

## **POLITICAL ECONOMY OF PUBLIC POLICIES: SOME INSIGHTS FOR PUBLIC SECTOR MANAGEMENT: AND SOME INSIGHTS FROM DISTORTIONS TO AGRICULTURAL MARKETS**

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### **ABSTRACT**

According to Anderson, Rauser and Swinnen (2013) the agricultural and food sector is an ideal vehicle for investigating the political economy of public policies. The paper therefore synthesizes the views of the said authors and attempts to explain the trends and fluctuations in market distortions and the political economy, and in addition explores the hypotheses that have been explored in the literature. In so doing the principal authors of this paper fully acknowledge the works of Anderson, Rauser and Swinnen. Often these papers are not read by individuals involved in public sector reform and it is therefore hoped that this attempt will heighten the interest necessary to set Africa into a trajectory of coordinated and professional public services and sustained development. The paper is not all encompassing but adds to the dialogue that encompasses public sector reform in Africa.

**Key Words:** Distortion, Markets, Food, Politics, Economy, Agriculture, Public Policies, Governance, Structural Factors, Implications, Restructuring, Political Incentives

### **INTRODUCTION**

If one attempts to survey the literature, it would be found that history proves that the agricultural and food sector has been subjected to strong governmental intervention throughout the world. Agricultural policy reform is a contentious issue. It is important from the perspective of Biofuels policies because of price hikes and this has affected drastically the trade policies of countries. This has resulted in restrictions on exports from developing countries and a lowering of food import barriers. These measures have harmed international price spikes and have harmed developing nations on the basis that countries fail to protect their consumers and indirectly to protect government officials currently in power. This unfair reality is undertaken on the basis

that Western countries in particular the United States, England, Germany, France and a host of other countries that “restrict food trade on the basis of protecting domestic producers from import competition as they have to shed labour. This stance diminishes national and global economic welfare and this depresses international prices of farm products” (Tyers and Anderson, 1992; Rausser and de Gorter, 2012). This lowers the earnings and affects rural businesses in developing countries. As the realities of the current economic recession which began in 2008 persists in the first quarter of the 21<sup>st</sup> century, it appears that the situation will worsen given wars and tribal conflicts in many countries of the world and in particular in the continent of Africa, which affects food prices. “This situation creates winners and losers among the poor and, such distortions have added to global inequality and poverty, as most people rely on agriculture as the major source of income” (World Bank, 2007). This situation according to Anderson, Cockburn and Martin, 2010 has resulted in “protectionist policies of high income countries and, has resulted in international income inequality and poverty in developing countries.” It is therefore obvious in terms of reality that although trade related policy interventions are less newsworthy than price and supply fluctuations, they have more influence on long – run economic growth, investment incentives, and the distribution of global welfare.

This has led to the governments of developing countries have thus taxed their farmers more heavily than producers in other sectors. The situation is further exacerbated by the all embracing fact that many developing countries have chosen to overvalue their currencies and have pursued an import – substituting industrialization strategy by restricting imports of manufacturers. It can be confidently asserted given all of this that, the policies in developing countries have not been motivated and formulated by a desire to alleviate poverty and, in many instances the same persists also in some developed countries. According to Gale Johnson (1973), all of this has manifested itself in overproduction of agricultural products in high – income countries and underproduction in low income countries; thus styming international trade and negating free trade.” This has resulted in more volatile agricultural markets particularly in developed and underdeveloped countries. It must also be viewed from the all embracing fact that in developed countries agricultural policy remains disproportionately important in respect to employment, resulting in governance failures. “Although economists have argued against agricultural subsidies and trade barriers” (Irwin 2002), vested interests’ and political forces continue to dominate domestic agricultural policy on both rich and poor countries.

Recent political – economic frameworks have focused on issues beyond the structural economic factors that earlier research concentrated on. These conceptual frameworks establishing political frameworks and stronger links between theory and empirical evidence, emphasizing governance structures, political institutions and ideology. The concentration was upon the role of bureaucracies, corruption, analytical dimensions, fiscal policy, microeconomic policy, the role of constitutions, which concentrated on the separation of public interest as opposed to specialized interests in order to sustain policy reforms, to bring about equilibrium. It is therefore important to first concentrate upon price distortion and their implications with an emphasis on the possible and potential for agricultural – policy reforms. All of this became important after the decolonization of Africa and the creation of a Common Agricultural Policy (CAP) in Europe in 1962, the introduction of flexible exchange rates from the 1970’s; liberalization; opening of markets in China and other countries;; deregulation; privatization and democratization in many countries. The issue arises – what do the quantitative measures of distortions and reforms reveal? Data from developed countries is needed in order to assess how countries policies evolved during stages of development. In respect to developing countries no comparable data estimates could be

gleaned from the literature in the two decades following the seminal work of Kruger, Schiff and Valdes (1988; 1991). New studies on earlier databases have been drawn up using past work and providing estimates for developing economies by the use of more comprehensive policy indicators and also providing measures of price distortions. Such comprehensive coverage of countries offers prospects of generating a reliable picture of long – term trends in policy indicators for individual countries and for commodities and the entire world. These patterns are summarized under four headings as follows:

- Sectoral distortion variation across countries;
- Intra sectoral variation across products;
- Year to year variations in rates of distortion; and
- Policy – instrument choices. (Anderson, Rausser and Swinnen, 2013).

