 1994, 87.

40. This AMS index purportedly represents the total value to farmers (in local currency) of trade-distorting domestic supports, calculated against a fixed external reference price from the base period, aggregated across all policy instruments and all commodities. IATRC 1994, 12.

41. FAPRI 1992, 18.

42. This Blair House decision went well beyond an earlier agreement to exempt so-called green box policies (those with no production or trade-distorting effects, or at most minimal effects) from the AMS index, since both U.S. deficiency payments and EU compensation payments create production incentives. They were excused from counting toward the AMS so long as they were made under "production limiting programs," based on fixed area and yield, and made on 85 percent or less of base production. For a criticism of this decision to exempt deficiency payments and compensation payments, see Sanderson 1994, 7–9.

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billion in 1993, the year the GATT agreement was concluded), and compensation payments were just then becoming a principal means of domestic farm support in the EU, under the terms of the 1992 MacSharry reform plan for the CAP (to be discussed later).[43]

The final terms of the internal-support reduction commitment were so weak that they obliged neither the United States nor the EU to contemplate any additional internal policy liberalizations for the duration of the upcoming six-year implementation period of the agreement. In 1993, even before the MacSharry reforms had been fully implemented, the EU Commission estimated that its AMS index was already below its formal commitment level for the year 2000.

The United States was in an even safer position thanks to reform commitments it had already undertaken unilaterally before and during the Uruguay Round in response to internal budget pressures. These 1985 farm bill and 1990 farm bill reforms would have been undertaken even without a Uruguay Round. They were described in a 1994 study by the International Agricultural Trade Research Consortium as "previously completed reforms, done for purely internal reasons in response to domestic political and budget pressures."[44]

The EU and the United States were not alone in having already done more, behind the border, than the final Uruguay Round outcome would call for. Japan, because of unilateral cuts it had earlier made in rice purchase prices, was also free from any new internal support-reduction burden, and Canada had already done twice as much unilaterally as the new GATT agreement required.[45] All this led the OECD, in 1995, to reach a disappointing conclusion that "The Uruguay Round agreement may not necessarily lead to a reduction in the level of support" to farmers.[46]

Border Protection

One of the most widely noted features of the final agreement on agriculture was a requirement that all border protection measures had to be converted immediately to bound tariffs (upper limits on tariffs that cannot be increased without negotiation with other countries). These newly bound tariffs, as well as those that had been bound earlier, then had to be reduced by 36 percent on average over the six-year

43. Still more weaknesses were introduced at the last minute when it was decided that AMS commitments would not have to be made commodity by commodity, as called for in the previously authoritative 1991 Dunkel Draft version of the negotiating text. Instead, it was determined that a single sectorwide commitment would suffice. Under the umbrella of such a sectorwide aggregate, parties would find it easier to continue offering generous support for politically sensitive commodities, while claiming credit for larger reductions in less sensitive commodity areas, thus potentially slowing reform and worsening policy distortions between commodities. Hathaway 1994, 2.

44. IATRC 1994, 32. See also "Agriculture and the GATT: New Rules of the Road for Trade," U.S. Department of Agriculture, Foreign Agricultural Service, *AgExporter* (June 1994):7. The United States was doubly protected from additional internal support reduction obligations once its deficiency payments were excluded from the AMS and once its politically sensitive commodities (such as sugar) could be protected from substantial support reductions under the umbrella of a sectorwide commitment.

45. IATRC 1994, 76, 54.

46. OECD 1995.

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implementation period. In addition, import opportunities (''market access'') had to be provided through low or minimal duties for minimum imports equal to 3 to 5 percent of domestic consumption.

The conversion of nontariff agricultural border protections to bound tariffs (''tariffication'') was again an important technical achievement from the standpoint of consistent rule making in GATT across sectors and one that required significant changes in the instruments of protection used by national governments.[47] But from the standpoint of achieving actual reductions in the level or variability of border protections, this move toward bound tariffs has so far been surprisingly empty.

