

University of Nebraska - Lincoln

DigitalCommons@University of Nebraska - Lincoln

Cornhusker Economics

Agricultural Economics Department

3-1-2006

A Billion Dollars a Day

E. Wesley F. Peterson

University of Nebraska-Lincoln, epeterson1@unl.edu

Follow this and additional works at: http://digitalcommons.unl.edu/agecon_cornhusker



Part of the [Agricultural and Resource Economics Commons](#)

Peterson, E. Wesley F, "A Billion Dollars a Day" (2006). *Cornhusker Economics*. 255.
http://digitalcommons.unl.edu/agecon_cornhusker/255

This Article is brought to you for free and open access by the Agricultural Economics Department at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Cornhusker Economics by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

CORNHUSKER ECONOMICS

March 1, 2006

University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
<http://agecon.unl.edu/pub/cornhusker.htm>

A Billion Dollars a Day

Market Report	Yr Ago	4 Wks Ago	2/24/06
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$86.42	\$93.74	\$89.54
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	127.32	140.88	139.27
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	103.20	116.73	113.83
Choice Boxed Beef, 600-750 lb. Carcass	139.25	155.95	153.21
Western Corn Belt Base Hog Price Carcass, Negotiated	71.15	52.31	61.30
Feeder Pigs, National Direct 45 lbs, FOB	65.76	56.68	58.33
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	67.20	59.65	64.35
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	112.25	78.25	78.00
National Carcass Lamb Cutout, FOB	265.50	224.01	212.23
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu	3.51	3.59	3.96
Corn, No. 2, Yellow Omaha, bu	1.93	1.94	1.97
Soybeans, No. 1, Yellow Omaha, bu	5.71	5.54	5.43
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.71	3.02	2.82
Oats, No. 2, Heavy Minneapolis, MN, bu	1.75	2.04	2.08
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	130.00	130.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	65.00	65.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	52.50	55.00
* No market.			

Government subsidies for agriculture in the industrialized nations of North America, Western Europe and East Asia (Japan and South Korea) have been severely criticized by many commentators because of their negative impact on developing countries. (See, for example, “Protecting the French Farmer,” from the editorial page of the New York Times, December 8, 2005). Many have noted that these wealthy countries subsidize their farmers at the rate of a billion dollars a day and that the resulting overproduction depresses world prices to the detriment of low-income countries that depend on agricultural exports. Agricultural subsidies have been a major issue during both the Uruguay Round and the current Doha Round of trade negotiations at the World Trade Organization (WTO). In addition, a WTO dispute resolution panel ruled in favor of Brazil and four African countries that had filed a complaint against U.S. cotton subsidies and many developing countries are taking a hard line on all agricultural subsidies in the current talks.

The figure of a billion dollars a day is derived from statistics compiled by the Organization for Economic Cooperation and Development (OECD). The OECD, made up of representatives of the governments of the high-income countries, monitors a wide range of economic indicators and provides a forum for member countries to discuss common concerns. As part of its work, the OECD collects and publishes statistics and reports on agricultural policies (see, http://www.oecd.org/document/54/0,2340,en_2649_33773_35009718_1_1_1_1,00.html). In 2004, the OECD estimate of total support to agriculture for all of its members was \$378 billion, slightly more than a billion dollars a day. This support is divided between transfers to producers, general services (support for research, inspection services, market promotion and other service activities), and transfers to consumers (e.g., food stamps). Some have suggested that including general services and consumer subsidies inflates the support estimate unfairly. Excluding these two catego-

ries, however, still leaves almost \$280 billion in transfers to producers. In addition, consumer food subsidies and many of the services included in the general services category benefit farmers as well because they increase demand or lower producer costs.

There are two ways in which transfers to agriculture are made. The first is through taxpayer transfers from the government budget. The U.S. loan deficiency and counter-cyclical payment programs are examples of this type of transfer. The second form of transfer results from trade barriers that have the effect of raising the prices producers receive. The U.S. sugar program is an example of this type of subsidy which is less visible than the first as it comes out of the pockets of consumers rather than from the government budget. In 2004, the \$378 billion total support to agriculture was split about evenly between transfers from consumers through trade barriers and transfers from taxpayers through government budgets. Of the \$378 billion total, the United States accounted for about \$109 billion (29 percent), the European Union (EU) for about \$151 billion (40 percent), and Japan for a little less than \$61 billion (16 percent). If one does the same exercise for the \$280 billion in support for producers (leaving out our general services and consumer subsidies), the U.S. transfers \$46.5 billion, the EU transfers \$133.4 billion and Japan transfers \$57.3 billion. In both cases, these three were responsible for 85 percent of the total transfers in OECD countries.

It is interesting to compare the structure of these subsidies in various countries. The figures in Table 1 show that the European Union and Japan rely more heavily on trade barriers to subsidize their producers than is the case in the United States, where most agricultural subsidies take the form of government payments. Whether from government payments or consumer transfers, these subsidies are extremely significant for farmers in both the wealthy OECD countries and in low-income, developing countries. The OECD estimates that 30 percent of farm receipts in OECD

countries came from consumer and taxpayer subsidies in 2004. Jacques Diouf, Director General of the U.N. Food and Agriculture Organization, suggested that agricultural subsidies in wealthy countries amounted to transfers of around \$12,000 per farmer and noted that the \$8 billion in foreign aid transferred from OECD countries to the agricultural sectors of developing countries in 2002 was a tiny fraction of the more than \$300 billion spent on their own agricultural sectors (Inaugural Statement, World Food Summit, June 2002).

While these subsidies may be of benefit to farmers in wealthy countries, they cause much harm to farmers in developing countries. The World Bank estimated that eliminating agricultural subsidies in the OECD countries would generate gains in developing countries that would be three times the amounts these countries receive in foreign aid (WTO Annual Report, 2002, p. 2). The resistance to reining in agricultural subsidies in Europe, Japan and the United States has given rise to a backlash in many developing countries where governments had embraced globalization and open markets only to see their agricultural exports blocked by trade barriers and government subsidies in wealthy countries. Elections in several Latin American countries have brought to power left-wing governments that often oppose trade. Reversing these trends will require increased efforts on the part of the agricultural negotiators in the current trade talks.

E. Wesley F. Peterson, (402) 472-7871
Professor
Dept. of Agricultural Economics

Table 1: Proportion of Producer Support and Total Support to Agriculture (producer support plus general services plus consumer support) Coming from Consumers and Taxpayers

2004 Country/Region	Total Producer Support from Consumers (%)	Total Producer Support from Taxpayers (%)	Total Support to Agriculture from Consumers (%)	Total Support to Agriculture from Taxpayers (%)
United States	38.7	61.3	16.3	83.7
European Union	53.8	46.2	40.6	59.4
Japan	90.6	9.4	78.3	21.7
Canada	46.4	53.6	34.9	65.1