

Beyond WTO Compliance: Seeking a Just 2007 U.S. Farm Bill

by Kristin Sampson

The 2002 Farm Bill is set to expire this year and debate on a new Farm Bill is heating up in the U.S. Congress, drawing both domestic and international attention. Given the scope and reach of Farm Bill legislation, this is an opportunity to change the course of U.S. agriculture and draft meaningful legislation for U.S. family farmers and rural communities and their international counterparts. This article will discuss the current direction of U.S. agriculture policy, the interaction with international trade rules and current proposals for the 2007 Farm Bill, contrasting those that seek to comply with trade obligations and those that present an alternative to the current system.

U.S. Agriculture – Exporting our way to prosperity – or not.

For over twenty years, the U.S. has pursued farm policies which promote industrial farming for export markets, arguing that farm prosperity lies in increasing competitiveness (selling at lower prices) and expanding export markets. The 1996 Farm Bill ended supply management programs for major commodities by no longer requiring farmers receiving government support to keep a percentage of their land out of production. The 1996 Farm Bill also “decoupled” farm payments by untying farm payments from the crops produced. Both factors encouraged farmers to farm as much land as possible, thereby increasing production. The market compensated for the ensuing dramatic increase in supply with a corresponding crash in prices. Support was restored in the form of emergency payments which evolved into the “countercyclical payments” of the 2002 Farm Bill which are enacted whenever the effective price is less than the target price.¹ Over the same 20 year period, U.S. farmers have seen incomes decline, farms have consolidated into fewer and larger farms, global prices for major commodities have declined, and U.S. exports have remained flat.

International Reach of U.S. Agriculture Policy

Moreover, US export-oriented agriculture policy, reinforced internationally through trade agreements, has done little to help struggling family farmers or impoverished rural communities. With multilateral negotiations at a

¹ The historical evolution of the U.S. Farm Bill is drawn heavily from “A Fair Farm Bill for the World,” Institute for Agriculture and Trade Policy, March 2007. Available at www.iatp.org.

standstill, the U.S. has pursued an aggressive agenda for securing greater market access for U.S. commodities and agricultural goods in bilateral and regional free trade agreements. U.S. demands have been met with initial resistance, with trading partners citing concerns over domestic rural livelihoods, food security, and even increased narco-trafficking. However, given the power imbalance in these bilateral negotiations, the U.S. has been able to secure extensive market access without reformulating U.S. trade distorting policies.

Key areas in which trade legislation is used to expand the reach of U.S. agricultural exports and U.S. agricultural firms, like the large grain processors and food producers:

- **Market access:** The U.S. consistently pushes for enhanced market access for U.S. agricultural exports in its free trade negotiations. When developing countries lower or remove their tariffs and quotas on U.S. agricultural goods they are left with few tools to defend their domestic producers from the influx of subsidized U.S. goods.
- **Investment:** Liberalized investment regimes create the conditions for U.S. firms, and other mega processors to establish operations internationally, further extending the industrial production process and encouraging market concentration – one or only a few large buyer(s) of agricultural goods - in foreign markets.
- **Intellectual Property:** Enhanced IPR provisions in trade agreements further strengthen the position of the genetically modified (GM) crops which define the majority of U.S. industrial agricultural operations. Patents on (GM) seeds funnel profits back to U.S. agribusiness and make it increasingly difficult for farmers to store seeds from one harvest for next year's planting. Often GM crops require the use of pesticides and herbicides for maximum yield.
- **National Treatment clauses and restrictions on performance requirements:** These limit the ability of countries to differentiate between domestic and internationally sourced goods based on factors like production process. Such limitations make it more difficult to differentiate between goods produced locally or in a sustainable manner.
- **Sanitary and Phytosanitary (SPS):** The high cost of meeting SPS standards can effectively exclude small producers, who are unable to bear the cost, while simultaneously favoring larger or industrial producers who have the resources and capacity to meet SPS demands.

The Farm Bill in a Global Economy

WTO Compliance

The "Farm Bill" refers to the omnibus, multiyear piece of legislation that comprehensively addresses agriculture and food issues. The 2002 Farm Bill covered 10 issues: commodity programs, conservation, trade, nutrition programs, credit, rural development, research, forestry, energy, and the catch-all miscellaneous. While each of these issues are important, the sections below will focus on the interaction between U.S. farm policy (commodity support, trade, and food aid) and trade obligations, referencing proposals for 2007 that seek to address the issue of compliance with trade agreement obligations.

Commodity Support

Total U.S. support has increased dramatically in recent years, from \$7.2 billion in 1995 to over \$21 billion in 2005, with a high of \$23 billion in 2000. The main crops receiving government support are corn, sorghum, wheat, cotton, rice, peanuts and soybeans. U.S. agricultural policies, particularly the high amounts of support, increasingly are being challenged in the WTO and under bilateral agreements for the adverse effect they have on world commodity prices. U.S. support mainly affects the world market in two ways:

1. Support given to farmers when prices are low encourages overproduction, which increases supply and further depresses prices. These include counter-cyclical payments,² direct payments,³ and loan deficiency payments⁴.
2. Support given to the users or exporters of U.S. commodities creates an incentive to buy U.S. crops, thus skewing the market in favor of U.S. goods to the detriment of crops from other countries.

As noted, much of the commodity support in the current system attempts to compensate for low prices. Low prices occur when supply is greater than demand. For producers of manufactured goods, it's easy to slow down production or hold back product from the market when the supply is too great. Farmers and agricultural markets operate a bit differently. In agriculture though, the lag time between planting and harvesting makes it much more difficult to respond to market signals. When the crops are ripe, they need to be harvested and sold before they spoil. Farmers are producers in one sense, but also workers at the same time. If I am working and my wages drop, the rational response will be to work more. Perhaps I work more hours or take a second job. This behavior doesn't usually impact wages overall. For farmers, the natural response to low prices is to plant more acreage in order to have more to sell. If one or two farmers did this, it wouldn't be a problem. However, when many producers of the same crop do this, it actually only serves to lower prices further because the supply has increased (if there isn't a greater, corresponding increase in demand.)

