

PolicyPennings by Dr. Daryll E. Ray

When is \$318 billion not \$318 billion?

From time to time, I read an article that says “developed countries spend more than US\$318 billion annually to subsidize agriculture.” Each time I read that number I wince and ask myself, “how can that be?” After all the U.S. at its peak provided between \$20 and \$22 billion in support and the European Union provides some \$50 billion in direct support of its farmers. That’s something around \$70 billion and even if one throws in Japan, that’s a far cry from \$318 billion.

Some go so far as to argue that “Rich countries spend \$1 billion a day to support their farmers.” The argument then goes on to assert that “The average European cow gets \$2 per day as subsidies, more than [the] daily income of [the] vast majority of people in Africa.”

Where does this number come from and what does it include? Surely it has to be more than direct subsidies.

The \$318 billion number comes from the work of the Organization for Economic Cooperation and Development, an organization of 30 countries including most of Europe as well as Australia, New Zealand, Japan, South Korea, Canada, Mexico and the U.S. Each year OECD calculates an estimate of the total support (TSE – Total Support Estimate) given to agricultural producers in OECD countries. In 2002, that number was \$318 billion.

Unlike the way the number is often used in speeches and articles in the popular press, TSE includes much more than the subsidies that we are used to thinking about.

In OECD language, TSE is broken down into three different categories:

- Producer Support Estimate (PSE) – the total amount transferred directly to farmers;
- General Services Support Estimate (GSSE) – the amount transferred to farmers as a group including

items like agricultural research, extension and food inspection;

- Consumer Support Estimate (CSE) – the transfers to or from consumers.

Of the \$318 billion in 2002, \$235 billion was in the form of PSE and \$87 billion was in the form of GSSE and CSE. One could easily argue the question of whether food inspection is of more benefit to consumers or producers. Likewise, agricultural research that increases the long-run productivity of agriculture, thus increasing supply and driving prices down, could be seen as primarily benefiting consumers. I will leave that argument for another day.

For now let’s focus on the \$235 billion Producer Support Estimate. PSE include cash payments to farmers and market price supports including the impact of tariffs and quotas on increasing domestic prices. In 2002, the price supporting component totaled \$148 billion.

That leaves \$87 billion as the level of direct subsidies to farmers in the developed countries like the US, the EU and Japan. While this number is not insubstantial, it is a far cry from the \$1 billion a day that we so often read about.

So, despite how the \$300+ billion number may be represented, the fact is that less than a third of that total is actually government payments to farmers in developed countries.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of the UT’s Agricultural Policy Analysis Center. (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; <http://agpolicy.org>. Daryll Ray’s column is written with the research and assistance of Harwood D. Schaffer, Research Associate with APAC.