

Policy Pennings by Dr. Daryll E. Ray

# The follies of basing farm policy on world numbers

Even though the next farm bill is two or three years off, we are in the midst of some very heavy farm policy debates. It's just that the discussions are centered internationally rather than domestically. The WTO (World Trade Organization) is THE major farm policy force (or at least it is trying to be).

Two research-based numbers are being bandied about as part of these discussions. Both are astoundingly large, receive considerable attention, and have become conventional wisdom merely because they have been repeated so often by so many. But in my view, both numbers are misleading at best.

The first is reported in a World Bank study which estimates that with lower global trade barriers and totally decoupled farm payments, global income would increase by \$500 billion by 2015. The second is reported by the Organization for Economic Cooperation and Development (OECD) which estimates that the 30 OECD member countries pay \$300 billion per year in farm subsidies.

\$500 billion and \$300 billion: these are attention getting numbers. And they are correct. Correct, that is, given the assumptions or assumed actions under which they were estimated. But therein lies the rub.

For example, do we believe that the European Union (EU) would decrease livestock and crop output by 30 percent by 2015, including a 60 percent decrease in wheat acreage? Do we believe that the relatively self-sufficient EU would become dependent on imports for two-thirds of its grain and oilseeds? When debating your answers, don't forget that in the US, we remember the Alamo but in Europe, they remember food shortages and World Wars.

Do we believe that China will import twenty percent of its consumption needs for seeds and grains by 2015? Thus, do we believe that China will abandon centuries of maintaining food self-sufficiency goals for food staples?

Do we believe that Australia and Canada can nearly double their production of wheat while continuing to produce most other crops by 2015? The two countries together would have to increase wheat acreage by 55 million acres to make up for the reductions in wheat

acreage in the EU (nearly two-thirds), China (about one fifth) and the US (about one-third).

If you view world agriculture as "one giant field," discard all non-economic considerations, and assume all production adjustments will occur as easily as pushing a button to run a computer simulation model (and ignore a few very real natural resource constraints), then the \$500 billion number is likely correct, plus or minus.

Given the assumed and required changes are unrealistic—including a 180 degree shift in policy goals of some key countries—it is questionable whether this number deserves the attention it is getting.

The other attention-getting number, the \$300 billion in subsidy payments to the 30 OECD countries, also can be misleading. It is true that if you add up all the expenditures that relate to food and agriculture in the developed countries, it amounts to roughly \$300 billion per year.

But when people read the number, I suspect they assume that all \$300 billion goes to farmers in the form of higher prices or government payments. Some of it does, of course, about \$235 billion. The rest, however, includes research and extension, food inspection, and a host of other agriculture and food related expenditures. I doubt that many of these "supports" are on the negotiation table.

Do these less-than-transparent discussions relating to the motivations and impacts of changing farm policy in this country and internationally really matter that much? Put another way, do they influence what people expect to happen if substantial changes are made in farm policies internationally? If the answer is in the affirmative, some surprises are likely in store.

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