AN OUTLOOK FOR AGRICULTURAL POLICIES IN THE NEXT DECADE: A GLOBAL PERSPECTIVE

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I. AGRICULTURAL POLICY: HISTORICAL DEVELOPMENTS

A. The United States

- Agricultural policies in the United States shifted from policies that promoted the development of agricultural resources toward the support of agricultural prices.
- A variety of policy instruments increased agricultural prices by reducing the amount of agricultural outputs available to the markets either through limiting production using acreage allotments, production set-asides, or acquiring commodities through non-recourse loans.
- Starting in the 1980s, a variety a policy innovations were implemented to make commodity programs more market oriented.
- Market orientation culminated with the passage of Federal Agricultural Improvement and Reform Act of 1996, which implemented several policy instruments that attempted to decouple commodity supports from production decisions.
I. AGRICULTURAL POLICY: HISTORICAL DEVELOPMENTS

A. The United States (Continued)
   ✖ The passage of the Food Security and Rural Investment Act of 2002 represented a return to more traditional instruments of commodity programs.
   ✖ The milk program in the United States uses a modified two-price plan that increases the blended price of all milk by restricting the quantity of fluid milk.
   ✖ The U.S. sugar program is somewhat unique in that the United States is a net importer of sugar. Thus, while the program instruments exist (such as the loan rate), the domestic sugar price is supported with a tariff rate quota that restricts the amount of imported sugar.
   ✖ Peanut and tobacco programs were terminated through buyouts where the future rents under the program were purchased by the federal government.

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A. The United States (Continued)
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B. The European Union

- The high supports under CAP have led to significant productivity increases for the European Union. Since 1970 the European Union has shifted from being a net importer to one of the world’s largest net exporters of wheat, sugar, beef, poultry, and dairy products.
- Large outlays from the EU budget are necessary to support agriculture. The EU budget outlays for agriculture grew from about ECU 5 billion in 1975 to ECU 45 billion in 1998 and exceeded ECU 60 billion in 2008.
- The European Union has moved continuously from payments tied to commodities to direct income support payments that include single-farm payments.
- When designing farm policy, decisions are based on historical net farm income figures that are derived from price and production data. In the case of the European Union, the SPS payments were created during a period of low commodity prices and heavy subsidies. Farmers are guaranteed these in 2003 and the sugar quota buyouts beginning in 2006. Subsidies through 2015. Because of this permanency, the payments are not affected by a sharp rise in commodity prices. Thus, EU farmers receive double payments in periods of high prices. This is also true for U.S. farmers, since direct payments under the 2008 U.S. Farm Bill were not eliminated even though market prices for many commodities were significantly above the loan rate and target price.
The European Union (Continued)

- Since 1998 a key trend in commodity policy has been the move from primary reliance on price supports to the increased use of income supports. In the European Union, income support measures include compensatory payments. These compensate for price supports with direct payments to crop producers based on historical production and livestock headage payments for beef cattle based on the number of animals. EU producers receive payments as long as they continue to plant some type of arable crop or put land into set-asides. Under full decoupling, virtually all of these payments have been bundled into the single farm payment.

- The EU agricultural policy has evolved under a complex political structure. Rent-seeking behaviour in the context of the theory of public choice explains how agricultural policy has evolved.

Source: Schmitz et al. ibid.
I. AGRICULTURAL POLICY: HISTORICAL DEVELOPMENTS

c. Canada

- Canadian stabilization programs are ever changing for several reasons, including budgetary costs and the impact on trade. With the exception of supply management, history has shown that producers in Canada cannot count on governments to leave the rules of stabilization programs unchanged for any length of time. This affects the way producers respond to programs. They become wary of new programs and policies (and their attendant political promises), especially if previous programs and promises have not fulfilled expectations.

- Canadian stabilization programs have ended up being ad hoc relative to those in the United States and the European Union. In this regard, as pointed out by the Canadian auditor general, of the Canadian farmers who applied for a CAIS payment, roughly 50 per cent received no payments, whereas the majority of U.S. and EU farmers received large payments under their programs.
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C. Canada (Continued)

- A major reason for the constant change in farm programs is the fact that it is a shared jurisdiction. This makes negotiating and implementing programs very difficult, and it presents significant challenges for maintaining programs for a very long time. In the United States, farm programs last because agriculture is a federal jurisdiction that allows for more continuity and stability through its five-year farm bills.
- The funding formula for stabilization programs has changed from a sole federal responsibility to a joint federal-producer responsibility and, more recently, to a tripartite federal-provincial-producer responsibility. Because of provincial funding, farmers in some parts of Canada do better than others in terms of government financial support.
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C. Canada (Continued)