To begin with, exemptions were made—for example, Japan was allowed to exempt rice from any tariffication obligations during the six-year implementation period. Where tariffication did take place, little real liberalization was achieved. Early in 1994, when the parties formally tabled their planned tariff schedules, it was clear that a process of ''dirty tariffication'' was widely underway. By taking advantage of an outdated 1986–88 base period that exaggerated existing levels of protection, and by cleverly selecting data points that pushed effective protection-level calculations even higher, nations were able to establish bound tariffs so high that they would exceed the recent level of real protection from nontariff instruments even after the 36 percent reduction called for by the agreement. For the EU, the 1986–88 base period generated initial tariffs above 150 percent for wheat and coarse grains; above 200 percent for beef, sugar, and skimmed milk powder; and above 300 percent for butter.[48] Table 3 provides World Bank calculations of these protection levels for the EU for the year 2000, compared with recent and with historical levels.[49] When the Economist Intelligence Unit examined these actual tabled tariff schedules in 1995, it concluded that the impact of the Uruguay Round on world agricultural trade would be ''much smaller than suggested at first sight.''[50]

The minimum access provisions of the agreement were weakened in similar fashion. Largely at the insistence of the EU, countries were allowed to avoid additional imports of sensitive products by grouping them with less sensitive items (rather than measuring tariff access line by line). Countries were also allowed to count special trading relationships that were existing under their old quota systems as meeting their new minimum access commitments. Finally, they were also allowed to use ''tariff rate quotas'' to meet the tariffication requirement (these allow low tariffs on imports up to the old quota amount, then prohibitively higher tariffs on over-quota amounts). This allowed the United States to preserve the essence of its old sugar

47. Prior to the Uruguay Round, bound tariffs had covered only 42 percent of the farm imports of developed countries and only 27 percent of the imports of developing countries. Hathaway 1994, 4.

48. IATRC 1994, 41.

49. See also Sanderson 1994, 5–6. Actual tariffs need not be as high as tariff bindings, of course.

50. EIU 1995. Traditionally high border protections can also be maintained thanks to several other lax features of the agreement. The agreement required a 36 percent tariff-level cut over six years, but only in terms of an ''unweighted average'' of tariff line items, meaning that highly protected sensitive items could remain highly protected. Minimum 15 percent cuts were required for all lines, but when computing an unweighted average, a 100 percent cut in a 3 percent tariff (on an unsensitive item) can ''earn'' six times as much credit as a 15 percent cut in a 100 percent tariff.

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TABLE 3: *EU border protection (tariffs equivalent)*

Commodity	*Post–Uruguay Round, permitted upper bound (%)*	*Pre–Uruguay Round, 1989–93 avg. (%)*	*Pre–Uruguay Round, 1979–93 avg. (%)*
Wheat	92	68	57
Rice	195.5	103	82
Coarse grains	102.8	89	74
Sugar	274	144	150
Meat	79	97	93
Milk	186.2	147	128

Source: Merlinda D. Ingco, "How Much Agricultural Liberalization Was Achieved in the Uruguay Round?" (paper prepared for the annual conference of the International Agricultural Trade Research Consortium, Washington, D.C., December 1994), 12, tab. 3.

import quota system, since country-by-country quotas could be replaced with comparably small country-by-country "tariff rate quotas." A similar technique was used to preserve the essence of the quantitative restrictions that had existed under the old U.S. Meat Import Law.[51]

Finally, the new tariffication rules in the agreement were weakened through creation of a Special Safeguard Provision (Article 5 of the Agreement on Agriculture) to protect markets that have undergone tariffication against import surges or unusually low world prices. Importers can apply additional duties if imports exceed a certain percentage of the preceding three-year average (called the trigger level) or if import prices drop below a trigger price, with no proof of injury required. The EU has reserved the right to use this Special Safeguard Provision to protect markets where variable levies have been removed; and when the EU announced the trigger prices it intended to use, in many cases they were above the external prices used by the EU to calculate its tariff equivalents. For such reasons, the EU might be able, under the agreement, to manage a new import regime at the border not much different, either in level or in variability of protection, from the old system of variable levies.[52]

Continued variability in EU border protection became an issue in 1995–96 when the EU responded to suddenly higher world grain prices by switching from its normal practice of subsidizing exports to a practice of taxing exports, a switch that had the perverse effect of driving international prices still higher.[53] The new Uruguay Round agreement had thus done nothing to protect international trade from this traditionally disruptive EU practice.

51. See Hathaway 1994, 4; Sumner 1995, 85.
52. IATRC 1994, 48.
53. EU Agriculture Commissioner Franz Fischler defended this perverse policy change by saying it was needed to preserve price stability *within* the EU.

