# Cordell Hull Institute

# Trade Policy Analyses

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On March 31, 2006, as the Doha Round negotiations continued to struggle over modalities for negotiations on agriculture, and preparations for the 2007 U.S. Farm Bill were beginning in Washington, DC, the Cordell Hull Institute held a Trade Policy Roundtable meeting on the Reform of U.S. Farm Policy and the WTO System.

The meeting was held in the Washington offices of Hogan & Hartson, attorneys at law, located in the I.M. Pei designed Columbia Square Building (pictured here).



Daniel T. Griswold spoke at the meeting based on the article represented here.

#### About the Author

Daniel T. Griswold is Director of the Center for Trade Policy Studies at the 2007 U.S. FARM BILL...

# Doing Environmental Harm — A Case Against Farm Subsidies

## **Daniel Griswold**

While many farmers are conscientious stewards of the environment, the incentives of U.S. agricultural policies can lead to practices that damage the environment. Agricultural price supports and trade barriers stimulate production on marginal land, leading to overuse of pesticides, fertilizers, and other effluents.

A central if unstated purpose of U.S. farm policy is to maintain "the rural way of life," which translates into promoting production of commodities that would not be economical under competitive, free-market conditions. This often means producing selected crops under conditions less favorable than the land and climate in other countries. As a result, trade barriers intensify production in countries that do not have a comparative advantage, necessitating more intense use of fertilizers and other inputs. Similar national priorities explain why farmers in Japan, Korea, and Switzerland on average use far more fertilizer per acre than those in Australia, New Zealand, and less developed countries where the same crops can be grown under more favorable conditions (Irwin 2005).

Overuse of fertilizers and pesticides adds to runoff that pollutes rivers, lakes, and even oceans. According to the World Resources Institute, agriculture is the biggest source of nutrient and pesticide runoff into rivers and lakes in the United States (Humphreys, van Bueren, and Stoeckel 2003). According to a publication of the World Wildlife Fund, areas of the Gulf of Mexico off the U.S. coast have become "dead zones" partly because of the runoff of pesticides and nutrients from farms in the Midwest (Clay 2004).

Even where fertilizers and pesticides are not used intensively, the mere act of plowing soil eliminates forest and grass cover, leaving soil exposed for weeks at a time and vulnerable to erosion. Erosion can result in the build-up of silt in nearby rivers and downstream lakes.

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Cato Institute, Washington, DC. Mr Griswold has authored or co-authored major studies on globalization, the WTO, the U.S. trade deficit and manufacturing, immigration and other subjects, including the September 2005 Cato study, Ripe for *Reform*, on the need to reduce U.S. farm subsidies and trade barriers. He has testified before congressional committees and frequently comments for TV, radio and major publications.

#### About the Meeting

The meeting was chaired by **Clayton Yeutter**, a former U.S. Secretary of Agriculture, who was earlier U.S. Trade Representative.

#### Besides Daniel T. Griswold,

Mark Drabenstott, vice president, and director of the Center for the Study of Rural America, at the Federal Reserve Bank of Kansas City, Kansas City, MO. other speakers were **Russell L. Lamb**, an associate director of Navigant Consulting Inc., and Will Martin, a lead economist (trade policy) at the World Bank, as well as

Discussion was initiated by James Grueff, a former USDA negotiator and now a partner at consultants Decision Leaders Inc., as well as Emily Byers, of the Bread for the World Institute, Claude Barfield, of the American Enterprise Institute, and Kimberly Ann Elliott, of the Institute for International Economics and the Center for Global Development, all also based in Washington.

Ralph Grossi, president of the American Farmland Trust, Washington, commented as well on the next U.S. Farm Bill. A prime example of environmental damage from farm-related effluent involves sugar cane and the Florida Everglades. Federal protection of domestic sugar producers has rewarded them with a price for their product that is far above what they would receive in a free and open world market. That higher price has stimulated artificially high domestic production. One unintended result has been that cane farms in central Florida use water from the Everglades and return it with phosphorous content far above a level consistent with maintenance of the surrounding ecosystem. The high runoff has seriously reduced periphyton, such as algae, that supports bird and other animal life (Humphreys et al. 2003). Congress has allocated billions of federal tax dollars in an attempt to repair the damage caused to the Everglades by the protected sugar industry.