Challenges to U.S. agricultural support are mounting. In January 2007, Canada challenged U.S. subsidies and domestic support provided to U.S. producers and/or exporters of corn – citing that the measures in question caused “significant price depression and price suppression for corn in the Canadian market” for the period 1996-2006 and continue to threaten the Canadian market. In March 2005, Brazil won a WTO dispute settlement case on the U.S. cotton program and the U.S. was advised to remove certain “prohibited subsidies.” In August 2006, the U.S. eliminated the “Step 2 program,” which provided financial support to U.S.-based cotton millers and exporters so they could afford to buy domestically grown cotton instead of cheaper foreign cotton. The U.S. may still need to make additional permanent changes to comply with the WTO cotton ruling. In response to the WTO challenges and the refusal of developing countries to come to an agreement in the WTO before the U.S. reforms its agricultural policy, key elements of the USDA Farm Bill proposal are directed toward trade compliance.

The 2007 proposal for counter-cyclical payments would compensate for low revenues, taking both price and yield into the equation, and not tying payment to production. However, many argue that the decoupled, revenue based system would still affect production, specifically encouraging production. Thus it would increase supply, lower prices, and therefore would be trade distorting. The proposal would increase direct payments overall, by increasing the payment rate. The proposal would remove “planting flexibility restrictions” which prohibit farmers receiving direct payments from growing fruits or vegetables. Payment base acres and yields would not be updated. This change would bring the U.S. further into compliance with the ruling in Brazil's challenge to the U.S. cotton measures. The USDA proposal would lower the loan deficiency payment trigger price for the covered commodities, thereby lowering overall subsidies. If prices are consistently low, the trigger price would be reduced to 85% of the five year Olympian average of the market price. If prices remain high, for example for corn as a result of growing demand for ethanol, then the pay outs under this category would be low or non-existent.

² Counter-cyclical payments are based on historic acreage, but are paid out when crop prices fall. They are explicitly linked to market prices and are understood to affect production decisions. They are generally considered trade distorting.

³ Farmers and eligible landowners receive annual direct payments simply for producing or having produced certain crops. These payments are based on historic acreage and yields and are considered "decoupled". i.e. not based on current production or prices.

⁴ When market prices fall below a set price, the loan deficiency payment option allows the producer to receive the benefits of the marketing loan program without having to take out and subsequently repay a commodity loan. Under WTO rules, these payments are generally understood to be trade distorting

Food Aid

It is easy to view food aid only in positive terms, providing food to hungry people, but increasingly developing countries and hunger rights advocates are questioning the efficacy and motivation of the U.S. food program. Currently, the U.S. food aid is provided from surplus agricultural production. The food aid is shipped via U.S. shipping lines and is administered by U.S. aid agencies – who give away the food or sell it at concession prices. Many voices are raising the concern that food aid actually displaces local producers from the markets, which can actually worsen a food crisis or delay recovery. Instead, these critiques proposes the cash be used to purchase food from local and regional markets closer to the area of need – thereby infusing cash into the economy and increasing demand for local goods. For over a decade, the European Union has provided the vast majority of its food aid in the form of cash for local purchase rather than commodities. The USDA proposal authorizes up to 25% of U.S. food aid budgets for local and regional purchase of food during a food crisis.

Trade

While there are trade-related measures in other titles of the Farm Bill, the Trade title encompasses those measures designed to expand U.S. agricultural trade. Major components in this chapter include technical assistance, market access, sanitary and phytosanitary issues, support for USDA involvement in international standard-setting bodies, export credit guarantees, non-tariff barriers, and food aid.

Export Credit Guarantees were found at the WTO to be inconsistent with U.S. trade agreements. In July 2005, steps were taken to comply with the WTO rulings, specifically, a more risk-based fee structure that better reflects country risk ratings and length of guarantee coverage and eliminated the highest risk countries from the programs altogether. Going further, the USDA proposal would eliminate the Supplier Credit Guarantee program which was designed to help exporters offer direct, short-term credit to foreign buyers of U.S. food and agricultural products.

The market access program helps launch and expand sales of U.S. agricultural, fish and forest products overseas by sharing the costs of overseas marketing and promotional activities between USDA and non-profit trade groups and small businesses. Annual spending for this program more than doubled between 2001 and 2007, rising from \$90 million to \$200 million. The USDA proposal for the 2007 farm bill would raise annual spending to \$225 million. The increase would primarily go toward marketing efforts for non-commodity crops.

Beyond Compliance: Proposals for a Just Agriculture Policy

The high level of support enjoyed by U.S. farmers is encouraging overproduction and dumping, lowering world prices and threatening the livelihoods and food security of subsistence farmers globally and family farmers here in the US. USDA proposals for the 2007 Farm Bill will do little to reverse this trend.

Forty percent of the world's people are employed in the global food system (growing, processing, preparing, selling and serving food). Agriculture remains the key sector for meeting the livelihood and nutritional needs for the vast majority of the world's poor. It is crucial to get U.S. agricultural policy right.

Our faith tradition, elaborated upon by the Interfaith Working Group on Trade and Investment, leads us to conclude that:

1. U.S. food and agriculture policy should respect and support the dignity of the human person, the integrity of creation and our common humanity.
2. U.S. food and agriculture policy decisions should be transparent and should involve the meaningful participation of the most vulnerable stakeholders.
3. U.S. food and agricultural policy should advance the common good and be evaluated in light of its impact on those who are most vulnerable, both domestically and internationally.

4. U.S. food and agricultural policy should safeguard the global commons and respect the right of local communities to protect and sustainably develop their natural resources.
5. U.S. food and agricultural policy should reflect that the U.S. government, in collaboration with civil society, is creating public policies that encourage the development and welfare of all people, both domestically and internationally.⁵

Guided by these principles, the Center of Concern supports the policy platform of the Building Sustainable Futures (BSF) coalition for a fair 2007 Farm Bill.⁶ Below is an overview of key provisions related to agriculture and international trade.

Fair Farm Prices

Establish a price floor for commodities so that major commodity agribusinesses pay their fair share to family farmers. Negotiate International Commodity Agreements to create a worldwide price floor. Ban Dumping of Agricultural Commodities onto World Markets.

It is important that domestic and world agricultural markets are kept in an equilibrium to meet global food needs and ensure farmer livelihoods. BSF proposes a multiprong approach which would ensure a fair price for farmers and meet critical domestic needs for food reserves, conservation, and biofuel production. Efforts to balance supply and demand would help “curtail the unsustainable overproduction and dumping of agricultural commodities around the world.”

International commodity agreements would establish a system for calculating a price floor that reflects the full cost of production, including on farm management and labor.