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Levels of Export Subsidy

Except during unusual interludes of high world grain prices (e.g., the mid-1970s or 1995–96), the EU has consistently used direct subsidies (''restitutions'') to its exporters, so as to bring the price of its surplus commodities down to the (usually much lower) world price level. Subsidizing exports in this fashion is a seemingly unattractive policy option, since much of the benefit tends to be captured by the foreign customer, who now can purchase at a lower than normal price what would have been purchased anyway. The United States has traditionally been less dependent than the EU on direct export subsidies, yet at the depths of the world commodity price collapse in 1985, the United States joined the EU in offering direct export subsidies, especially for wheat and wheat flour under the new EEP.[54]

Halting this self-defeating export subsidy competition with the EU was a high priority for reformers in the United States, and also for some in the EU, when the Uruguay Round began in 1986. It was an even higher priority for competing exporters, such as Australia, Canada, and Argentina, that did not apply direct export subsidies and suffered from the much lower international prices that EU and U.S. subsidies helped to generate. Eliminating export subsidies altogether was the primary objective of the Cairns Group, a coalition of smaller nonsubsidizing countries led by Australia.

Hopes were high when the Uruguay Round began that the Cairns Group would serve as a useful prod to accelerate export subsidy reform in the United States and the EU.[55] Yet the Cairns Group was effectively excluded from the final bilateral Blair House deal struck between the United States and the EU that established only modest export subsidy reduction obligations.[56] U.S. and EU negotiators agreed at Blair House that the volume and value of directly subsidized farm exports were to be reduced by 21 percent and 36 percent, respectively, over the six-year life of the agreement, from the base levels that had prevailed in 1986–90, and that products not subsidized during the base period were not to be subsidized at all during the implementation period. This was much less than the 100 percent reduction in subsidized exports originally sought by the Cairns Group (and also by the United States in its original Zero Option proposal), less than the 90 percent reduction the United States had called for in its modified proposal of October 1990, and even a bit less than the modest 24 percent (volume) reduction called for in the December 1991 ''Draft Final Act'' submitted by GATT Director General Arthur Dunkel.

On the positive side, these were precisely quantified restrictions that went beyond GATT's previously existing ''equitable share'' rule (which GATT panels had been unable to operationalize, let alone enforce). European negotiators had been so resistant to any limits on volume of subsidized exports during so much of the Uruguay

54. These U.S. export subsidies were no more efficient than EU export restitutions as a means to help domestic farmers, since most of the subsidy value of EEP—about 40 percent—went directly to foreign customers. An estimated 70 to 90 percent of the exported bushels would have been sold anyway, even without a subsidy attached. See Epstein and Carr 1991, 5; Koester and Nuppenau 1987, 74–75.

55. Cooper and Higgott 1990.

56. Hathaway and Ingco 1995.

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Round that these modest limits, when finally achieved, did seem to represent a significant negotiating achievement.

The EU became willing to accept an export subsidy reduction agreement in GATT only after it had completed a unilateral internal policy reform process—the 1991–92 MacSharry reforms of the CAP—that diminished the reliance the EU would have to place on export subsidies. Prior to the MacSharry reforms, at the time of the 1990 Brussels ministerial, the EU had not been willing to accept any quantified export subsidy disciplines at all. Not until late 1993, after the implementation of the unilateral MacSharry reforms (and after the Dunkel formula was weakened, first at Blair House in November 1992 from a 24 percent cut down to 21 percent, and then weakened still more through a set of final U.S.–EU bilaterals), did all the member countries of the EU (including France, whose export-competing farmers depended most on the subsidies) agree to sign on.

The EU was willing to accept in GATT, at this point, the degree of export subsidy reduction that the MacSharry reforms would be making possible anyway. The MacSharry reforms lowered internal CAP cereals prices 29 percent and obliged larger EU farmers to idle some of their land, policy changes that were certain to make possible a marked reduction in the EU's volume of subsidized exports. The EU Commission accepted the modest terms of the Blair House agreement late in 1992 because by then these terms were already being achieved under the MacSharry reforms.[57] The implementation of the MacSharry reforms made the new GATT export subsidy limits essentially meaningless for the EU, at least in the short run. By the time the GATT agreement took effect in mid-1995, the EU's subsidized volume of wheat and coarse grain exports in the year before was already 11 to 20 percent below what it would have to be in the first year of the agreement.[58]

Several factors in addition to the 1991–92 MacSharry reforms made meeting the export subsidy component of the Uruguay Round essentially painless for the EU. One of these had been counted on by EU negotiators: the 1995 entry into the EU of Austria, Finland, and Sweden. These EFTA (European Free Trade Association) countries had historically maintained internal farm price supports even more lavish than those of CAP, so they were expected under CAP prices to produce less and hence begin absorbing more grain from other EU countries (grain that otherwise would have been exported with subsidies).[59] Also, when the historical grain exports of these new members were cleverly added to the EU's baseline (from which the required GATT cuts had to be made), the baseline itself was increased by about 7.5 percent.

