

Ending Farm Subsidies Wouldn't Help the Third World?

It Just Ain't So!

Talks by the 146 members of the World Trade Organization (WTO) collapsed last fall over trade-liberalization disputes between rich and poor countries. The biggest bone of contention was the extent to which the “first world”—mainly Europe, the United States, and Japan—were willing to slash their huge farm subsidies. More than 20 developing countries, including Brazil, India, and China, banded together to fight the aid to rich-country farmers.

Writing in the *New York Times* just before the talks collapsed, author Michael Lind acknowledged that farm subsidies in advanced nations exploit their own consumers and taxpayers (“The Cancún Delusion,” September 12). However, he discounted their harmful effects on farmers and economic development in poor nations.

Yet farm subsidies in rich countries depress market prices for farm products and induce poor countries in Africa and elsewhere to import food that local farmers could otherwise produce more efficiently. Farmers in poor countries are rightly concerned about the effects of the subsidies.

Consider cotton. The United States spends some \$2.5 billion a year and the European Union about \$700 million in subsidies to cotton farmers. The historically low cotton prices are wreaking havoc for domestic producers in poor countries.¹ Cotton subsidies in Mississippi drive cotton farmers in West Africa out of business. African countries pleaded unsuccessfully with the WTO to end all cotton subsidies, but they are only the tip of the agricultural-subsidy iceberg.

U.S. farmers annually receive more than \$20 billion from the government, and EU subsidies are even larger—45 billion euros a year.² These payments for beef, cotton, wheat, and other products spur production, depress product prices on world markets, and make it more difficult for farmers in developing countries to compete. American farmers produce twice as much wheat as the country uses, but federal subsidies help protect them from world market-price signals. Washington then uses food aid and other export programs as a safety valve to cope with overproduction.

Both the EU and the United States maintain programs to *directly subsidize* exports of farm products. The EU spends about \$3.3 billion per year doing this. That gives EU goods an artificial advantage in international markets and works against the interests of producers in poor countries.³

Direct export subsidies have long been a prominent feature of U.S. farm programs. Public Law 480, enacted in 1954, is still going strong. It was instituted to rid government warehouses of surplus wheat, corn, cotton, and other farm products acquired through price-support programs. Dubbed “Food for Peace” to burnish its desired altruistic image, PL 480 provides easy credit and donates food to people throughout the world in response to famine and other emergencies.

Farmers in poor nations are especially critical of U.S. food aid for humanitarian purposes. Unlike the EU, which for the most part donates cash to buy food from producers in stricken countries, the United States buys food from American farmers. The Department of Agriculture (USDA) estimates the total value of U.S. food aid to be about \$1.5 billion this year.⁴

Law Changes

The nature of U.S. food-aid programs has changed as the nature of farm subsidies has

changed. In 1996 Washington stopped storing cotton, grain, and other products as a way to support farm prices and raise farmer incomes. Though food aid is no longer an adjunct of price-support programs, it continues as Washington buys the crops directly from the U.S. market.

The operation of U.S. food-aid programs demonstrates the difficulty of linking them to farm policy. Local farmers in Ethiopia, for example, see commodities purchased from American farmers—some \$500 million this year—arriving as humanitarian aid as tons of their wheat, sorghum, and beans remain unsold in Ethiopian warehouses.⁵ U.S. food aid not only breeds a welfare mentality in the recipients (just as domestic welfare programs do), like all other first-world farm subsidies, it also works against the interests of third-world farmers.

Food-aid programs have been augmented over the years by a variety of other dumping schemes. Washington now provides U.S. exporters guarantees against default on loans used to purchase U.S. agricultural commodities, reimbursement of trade groups and private companies for promotional activities overseas, and subsidies for exports of dairy products and other farm commodities. Recipients of export subsidies include Sunkist Growers, Dole Foods, and Gallo Wines. The value of all direct export subsidies—by USDA estimate—will exceed \$6 billion this year.⁶

Indirect subsidies in wealthy countries also damage producers in low-income countries. The U.S. sugar program, for example, holds domestic sugar prices above the world price through import quotas. It also reduces opportunities for sugar producers in low-income countries. Indirect export subsidies are just as harmful to producers in low-income countries as the direct subsidies asso-

ciated with the production of beef, corn, cotton, rice, wheat, and other commodities in first-world countries.

Farmers in the United States become irate when low-cost imports undercut domestic prices. Farmers in low-income countries are just as concerned about the effects of subsidized agricultural imports on their markets. It is ironic that one arm of the U.S. government provides assistance for economic development in poor countries while another subsidizes farm exports that stifle development.

The developing countries did not go to Cancún with clean hands—they have higher trade barriers overall than richer countries, but their agricultural protection generally is lower. (Poor countries often keep food prices artificially low and tax agricultural exports at high rates.) Ending first-world farm subsidies, as Lind suggests, would greatly benefit consumers and taxpayers in rich countries. However, ending policies that distort world trade in agricultural products—contra Lind—also is critical to poor countries.

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1. Neil King, Jr., and Scott Miller, “Disputes Between Rich and Poor Kill Trade Talks,” *Wall Street Journal*, September 15, 2003, p. A18.

2. Roger Thurow and Scott Kilman, “As U.S. Food-Aid Enriches Farmers, Poor Nations Cry Foul,” *Wall Street Journal*, September 11, 2003, pp. A1 & A8, “Cancún’s Silver Lining,” *Wall Street Journal*, September 16, 2003, p. A16. Under the 2002 farm bill, part of the subsidy to U.S. farmers is partially “decoupled” from current production. If fully decoupled, the subsidy would remain the same, regardless of the amount of the product produced and would not spur production.

3. King and Miller.

4. See export subsidy data for fiscal years 2002–2004 for the USDA’s Foreign Agricultural Service at www.usda.gov/budget/.

5. Thurow and Kilman, p. A8.

6. See www.usda.gov/budget/.