Food Sovereignty

Negotiate International Trade Agreements with Respect for Food Sovereignty⁷

The U.S. must support the respect for food sovereignty in all international agreements. Simultaneously, comprehensively and multilaterally negotiating trade rules for all agricultural commodities would remedy the complex tangle of independent rules and regulations currently found in the proliferation of bilateral and regional trade agreements

Local Markets

Promote local food economies and food security

The domination of export-oriented agriculture, with crops and food stuffs being shipped across the globe as they move from harvest, through processing, and to consumption has served the tastes and preferences of wealthy

⁵ David Pedulla, *Making the Connections: U.S. Domestic Agricultural Policy and International Trade*, Center of Concern and Presbyterian Hunger Program, August 2005. Available online at <http://www.coc.org/index.fpl/1090/article/2645.html>.

⁶ The full proposal is available online at www.globalfarmer.org. The ***Building Sustainable Futures for Farmers Globally*** campaign is a collaboration of grassroots and civil society organizations.

⁷ As defined by Via Campesina, food sovereignty encompasses: "...the right of peoples to define their own food and agriculture; to protect and regulate domestic agricultural production and trade in order to achieve sustainable development objectives; to determine the extent to which they want to be self-reliant; [and] to restrict the dumping of products in their markets..." Via Campesina, *People's Food Sovereignty Statement*, November 13, 2001: <http://www.peoplesfoodsovereignty.org/content/view/32/26/>.

consumers, but has left a void in local food needs. Additionally, the transportation requirements of this transnational production process generate an additional environmental toll in terms of fuel consumption and pollution. The building of local markets for agricultural goods would help reverse the current course.

Competition Title

Bolster anti-trust enforcement to reverse current trends towards the concentration of agricultural markets and further industrialization of our food system.

As U.S. agriculture has grown more concentrated, with fewer and larger agribusinesses dominating the processing and distribution of agricultural goods and foodstuffs, they are able to exert considerable downward pressure on the prices farmers receive for their crops and upward pressure on consumer prices. Agribusinesses responsible for supplying farm inputs, processing, transporting and distributing agricultural goods and food products have similarly become larger, fewer and often are involved in multiple steps of the production chain. This situation has contributed to the skewing of U.S. agricultural markets against farmers and consumers.

Food Aid

Transition to untied, cash-based food aid. Establish a system of regional reserves. Establish strong, democratic and enforceable multilateral guidelines. Ensure adequate funding.

The problems associated with current U.S. food aid policy have been outlined above. A move to fully funding a cash-based system for most food aid situations should be enacted. A multilateral effort to establish regional food reserves and coordinate dispersal is needed. Decision-making authority should shift from donor countries to a multilateral setting which includes recipient countries and civil society organizations and is governed by transparent guidelines.

Additional Resources

Institute for Agriculture and Trade Policy: www.iatp.org

Oxfam America: www.oxfamamerica.org

Building Sustainable Futures: www.globalfarmer.org

Agribusiness Accountability Initiative: <http://www.agribusinessaccountability.org>

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Populorum Progressio - A Vision Realized?

by Katherine Feely, SND

This year (2007) marks the 40th anniversary of Catholic social teaching's "magna carta on development," the encyclical, *Populorum Progressio (On the Development of Peoples)*. It was written by Pope Paul VI and published March 26, 1967, two years after the close of the Second Vatican Council. The prevailing optimism that marked the council was giving way to a more sober analysis of what was happening to people as increased economic advancement and global interdependence were bringing to light the downside of development in the form of growing poverty and rising inequality. The context of the document arose out of significant global challenges, including the cold war, the Cuban missile crisis, and the building and militarization of the Berlin Wall. In the U.S. the country was still reeling from the assassination of John F. Kennedy in 1963, and the Civil Rights Movement was gaining momentum. Anniversaries are opportune occasions to look back and reflect from the perspective of time and assess which prophecies and predictions have come to pass and which have not.

In 1967, Pope Paul VI began to sketch out a global vision for the human family by communicating his concept of development in the encyclical, *Populorum Progressio*. Here he sought to redraw the lines that created divisions in the world which were rapidly being produced by the persistence and prevalence of poverty, inequality, and the misuse of power. He sketched out a new framework focused on the flourishing of the human person in community. His aim was the promotion of an authentic, human-centered development. At the heart of the document was the assertion that authentic human development was a matter not simply of economics, but of human dignity, i.e., of the common good. The role and function of economic development, the pope insisted, was to move people from less human conditions to more human conditions.

As we reflect 40 years later on the content and vision of *Populorum Progressio*, can we say that Paul VI's hopes for humanity have been realized and that this document is no longer relevant because of the progress that has been made? Hardly. The encyclical remains as relevant and in some ways as prophetic in 2007 as it was four decades ago. One key area of the document may illustrate this by comparison.

Then: A Focus on Inequality

In *Populorum Progressio*, Paul VI was keenly attuned to the divisions and fissures that were emerging within and between countries. He noted that these divisions were evident in the form of growing inequality despite the engine of “progress” trumpeted by industrial and technological advances. In *Populorum Progressio*, he identified several different kinds of inequality that were of concern. Among them he highlighted material inequality, the inequality of power, economic inequality, social inequality, and cultural inequality. He noted that these forms of inequality all pose serious threats to development because they quickly lead to tensions which in turn give rise to conflict. Inequalities put peace at risk and are harmful to the human community.

The focus of this document on the nature of development called into question prevailing assumptions and definitions. The development Paul VI called for was not the same as the economic growth defined by economic efficiency and maximized profits to shareholders. When Paul VI used the word, “development,” he had both a qualitative and a quantitative picture in mind, where development involved full human flourishing, stemming the rising tide of human misery, ensuring freedom from oppression, guaranteeing adequate levels of security, promoting peace, and making certain that human dignity would be promoted and uplifted.