A larger and less-expected factor was a sudden (and temporary) 70 percent increase in world grain prices in 1995–96, which allowed the EU briefly to suspend

57. IATRC 1994, 49.

58. According to an official EU statement in June 1995, "Following the reform of the CAP in 1992, this [new GATT accord] is not expected to have any significant impact on European agriculture." Quoted in *Agra Europe* 1651 (30 June 1995):P3. Although the new GATT limits on export subsidy use were not expected to constrain EU cereals policy, agricultural officials did expect GATT limits to force some changes in EU dairy policy, perhaps as early as the 1996–97 marketing year, and in subsidized exports of processed foods. See *Agra Europe* 1662 (15 September 1995): E1, P1.

59. Anderson 1993, 23–26.

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export restitutions altogether (and replace those subsidies with export taxes, as noted earlier). The EU took further advantage of this temporary chance to suspend export subsidies by arguing that any GATT–legal export subsidies not applied while world prices were high in 1995 and 1996 should be added to its GATT–legal subsidy arsenal for later years, when world prices were expected to fall.

In the United States as well, the new GATT restrictions on export subsidies were painless to accept in the short run. They were much less constraining than a number of other factors, especially budget factors, that would have altered U.S. export subsidy policy even without GATT. In fiscal year 1995, the year before GATT restrictions came into effect, U.S. congressional appropriations for EEP were cut to $800 million, an effective 37 percent cut from the actual outlays of two years earlier, and a cut to a level well below the new ceiling on spending imposed by the Uruguay Round ($959 million in fiscal year 1996, the first fiscal year actually disciplined by the new agreement). Internal budget constraints were thus the driving force behind reductions in U.S. export subsidy authority, not GATT. When world prices increased in 1995–96, the U.S. joined the EU in temporarily suspending export subsidies entirely (although the United States did not impose export taxes).

Did Anticipation of a GATT Agreement Help Drive Unilateral Domestic Reforms?

The preceding section demonstrates that the 1993 Uruguay Round agreement on agriculture went scarcely if at all beyond the terms of U.S. and EU policy reforms by then being implemented or launched unilaterally. Believers in positive synergistic linkage might suspect that it was the *anticipation* of an imminent GATT agreement that drove these unilateral domestic reforms. Yet further inquiry shows that this was not the case at the U.S. end and only a marginal factor at the EU end.

The United States: Unilateral Reform Despite the Uruguay Round

At the U.S. end, the Uruguay Round was on balance a hindrance to unilateral agricultural policy reform. I have noted earlier a number of instances of negative synergistic linkage during the negotiation itself, including cases where subsidies were retained or even created as bargaining chips for the negotiation. The one major unilateral reform step taken by the United States during the Uruguay Round, the 1990 move toward fewer acres eligible for deficiency payments, was undertaken as part of a purely internal domestic budget reconciliation process.

Rent-seeking U.S. farm lobbies gained extra power from the negotiations while they were underway, and even found ways to profit following the completion of the negotiations, during the 1994 congressional debate over passage of implementing legislation for the agreement. President Clinton, in order to secure the House and Senate votes he needed to pass implementing legislation in 1994, felt obliged to make a number of promises (in writing) to the Agriculture Committees of Congress:

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he promised to ask, in both fiscal years 1996 and 1997, for discretionary U.S. Department of Agriculture (USDA) spending levels *above* the fiscal year 1995 level; he promised to ask for an extension of the Conservation Reserve Program (which paid farmers roughly $1.8 billion a year to idle supposedly fragile land); he promised to propose a $600 million increase in a variety of the "green box" export promotion programs not disciplined by GATT (including CCC, Commodity Credit Corporation, credits; CCC credit guarantees; and the USDA Market Promotion Program operated through private companies); and he promised to request from Congress throughout the six-year GATT implementation period all of the funding for EEP (and for other U.S. direct export subsidy programs disciplined by GATT) that the Uruguay Round agreement would allow.[60] This final pledge obliged Clinton to send to Congress for fiscal year 1996 a budget request that asked $959 million for EEP, which was the maximum allowable under GATT and actually 20 percent more than the appropriated funding level for EEP for fiscal year 1995. Pressed to explain why he was asking this much for EEP and for other subsidies, Clinton himself fell into the trap of using the Uruguay Round as a justification for sustaining, rather than cutting, farm programs. At a national rural issues conference in April 1995 he explained that he did not want to "give up the comparative advantage we won at the bargaining table in GATT."

A significant unilateral policy reform was subsequently undertaken by the United States in the path-breaking FAIR Act of 1995–96; but this did not occur because of any positive synergistic linkage to the Uruguay Round. The FAIR Act eliminated domestic target price deficiency payments and annual acreage-reduction programs (excluding the conservation reserve program) for at least seven years, replacing these traditional instruments with innovative new contract payments to farmers completely decoupled from market fluctuations or planting decisions. The trigger for the elimination of acreage-reduction authority was the capture of Congress by Republicans in 1994. For the first time in forty years, Republicans sympathetic to large competitive commercial farmers and agribusiness controlled both houses of Congress; such a Congress would have embraced a full-production agricultural policy even without the Uruguay Round.

The trigger for the switch to decoupled payments was the sudden mid-1995 rise in farm commodity prices. With market prices rising, traditional deficiency payments were expected to fall (in some cases to zero). By decoupling farm subsidy payments from market prices at this precise juncture, supporters of farmers in Congress (led by Republican House Agriculture Committee Chair Pat Roberts of Kansas) could capture monies provisionally budgeted for farmers that were not otherwise going to be spent. From a budget savings perspective this was "dirty decoupling"; it gave U.S. farmers in fiscal years 1996 and 1997 roughly $3.9 billion more in cash payments than they would have received if no policy change had occurred at all.[61]

60. These promises were contained in a formal two-page letter, jointly signed by Agriculture Secretary Mike Espy and Acting Budget Director Alice Rivlin, to the chairs and ranking members of the House and Senate Agriculture Committees, on 30 September 1994.

61. Orden, Paarlberg, and Roe 1996, 7, tab. 1.

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In any case, the Uruguay Round played no discernible role in these 1995–96 U.S. policy changes. The final Uruguay Round agreement on agriculture did not push the United States toward eliminating deficiency payments and acreage-reduction programs, since the agreement contained an explicit provision (the so-called blue box) that exempted U.S. deficiency payments (as well as EU compensation payments) from the calculations of aggregate support (AMS) being disciplined by the agreement and linked that exemption explicitly to the continued use of "production limiting programs," such as annual acreage set asides. Despite this privileged status given to deficiency payments in the final GATT agreement, Congress saw fit in 1996 to abandon those payments in order to cash in on the unexpected new "dirty decoupling" opportunity.

The EU: Reform Thanks to the Dillon Round

At the EU end, the Uruguay Round process was arguably of some help in triggering the MacSharry reforms of the CAP in 1991–92. EU officials were looking for a way out of the agricultural deadlock in GATT, which by then was clearly blocking progress in other negotiating sectors, and they recognized that a unilateral reform of the CAP at home, so long as credit would be given in GATT, might provide the best foundation for a much needed international deal on agriculture with the United States.[62] The timing of some critical events also suggests the importance of this link: the first internal Commission document outlining the framework for a unilateral CAP reform was produced on the same day (6 December 1990) that the GATT ministerial broke up in Brussels without an agreement.[63] The technical content of the MacSharry reforms also suggests anticipatory links to the Uruguay Round: a bold lowering of intervention prices (which from the perspective of GATT lowered AMS) combined with a switch to acreage reductions and compensation payments (which would not be a part of AMS under the blue box provision).

