By Daryll E. Ray

Will trade liberalization bring about better prices for farmers worldwide?

One of the complaints that has been leveled against the farm payment programs in the European Union, and especially the current farm program subsidies in the United States, is that these payments have driven down crop prices for farmers worldwide. As a result many have called for the elimination of these programs. The trade liberalization prescription contained in the World Bank's *2004 Global Economic Prospects: Realizing the Development Promise of the Doha Agenda* report would go a long way toward the goal of eliminating trade distorting subsidies in the US and the EU.

The operating assumption behind such logic is that if the subsidies were to be eliminated production would decrease, then farmers worldwide would enjoy significantly improved prices. If that were to be true it would be good news to corn farmers in South Africa, cotton farmers in Burkina Faso, and countless other farmers everywhere in the world.

The key question then is "Will the freeing up of trade rules and the elimination of farm subsidies result in improved prices for farmers?" Does the $500 billion in benefits by 2015 that are promised in the World Bank report come about by increased prices received by farmers or through other gains?

The report contains language that suggests that much of the gain will come through reduced input costs for food processors in protected countries and productivity growth as a result of the more efficient use of resources. If that is true, that would argue against any significant price increases for farmers. This is consistent with studies like one done by the International Food Policy Research Institute (IFPRI).

As we have reported before, the IFPRI study on the effects of trade liberalization project that corn prices would increase by an underwhelming 2.9% after twenty years. The price gain for other crops would be even less than that.

If corn farmers in South Africa are suffering because of low prices today, will they be better off in 20 years when corn prices are 2.9% above today's levels. Will that price increase move substantial numbers of subsistence producers in Sub-Saharan Africa out of poverty? Will wheat producers in the Ukraine or even Australia be better off with a projected price increase of 0.8% after 20 years?

While the details of the actual price numbers that are part of the World Bank study have not been released, we would suspect that they are not far off of the numbers in the IFPRI study.

It would seem that, in and of itself, trade liberalization is not likely to result in significantly higher prices for farmers in developing countries who are suffering from the low prices of the past several years. All of this is consistent with what my office has been arguing all along. The high subsidy levels in the US are the result of, not the cause of low prices. Once we understand that, we are not so likely to think that the elimination of subsidies through trade negotiations will bring about better crop prices for farmers in the US as well as the rest of the world.

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