The following three excerpts convey the concerns he was raising regarding inequality:

- “There is also the scandal of glaring inequalities not merely in the enjoyment of possessions but even more in the exercise of power. While a small restricted group enjoys a refined civilization in certain regions, the remainder of the population, poor and scattered, is “deprived of nearly all possibility of personal initiative and of responsibility, and oftentimes even its living and working conditions are unworthy of the human person” (#9).
- “.....every program, made to increase production, has, in the last analysis, no other raison d'être than the service of humankind. Such programs should reduce inequalities, fight discriminations, free human beings from various types of servitude and enable them to be the instrument of their own material betterment, of moral progress and of spiritual growth. To speak of development, is in effect to show as much concern for social progress as for economic growth. It is not sufficient to increase overall wealth for it to be distributed equitably. It is not sufficient to promote technology to render the world a more human place in which to live” (#34).
- “In other words, the rule of free trade, taken by itself, is no longer able to govern international relations. Its advantages are certainly evident when the parties involved are not affected by any excessive inequalities of economic power: it is an incentive to progress and a reward for effort. That is why industrially developed countries see in it a law of justice. But the situation is no longer the same when economic conditions differ too widely from country to country: prices which are “freely set in the market can produce unfair results. One must recognize that it is the fundamental principle of liberalism, as the rule for commercial exchange, which is questioned here”(#58). 8

These quotations taken from the encyclical are just as applicable and true today as they were in 1967. It's a shocking assessment to see how little progress has been made in these areas. Paul VI's definition of development extended far beyond economic measurements and took into account social equality and cohesiveness, the flourishing of the full human person, and included the spiritual dimension as well. “Development is the new name for peace,” he said. The call for authentic human development is just as urgent in 2007 as it was in 1967.

⁸ Pope Paul VI, *Populorum Progressio*, 1967

Now: The Signs of the Times

Where do we stand today, forty years later, in terms of inequality? Ironically, several recent reports have been sounding a growing alarm about the rise in income inequality, both locally and globally. Three notable sources that have drawn attention to this reality recently include Ben Bernanke, the Chairman of the Federal Reserve, Nancy Birdsall, Economist and President of the Center for Global Development, and Paul Krugman, New York Times columnist and Professor of Economics and International Affairs at Princeton University.

At a Federal Reserve briefing held on February 15, 2007, Ben Bernanke noted;

"[R]ising inequality is a concern in the American economy. It's important for our society that everyone feels that they have an opportunity to participate in the opportunities that the economy is creating."⁹

The problem of income inequality has repercussions that are dangerous for the economy, as Bernanke notes, because participation is an essential aspect of market functioning. When inequality reaches a stage where people are actually excluded from participation in the market, the market cannot function effectively. What is true economically is also true politically. For a democracy that is built on a foundation of participation and equality, rising inequality poses threats in the political realm as well. When economic conditions lead to segments of the population being excluded from the very ability to participate, to better their lives, to reap the benefits of a growing economy, the harmful causes and effects of inequality must be addressed and corrected.

In the March/April 2007 issue of the *Boston Review*, Nancy Birdsall wrote;

"For economists, ... inequality has typically represented at worst a necessary evil and at best a reasonable price to pay for growth. So, for the most part, they have not been concerned with the apparent trend of rising inequality.

Distinguishing between constructive and destructive inequality is useful. To clarify the distinction: inequality is constructive when it creates positive incentives at the micro level. Such inequality reflects differences in individuals' responses to equal opportunities and is consistent with efficient allocation of resources in an economy. In contrast, destructive inequality reflects privileges for the already rich and blocks potential for productive contributions of the less rich.

Evidence over the last decade and a half suggests that [money inequality] has a large destructive component: it is associated with unequal mobility and limits economic growth.

Reducing inequality might not in itself lead automatically to higher growth or better government or more stable and healthy societies. But development economists should take note: to ignore inequality altogether is to invite setbacks on the development path."¹⁰

Birdsall asserts that the dynamics of globalization have been contributing to an increase in inequality, not the opposite. While globalization alone is not responsible, she notes in her conclusion that a significant challenge of the 21st century will be to strengthen and reform global institutions, rules and measures in directing the functioning of global markets and redressing the negative harm that occurs, including persistent inequality.

Among some economists and particularly among development economists there is growing consensus that the "invisible hand" of the market has not been dealing with all stakeholders equally and that income inequality is a

⁹ Federal Reserve Chairman Bernanke, February 15, 2006

¹⁰ Nancy Birdsall, *Inequality Matters: Why Globalization does not Lift all Boats*. <http://bostonreview.net/BR32.2/birdsall.html>

clear and present danger in achieving authentic human development globally. Bringing the issue closer to home, persistent rising inequality also threatens the vibrancy of democracy in the U.S.

Finally, Paul Krugman, speaking recently at a forum on shared prosperity sponsored by the Economic Policy Institute in Washington, D.C., noted:

*"...a highly unequal society is inherently undemocratic in ways that really matter. I mean, we have these sometimes reasonable conservatives who will say, "Look, what I really care about is equality of opportunity, and I don't really think we should care about inequality of outcomes. But the fact of the matter of course is that if you have really highly unequal distribution that translates into inequality of opportunity... So, the fact that we have such a highly unequal society does mean inequality of opportunity as well as outcomes. And it's not good. The last thing is just to say that it's very clear from the history that a highly unequal society has nasty politics."*¹¹

The threat of "nasty politics" is only one of several unfavorable side effects. The question we must ask is how much inequality is too much? If equality of opportunity is no longer part of the fabric of American society as a result of persistent institutional obstacles, what must be done?

The growth of income inequality continues to be an important sign of the times that demands greater attention and analysis. In the face of the upcoming 2008 election, it will be imperative to focus on the issues and the places where this gap can be closed. It will require attentiveness to active policies that can restore the vibrancy and cohesiveness of community as Paul VI envisioned. We need to look closely at key issues like health care for all, education, and the use and appropriateness of tax cuts (who benefits? who does not?) because these are significant places where the opportunity to close the gap exists. We must consider the impacts of policy decisions, not just in terms of economic gains, but in terms of whether they promote the human flourishing of all. As we revisit *Populorum Progressio* in this fortieth anniversary year, we can continue to draw inspiration from the vision laid out here.

Conclusion

The fortieth anniversary of *Populorum Progressio* provides an important opportunity to step back and assess the status of the predictions and prophecies within the document. Even forty years later, *Populorum Progressio* retains a very relevant and cogent vision for a way forward today. In the forty years since the drafting of *Populorum Progressio*, the world has seen major shifts and developments. There has indeed been considerable progress, but in spite of this progress growing inequality continues to be an issue domestically and globally. It is imperative as this juncture to recognize the unmet hopes laid out in *Populorum Progressio* and use this anniversary to renew collaborative efforts at every level in order to bring about a more just and humane framework of development. Renewed efforts are needed in engaging the political process at home and abroad, in challenging the market assumptions and mechanisms, and in working across border and barriers to bring the social vision to life.

