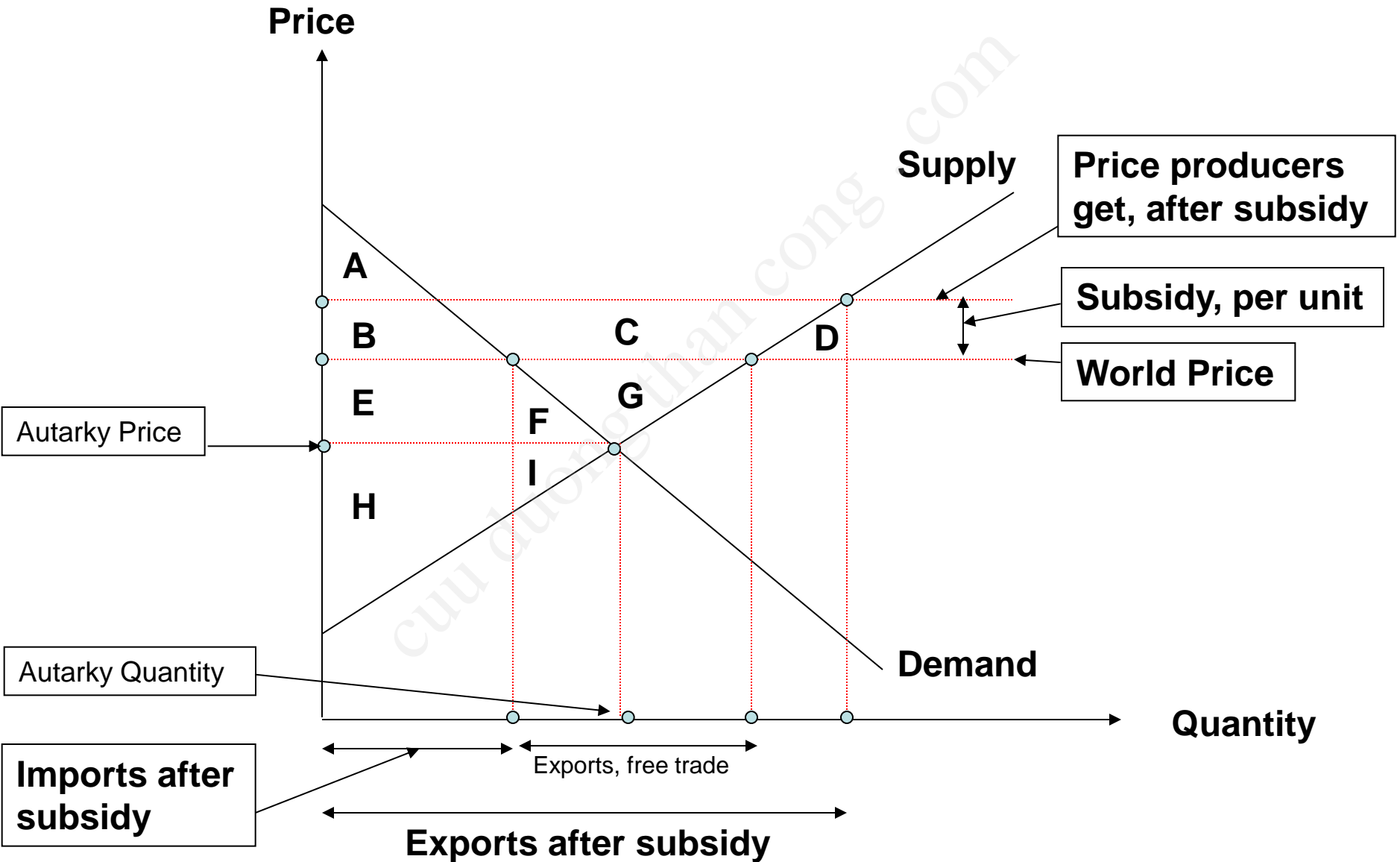


Export Subsidy: Small Country

Export Subsidy

- Trade under tariffs, though worse than free trade, is better than autarky,
- Trade accompanied by *an export subsidy can be worse than autarky.*
 - This is because the subsidy ends up costing the government instead of generating revenue.
- Also, unlike an import tariff, an export subsidy *increases* the amounts traded.
- This shows that increases in trade that are artificially instigated by governments can actually leave a country worse off.

