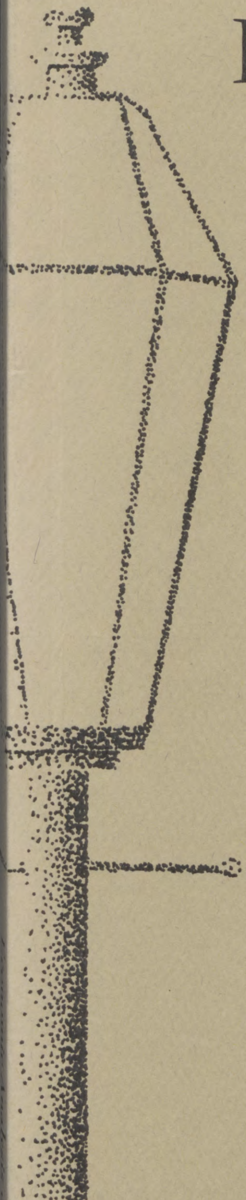

Economic Analysis of Research and Promotion

Proceedings from the symposium sponsored by NC-208 and NEC-63

New Orleans, Louisiana
March 21-22, 1997

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Sponsored by and published with the support of:
The Research Committee on Commodity Promotion (NEC-63)
and
The National Institute for Commodity Promotion Research and Evaluation (NICPRE)

Financing Agricultural Research in the Presence of Prior Distortionary Taxes and Subsidies

George Frisvold
Stephen Vogel

Abstract

Some economists have argued that a commodity checkoff system, being less distortionary than general taxation, would be a more efficient way to raise revenues for public agricultural research. This study uses a computable general equilibrium model of the United States to formally examine this hypothesis. We show that the welfare effects from shifting to a commodity checkoff system depend crucially on assumptions about labor supply and wage determination. Numerous econometric studies by labor and macroeconomists have confirmed the existence of persistent inter-industry wage differentials. Accounting for the existence of these wage differentials, the simulations suggest that a shift toward commodity checkoffs would raise welfare between \$190 and \$274 million, or by about 15 cents for every dollar of revenue raised. We also examine how the welfare and employment impacts of this tax policy change are affected by the recent shift toward decoupled farm income support payments under the FAIR Act. The movement toward decoupled farm program payments does not qualitatively change the overall welfare outcome. Changes in farm policy do, however, affect how much of the commodity tax is absorbed by agriculture.