The MacSharry reforms were eventually instrumental in providing a foundation for the final U.S. agreements with the EU at Blair House, but it is not easy to argue that they were designed with that goal uppermost in mind. This is because when the EU made its 1991–92 decision under MacSharry to switch to cash compensation payments, those payments (including U.S. deficiency payments as well as EU compensation payments) had not yet been exempted from disciplines in the GATT negotiations. Fully decoupled payments had by then been exempted, but neither EU compensation payments nor U.S. deficiency payments were fully decoupled. Not until the Blair House meetings of November 1992 did the United States agree to exempt both EU compensation payments and (conveniently for the U.S. farm lobby) U.S. deficiency payments from the GATT cuts being discussed.[64]

The official explanation given by the EC Commission for proposing the MacSharry reform in 1991 was a need to save money for the CAP budget. It is true that

62. Tanner 1996, 15.
63. IATRC 1994, 41.
64. Swinbank and Tanner 1996, 118.

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CAP budget pressures were intensifying in 1990–91 when the reform was being prepared, but this explanation is not fully credible, since the short-term consequence of switching to cash payments for cereals supports was more rather than less budget exposure for the CAP.[65]

A second explanation accepts the fact of budget pressures on the CAP but then presents the MacSharry reform as an effort by pro-French forces inside the Commission to preempt what might otherwise have been a pro-German approach toward dealing with those pressures. German cereals farmers are high cost and noncompetitive, and prefer high-price guarantees, even if maintained through strict production controls. French cereals farmers are low cost and export oriented, and will do almost anything to avoid production controls. French advocates inside the Commission, fearing the CAP budget crisis was going to trigger production controls, advocated the MacSharry "cash out" approach instead. French farmers could live with the lower prices (as prices fell they would capture a larger share of the EU market), and German farmers could perhaps be bought off with cash compensation payments. The MacSharry plan was favored far more strongly by French than by German agricultural interests.[66]

A third explanation would see the MacSharry reform as fulfillment of a plan for a cash out of cereals policy that had been brewing inside the Commission for many years. A shift toward supporting farmers with cash compensation payments rather than price guarantees had been strongly promoted by the Commission years earlier, in a "Green Paper" published in 1985, the year before the Uruguay Round began.[67] The deadlock between the Commission and the Council of Ministers late in 1990 over Uruguay Round negotiating options may have helped the Commission to move this option back to center stage, but the United States had earlier moved toward a cash payments approach without international pressures, and perhaps the EU would have done so sooner or later anyway.

A fourth explanation for the MacSharry reform depends more directly on international pressures, although not so much from the Uruguay Round of GATT negotiations. This explanation links EU final acceptance of the MacSharry reforms in 1992 to an obscure trade concession that the EU carelessly gave to the United States thirty years earlier, in the pre-CAP Dillon Round of GATT negotiations. This concession was a zero-duty "binding" that would guarantee free entry into the EU market of nongrain feed ingredients, including oilseeds, manioc, and corn gluten feed. This seemed an insignificant concession at the time, since grain prices in the EU were not yet high enough (the CAP had not yet been formed) to make these nongrain feed products commercially attractive. Yet over time, as grain prices inside the EU were increased under the CAP, consumption of substitute nongrain feed products (since

65. See Swinbank and Tanner 1996, 89; and Josling, Tangermann, and Warley 1996, 264, n. 7.
66. Patterson 1997, 158.
67. Koester and Tangermann 1990, 106.

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they could be imported duty-free) grew sharply. These imports of nongrain feed threatened the sustainability of high internal CAP grain price guarantees, because they displaced internal consumption.

The EU subsequently sought through various direct and indirect policy means to lift this GATT-created burden on its high-priced grain regime but without success. U.S. farmers, once they began exporting increasing quantities of oilseeds and corn gluten to the EU under the zero-duty binding, assumed a posture of constant vigilance toward any EU policy action that might impair the value of this earlier GATT concession. When the EU began subsidizing its own domestic oilseeds producers, in hopes of displacing duty-free imports, the U.S. oilseeds industry appealed to U.S. trade law in order to force a confrontation. In December 1987, the American Soybean Association filed a petition against EU oilseed policy under Section 301 of U.S. trade law, an action that eventually obliged the U.S. government, in January 1988, to bring the dispute to GATT. The U.S. case was strong: EU oilseeds production had more than quadrupled during the 1980s, under the effects of lavish subsidies, and U.S. exports of soybeans and soybean meal to the EU had simultaneously gone into decline.[68]

In January 1990 the GATT Council adopted a panel ruling that oilseeds price supports inside the EU had indeed nullified the thirty-year-old zero-duty binding, and the EU had to agree to modify its policy. It first attempted to do so in December 1991, by moving toward a scheme of lower internal prices (closer to world market prices), with compensatory direct payments to farmers, a scheme designed for oilseeds that would become a prototype for the subsequent MacSharry reforms for other crops. Yet the United States found that these direct payments were still a production inducement and requested that a GATT panel be reconvened. In March 1992, this second panel confirmed that EU policy still deprived U.S. growers of the earlier Dillon Round concession, and when the EU tried to reject this second ruling, the United States threatened retaliation with sanctions in the amount of the estimated damages incurred by U.S. soybean producers—$1 billion.[69] This was a bilateral trade conflict drama that would have been played out to its logical conclusion even if a Uruguay Round had never occurred.

