Distributional Effects of WTO Agricultural Reforms in Rich and Poor Countries

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Overview

- Motivation for the study
- Policy scenarios
- Results
  - Farm income and wealth in the rich countries
  - Poverty impacts in the poor countries
- Conclusions
Motivation

- WTO stuck on agriculture, “total failure” a possibility
- Studies are pretty clear about the global and national level gains that are possible
- These have been overemphasized at the expense of distributional impacts
  - Those who gain are weak and diffuse
    - Consumers and taxpayers in rich countries
    - Farmers in poor countries
  - Those who lose are strong and concentrated
    - Farm lobby in rich countries
    - Urban interests in poor countries
Policy Scenario for Rich Countries: Doha liberalization of agriculture

- Tariff bindings are reduced using a tiered formula with the highest tariffs being reduced the most in percentage terms
- Domestic subsidies are reduced using a similar tiered formula on the binding AMS level
- Export subsidies are eliminated
- These are largely in line with the July (2004) framework agreement
Policy Scenario for Rich Countries: Full liberalization in Agriculture

- Eliminate all agricultural tariffs
- Eliminate all amber box domestic support
  - Output subsidies
  - Non-land/capital input subsidies
- Eliminate all export subsidies
- Comparison of this to Doha gives us an idea of what gains would be left on the table if the July package became reality
Rural/Farm Poverty is significant in developing countries

![Farm Poverty Share diagram]

- Bangladesh (Bangla)
- Brazil
- Chile
- Colombia (Colomb.)
- Indonesia (Indon.)
- Malawi
- Mexico
- Mozambique (Mozam.)
- Peru
- Philippines (Philip.)
- Thailand (Thaila.)
- Uganda
- Venezuela (Venez.)
- Vietnam
- Zambia

**Farm Poverty Share**
Poverty Impacts of Full and Doha Scenarios

Poverty Decrease (000s) Doha

Poverty Decrease (000s) Full Reform
Farm Income changes for each scenario in Rich countries

- Aust&NZ
- Japan
- Canada
- USA
- EU

Legend:
- Full
- Doha
Farm Hhld vs On-farm income: Full liberalization
All farms are not the average farm: Income change for US Households
Wealth Effects on Rice Households of Full Reforms

![Bar chart showing land wealth change, farm net worth, and household net worth for top 10%, median, and bottom 10% households.](chart.png)
Conclusions (1)

- More rich country agricultural reform is better for poor country poverty
- In the aggregate, it seems a small asking price with:
  - Large gains to developed country consumers and taxpayers
  - Aggregate farm *household* welfare/income doesn’t change much
Conclusions (2)

- Distribution of farm household income changes importantly
  - Wealthiest households tend to lose the most
  - Some might argue that they can afford it, but they would likely pay to avoid those losses
  - Especially so since their wealth is even harder hit due to loss of land value
- WTO Green Box seems to hold the solution to compensate these losses
  - Area/direct payments to hold land values yet still reduce distorting protection
  - Difficult to implement in a non-distorting fashion, but politically seems to have a brighter future than the current situation