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PolicyPennings by Dr. Daryll E. Ray

WTO cotton analysis approach cannot be applied to corn

In our last column we began looking at the possibility that the US corn, wheat, rice, and soybean programs could be subject to WTO challenges using similar arguments to those used in the cotton case in which Brazil challenged US farm payments to cotton producers.

This is a distinct possibility because in the cotton case the WTO panel ruled that direct payments (fixed decoupled payments) cannot be considered to be in the green box (non-trade-distorting) because of the fruit and vegetable planting restriction. In addition the marketing loan payments – Loan Deficiency Payments (LDPs) and Marketing Loan Gains (MLGs) – and the counter-cyclical payments (CCPs) were ruled as suppressing the price of cotton.

All three of these payment types apply to corn, wheat, rice, and soybeans, leaving these four crops vulnerable to WTO challenges as well. We will leave to another time guesses as to whether the WTO would be able to make a large collection of such rulings stick or even whether it can survive as the deity of agricultural trade in the long-run.

In part the cotton ruling was based on expert testimony from agricultural economists who testified on behalf of the Brazilian cotton producer. Last week, in order to identify the shortcomings of applying the cotton-analysis approach to other crops, we asked ourselves what we would say if we were asked to provide expert testimony on behalf of US corn, wheat, rice, and soybean farmers.

The first issue we identified is familiar to the regular readers of this column: for the total of all crops, both producers and consumers respond very little in response to changes in price. With low price responsiveness, aggregate crop markets do not self-correct in the short- to medium run.

The next thing that we would say is that even if the first case were to be brought solely against the corn program, we would tell the WTO panel that corn cannot properly be analyzed without looking at the other crops that make up aggregate crop agriculture in the US. To engage in analysis of the effects of subsidies one crop at a time is to fall victim of the fallacy of composition.

The fallacy of composition can easily be understood by looking at the situation in which 100,000 people are seated in a football stadium on a Saturday afternoon. If one person were to stand up, that person would have a better view of the field. If a second person a few rows down or in an adjoining section were to stand up, that person would also have a better view of the field.

Thus we can see that by standing up, one has a better view of the field. However, when we apply that reasoning to all 100,000 people in the stadium and they all stand up, only the tall people see better. Something that is true one event at a time may not be true when applied to all similar events at the same time.

Applying this to crop agriculture, it is easy to argue that eliminating US subsidies for cotton would result in fewer US acres being planted to cotton, and with lower production the world price would increase.

What is not accounted in this analysis is what happens to the acres not planted to cotton. It is extremely unlikely that these acres would be fallowed. Instead, if cotton subsidies were the only ones being eliminated, these acres would be planted to soybeans, corn, or grain sorghum, depending upon the area.

Because cotton accounts for only about 6 percent of US crop acreage, a shift in cotton acreage to other crops would result in a small but measurably impact. The same would also be true of an analysis of rice which accounts for a little over 1 percent of all US crop acres.

Let us now apply this logic to corn. Corn accounts for about 80 million acres or over 30 percent of all US cropland. Analyzing corn by itself, one could easily argue that the elimination of direct, marketing loan, and counter-cyclical payments would result in fewer acres being planted to corn.

Once again, most of those acres would not be left idle. Instead, for much of the Corn Belt the alternative crop is soybeans and so soybean acres would zoom, driving soybean prices downward, negatively impacting soybean farmers in the countries likely to complain about the corn program. An attempt to benefit corn farmers in countries outside the US borders ends up harming soybean farmers in the US and around the world.

We would have the same problem if we looked at soybeans or wheat alone. This analysis of trade impacts one crop at a time ignores the fact that most farmers in the US and elsewhere do not farm just one crop. Thus a shift in profitability of one crop has immediate repercussions for other crops. Taken together, corn, soybeans and wheat account for 80 percent of all US cropland.

Even if WTO cases against US crop subsidies were filed one crop at a time, if we were asked to provide expert testimony we would argue that when the subsidy mechanisms are the same for a number of crops then all the crops need to be analyzed at the same time, otherwise the panel takes the risk of running afoul of the fallacy of composition.

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