

THE POLITICAL ECONOMY OF AGRICULTURAL PRICE DISTORTIONS

Despite numerous policy reforms since the 1980s, farm product prices remain heavily distorted in both high-income and developing countries. This book seeks to improve our understanding of why societies adopted these policies and why some but not other countries have undertaken reforms. Drawing on recent developments in political economy theories and in the generation of empirical measures of the extent of price distortions, the present volume provides both analytical narratives of the historical origins of agricultural protectionism in various parts of the world and a set of political econometric analyses aimed at explaining the patterns of distortions that have emerged over the past five decades. These new studies shed much light on the forces affecting incentives and those facing farmers in the course of national and global economic and political development. They also show how those distortions might change in the future – or be changed by concerted actions to offset pressures from vested interests.

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The Political Economy of Agricultural Price Distortions

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*To Bronwyn, for supporting me in every way
throughout this project*

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Foreword

For generations, the prices of farm products have been heavily distorted by government policies in both high-income and developing countries. True, many countries began to reform their agricultural price and trade policies in the 1980s, but a 2009 World Bank book, *Distortions to Agricultural Incentives: A Global Perspective, 1955–2007* (edited by Kym Anderson), shows that the extent of intervention is still considerable. In particular, policies still favor agricultural producers in high-income countries relative to those in developing countries – although, as they have become more affluent, some middle-income country governments also are beginning to support their import-competing farmers. This pattern of policies is of concern to the vast majority of the world’s poorest households, who depend directly or indirectly on agriculture for their income. And even though low food prices may benefit the urban poor, a 2010 World Bank book, *Agricultural Distortions, Inequality and Poverty* (edited by Kym Anderson, John Cockburn, and Will Martin), finds that current price-distorting policies still contribute to global inequality and poverty.

If economists are to provide useful advice to national governments on how to reform those policies, a first step is to improve our understanding of why societies have allowed their governments to adopt them in the first place, and why some but not others have subsequently chosen to reverse those welfare-reducing measures. Prerequisites for improving our understanding are better political economy theories, plus better information on the evolving nature and extent of market interventions by governments. In recent years, there have been substantial developments in both pertinent theories and – thanks to the 2009 study mentioned earlier – in empirical measures of price distortions resulting from agricultural and trade policies. The distortion estimates involve more than seventy products that cover around 70 percent of the value of agricultural output

in each of seventy-five countries that together account for more than 90 percent of the global economy. They also expose the contribution of the various policy instruments (both farm and nonfarm) to the net distortion to farmer incentives. Such a widespread coverage of countries, products, years, and policy instruments provides an opportunity to test a wide range of hypotheses suggested by the new political economy literature, including the importance of institutions.

The present volume draws on those new theories and new data to provide a set of analytical narratives of the historical origins of agricultural protectionism in various parts of the world, and also a set of *ex post* political econometric analyses aimed at explaining the patterns of distortions that have emerged over the past five decades. These new studies shed much light on the underlying forces that have affected incentives facing farmers in the course of national and global economic and political development, and hence on how those distortions might change in the future – or be changed by concerted actions to offset political pressures from traditionally powerful vested interests. It is hoped that this volume also will stimulate further studies, and that together they will shed light on how that improved knowledge can be utilized to bring about pro-poor, welfare-improving, and sustainable policy reforms.

Justin Yifu Lin
Senior Vice President and Chief Economist
The World Bank

Preface

This book is a product of an empirical research project, begun in 2006, aimed at improving our understanding of the extent, causes, and effects of government interventions in global agricultural markets over the past five decades. The first stage of the project generated analytical narratives of the evolution of policies for a sample of seventy-five countries that together account for between 90 and 96 percent of the world's population, farmers, agricultural output, and total GDP. In each country case study, the narrative was informed by the authors' new estimates of distortions to agricultural incentives caused by price, trade, and exchange rate policies. Annual estimates for nominal rates of assistance and consumer tax equivalents were provided for more than seventy different farm products, with an average of eleven per country that represented around 70 percent of the gross value of agricultural production in each focus country. Estimates of the overall rate of government assistance to agriculture relative to that for nonfarm tradable goods also were provided. The country studies are reported in four regional volumes and a global overview volume that were published by the World Bank in 2008–09, along with the global database of price distortions. They were followed by another volume, published in early 2010, that focused on quantifying the effects of current distortions on global welfare, inequality, and poverty.¹