Export Subsidy



Export Subsidy—Welfare

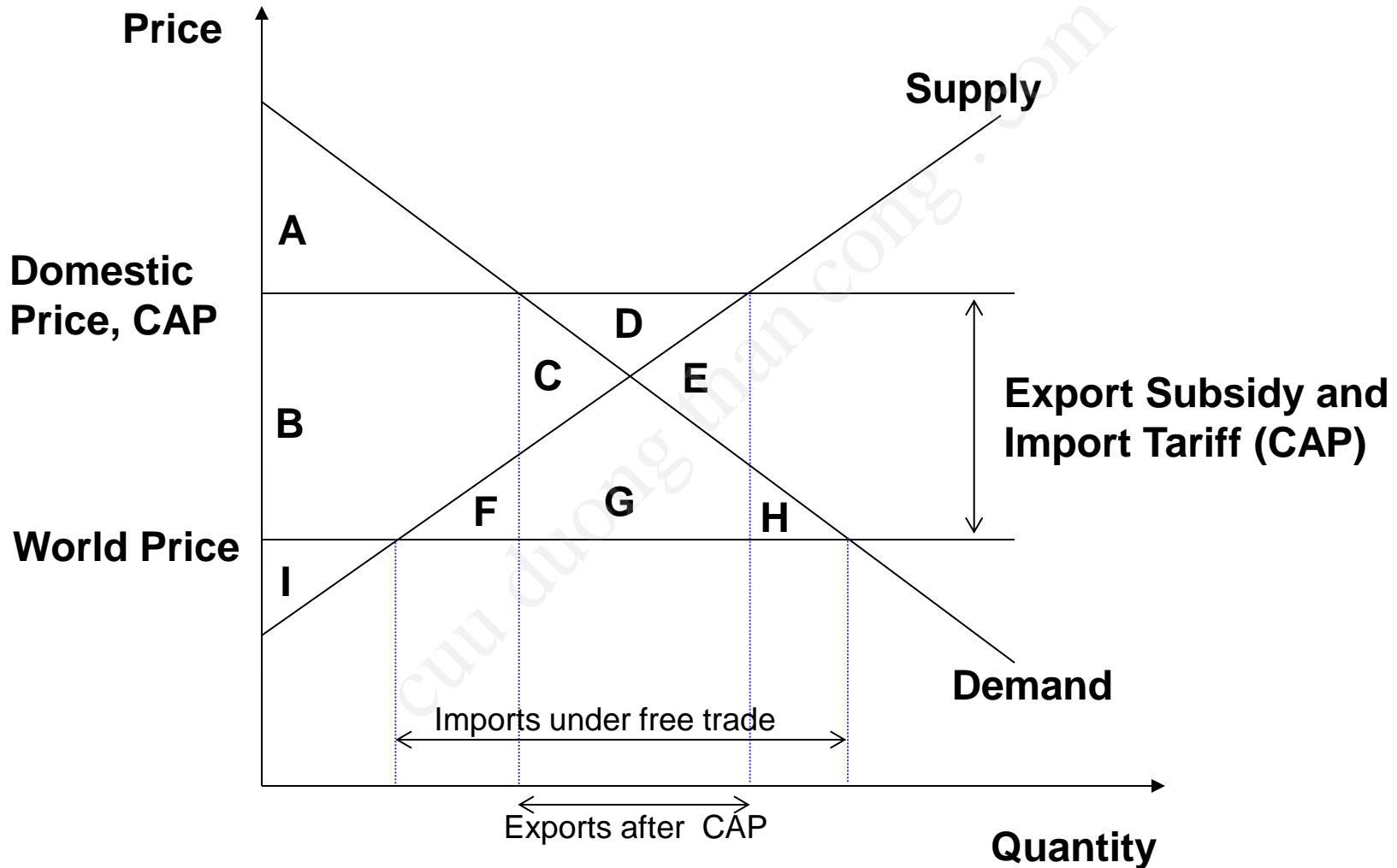
	Autarky	Free Trade	Export Subsidy
Consumer Surplus	ABEF	AB	AB
Producer Surplus	HI	EFGHI	BCEFGHI
Government			-BCD
Total Surplus	ABEFHI	ABEFGHI	ABEFGHI-D

Free Trade is best. Export Subsidy is better (worse) than Autarky when G is bigger (smaller) than D.

Europe's (Un)Common Agricultural Policy

- In the simple export subsidy that we've seen,
 - producers can get more than the world price if they export
 - consumers are still free to buy at the world price
- But, at times, the government not only subsidizes exports, it also puts a tariff on imports to equalize the price that domestic producers can get from domestic and foreign sales
- This is the case of Europe's CAP.
 - See “Europe's Common Agricultural Policy” in Chapter 8 of the textbook.

Europe's CAP



Policy Comparison

	Free Trade	Export Subsidy...	...Plus Tariff (CAP)
Consumer Surplus	ABCFGH	ABCFGH	A
Producer Surplus	I	BCDI	BCDI
Government		-BCDEFG	-CDEG
Total Surplus	ABCFGHI	ABCHI-E	ABI-EG

Policy Comparison

- Total Surplus is
 - ABCI in autarky
 - ABC**H**I-**E** under export subsidy.
 - Therefore, if H is smaller than E, the export subsidy could make things *worse* than under autarky
 - ABI-**E**G under an export subsidy and import tariff combination (Europe's CAP).
 - Therefore, this is worse than autarky, period.
 - ABCFGHI under free trade. This is the best outcome.

Why??

- Producers benefit from the export subsidy
- The government's expense is less when the export subsidy is combined with an import tariff
- The consumers' voice is never heard
- The national interest is usually ignored