### Wasting Water

Distortions caused by U.S. farm programs also lead to waste of scarce water. Worldwide, agriculture accounts for two-thirds of freshwater use, mostly for irrigation of cropland. In the United States, subsidies for agricultural water use amount to \$2 billion or more annually (Humphreys et al. 2003). Those subsidies prop up uneconomical types of farming (such as growing cotton in the Arizona desert) divert water from residential and industrial users who would be willing to pay market rates, and further damage the environment. According to one study, 25 percent of irrigated farmland in the United States suffers from excessive salinity caused by irrigation (Humphreys et al. 2003). Ending farm subsidies and protection, as well as related water subsidies, would reduce environmental damage while freeing water resources for more economically justified uses.

Farm protection also crowds out more environmentally friendly land use by artificially driving up land prices. A sizeable share of the increased income that protection and subsidies deliver to farms becomes "capitalized" in the value of the land. That is, subsidies make the land more valuable by increasing the stream of income it can produce. The higher prices for farmland raise the cost of acquiring and maintaining environmental preserves, parkland, forests, or other land-use alternatives that are more likely to preserve habitat and biodiversity (Goklany 1998).

Americans have witnessed this trade-off firsthand during the past century. Despite interventionalist farmland programs, the longterm shift of economic activity away from farming to manufacturing and services has led to reclaiming of farmland for other uses, including reforestation. The number of forested acres in the northeastern United States has increased dramatically in the past century, from 59.6 million acres in 1907 to 85.5 million by 1997 --primarily because of the decline in the number of farms

#### Trade Policy Roundtable

The Cordell Hull Institute's Trade Policy Roundtable is sponsored by seven international law firms in Washington, DC: Akin Gump Strauss Hauer & Feld, Arnold & Porter, Hogan & Hartson, O'Melveny & Myers, Sidley Austin Brown & Wood, Steptoe & Johnson and Wilmer Cutler Pickering Hale & Dorr.



The **mockingbird** is the state bird of Tennessee. Cordell Hull represented a district of Tennessee in the Congress of the United States, and was elected a senator from there, before becoming U.S. Secretary of State (1933-44).

#### Trade Policy Analyses

Papers in the online series, *Trade Policy Analyses*, are published by the Cordell Hull Institute, which is a non-profit organization incorporated in the District of Columbia and is tax exempt under Section 501(c)(3) of the Inland Revenue Code.

The Institute's purpose is to promote independent analysis and public discussion of issues in international economic relations.

The interpretations and conclusions in its publications are those of their respective authors and do not purport to represent those of the Institute which, having and farm acres in the region (Sterba 2005). By keeping marginal farmland under cultivation, however, U.S. agricultural policies have slowed the trend to reforestation.

New Zealand has experienced the same trade-off of farmland for forests and other uses. After the government dramatically reduced farm trade barriers and subsidies in the mid-1980s, including subsidized irrigation, farmland values fell sharply. While this was painful in the short run for some farmers and related businesses, the lower land values allowed marginal land to return to such uses as forestry and eco-tourism. Since the liberation of agriculture from government control in New Zealand, "the use of fertilizer has declined and there was a halt to land clearing and over-stocking [over-grazing], which had been responsible for widespread soil erosion," write Humphreys et al. (2003).

Skeptics toward globalization raise the concern that free trade in agriculture would merely shift environmental problems from rich to poor countries, leading to deforestation elsewhere. But such worries are misplaced. Most logging and deforestation in poor countries today is driven by demand for fuel and charcoal, not farmland (Irwin 2005).

An unintended consequence of U.S. and European agricultural subsidies is that they hurt the economies of developing countries, whose output and employment are much more dependent on agriculture. Expanding trade with poor countries would help to raise incomes among the worlds rural poor. It would allow farmers and other residents to shift to more environmentally friendly forms of energy and increase the resources and technology available to better manage environmental quality.

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