- Both CAIS and crop insurance could be combined into an insurance-style single program with whole farm and commodity specific yield loss arrangements. A related issue is the extent to which risk-management programming becomes contingent on food safety and quality measures, as well as on environmental protection at the farm level.
- Rent-seeking activities have impacted stabilization and supply management programs. Lobbying by farm groups is an important component of policy structure, but so too are bureaucratic and political rent-seeking behaviour.
- Because of rising quota values there have been discussions that supply management should be removed and farmers should be compensated for the value of their quotas. This happened to the U.S. peanut and tobacco programs under which farmers were paid handsomely for quotas when the programs were changed to reflect free-market conditions.
- In contrast to supply management and the grains and oilseeds sectors, there has been relatively little support for the beef cattle and hog sectors.
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D. China

- The nature and extent of government policy intervention in agriculture in China have changed dramatically over the past 25 years. An agricultural sector characterized by significant distortions has been transformed into a relatively liberal sector.

- Domestic pricing and marketing policies forced farmers to sell much of their surplus to the government at an artificially lower price even in the case of exportable commodities such as rice (the free-market price of which was close to the international price). Hence, although there was little trade taxation at the border, domestic policies levied a tax on farmers. Similar dynamics characterized the situation among importable commodities such as wheat and soybeans. Producers received much less protection than they would have received had there been a free domestic market for the importables, despite the fairly high rates of protection through trade policies.
I. AGRICULTURAL POLICY: HISTORICAL DEVELOPMENTS

D. China (Continued)

- After the late 1980’s and early 1990’s, the liberalization of domestic markets reduced the distortions deriving from domestic policies. The market has gradually replaced the state as the primary mechanism for allocating resources and has become the basis for the production and marketing decisions of farmers. Especially in the case of importable commodities, trade policy has also become more liberalized.

- China’s agriculture has become much less distorted in recent years in two ways. First, the difference between international and domestic prices have narrowed considerably for many commodities because of trade policy liberalization. Second, the elimination of domestic policy distortions means that, as trade liberalization allows more imports or exports of agricultural commodities, prices in the domestic market change, and farmers are therefore more directly affected.
I. AGRICULTURAL POLICY: HISTORICAL DEVELOPMENTS

E. India

- From the 1970’s to 1995, the incentive system strongly favored manufacturing and services over the principal agricultural crops, although the extent of the anti-agricultural bias had diminished considerably by the mid-1990’s.

- The largest consistent imports of processed food have involved edible oils. Imports of these products expanded rapidly during the 1970’s and early 1980’s, triggering a major government program to replace the imports through domestic production. For a while, edible oil imports declined, but despite high tariffs (an 80 percent tariff on palm oil in 2006, for instance), import growth resumed in the 1990’s and by 2005, imports accounted for about 40 percent of the domestic consumption of these products.

- During the 1950’s and 1960’s, agricultural products represented slightly less than half of the country’s total merchandise exports, but the share has steadily declined since then and is now around 10 percent. A diverse range of agricultural products are regularly exported, including fish and fish preparations, oil cakes, cashew kernels, tea, coffee, tobacco, spices, fruits, vegetables, pulses, basmati rice, and, periodically, large quantities of sugar and common rice (more than 4 million tons of rice in 2004/05, for example). Since the late 1980’s, manufactured exports have usually accounted for 70-80 percent of total merchandise exports.
I. AGRICULTURAL POLICY: HISTORICAL DEVELOPMENTS

E. India (Continued)

❖ One of the most prominent objectives of the independence movement in India was to establish institutions and policies that would permanently eliminate catastrophic famines, such as those that occurred during the colonial period, and that would also ensure that basic food items would be available to the entire population at affordable prices.

❖ The government has intervened in food grain markets since the late 1940’s. In 1958, it established the current public distribution system, which sells basic foods at subsidized prices through fair price shops. (There are currently 460,000 of these shops.) For most of its history, the system has distributed wheat, rice, sugar, and edible oils on the basis of ration cards that entitle the bearers to specified quantities of food items at announced low prices.

❖ The principal government food subsidy activity today is the sale of rice and wheat through the fair price shops to below-poverty-line households and distribution as part of other antipoverty programs. In 2003, the total government food subsidy was estimated at Rs 258 billion (about US$5.7 billion, or 0.83 percent of GDP).
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E. India (Continued)

