Welfare Effects of the Combined Policies (Export Subsidy plus CVD)

Next, let’s consider the welfare effects of the export subsidy and the CVD combined. In this case, we compare the welfare status of each country after both policies are in place relative to when neither policy is imposed. The effects can be calculated either by summing the individual welfare effects of each of the two stages depicted above or by noting that prices have not changed from the initial presubsidy state to the final post-CVD state but that the governments do have expenditures and receipts, respectively.

The welfare effects are summarized in Table 7.14 "Welfare Effects of an Export Subsidy plus a CVD".

Table 7.14 Welfare Effects of an Export Subsidy plus a CVD

	Importing Country	Exporting Country
Consumer Surplus	0	0
Producer Surplus	0	0
Govt. Revenue	$+ (C + D + E + J)$	$- (d + i + j + k)$
National Welfare	$+ (C + D + E + J)$	$- (d + i + j + k)$
World Welfare	0	

Since the prices in each country after the CVD are the same as prices before the export subsidy, there is ultimately no change in producer or consumer surplus in either country. Everyone participating in the market is left as well off as they were at the start.

However, since the exporting country maintains the export subsidy and the import country maintains the CVD, there are government revenue effects. In the exporting country, the government continues to make expenditures for the export subsidy. This represents a cost to the country’s taxpayers that does not even generate the intended benefit for the export industry. In the importing country, the government collects tariff revenue as a result of the CVD. This generates benefits to the recipients of the resulting additional government spending.

The net national welfare effect in each country is the same as the government effects. This means that the importing country benefits from the export subsidy plus CVD, while the exporting country loses from the combined policies.

The world welfare effect of the combined policies is neutral. This means that the exporting country loses exactly the same amount as the importing country gains. The ultimate effect of the export subsidy plus the CVD is that the exporting country's government transfers money to the importing country's government with consumers and producers left unaffected. In practice, exporting country producers receive an export subsidy payment from their government when their product leaves the port bound for the importing country. When the product arrives, the importing country's government collects a tariff (or a CVD) exactly equal to the subsidy payment. Thus the export firms turn over the extra monies they had just received from their own government to the government of the importing country.

These effects described here hold only for markets that are perfectly competitive. If the markets are oligopolistic, or contain market imperfections or other distortions, then the effects of the export subsidy and CVD may differ.