The world is still in need of a model of development that includes people, rather than excludes them, that draws people together rather than tears communities apart, that promotes human well-being, before profit taking, and that brings justice to all areas of life. Today, the words of Paul VI still need to be heeded because we are still in need of charting, "paths which lead to mutual assistance among peoples, to a deepening of human knowledge, to

¹¹ Paul Krugman, *Work That Works: An Agenda For Shared Prosperity* Forum by the Economic Policy Institute, February 22, 2007. <http://www.sharedprosperity.org/av/070222/transcript.pdf>

an enlargement of heart, to a more inclusive way of living within a truly universal human society.”¹² As the social teaching urges, we must not only imagine a better world, we must find a better way.

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¹² Pope Paul VI, *Populorum Progressio*, #85.

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The Federal Budget Embeds a Moral Statement

by Martin McLaughlin

The President submitted his FY2008 budget to Congress on the first Monday in February, 2007. In it he requested a total of \$2.9 trillion and promised to return the budget to balance by 2012, three years after the end of his second term. Part of this unlikely outcome reflects the expectation of a nearly two thirds reduction in Iraq/Afghanistan military operations in FY 2009 from the FY08 request of \$142 billion to \$50 billion and a significant increase in revenue collected.

The Senate and the House of Representatives began working separately on their joint Budget Resolution when they returned from the Presidents Day recess. By the time they left town for the Easter recess, March 30, they had completed preliminary action on their respective versions of the Resolution, staying within the Presidents mark of \$2.9 trillion, but including different kinds of changes within that total. Because these changes must be reconciled and the Congress will not fully reassemble until April 16, they will miss their legal target date of April 15 for submission of the Resolution to the President. In any case, the Resolution is not binding and thus does not require the Presidents signature. Its various parts will be transferred for further action to one of the thirteen subcommittees of their respective Appropriations Committees that deal with the specifics. This timetable is flexible; the Senate, e.g., did not complete work on nine un-reconciled line items for FY07 until ten days after it received the new 08 budget proposal from the White House.

In recognition of what the administration views as a new interest in transparency in the 110th Congress elected with a new Democratic majority in November, the administration's budget included, for the first time, \$142 billion for operations in Iraq and Afghanistan (a 2007 supplemental appropriation of \$99.6 billion was also presented). The President refused, however, to consider rolling back any of the tax breaks enacted for his friends in the early years of his tenure, which he credits for the economic growth of the past six years. Instead, he would reduce Medicare and Medicaid by cutting \$100 million from their annual growth and squeeze other programs, including housing, education, home heating for the elderly, health care for children, and support for local police, but would make the early-term tax cuts permanent.

At the Center of Concern we have consistently maintained that the Federal budget is the major moral statement produced by the government, mainly because it lists our country's priorities and sets the parameters for action, thus reflecting our approach to the common good. The Center for Budget and Policy Priorities (CBPP) notes that the President also has emphasized fiscal irresponsibility and deepening economic inequality as problems he wants to address. If accepted as is, however, his proposed budget would make both problems worse by cutting vital social programs, increasing defense spending, making permanent those tax cuts that favor the rich, converting some entitlements to block grants to the States and then cutting them, and generally endorsing a smoke-and-mirrors budget-balancing farce.

Many of the changes proposed by the House and the Senate in their respective draft resolutions reflect the new alignments resulting from the November, 2006 elections, which produced Democratic majorities in both chambers. It seems clear, for example, that the new Democratic majority wants to return to its old pay-as-you-go modality, which would require that any proposed reduction in taxes or increase in spending would have to be balanced by an equal decrease in other spending or an increase in revenue. If pay-go should happen, the income and expenditure totals would become most important. Domestic discretionary spending is most vulnerable, especially via block grants to the States, which recent Congresses have tended to favor. Resolution of some issues will continue to be extremely difficult, e.g., for the Department of Agriculture, which administers the Food Stamp program, and the Department of State, which now is responsible for foreign aid. The Defense appropriation, which dominates discretionary spending, presents special problems because of its linkage to the course of the war in Iraq.

Income inequality would be sharply increased if the early Bush tax cuts are extended or made permanent and relief from the Alternative Minimum Tax is continued. The Center on Budget and Policy Priorities notes that the top 1 per cent of households will receive over \$1 million in tax cuts over the next ten years. It further calculates "the annual cost of the tax cuts for those with incomes over \$1 million also will exceed the total savings in each of the next five years from the cuts the President's budget proposes in an array of domestic non-entitlement programs, including education, health research, environmental programs and others" like energy assistance for low-income households, especially the elderly. All of this, of course, includes the assumption that our foreign military operations in Iraq and Afghanistan, budgeted for \$145 billion in the Presidents 2008 request, will not exceed \$50 billion in 2009.

Almost everything the government does or wants to do that is listed above requires money, which must be appropriated by Congress. In addition to economic choices Congress cannot fund everything the decision to fund those programs almost always involves moral choices as well. Who benefits from the proposed expenditure or tax? How does it affect the common good? Are these the moral choices a moral President should present to a society that prides itself on being moral? And how often is such a question considered when members of Congress vote on such matters? The budget resolution, due next month, or the thirteen appropriations bills, due September 30, may enlighten us. But don't hold your breath, even though the new Congressional context provides some hope.

For further detail and analysis, please consult:
Center on Budget and Policy Priorities (CBPP.org)
Center for Tax Justice (CTJ.org)
Urban Institute-Brookings Institution Tax Policy Center (taxpolicycenter.org).

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The Shifting Context of the Work for Justice

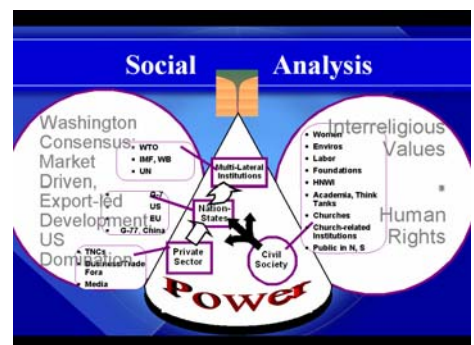
by James E. Hug, SJ

In 2000, the Center of Concern produced a strategic assessment of key global power relationships among multilateral institutions, national governments, private companies and civil society organizations, with an emphasis on how these dynamics generate policies that affect poor and vulnerable communities around the world. It became known as the “power cone analysis.”