¹ The regional volumes cover Europe's Transition Economies (Anderson and Swinnen 2008), Latin America (Anderson and Valdés 2008), Africa (Anderson and Masters 2009), and Asia (Anderson and Martin 2009). The global overview book (Anderson 2009) includes four chapters covering high-income countries as well as summaries of the regional volumes. The core database of the distortion estimates (Anderson and Valenzuela 2008) is available at <http://www.worldbank.org/agdistortions>. The inequality and poverty volume (Anderson, Cockburn, and Martin 2010) uses national and global economywide models. See the references listed in Chapter 1 for full citation details.

The focus of the present volume is on explaining the historical origins of governments' distortions to agricultural markets and the patterns of intervention that have evolved over the past half century. The book's contributors draw on recent developments in political economic theory and econometrics, but they could not have undertaken their empirical analyses without the World Bank's new global agricultural distortions database. The contributors to the present volume are thus very grateful to the authors of the Stage 1 country case studies and to Ernesto Valenzuela and a team of very able assistants, including Johanna Croser, Esteban Jara, Marianne Kurzweil, Signe Nelgen, Francesca de Nicola, and Damiano Sandri, who helped compile the global megaspreadsheet of distortion estimates from the various national spreadsheets (all of which are accessible at the project's Web site at <http://www.worldbank.org/agdistortions>).

The contributors also have benefited from feedback provided by participants in a series of workshops at which draft papers were presented over the past three years. The first of those workshops was cosponsored by the team responsible for the World Bank's *World Development Report 2008: Agriculture for Development*, led by Derek Byerlee and Alain de Janvry. Our thanks extend also to the project's Senior Advisory Board, whose members have provided sage advice and much encouragement throughout the planning and implementation stages of the project. The Board consists of Yujiro Hayami, Bernard Hoekman, Anne Krueger, John Nash, Johan F.M. Swinnen, Stefan Tangermann, Alberto Valdés, Alan Winters, and, until his untimely death in March 2008, Bruce Gardner.

Finally, our thanks go also to the Development Research Group of the World Bank (with special thanks to Will Martin) for hosting this research project and the editor's extended sabbatical there in 2004–07, and to the governments of the Netherlands and the United Kingdom for providing Trust Funds that supported each author's participation. Their combined support made it possible for the study to generate estimates of price distortions for countries from all regions of the world except the Middle East (which accounts for less than 2 percent of global agricultural production). Thanks also to the Australian Research Council and the University of Adelaide's School of Economics for supporting the completion of the first two chapters and the Appendix, as well as the overall editing task.

Kym Anderson
December 2009

Abbreviations and Acronyms

CGE	computable general equilibrium (model)
CIS	Commonwealth of Independent States (of the former Soviet Union)
CPI	consumer price index
CSE	consumer support estimate (or earlier, consumer subsidy equivalent)
CTE	consumer tax equivalent
EU	European Union
EU15	the 15 Western European members of the EU as of April 2004
EU25	the 25 members of the EU as of May 2004
EU27	EU25 plus Bulgaria and Romania (joined on January 1, 2007)
EUR	Euro (currency)
FAO	Food and Agriculture Organization (of the United Nations)
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
MFN	most favored nation
NAFTA	North American Free Trade Agreement
NRA	nominal rate of assistance (to an industry or sector)
NRP	nominal rate of protection (from import competition)
NTB	non-tariff barrier (to international trade)
OECD	Organization for Economic Cooperation and Development
PSE	producer support estimate (or earlier, producer subsidy equivalent)
RRA	relative rate of assistance
SPS	Sanitary and phytosanitary (trade restrictions)
STE	state trading enterprise
TBI	trade bias index
TBT	technical barrier to trade
TRI	trade reduction index

TRQ	tariff rate quota
URAA	Uruguay Round Agreement on Agriculture
WDI	<i>World Development Indicators</i> (published by the World Bank)
WRI	welfare reduction index
WTO	World Trade Organization