PolicyPennings by Dr. Daryll E. Ray

What is an agricultural subsidy?

In a March 15, 2004 press release, NASA announced the discovery of "the most distant object orbiting Earth's Sun. The object is a mysterious planet-like body three times further from Earth than Pluto." The announcement immediately set off a lively discussion of whether or not the new object, called Sedna by its discoverers, is a planet. In the days since the announcement astronomers have weighed in on one side or the other of the argument. What is clear is that there is no general agreement on what constitutes a planet and whether or not Pluto is even a planet or simply a planetoid or planet-like celestial object.

The debate sounds very much like the one we are hearing with regard to agricultural subsidies. Trade negotiators from both developed countries and less developed countries talk about the elimination of agricultural subsidies as the goal of the Doha Round of trade negotiations. The problem is that like with astronomers, there is no agreement on the meaning of the term being discussed. For some agricultural subsidies are limited to checks that arrive in the mailbox. For others subsidies include any costs that influence in any way the production, distribution, and consumption of an agricultural product.

Trade negotiators talk about various subsidies in terms of colored boxes: red (prohibited subsidies), amber (trade distorting, but subject to limits), green (subsidy that does not distort trade), and blue (payments linked to acreage or animal numbers which involve production quotas or setasides). And if those definitions are not muddy enough, not all trade negotiators agree on what it means for a subsidy to be non-trade distorting.

Some of the more obvious subsidies that are currently attracting the bulk of the attention are the ones that involve governmental check writing: Direct Payments, Counter-Cyclical Payments (CCP), Loan Deficiency Payments (LDP), and Marketing Loan Gains (MLG). While the Direct Payments and CCPs are not directly tied to current production, they do reduce the risk that a farmer faces in any given year. LDPs and MLGs, on the other hand, are directly tied to production and provide a minimum revenue for each bushel produced.

Less obvious, but still clearly in view of most people are conservation and environmentally oriented payment programs like the Conservation Reserve Program (CRP) and the Environmental Quality Incentives Program (EQIP). Programs like the CRP have some influence on production by taking marginal land out of production while those like EQIP reduce costs of environmental compliance

The food stamp program and the school lunch program could be considered as an agricultural subsidy to the extent that it increases the net demand for food and thus for agricultural products. This increased demand would result in higher food costs and higher prices received by farmers. But is this an agricultural subsidy or are school children and those living below the poverty line the principal beneficiaries?

Recently some attention has begun to be paid to the impact of Land Grant institutions, experiment stations and the extension service in driving the supply curve to the right faster than increases in demand. Again, are these included in the subsidies that some want to eliminate? If these expenditures increase supply, then what about acreage control programs that strive to maintain a balance between supply and demand?

Little attention has been paid to legacy investments in the infrastructure of agricultural areas. These legacy investments include the railroads that were built with government land grants, rural electrification, farm to market roads and the interstate highway system, the locks and dams in the Mississippi River basin, western irrigation canals and infrastructure. These all influence production decisions in one way or another and that influence continues year after year while the influence of direct payments are limited to a given year. How do we count these, especially if farmers in another country cajole their government into improving the rail, water navigation or highway systems?

It can appear that various parties to the discussion of trade and subsidies pick and choose which factors they consider subsidies and which they ignore. Often this choice is made not on the basis of a consistent analysis, but simply on the basis of which provides the desired advantage.

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