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The Relative Importance of Global Agricultural Subsidies and Market Access, Revisited

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Agricultural price and trade policies were highly distortive of world food, feed and fibre markets in the latter half of the 20th century, but many trade reforms began in the 1980s and continued following the 1995-2004 implementation of the GATT/WTO Uruguay Round Agreement on Agriculture. By then, import tariffs were responsible for 93% of the global economic welfare cost of distortions to farmer incentives, the rest due to domestic subsidies (5%) and export subsidies (2%), according to GTAP modelling by Anderson, Martin and Valenzuela (2006).

Some import tariffs have since come down further, and export subsidies were outlawed by WTO members in 2015. However, domestic support measures have replaced some of the assistance previously provided to farmers by tariffs and have more than doubled in OECD countries this century. More recently, populist governments have added to that. For example, subsidies rose from 8% to 14% of farm income in the United States between 2017 and 2019 (OECD 2021). This has prompted WTO members to place domestic support on its agricultural committee's agenda, including probably for the next WTO Trade Ministerial Conference (following the postponement of the most-recent biennial one that was scheduled for November 2021).

The present study provides new estimates of the economic impacts of agricultural tariffs and domestic supports globally. It does so by calibrating the database of the global economywide GTAP (Global Trade Analysis Project) model to 2019 and then simulating the removal of food and agricultural domestic supports without and then with tariff removal as well.

Globally removing just domestic support is of course negative for the most supported farmers, who are primarily in Western Europe, Northeast Asia and India, but all other farmers would gain from higher output prices, including those in supporting countries who currently receive little or no support. The global economic welfare benefit from removing all domestic support to farmers will be estimated, as will estimates involving the removal also of food and agricultural import tariffs. Domestic support is expected to contribute much more than the 5% of the global welfare cost of farm price and trade policies that was estimated in 2001.

A side benefit of removing market-distorting domestic subsidies is that it would boost government budgets in reforming countries, allowing society to re-purpose that spending to achieve more socially desirable objectives. Examples of the latter include investing in growth-enhancing rural public goods such as education, health, agricultural research, and transport and communication infrastructure. It could also include paying farmers for their provision of ecosystem services. Targeted income supplements fully decoupled from production, via generic social safety nets/trampolines, are another possible use of savings from such reform, which could be aimed directly at reducing poverty and income inequality in reforming countries.

References

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