Farm Subsidies

Most economies go through a fairly standard development cycle. They begin in agriculture, industrialize and then morph into services. Agriculture becomes less important; services more important in driving the growth in value added and GDP. This is not to say that agriculture is not important for developed economies. There is always the desire for self-sufficiency in food and this may reflect the extent of subsidies offered to farmers in developed economies.

Almost $268 billion was paid last year in subsidies to farmers in the 30 mainly rich countries of the OECD, down from $281 billion in 2005. This huge support, both directly from taxpayers and indirectly through higher prices paid by consumers, fell from 29% of total farm receipts to 27%. The drop was mainly because of higher world food prices, which reduced the need to prop up domestic prices, rather than changes in policy. Even so, crop and livestock prices in OECD countries were on average 21% higher than world market prices in 2006. The level of support varied widely, from 1% of farm receipts in New Zealand to more than 60% in Switzerland. In America it amounted to 11%, whereas in the EU it came to 32%.

Subsidies also exist for non-food farm crops like cotton. Recently, Brazil was successful in challenging US cotton subsidies at the World Trade Organisation and a multi-billion dollar fine was levied on the US. India still thinks that US cotton subsidies are too high. India believes that cotton subsidies are leading to an over production of cotton which is depressing world cotton prices by as much as 25%. Problems are so bad for Indian cotton farmers that many are committing suicide, rather than facing the mountain of debts they have generated by trying to survive the low cotton price.

The curious thing is that subsidies in the developed world are intended to support farmers through poor harvests and poor pricing periods. Instead there is more evidence that they boost the profits of mega farms.

The US is not the only culprit. The EU, through the Common Agricultural Policy, also distorts world food prices. The CAP was designed to ensure that the EU was self-sufficient in food. But a surplus of production now results in food being stored or dumped on other world markets.

So if your economy is agriculturally based and developing, the chances of you accessing a developed economy and gaining wealth through trade are fairly slim. These issues are raising not just a concern, but anger within African, Indian and Brazilian economies and are fuelling the need for a resolution of the Doha trade talks.

Question

1. Why do you think developed economies wish to protect agriculture?

2. Would it be better for developed economies to cut subsidies, rather than increase aid expenditure?