PolicyPennings by Dr. Daryll E. Ray

Payments to farmers a fraction of total ag support in OECD countries

Recently a group of U.S. legislators met with their Mexican counterparts to discuss bilateral trade issues. One of the issues that surfaced was U.S. agricultural subsidies. Mexico has long asserted that the subsidies put Mexican farmers at a disadvantage in trade because they allow U.S. farmers to export their crops at below the cost of production.

In response to this concern over subsidies, a Congressman is quoted in an Associated Press release as saying, "We will eliminate all of our subsidies when the world eliminates all of theirs. The world has $300 billion worth of subsidies per year. We have $19 billion."

I would like to quibble somewhat with the Congressman's statement. First, the $300 billion number (actually in 2002 it was $318 billion) applies only to the 30 countries who are members of the Organization for Economic Cooperation and Development (OECD), not the whole world. Okay, so that detail is cleared-up.

My real concern is the policy communication implied by the totality of the three-sentence statement. Note that I said implied.

The reader is told that the worldwide expenditure on agricultural subsidies is approximately $300 billion of which the US pays $19 billion to US farmers. And, if the rest of the world will eliminate their $281 billion, the reader seems to be very clearly informed that the US would eliminate the remaining $19 billion.

Putting aside the lack of certainty about whether payments indeed would be abolished, there is one big problem with that. The $19 billion is only part of the US's share of the $300 billion.

"Okaying" the elimination of the $300 billion deep sixes the $19 billion in farm payments alright, but it also eliminates expenditures for federal food inspection. It eliminates federal expenditures for research and extension. And it eliminates a host of other agriculture and food related expenditures.

As reported in a recent column, only about $87 billion of the $318 billion is for direct government payments to farmers in the US and other OECD countries. OECD farmers also benefit from border protection measures to the tune of $148 billion. The increased market value of farm commodities because of tariffs and import quotas should logically be added to cash payments to estimate government income support to agriculture.

The $235 billion total of payments and price enhancement for OCED farmers is still a lot of money. And, again, whether the US is serious about negotiating this number down to zero is another issue altogether. But lest we be misunderstood when conversing about agricultural trade issues, the $318 billion agriculture support estimate is not the number to bandy about unless the US really is willing to also shut down the federal food inspection service, federally sponsored research and extension, and other federal food-related expenditures.

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