While a simplified vision, the “power cone analysis proved an instructive graphic. It depicted transnational corporations using the great wealth amassed when they moved beyond the regulatory and taxing reach of national governments to persuade those governments to develop global institutions and policies enshrining the market and market values as the dominant institutionalized global framework.

Whether deliberate or inadvertent, these dynamics were establishing a neo-liberal form of political economy as the global norm in which the preeminent value over all others is economic efficiency. In the analysis, civil society organizations and social movements were presented as a counter-force working from a worldview valuing human rights and ecological concerns as prior to market values, trying to change the system at all levels.

Each year, the Center revisited this analysis to recalibrate the focus of its project work. Only modest adjustments proved necessary until recently. Today, while some of the fundamental power relations identified in 2000 remain in place (the market-led nature of this phase of globalization, the power of corporate wealth in national and international politics, the global conflict of values or worldviews, etc.), the global context is undergoing dramatic changes. The “power cone analysis” is dissolving as a useful hermeneutic, and the emerging picture is not yet clear.



Internationally

Trade Liberalization. First, the drive to enshrine the neo-liberal form of political economy as the governing global framework is stalling. More and more mainstream economists, including several Nobel Prize laureates, are publishing critical analyses of current economic policies and demanding significant changes in direction.

The neo-liberal model, promoted by the multilateral organizations and enshrined in international trade agreements, is failing by its own criteria as well as by the moral criteria held in common by most religious faiths and clearly articulated in Catholic Social Thought (CST). It is not fulfilling its own promises of increased development for all parties involved. The gap between the wealthy few and the impoverished many is aggravated wherever this model is implemented. The poverty it is creating is a violation of human dignity and fundamental human rights.

This trade liberalization agenda continues to be promoted aggressively by the U.S. and the E.U., but their inability to agree on a resolution to their own conflict over agricultural policies in the World Trade Organization (WTO) weakens their efforts and is threatening the survival of the Doha Round of negotiations, even perhaps of the WTO itself.

The proponents of the neo-liberal agenda are also meeting increased resistance from new coalitions of Southern governments that have experienced their development goals undermined by previous liberalization agreements and are no longer persuaded by promising rhetoric or strong arm negotiating tactics.

NGOs are partnering with them in new and effective ways to strengthen their claims and their resolve. NGO and social movement pressures have highlighted the important contribution of a gender analysis for trade agreements. It has the potential to bring social and environmental concerns into the heart of trade negotiations. Trade negotiations and policies grounded in social and environmental concerns rather than simply in economic efficiency or power politics have potential to transform the global economic system for the better.

Northern government officials are now admitting that the Doha Round was never intended to be about development for the South or about undermining the priority of market values. This presents a dilemma for Southern governments and smaller economies in general. They need a round of negotiations that will in actual fact be good for their development and do not want to agree to anything short of that. At the same time they realize that they are in a much stronger position to negotiate in a multilateral framework than in bilateral negotiations with larger and more powerful nations. They must demand progress for their own development needs and plans without letting the WTO collapse. It is a delicate balancing act.

International Financial Institutions. Using its G-8 leadership and simultaneous presidency of the EU, the UK under Prime Minister Tony Blair managed to achieve significant debt relief for the most highly indebted nations. While this has been an important step forward for the poorest nations, mostly in sub-Saharan Africa, it has generated a new reform agenda. NGOs and social movements in those nations must now carefully monitor what their governments do with the resources that used to go into debt repayment. Ways need to be found to stop so-called “vulture funds” from buying up these nations’ remaining debt at discounted rates and then demanding full face-value repayment. And so-called “free riders” – lenders who come into a nation after its debt has been canceled and offer new loans – raise the specter of more irresponsible lending and a new phase of the debt crisis emerging. An international mechanism to prevent this is needed, some type of free and transparent arbitration procedure (FTAP) or global bankruptcy court for nations.

The role of the IFIs in promoting trade liberalization in close collaboration with the WTO is becoming more widely recognized and efforts are underway to promote collaboration among NGOs working on the financial institutions, those following the trade organizations and negotiations, and those involved in human rights work. The goal is to understand the ways the institutions work together more clearly and respond more adequately with proposals that integrate trade and financial policies in service of human rights, social concerns and ecological needs.

This response will continue to reduce the power and influence of these institutions, committed as they currently are to the neo-liberal model of development. The diminished stature of the IFIs and the stalemate at the WTO, then, seem to be calling for a redirection of advocacy strategies toward the national level. Helping civil society organizations develop greater capacity to monitor and influence their governments' complex development processes offers the best promise for more culturally attuned and locally determined and accountable development approaches to emerge.

Terrorism, War, and Exceptionalism. The U.S. invasion of Afghanistan and Iraq and its administration of the wars there have eroded the international support for the U.S. which was at an historic high after 9-11. The manipulation of intelligence, the lack of adequate planning, the hypocritical claim to the right of military preemption, the blatant violation of human rights and the cavalier attitude toward the Geneva Accords have destroyed U.S. credibility and moral authority with peoples around the world.

While the size, strength and importance of the U.S. are still recognized in international relations, its leadership role has been destroyed by the arrogant exceptionalism in its attitude and policies.

Ecology. Ecological consciousness is growing around the planet. The U.S. government has been the main obstacle to concerted international collaboration on ecological issues while the U.S. remains a dominant global polluter. Other nations have moved ahead, consolidating their commitments and coordinating their efforts to counteract global warming. The U.S. government's claim that global warming is not scientifically proven has been severely discredited recently by an extensive global coalition of scientific experts. The Administration's claim that the problem should be left to the Market to solve is widely dismissed as blindly ideological, naïve, or transparently disingenuous.

United (?) Nations. The focus at the **United Nations** on the Millennium Development Goals (MDGs), which put forward measurable, time-bound development goals, has spawned widespread international campaign efforts that are likely to continue for the next 8 years. While important as a rallying instrument for calling governments to account, the MDGs need to be complemented with analysis of the institutional structures and policy dynamics that create and maintain poverty and marginalization, so that these will be adequately addressed. If the MDGs are not accompanied by structural changes in the global economy, progress in achieving them will not be sustained.

