



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

THE DOMESTIC EFFICIENCY AND THE TRADE EFFECTS OF FARM SUPPORT

JOE DEWBRE

**Regional Research Project NC-221 Conference
“Financing Agriculture and Rural America: Issues of Policy, Structure and Technical Change”
McLean, Virginia
October 1-2, 2001**

Copyright 2001 by author. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.

The Domestic Efficiency & The Trade Effects of Farm Support

Joe Dewbre

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)*

OECD  3 OCDE

How Much Does Govt Help?

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

	<u>US</u>	<u>EU</u>
<u>Category:</u>	<i>~ billion \$US~</i>	
Area payments	9	16
Market price support	-	5
Input subsidies	1	7
Output payments	2	-

NB: US PSE for crops is around 20%, for EU around 40%.

OECD  4 OCDE

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:

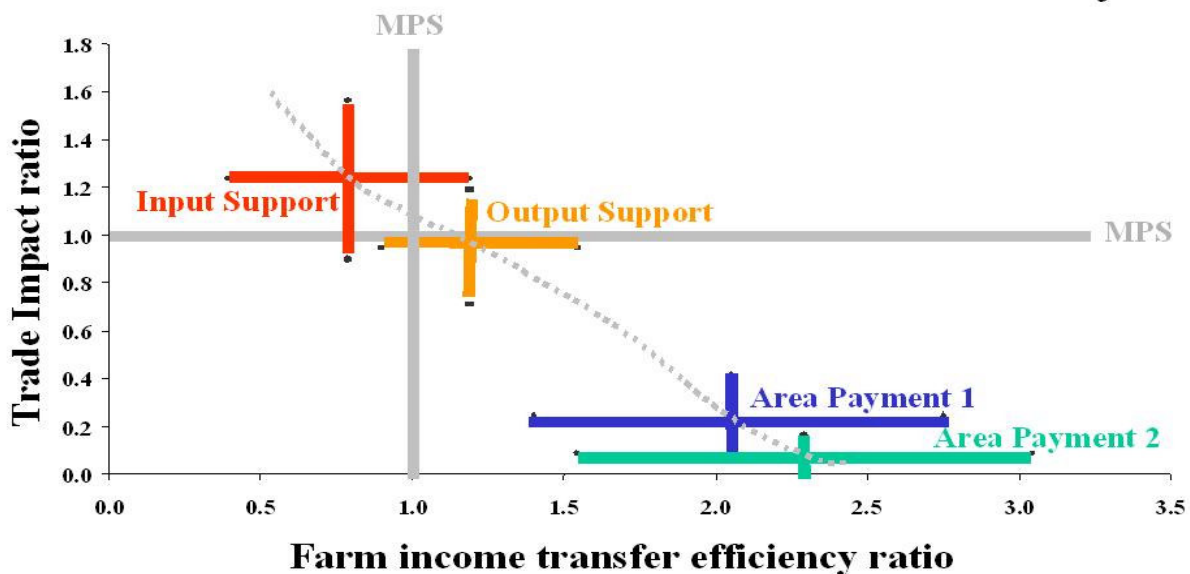
- Partial equilibrium farm sector
- Factor markets explicit (land, non-land)
- Trade in output but not factors

Indicators:

- Trade volume impact ratios
- Farm income impact ratios

Impact ratio is defined as ... with MPS as base

Trade distortion and transfer efficiency



OECD 7 OCDE

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

OECD 8 OCDE

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*

*Dewbre, Anton & Thompson (2001) ‘The
Trade Effects and Transfer Efficiency of
Direct Payments’ AJAE, forthcoming*