

Agricultural Policy and Market Distortions

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Governments around the world have intervened heavily in the agricultural sector. When governments do so — whether through tariffs, export subsidies, import quotas, or high taxes on farmers — they distort trade markets by interfering with normal supply and demand. For example, when an advanced country imposes a tariff on a foreign good to protect local producers, it encourages consumers to buy more of a domestically produced product than they otherwise would. Such policies can disadvantage farmers in developing countries, who then face a harder time selling their crops on the global market. Since three-quarters of the world's poorest people derive their income from agriculture, according to the World Bank, measures that reduce world trade can worsen poverty.

The prospects for reform of agricultural policies depend on what motivates such policies to begin with. In a recent article, Kym Anderson of the University of Adelaide in Australia, Gordon Rausser of the University of California, Berkeley, and Johan Swinnen of the University of Leuven in Belgium provide a comprehensive overview of evolving agriculture policies to understand what causes some countries to change their protective stance toward agriculture as they develop.

Their first task is to identify where countries have stood historically. They measure price distortions by the “nominal rate of assistance” (NRA), which assesses the effect of government policy on nominal returns to agriculture, and the “relative rate of assistance” (RRA), which measures the extent of a government’s intervention in agriculture relative to other sectors. They find that richer countries have tended to adopt a pro-agricultural bias (higher NRAs and RRAs), while developing countries have had an anti-agricultural bias (lower NRAs and RRAs). In other words, wealthier nations have typically enacted trade policies that protected domestic farmers from foreign competition, while developing countries have tended to tax their farmers more heavily than producers in other sectors.

Since the 1980s, the average RRAs of both groups have been converging toward zero — meaning that governments have started treating agricultural and non-agricultural sectors more equally. Still, in both rich and poor countries, a strong anti-trade bias persists in agricultural policy despite efforts to open markets for other goods.

What causes a country to change policy as it develops? The authors survey the political economy literature, looking

at income distribution, economic and governance structures, ideology, and political organization. In poorer nations, where agricultural taxes are usually the most substantial source of revenue, policymakers tend to place more of the tax burden on farmers. But over the course of development, political and other factors tend to produce a less anti-agricultural stance. Historically, officials have exchanged redistributive policies for political support during times of economic growth, when income gaps between rural and urban populations typically widen, prompting farmers to lobby politicians for favorable measures. Not surprisingly, sectors with a comparative disadvantage are more likely to seek government help.

Political democratization, which often comes with development, tends to further this process. Theory suggests that countries will adopt more redistributive policies as they democratize, simply because there tend to be more have-nots to vote for redistribution. The authors note that the very factors that make it difficult for farmers to organize politically — namely, geographic dispersion — can render them more powerful in a democracy. There are, however, no rules of thumb that apply to

every country; notably, the authors argue, China has moved away from taxing farmers in the last 40 years without broadly liberalizing its political system.

Social and political developments have created a new range of forces that could determine the shape of future agricultural policy, though it’s not always clear how. For example, research has only begun to illuminate the effects that international developments in the last 20 years — the North American Free Trade Agreement, the World Trade Organization, and enlargement of the European Union, among others — have had on agricultural policy. In light of new social trends, farmers have increasingly sought political support from food producers as a way to offset the burden of regulations concerning animal welfare, genetically modified foods, and the environment. In addition, the rise of two new major players in the global market, China and India, creates new opportunities to understand how agricultural policies shift as countries develop.

Studying agricultural policy through the economics of political decision-making can illuminate barriers to the reform of distortive policies. The authors argue that better understanding these barriers — and thus, perhaps, how to overcome them — provides a sense of “cautious optimism” for the future course of agricultural policy. **EF**

“Political Economy of Public Policies: Insights from Distortions to Agricultural and Food Markets.” Kym Anderson, Gordon Rausser, and Johan Swinnen. *Journal of Economic Literature*, June 2013, vol. 51, no. 2, pp. 423-477.