

## Milking subsidies makes sense

Canada's farm supports are under attack at Cancun, but they could be a model for the developing world, says trade expert BEN BRADSHAW

By BEN BRADSHAW

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With trade representatives from around the world meeting in Cancun this week to try to salvage the Doha round of World Trade Organization negotiations, it's no surprise that farm subsidies have once again come under attack.

It's true that supporting agriculture in the industrialized North makes it hard for producers in the South to compete in our markets -- and even their own. But the narrow, rhetoric-laden coverage of the farm subsidy issue has led many to believe that government subsidies of agriculture serve no purpose beyond inflating the incomes of inefficient farmers.

This impression must be corrected. Periodic government support of agriculture makes good sense. The key is to ensure that it is provided in the right way so that international markets are not unduly affected.

Canada is under attack at these meetings for the practices of the Canadian Wheat Board and our continued use of supply management. But ironically, our oddly mixed system of collective selling of export grains, outright protection for dairy, eggs and poultry, and moderate income support to any sector during periods of crisis may offer a suitable model for others -- especially those in the South -- to follow.

There was a time when it was widely accepted that public intervention in agriculture was necessary to lend some stability to an inherently chaotic industry. For Canadians, the galvanizing period was the 1930s when dust storms blew across the Prairies, and impoverished farmers, faced with record low prices for wheat, could not, or simply would not, plant cover crops and windbreaks. The 1935 Prairie Farm Rehabilitation Act provided the funding that eventually enabled farmers to secure the topsoil and improve their livelihoods. Subsidies, in varying forms and degrees of abundance, have been a part of Canadian agriculture ever since.

While the continued use of subsidies through the remainder of the 20th century was not always financially justified, the return of near-1930s (and lower) prices for Canadian wheat in the early 1970s and 1990s made it clear that producers at times needed assistance in dealing with the vagaries of markets.

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As is true with nearly all unprocessed commodities, prices for agricultural goods tend to fluctuate wildly and, over time, decline in inflation-adjusted terms. The crisis currently afflicting the world's coffee-producing regions provides a telling example. Canadians paying unchanged amounts for their morning cup of java might not have noticed, but world coffee prices are in the dumps and southern producers are struggling to make ends meet. Hard-core free-marketers argue that, in the absence of government interference, agricultural markets will eventually reach a state of equilibrium; however, this belies the historical realities of the industry.

Amazingly, farmers themselves are partly to blame for their industry's chronic problems. They regularly produce more than consumers effectively demand. It may seem foolish, but it's the logic of the system. Farmers know that they must forever increase production in order to combat the infamous cost-price squeeze -- their production costs tend to rise faster than do the prices they receive for their outputs. Expansion is required for success, yet this expansion adds to depreciating prices.

In Europe, historical concern around ensuring sufficient food supplies has produced a system that rewards farmers for producing goods that markets do not require.

But in Canada, where national food security has never been a real concern, most current mechanisms of farm support are "decoupled." That is, they don't influence farmers' production decisions, or at least don't encourage them to produce an unwanted output.

A good example of this is the federal Net Income Stabilization Account program, which allows farmers to deposit funds in good years (where they grow at a preferred rate of interest) and then draw on those funds in lean years -- much like a generous RRSP.

Canada's supply-management system provides another good example of effective public intervention.

Given the tendency of farmers to oversupply their markets and thereby bring ruin upon themselves, Canada's dairy, egg and poultry producers long ago sought to limit growth in supply with legislative support from the state. In these sectors, high import tariffs largely restrict foreign competitors. With this protection in place, producers can divide up the domestic market and ensure that supply never outstrips demand. The result has been steady and even reasonable prices for both farmers and consumers.

Elsewhere, this system is seen to provide a considerable subsidy to Canadian producers. According to data from the Organization for Economic Co-operation and Development, Canadian dairy farmers receive more support than even their American and European counterparts (and certainly more than other Canadian producer groups).

However, none of this support comes in the form of payments. Further, while the system denies opportunities for southern producers to sell into our market, it does not cause them harm in their own markets. Canadian dairy producers do not depress world markets; they don't even participate in them.

While such a system may be inconsistent with the doctrine of trade liberalization advocated through the WTO, it may well be a model for the South to consider.

*Ben Bradshaw is an assistant professor of geography at Simon Fraser University.*