APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Dr. Daryll E. Ray

Export-led prosperity: That sounds familiar

We must admit to being more than a little bit concerned about some of the current discussions surrounding WTO trade negotiations that link reductions in US farm support to obtaining market access concessions.

One argument that troubles us goes like this. "US farmers have nothing to worry about with a 60—80, you name the number—percent reduction in the negotiated level of support because much of the current level of payments can be placed in the green box—considered to be non-trade distorting—and thus not counted against reduced farm support levels. A second "don't worry, be happy" message is that, with increased access, US farmers will experience growing export markets that will more than compensate for reduced support levels.

Let's begin with the core question for the first argument: Is it realistic to believe that the green box is a safe haven for government payments?

A couple of columns ago we reported on a study by the Australian Bureau of Agricultural and Resource Economics (ABARE).

ABARE gave six reasons why decoupled payments, that is payments that are presumably eligible for green box designation, are not fully decoupled from production. Among the arguments are the income and wealth affects including land prices which affect the ability of farmers to produce major crops. For these and other reasons we have long argued that decoupled payments are not "identity preserved" once they reach farmers' bank accounts or are used to pay for seed and other inputs.

What we deduce from all that is that payments, whether direct, indirect, decoupled, or coupled, do not address the underlying inability of agriculture to self-correct on its own in contrast to nearly all other industries.

ABARE, however, uses the decoupled-is-not-really-decoupled argument as a spring board to argue for reduced (read elimination of) payments regardless of their box color. The International Food and Agricultural Trade Policy Council (IPC) raises a similar green-box theme in a paper entitled "Should the Green Box Be Modified?"

What seems obvious is that the green box is not a safe haven for payments. The green box will be the next target.

The core question for the second argument that "increased market access will eliminate the need for farm programs because of increased export demand" is: Even if WTO negotiations generated complete access to grain-trade worldwide, would the US get the lion's share or even its traditional export share for major crops?

To us it is far from clear that market access is our major problem. World exports of major crops have continued to increase over the last two-and-a-half decades while the volume of US exports have fallen to 80 percent of their 1979-81 levels.

At the same time our developing country competitors have seen a three-fold increase in the volume of their exports of 15 major crops. They have done this even though, over the last two decades, we have reduced loan rates, instituted Loan Deficiency Payments, eliminated set-asides, and shifted to "market-oriented" decoupled payments.

The promises to US farmers were always there—justifying each of these policy changes—but the increased exports never showed up.

We must not forget that the increased market access sought by US negotiators would not be channeled only to US farmers. Farmers in those same developing countries that have devoured the growth in worldwide exports of major crops during the last decade will use any newly increased market access as opportunities to further expand their export volumes.

Yes, developing countries will likely see profit opportunities to export high value products like fruits, vegetable, nuts, and flowers. But that does not necessarily mean they will depend on imports of grains and seeds from places like the US to feed their population. It could happen, but recent history is not on our side.

The promises implied by moving payments to the "green box" and replacing safety nets with market access sound amazingly similar to the export-prosperity promises that were made at each of the policy-change junctures during the last two decades.

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