The paradox of agricultural subsidies: measurement issues, agricultural dumping, and policy reform

Wise, Timothy A.

World trade talks have foundered recently, in part due to developing country demands that industrialized countries reduce their large farm support programs to allow poor farmers in the global South to compete more fairly. Claiming that Northern farm subsidies amount to over $1 billion a day, and that the average European cow receives more in subsidies than the nearly three billion people who live on less than two dollars a day, Southern governments, farmer groups, and international aid groups have demanded steep cuts in Northern agricultural subsidies. This paper examines the economic and policy aspects of the subsidy debate. We begin with an examination of the most widely used measure of agricultural support, the OECD's Producer Support Estimate. We identify several important flaws in its application and interpretation as a reliable subsidy measure, highlighting the particular problems this can cause in measuring the levels of farm support in developing countries whose economies may not be fully integrated with the world economy. We then review the results of economic modeling of trade liberalization and subsidy reduction, finding that overall such measures are unlikely to raise producer prices to a sufficient degree to bring relief from alleged agricultural dumping to Southern farmers by bringing export prices above production costs. We briefly examine one alternative explanation for low commodity prices, the oligopolistic nature of agricultural trade. We conclude with an outline for policy reforms at the global and national levels to address measurement flaws, raise commodity prices, and reduce the undercutting of developing country farmers by below-cost agricultural exports from the North. Throughout, we draw on US-Mexico trade in maize as an illustrative case study. We conclude that subsidy reduction is unlikely to reduce economic pressures on Mexican maize producers from below-cost US exports, nor are such measures likely to improve the economic prospects for similar small-scale farmers growing food primarily for subsistence and the internal market. Instead, policy reforms should focus on ending agricultural dumping, reducing global commodity overproduction in key crops, and reducing the market power of agribusiness conglomerates.

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Abstract

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Timothy A. Wise

Tim.Wise@tufts.edu

Abstract

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The Challenge of Reducing Subsidies and Trade Barriers