There is also a movement under way for reform of the UN. With a strongly unilateralist government in power in the U.S. and the heavy emphasis on terrorism and security since 9-11, these reform processes need to be monitored very closely.

In addition, large middle-income nations (China, India, Venezuela, Brazil, South Africa) are aggressively pursuing their national development within the dominant development model. They are increasingly using their wealth to buy markets with foreign aid and secure sources for meeting their energy and natural resource needs into the future. While understandable, this approach is aggravating ecological crises. Fossil fuel energy sources contribute to global warming while shifting to greater reliance on bio-fuels increases global prices for basic foodstuffs, adding to food insecurity at national, local and family levels.

The rise of middle-income nations is also breaking down the traditional North-South divisions. Many African nations, for example, are beginning to see China and South Africa as bigger threats to their national development hopes than Europe or the U.S.

Corporate Divisions. Fissures are more apparent now in the corporate world as well. Smaller and middle-sized companies are beginning to speak out, pointing out that what the large TNCs promote and lobby for is often not good for them or their communities.

In the last few years, major corporate scandals have revealed the culture of corruption too often generated by greed and the incessant drive for greater and greater profits. Corporate leaders are instituting ethics policies to protect their companies' reputations and marketability. Corporate accountability movements are increasing in number, organization and influence. Consumer awareness of the working conditions of those who produce the goods they buy is slowly growing.

In ecological matters, corporate leadership is increasingly showing concern, acknowledging the need for change. Business leaders and consumers are often ahead of U.S. government leaders in raising these concerns, and some have begun to form alliances with civil society organizations to develop ways to address them.

Hopefully the foundations are developing for re-thinking economic policies around what is sometimes called a "triple bottom line." People engaging in economic activity need to look beyond its relative economic efficiency to assess its ecological sustainability and its impact on the common good.

Civil Society Pluralism. Civil Society organizations continue to grow in strength, organization, sophistication of analysis and skill in promoting their messages. Its importance in the Public Square has led to a proliferation of organizations on all sides of every controversial issue. The divisions are deep and are frequently explicitly theological or religious in their expression. These foundational spiritualities reflect the deep divisions within and among civil society organizations that some political leaders have carefully cultivated over the last decade. Discerning a healthy integration of the best insights and values of both is a critical challenge facing the nation's faith communities.

These civil society developments show every sign of continuing over the next 5 years. The Internet remains the technological lynchpin making international civil society collaboration and networking effective and affordable, though more so in wealthy nations than in poor ones.

Faith Communities. Globally, the Catholic Church is playing a less engaged and constructive role in multilateral fora in recent years. Twenty-five years of conservative appointments to higher clerical offices has created a Catholic Church leadership hesitant to assert aggressive leadership on social justice issues.

The papacy of Benedict XVI is still young and the signals coming from it seem mixed. Its early episcopal appointments are generally being acclaimed as stronger and more pastoral than appointments in the previous two decades. At the same time, there seems to be a concerted effort to shift the Church's social teaching tradition from its justice focus to a focus on charity. Benedict's personal preoccupation appears to be on the threat of cultural pluralism to Catholic Christianity's claim to unique truth and universal salvation for all peoples and nations. He is trying to re-focus attention on doctrinal orthodoxy as understood in a traditional European cultural framework. This has already created difficulties for the Church in its interreligious relations.

Efforts to reassert clerical control in the Church are competing with established and confident lay leadership in post-Vatican II Church institutional networks such as CIDSE, Caritas Internationalis, Pax Christi and others. At the same time, those efforts are being energetically supported by a growing number of strongly traditionalist organizations in the Church like Opus Dei and the Legionnaires of Christ.

The rise of militant Islam, associated with terrorism and violence, is complicating international relations in general and feeding false religious stereotypes among peoples of all faiths. At the same time, Pope Benedict and other major religious leaders are rejecting the religious use of violence and urging greater mutual understanding. Interreligious appreciation and dialogue are more important for peaceful global interdependence and integration now than they have been for decades.

Domestically: U.S.

The current U.S. Administration is the most ideological in living memory. Its neo-conservative worldview matches its neo-liberal economic policy. It projects a hostile world in which its mission is to defend and promote U.S. national values and interests as it understands them. Its National Security Strategy Documents laid unique claim to preeminent global power and the right to use it preemptively when feeling threatened. It claims a sacred mission to promote the global spread of freedom, democracy, and free market capitalism.

The strong central emphasis on ‘freedom’ has been belied, however, by the Administration’s violations of human rights and contraction of civil rights in the name of homeland security and the war against terrorism. The extensive role of private fundraising in political campaigning, election fraud, and efforts to politicize the courts are all undermining democracy here at home. Indeed, the gap between the Administration’s rhetoric and reality often seems unprecedented, with “spin” and political manipulation masquerading as transparent and honest communication.

Claiming a strong “mandate” from the 2004 election, the Administration laid out an extensive **domestic economic agenda** characterized by the transfer of wealth from working and middle classes to the wealthy. Corporate lobbyists were given greater access to shaping government policy to serve business interests. Outsourcing of jobs – skilled as well as unskilled – continued, eroding the U.S. middle class and undermining the American Dream. The Administration’s proposal for privatizing social security would have transformed it from being a program based on social solidarity across generations into one stressing individualism. It did not succeed. The Administration’s continuing focus on tax cuts for the wealthy and off-budget spending continued to undermine the health of the national economy.

The 2006 election showed how inaccurately the Bush Administration had read the national mood. Democrats took control of both houses of Congress for the first time in 14 years. And the unprecedented early attention to the presidential election in 2008 shows that the desire for change in the country has not yet played itself out.

Democratic leadership in Congress has been quick to move into action, launching bills designed to end U.S. involvement in the war in Iraq, raise the minimum wage, address the healthcare crisis, end the Bush tax cuts for the wealthy, improve education legislation, etc. In addition they have begun more than a hundred oversight investigations of past actions by the Bush Administration and corruption in government. The Administration is on the defensive – and is in trouble.

States have stopped waiting for leadership from the Federal government and are experimenting on how to provide healthcare for more or all of their citizens and how to reduce their greenhouse gas emissions. These problems cannot find a final solution at the state level, but state-level initiatives are essential at this point if anything is to happen.

NGOs, including the Center of Concern, are finding doors opening on Capitol Hill that have been closed for more than a decade. The new leadership is willing to listen to new ideas – and are now in a position to take action on them.

