7 Agriculture and Aerospace

Two sectors of the economy that have been of particular concern in subsidy disputes, but have been handled outside of the general provisions of industrial subsidies are agriculture and aerospace. Agriculture was an exception to postwar liberalization initiatives as most governments believed in the necessity of supporting the sector against the chaos of the international market. Agricultural disputes took center stage in the Uruguay Round and caused considerable delay in reaching a final agreement. Aerospace has also been a subject of intense conflict in the past 20 years as competition between the European Community's Airbus has threatened United States producers such as McDonnell Douglas, Lockheed and Boeing. Similar to agriculture, the primary protagonists have been the United States and the European Community with the latter declaring that its subsidy practices are justified. In both cases bilateral deals have been agreed which restrict but do not eliminate subsidy practices.

DOWN ON THE FARM

This section examines the European–US agricultural subsidy dispute as an example of the difficulties in trying to restructure the domestic policies of one country or region to satisfy powerful interests in another. Agricultural subsidies are particularly important because failure to reach an agreement threatened completion of the Uruguay Round. The primary axis of conflict has been between the United States and the European Union, but other major players include Japan and the Cairns Group. The Cairns Group is a coalition of middle powers whose treasuries are unable to compete with the United States or the EC in subsidizing agricultural exports. Its members are Argentina, Australia, Brazil, Canada, Chile, Columbia, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay. As a group they represent 500 million people and account for a quarter of world agricultural exports (Johnston, 1988: 3). From 1979 to 1985 the average annual US dollar value for agricultural support was $53 billion for the EC, $34 billion for Japan and $32 billion for the US (Vitte and Langer, 1990: 5).
Efforts to liberalize agricultural trade conflict with domestic policies that have something other than efficient resource allocation as their primary objective. Countries may intervene in agriculture in order to ensure self-sufficiency, sustain a community and way of life, or to support or stabilize food prices. The theoretical case for free trade is often traced back to David Ricardo’s theory of comparative advantage. Ricardo used the example of Britain exchanging its manufactured goods (textiles) for Portugal’s wine to demonstrate that countries would gain from trade if they specialized in the products in which they had a comparative advantage (Hollander, 1979: 462–70, Ricardo, 1992: 77–93). There is a crucial difference between these products and food, however. If production is reduced in either Britain or Portugal, the product will be missed in the other country, but the hardship will be tolerable. A country that has its food imports reduced or halted due to war, pestilence or natural disaster faces the prospect of starvation. Thus, because of fears of dependence or the commitment to support a particular way of life states are generally reluctant to be totally dependent on others for food, even if it is economically more efficient.

Although protectionism in agricultural products violates liberal theory and has drawn considerable criticism in the last 20 years it is not an exceptional occurrence. Free trade in agricultural products, with the exception of Great Britain during its hegemonic era, has not taken place in the modern age. Starting from an unrivaled industrial lead, British governments opened their markets to cheap food imports in the 1840s. Not only did this conform to liberal theories of comparative advantage, it assisted industrial production by allowing employers to limit or decrease wages to workers who bought the cheaper imported foodstuffs. After flirting with free trade Germany and France both pursued protectionist agricultural policies. At the founding of the United States, small independent landholders were seen as the key to a strong and vigorous democracy and steps were taken to ensure that foreign products did not disturb this state of affairs. Managed trade was the rule as European colonial powers established exclusive bilateral arrangements which funneled agricultural trade (often tropical) from the colonies in exchange for manufactured goods. Prior to the First World War Europe occupied the central position in world agriculture as it was both the leading importer of temperate zone and tropical products and the largest producer of agricultural products. It accounted for over half the world’s wheat, barley and oats production, 90 per cent of beet sugar, 30 per cent of cattle and half the pigs. North America held the edge over Europe in cotton, tobacco and maize (Nagle, 1976: 4).