PolicyPennings by Dr. Daryll E. Ray

Decoupled payments and shell games

Despite the fact that President's Bush's Trade Promotion Authority (TPA) has expired, work continues on resurrecting the moribund Doha Round of World Trade Organization (WTO) negotiations. One of the strategies being pushed as a means of breathing life into the Doha round is to shift the amber box decoupled payments to the green box by eliminating the prohibition against fruit and vegetable production by those in the commodity program.

In fact it seems that the current strategy is to move as much as possible into the green box on the assumption that the payment cannot be challenged as long as it is green. The over-reliance on the green box troubles us for two reasons. First, those who see themselves as hurt by a green payment program can challenge them using the WTO disputes mechanism no matter what color box they are put in.

The second is really a corollary to the first. Farmers have been told that doing away with government payments like LDPs and countercyclical payments should not concern them because government payments would not cease. They say as long as those "coupled" payments are replaced with payments, they are decoupled from production, that is they are in the green box, there is no problem.

The strategy we see being played out seems to come out of the B-Westerns of our childhood in which the trickster places a pea under one of three walnut shells and then moves them around swiftly so the audience loses track of which shell has the pea under it. Now you see it, now you don't. If one keeps moving programs from one box to the next, pretty soon people will become confused about which box has what purpose and where the payments are currently assigned.

That leads us to some observations about the major players in these negotiations. On the one hand, you have those persons who have spent their career opposing farm programs as impediments to the laissez-faire operation of the market place. They would like to see all farm programs eliminated and, in the absence of being able to achieve that goal, seek to shift the programs to boxes where they can be challenged in trade disputes. To us the assurances that the payments will be safe if they are in the green box seems disingenuous at best.

In 1996, there were those who believed that decoupled payments really were decoupled. Today, few believe that. Even proponents of decoupled payments recognize that they influence land prices and thus the cost of production, income and wealth and thus the ability to obtain credit and adopt new technologies that increase production, and decoupled payments (direct payments) are linked in a system that includes coupled payments—Loan Deficiency Payments and Counter-Cyclical Payments. Even if they are put in the green box, the coupling still exists.

The second group are those persons and industries who can benefit substantially if the programs can ensure them a steady base of farmers purchasing inputs, selling them commodities at below the cost of production, and signing up for government subsidized revenue insurance. It is as if somehow, by laundering government program money through commercial entities, the money will no longer be tainted.

In examining these strategies we need to use the "duck test." If it looks like a duck and quacks like a duck, it's a duck. If it looks like a subsidy and quacks like a subsidy, it's a subsidy.

Whether the payments are green-washed by placing them in the green box or laundered by running them through corporate accounts, we needn't watch the moving shells. All we have to do is listen for the "quack."

For us a more sensible approach would be to develop policy prescriptions that deal with the fundamental characteristic of crop agriculture—the lack of timely self-correction in the marketplace.

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

Originally published in *MidAmerica Farmer Grower*, Vol. 24, No. 35, August 31, 2007