In **international relations**, the Administration’s agenda is in shambles. We have triggered a civil war in Iraq and destabilized much of the Middle East. The U.S. military is bogged down and stretched thin there and in Afghanistan. Further military adventurism seems unlikely in the near future. This has encouraged Iranian obstinacy and provocative behavior and made settlement with North Korea more difficult. Support for the war is waning in the U.S., as is satisfaction with the way the country is going.

Generally speaking, the Administration still exhibits little capacity for self doubt and does not welcome those who disagree with its policy approaches. Nonetheless, it no longer dominates and controls the levers of power in Washington. It will now have to respond to the challenges being put to it. This reality will most likely add to the

current political polarization in the country and guarantee the importance and the bitterness of the 2008 political campaigns.

Culturally, the sharp divisions revealed by the election campaigns of 2004 and 2006 remain. Nonetheless, agreement is emerging on some key values issues. Two-thirds of U.S. citizens polled identify the primary moral problems in the U.S. today as greed and economic injustice. And there is far greater moral concern about war and economic issues than about abortion and gay marriage.

Awareness of **Media** bias and its role in feeding social divisions grew during the election campaign. Fact-checking services have arisen, and the alternative media available through the Internet have grown in importance. An increase in critical awareness through this experience is a welcome result, though one that is probably not widespread.

A culture of fear and anxiety is promoted by advertizing as well as by threats of terrorist activity – both real and politically motivated ones. Together they feed a culture of militarism and consumerism and a willingness to permit the infringement of civil liberties in return for the promise of security. The culture remains strongly individualistic, valuing personal responsibility but lacking adequate structural analysis and commitment to the common good. The nation is in need of a spirituality that recognizes social sin and social grace, one that would allow more adequate social critique and concerted redemptive response.

Civil Society. Civil society in the U.S. continues to grow stronger and expand its global networking. As it is maturing in its critique of the prevailing patterns and values of development, it is becoming increasingly able to articulate the type of alternative world and approach that it is demanding.

This alternative focuses not just on the production of wealth. It focuses on the production of adequate livelihoods in strong, sustainable local economies. It demands policy space for local and national communities to determine the best ways to develop sustainably in their local circumstances and in harmony with their own cultures. Authentic development needs to build on local participation and decision-making that remains accountable at the local level while at the same time showing concern for and supporting the development of all other communities as well.

Religion. The Religious Right has shown extensive influence in this Administration. As that has become apparent, there have been several efforts to raise up more progressive faith-based political voices – Catholic, Evangelical, and Interfaith. The activism of this Religious Left in the 2006 election cycle appeared to counterbalance the influence of the Religious Right and neutralize its impact to some degree. This religious confrontation will continue.

Despite its strong tradition of social teaching, **the U.S. Catholic Church's** ability to influence American society remains constrained by a severe loss of moral authority and financial cutbacks resulting from the sexual abuse and cover-up scandals. Several diocesan bankruptcies have forced severe cutbacks in staffing at the local level. At the national level, the bishops have demanded a reduction of staff of about 1 in 3 at USCCB, the national offices.

At the same time, the bishops are emphasizing their doctrinal authority and responsibility to safeguard orthodoxy. This reflects the emphasis of Pope Benedict and the Vatican. This will leave the U.S. Church with fewer resources for teaching, promoting and implementing Catholic social thought. The need for high quality user-friendly educational materials on justice issues will continue to grow.

Growing numbers of lay Catholics are demoralized by the lack of the Church's social agenda, its poor governance, its lack of transparency in financial matters, and its non-participatory approach to decisions like the closing of parishes and schools. New lay organizations such as Voice of the Faithful, along with more

established networks like Call to Action, are growing stronger, more self-confident, and more outspoken in their demands for clerical accountability and church renewal. Small faith communities continue to assert their identity as Church, as the People of God.

Religious communities, for decades leaders of the Church's social justice outreach in the U.S., are aging and diminishing. At the same time, more and more of them are engaging international justice issues, using their national and global interconnections. Most congregations are also exploring new patterns of membership and association, as more people approach them seeking meaning, contemplative spirit, and direction in their lives, though not feeling called to traditional vowed membership roles.

Younger generations of Catholics show less institutional commitment to the Church but great interest and involvement in social justice issues and the social mission of the Church. Catholic social justice institutions need to find the arenas in which they can engage this important group.

Center of Concern. In this context, the Center of Concern sees itself as a type of "antenna group," attuned to the small and large shifts in the context or "Signs of the Times," ready to share its discernment of how the human community is being guided toward a more just and healing future as envisioned in the Christian Scriptures and our social teaching traditions. We work to help communities situate local struggles for justice in their national and international contexts, assess the role of policies and institutions in creating the injustice, and develop strategic, concerted efforts to bring about a more just world.

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Rethinking U.S. Trade Policy for the Common Good

Congressional Briefing

The Center of Concern, working in coalition with the Interfaith Working Group on Trade and Investment, co-sponsored a bi-partisan briefing with Representative Marcia Kaptur (D-OH) and Walter Jones (R-NC). Entitled “Rethinking U.S. Trade Policy for the Common Good” the briefing featured three panels on key trade-related issues, jobs, democracy and agriculture.

The panel on jobs, “Trade and Livelihoods—the Broken Connection” analyzed how trade is negatively affecting jobs and livelihoods, not only in the U.S. but also in developing countries as well. The diminishment of policy space through trade agreements framed the discussion on “Policy Space—Trading Away Democracy.” A key point of interest was the impact of trade agreements on state and local regulations that citizens had called for. The intrusion of trade rules into internal laws and regulations is not widely known by the citizens of the U.S.

Agriculture remains the key challenge at the WTO and relates not only to the renewal of the U.S. Agriculture Bill (September 2007), but also to trade negotiations due to the huge domestic subsidies the U.S. pays out to corporate agriculture. “Trade and Agriculture—A Bitter Harvest” panel examined the failure of current U.S. agriculture at home which fosters over-production and low commodity prices globally and its affects of pricing small farmers out of the market across the world. The now classic story of the post-NAFTA effect of U.S. corn being dumped on the Mexican market, leading to some 1.3 million Mexican farmers displaced and the continuing flow of Mexican migrants into the U.S. illustrates the relationship between trade policy, livelihoods and migration patterns. This relationship between U.S. trade policy and migration is usually ignored in Congressional and citizens’ discussion of immigration.