Domestic policies and trade policies that affected the rural sector were basically untouched by the 1991 reforms. In particular, government enterprises continued to dominate the domestic and international trade in cereals (notably the Food Corporation of India, which periodically imported wheat to meet domestic shortages), and agricultural products remained subject to the import licensing system that applied to all consumer goods. With some important exceptions, import licenses were not issued for agricultural products. The system thus amounted to an import ban on agriculture. The exceptions in agriculture included cotton and wool, for which unrestricted low-tariff imports of important inputs had been successfully negotiated by influential industrial lobbyists. Edible oils were also imported on a large scale.
In the mid-1990’s, five years after the 1991 reforms, about two-thirds of tradable GDP was still protected by explicit nontariff barriers (about 36 percent in manufacturing, 84 percent in agriculture, and 40 percent in mining). During the second half of the 1990’s, this situation began to change, in large measure in response to international pressures linked to the Uruguay Round agreements and the negotiations associated with them. Starting in 1998, the general import licensing system began gradually to be dismantled, and, on April 1, 2001, the last 715 of 2,714 tariff lines (including nearly all the agricultural tariff lines) were removed, and the system itself was abolished.
The contribution of farm input subsidies in the nominal rates of assistance (NRA’s) for covered products have been steadily increasing, particularly fertilizers and electricity, which is used mainly in pumping irrigation water. In the later 1980’s, input subsidies contributed 4 percentage points to the average NRA of 25 percent. Input subsidies helped reduce the gap between the benefits to rice producers and the export price of rice in the 1990’s.

From the mid-1960’s to the mid 1980’s the assistance going to producers of nonagricultural tradables far exceeded the assistance going to farmers.
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F. Thailand

- There has been a limited scope for an agricultural policy of protection as a means of influencing domestic commodity prices because the country is a major exporter.
- The direct taxation of agricultural exports has been gradually eliminated.
  + Especially in the case of rice where the high rates of export taxation before the mid 1980’s have been abolished.
  + Rubber exports that were taxed prior to 1990, have been untaxed since then.
  + Cassava exports have continued to be taxed to a minor extent through the system of export quotas.
- Fertilizer is a major input into agricultural production, and the effective taxation of fertilizer use has been steadily eliminated since the early 1990’s.
- Maize and chicken exports have been consistently untaxed.
- Most of this evolution in taxation and protection has involved the elimination of price distortions that once disfavored agricultural export industries.
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- Thailand (Continued)

- Soybeans were an export before 1992 and a net import item (subject to quota restrictions) since then. This shift from a net export to a net import item coincided with a switch from negative to positive nominal rates of protection (NRPs). Since the early 1990’s, the domestic soybean industry has benefited from a NRP between 30 and 40 percent.

- Sugar is an export commodity, but the domestic sugar industry is protected by a system that taxes domestic consumers and transfers the revenue to producers. The NRPs have averaged over 60 percent.

- Government interventions on behalf of rural people have been important. However, they have generally not been interventions in agricultural commodity markets. Instead, the main instruments have been cash transfers to village organizations, subsidized loan schemes (not linked to production), and a generally good system of public infrastructure.
II. POLICY IN THE CONTEXT OF TRADE DISTORTIONS

- Without the agricultural price and trade policy reforms of 2004, global welfare would be lower by US$233 billion annually.
- Low-income economies have benefited more than high-income economies.
- The world has moved three fifths closer towards global free trade in goods between 1980 and 2004 (annual global welfare cost of policies at US$168 billion, compared to estimated gain of US$ 233 billion).
- All high-income economies have lowered price supports for their farmers since 1980, with some countries replacing price supports with assistance partially decoupled from production.
POLICY IN THE CONTEXT OF TRADE DISTORTIONS (CONTINUED)

- Even though agriculture accounts for less than 8 percent of GDP and exports, as much as two-thirds of global welfare gains from removing all merchandise trade restrictions and agricultural subsidies would come from agricultural policy reform.

- Most countries have shifted from taxing to subsidizing agriculture. Farmers in low-income countries have tended to face depressed terms of trade relative to international product prices, which is the opposite for farmers in high-income countries, with the exception of Australia and New Zealand. Importables have received assistance throughout the past five decades.
This section focuses on the following commodities:

- Cotton
- Corn
- Sugar
- Rice
- Soybeans
- Wheat
COTTON: CONTINUED

Source: Indexmundi.com (Commodities Category)
CORN: LOAN RATE AND TARGET PRICES

![Graph showing corn price, loan rate, and target price trends from January 2000 to January 2008. The graph indicates a significant increase in corn price from 2005 onwards.]
CORN: (CONTINUED)

Source: Indexmundi.com (Commodities Category)
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RICE: LOAN RATE AND TARGET PRICES

[Graph showing the trend of rice price, rice loan rate, and rice target price from Jan-00 to Jul-08.]

- **Y-axis**: $ per cwt
- **X-axis**: Months from Jan-00 to Jul-08

Legend:
- Blue line: Rice Price
- Red line: Rice Loan Rate
- Green line: Rice Target Price
SOYBEANS: LOAN RATE AND TARGET PRICES

![Graph showing soybean price, loan rate, and target price over time.](image)
WHEAT: LOAN RATE AND TARGET PRICES

![Graph showing wheat price, wheat loan rate, and wheat target price over time.](image-url)