

CHAPTER 2

Agricultural Distortions: Magnitudes and Driving Forces

What constitutes an agricultural intervention? What constitutes a “distorting” intervention in some well-defined sense, and how does one determine whether a particular intervention is “distorting” in this sense or not? Formally, one could define intervention as any government policy that has an effect on the equilibrium levels of prices, outputs, inputs, domestic absorption in various forms, and foreign trade.

Even when government intervention in foreign trade may be appropriate from a country’s viewpoint – for instance, in the unilateral exercise of market power by those countries that have such power – even then such exercise of market power by some reduces global welfare from what could be realized under free trade with nondistorting transfers. When such transfers are not available, free trade may not lead to a Pareto-superior global outcome. Thus, such protectionist interventions, which may be appropriate from one country’s viewpoint, are viewed as *distortions* of the system. Similarly, other taxes, subsidies, quantitative restrictions, etc. that are not imposed to correct some failure of the market system are also viewed as distortions. Needless to say, there is analytical interest in an intervention (or the absence of it) if it is distorting (or if there is a market failure).

There are alternative ways in which an intervention – for instance, in foreign trade in agriculture – could be measured. In Appendix A2 we describe forms of intervention, alternative quantitative measures thereof, and how we estimated the extent of agricultural protection in different countries. Here we summarize only the estimates of agricultural protection.

2.1. The General Pattern of Distortion

It is a "tariff equivalent" that is reported in most studies, and which is also referred to herein. As already mentioned, this reflects quite well the overall protection level in agriculture in developed countries. [According to the FAO (1975) study, only two out of 13 developed countries had input subsidies for a few products (mainly for fertilizer) that amounted to a few percent of the output price.] For developing countries, input and factor subsidies often have a relatively larger share in the protection, but they might work to offset the negative effect of a domestic producer price below the world market level (owing to export taxes or excessive margins between purchase and selling price administered by a state export monopoly) rather than increase border protection.

For developing countries, there is an additional problem in measuring the protection level. This stems from a lack of convertibility of the currencies of many of them. Owing to frequent overvaluation of the official exchange rate and irregular large devaluations to offset a sometimes galloping domestic inflation, conversions of world market prices to domestic currency equivalents are difficult to obtain. Figures on tariff equivalents are therefore particularly error-prone as regards these countries.

It is with these limitations in mind that one has to examine the protection levels shown in *Table 2.1*. These protection levels are estimated by the authors, and the details are given in Appendix A2. The figures reveal the general pattern referred to in the preceding chapter – namely, that the highest agricultural protection is found in Japan and Western Europe, with levels of 50–175% of the world market price, whereas developed countries in North America and Oceania, as well as developing countries in general, show lower protection levels or even negative ones.

The somewhat lower protection rate for the USA should be interpreted with care. The USA follows a number of protective policies whose effects are not captured in the estimates of tariff equivalence. The US policies on land set-asides, payment-in-kind (PIK) type programs, loan rate subsidies, etc. provide protection to US producers without adding to the difference between domestic price and world market price. Though some of these policies increase farm incomes, they do not increase output. Nonetheless, they do affect the world market.

When we consider the development of protection over the period 1961–1980, the individual countries show very different patterns. Japan, topping the list, shows a steady increase from 150% to 175% protection over the period. According to a more recent source, this development has continued, but with a tendency to stabilize in the early 1980s. [Tyers and Anderson (1984) used a somewhat different set of commodities and weighting pattern to show that the protection level for Japan increased from 147% in 1975–1979 to 151% in 1980–1982.]