At this point in its oilseeds conflict with the United States, the EU drew another important conclusion: it could not hope to sustain its high-price regime for grains by holding back imports of nongrain feeds. Throughout the Uruguay Round, U.S. oilseeds producers had vetoed an EU proposal to limit nongrain feed imports through a proposed "rebalancing" of protection, and now under an imminent and credible threat of U.S. trade retaliation (credible in part because it was backed by the authority of two separate GATT panel findings) the EU could no longer use oilseeds subsidies to displace nongrain feed imports. It could now displace imports of nongrain feeds only by reducing its own internal grain prices. So it took this step in May 1992 by embracing the proposed MacSharry reforms for grains.

68. USDA 1992, 18.
69. Ibid., 19.

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The denouement of this critical U.S.–EU oilseeds dispute came at the same November 1992 Blair House conference that produced the bilateral agreement on the Uruguay Round, but the political dynamics of the two issues remained distinct. At Blair House, the EU escaped U.S. oilseeds sanctions by agreeing to set aside 10 to 15 percent of its oilseeds area (a set-aside provision that by then had already been extended to grains, under the MacSharry reforms).[70] This satisfied the U.S. oilseeds industry enough to clear the way in the United States for a final compromise on the Uruguay Round.

A small GATT concession carelessly made by the EU in 1962 thus gave the U.S. government, under totally different circumstances thirty years later, the foundation that it needed to threaten bilateral trade retaliation to preserve the original concession. It was this credible threat of U.S. retaliation in a highly charged trade dispute, more than any positive synergistic linkage within the Uruguay Round, that generated external pressures for CAP reform.

Benefits versus Costs of Internationalization

I have argued that the Uruguay Round added nothing to the pace or content of domestic farm policy reform in the United States (it may have actually delayed and weakened reform) and added only marginally to reform in the EU, where internal factors plus a vigorous U.S. defense of Dillon Round concessions could have produced almost as much without a Uruguay Round. The decision to make agriculture a central issue in the Uruguay Round meanwhile delayed the reaching of agreements in other areas. On balance, and across all sectors, was it beneficial or costly to have attempted this internationalization of the domestic farm policy reform problem?

Imagine as a counterfactual that internal agricultural reform had not been made a centerpiece of the Uruguay Round, and that as a consequence the nonagricultural results of the Uruguay Round could have been secured and implemented one year earlier (i.e., July 1994 instead of July 1995). How much would have been gained from completing these other parts of the round one year earlier?

The Clinton administration offered, on completion of the negotiation, a calculation of the Uruguay Round's aggregate value across all sectors. The USTR (U.S. Trade Representative) and CEA (Council of Economic Advisors) projected that the Final Act would increase world income in real terms over a ten-year period beginning in 1995 either by 5 percent (assuming high economic growth) or by 2.5 percent (assuming lower growth), compared with what world income would have been in the year 2005 without the Final Act.[71] This gives us a way to gauge the cost of delaying the outcome. Assuming a one-year delay in completing the Final Act due to the emphasis placed on agriculture, the cost of that delay can be calculated in terms of elevated world income levels not realized on time (and then not added cumulatively to the

70. Ibid., 18.
71. U.S. General Accounting Office 1994, 7.

https://doi.org/10.1162/002081897550410 Published online by Cambridge University Press

base of all future income gains worldwide). Assume that the Clinton administration's estimated total gains from the Final Act are evenly distributed over the ten-year period in question, and then to be cautious use the income gain estimate based on the lower growth scenario. The first-year cost of a one-year implementation delay due to agricultural deadlock could then be calculated as one-tenth of 2.5 percent of projected world income without the Final Act in 2004, which calculates to roughly $76 billion.[72] The agricultural-sector efficiency gains finally secured as a result of the Uruguay Round (i.e., little or none at the U.S. end and only a few at the EU end) were scarcely large enough to justify a world income opportunity cost of these proportions.

