THE DOMESTIC EFFICIENCY AND THE TRADE EFFECTS OF FARM SUPPORT

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The ‘OECD’ View?

‘Farm policies should achieve their domestic objectives with least international spillover.’

What we do:

• Monitor farm support with PSE.
• Classify according to implementation.
• Measure welfare and trade effects with a model.
How Do Governments Help Farmers?

- Market price support (via trade measures)
- Budgetary direct payments based on:
  - Output (deficiency payments)
  - Land (both tied and untied to planting)
  - Non-land inputs (e.g. interest subsidies)

How Much Does Govt Help?

*Crop support in US and EU in 1998 (for example)*

<table>
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<th>Category</th>
<th>US</th>
<th>EU</th>
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<td>Area payments</td>
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<td>Output payments</td>
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*NB: US PSE for crops is around 20%, for EU around 40%.*
Do Policy Effects Differ (Much) Among Support Measures?

- Should we ignore all but trade policy measures in trade negotiations?
- Are there big differences among different kinds of payments based on area (green versus blue)?
- What are the implications for domestic agricultural policy?

Estimating Policy Effects

Model:
- Partial equilibrium farm sector
- Factor markets explicit (land, non-land)
- Trade in output but not factors

Indicators:
- Trade volume impact ratios
- Farm income impact ratios

*Impact ratio is defined as... with MPS as base*
Summary of Findings

- Trade effects of payments based on output or variable input use similar to market price support
- Trade effects of area payments (either kind) significantly less than other kinds of support
- Completely decoupled area payments may not be all that much greener
- Strong inverse relationship between trade effects and farm income transfer efficiency
Conclusions

- Support measures delivering the least income benefit per dollar of costs distort trade the most (and vice versa).
- Some support for the ‘Sumner’ view that trade negotiations should focus on trade measures.
- However, nearly 100% of benefits of ‘most efficient’ support goes to land owners.

References:

‘Market Effects of Crop Support Measures’
OECD 2001