Even for agriculture, delaying the nonagricultural component of the Uruguay Round outcome was costly, since income gains in other sectors are often the key to farm-sector prosperity. When the Clinton administration in 1994 presented its explanation for why the Uruguay Round would benefit the U.S. farm sector, it rested most of its case not on CAP reform, but instead on the nonagricultural parts of the round, which would benefit U.S. farmers (and also EU farmers) by generating higher world income.[73] This implies that U.S. farmers as well might have been among the winners if agricultural issues in the Uruguay Round had been compromised sooner, to permit timely completion of the rest of the round.

Over the longer run, beyond the 1995–2000 implementation period of the agricultural agreement, circumstances certainly can be imagined in which it will emerge as more significant. If follow-up agricultural negotiations (currently expected to begin as a "mini-round" in 1999) can produce a second installment of reductions in newly bound tariffs, AMS levels, and export subsidy allowances, a belated but nonetheless real payoff from the internationalization strategy might yet be realized.[74] At the EU end, even the weak 1993 Uruguay Round agreement on agriculture could take on significant force sometime early in the next century when it is anticipated that a number of central European states with strong farm production potential (especially Poland and Hungary) will be entering the EU. These central European countries (in direct contrast to the EFTA countries) will subtract rather than add degrees of freedom to the EU's meeting of its obligations under the Uruguay Round. A 1995 Commission White Paper forecast the impact of a phased enlargement beginning in 2000 that would extend the CAP in its current form to all ten associated countries of central and eastern Europe. Between 2000 and 2010, under this scenario, the associated countries would roughly double their net surplus of cereals (under the stimulus of CAP policies), and the net surplus for the EU-25 as a whole would reach an untenable sixty-five million tons (compared with just seventeen million tons for the

72. To be doubly cautious, this calculation uses total world GDP in 1994 ($30.6 trillion) in place of projected world income for 2004. For world GDP calculation using purchasing power parities, see CIA 1995, 15, tab. 1.

73. USDA 1994.

74. Josling, Tangermann, and Warley 1996.

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EU-15 in 1994).[75] Since the EU could not possibly use export subsidies to dispose of this much surplus grain in 2010 under the terms of the Uruguay Round agreement, further internal reforms would be required. Perhaps internal EU budget constraints alone would be enough to force a further CAP reform at this point, but (as in the Dillon Round case noted earlier) an existing international commitment would strongly reinforce these reform pressures.

If the Uruguay Round eventually functions in this manner to add to the pace or content of domestic reform, it will perhaps be a vindication for the value of binding international commitments, but not for the positive synergistic linkage hypothesis. Changing circumstances over the longer term (a factor not considered by Putnam) will have made more powerful an international commitment that was initially quite weak.

Conclusion

Can international agreements help promote domestic policy reform? The case of agriculture in the Uruguay Round suggests caution. The reforms secured through international negotiation were modest at best. In many instances the modest reforms that were written into the final agreement reflected policy changes already undertaken unilaterally in response to internal budget pressures or in response to other pressures that did not derive specifically from the Uruguay Round negotiation. Furthermore, in some instances, especially in the area of U.S. export subsidy policies, the international negotiation process may have actually delayed or blocked liberal reform. Reforms were achieved, but most (especially those at the U.S. end) would have been achieved even if the Uruguay Round had never been launched.

Meanwhile, an international price was paid for building such an ambitious agricultural policy reform objective into the larger multisector Uruguay Round negotiation. Delays were experienced in securing valuable outcomes in sectors much larger and more important than the agricultural sector. This cost, in the short run, was not worth the benefit.

The lesson for international relations theorists seeking to understand two-level games is that synergistic linkage can be negative as well as positive. International negotiating strategies are perhaps as subject to an adverse "capture" as are domestic regulatory agencies. Why the search for positive synergistic linkages in the Uruguay Round agriculture case proved more frustrating than in the 1978 Bonn summit case should be a topic for further investigation. When to use international negotiations to seek an escape from domestic policy reform constraints, and when instead to postpone the internationalization of reform until after unilateral progress has been made at home, remains an understudied question.[76]

75. *Agra Europe* 1673 (1 December 1995):E4–E5.
76. My preliminary effort to pose this question across several sectors is presented in Paarlberg 1995.

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