**NOTE: It is beyond this paper to discuss the above in detail in respect of measures of price distortion; sectoral distortion variation; intra sectoral distortion variation; year to year variation; relative contributions of policy instruments. The reader is therefore requested to survey the literature and glean for himself these issues. The reader should read Non – Tariff Barriers, the OECD Reports 2010, Anderson, Kurzweil, et al, 2008; Anderson and Neary, 2005; Lloyd, Croser and Anderson, 2010; Anderson, Lloyd and MacLaren, 2007 and a host of other researchers.**

A summary for the above is provided hereunder as follows:

“From the analysis of the data, it is clear that 5 major differences in public – policy distortions in food and agricultural markets exist among countries, among agricultural subsectors within countries, among policy instrument choices, and over time within a particular country. Important changes are observed in sectoral distortions over time. Developing countries, on average, are gradually phasing out anti – agricultural policies, and some are increasingly protecting their import - competing farmers. The evolution in high income countries is mixed: some high income countries are reducing assistance to farmers, while Australia and New Zealand have also greatly reduced manufacturing protections that had been indirectly harming agricultural producers. But in all high income countries, the relative importance of various farms – policy instruments has changed significantly, and the contribution of price – distorting measures has declined.

Some important stylized facts over time or between high – income and developing countries are as follows: The first already mentioned, is the propensity for governments of agricultural – exporting and agricultural – importing countries to insulate their domestic markets from international price fluctuations despite globalization tendencies elsewhere in the country. The second stylized fact is that a strong anti – trade bias for agricultural industries persists, even though significant market – opening policy reforms have been instituted over the past few decades. This persistent anti – trade bias is also reflected in the stylized fact that the relationship between RRA’s and agricultural comparative advantage is negative. The third general stylized fact is the persistence of the individual dispersion in commodity assistance within the agricultural sectors of most countries as shown by numerous studies in the literature” (Anderson, Rausser and Swinnen, 2013).

**NOTE:** The reader is called upon to survey the literature in order to understand and apply the following:

1. Explanation of the stylized facts: A political economy lens;
2. Income distribution and countercyclical bias;
3. Elimination of disincentives in developing countries;

The works of Weingast and Whitman 2006; Grossman and Helpman, 2001; Rodrik, 1995; Persson and Tabellini, 2000; deGorter and Swinnen, 2002; Rausser and Goodhue, 2002; Hilman, 1982; Corden, 1997; Anderson, Hayami and Monma, 1986; de Gorter, Nielson and Rausser, 1992; Gardner, 1987; Gawande and Hoekman, 2006; 2010; Lopez and Matschke, 2006; and a host of others.

### **IMPLICATIONS FOR FURTHER RESEARCH AND THE POTENTIAL FOR POLICY REFORM**

From the above expose, it is obvious as to why governments distort incentives facing agriculture and food markets. However, several unresolved questions need to be answered. Some of these questions are as follows:

- “Why comparative advantage contribute unevenly to explaining differences in developing countries. Therefore, more research is required in this area.
- Why are there variations across countries in respect of the rate of transformation?
- Why a few developing countries notably India and Indonesia, but not many, have provided large farm input subsidies. This can be explained as follows: subsidized inputs have been used excessively even to the point of lowering yields, in the case of fertilizer in Indonesia; such subsidies are counterproductive because of negative environmental externalities; governments can redirect scarce resources to achieve higher social payoff relative to returns generated from input subsidies. Research and development might be more productive.
- Why are variations due to such a wide range of changes in policy affecting non – agricultural goods?
- Another implication is related to a broader research agenda aimed at providing a better understanding of the interactions between different types of policies. Agricultural policy changes may be components of broader reform packages. Agricultural policy changes can incorporate compensation as an integral element of reform adjustments.
- Much also remains to be learned about changes in international governance structures affect agricultural – policy distortions and policy reforms in particular countries. Most of this research has focused on ex ante studies and no real work has quantified the effects of these institutional changes. The effect of structural adjustment programmes in respect of developing countries obtaining loans from international agencies have also not been quantified in terms of applicable research.
- No strong evidence has emerged regarding the impact of the World Trade Organization (WTO) on agricultural policies, except the recent analysis and work of Grant and Boys (2012), which found that the GATT / WTO has delivered significant positive benefits to members’ agricultural trade” (See de Gorter and Swinnen. 2002; Bates and Block, 2010; Anderson, Lloyd, and MacLaren, 2007; Osorio et al, 2011; Lopez and Galinato, 2007; Just and Rausser, 1992; Swinnen et al, 2000).

### **THE POSSIBLE PROSPECTS FOR FURTHER POLICY REFORM**

Over time, the policies of many countries have been consistent over time. Major reforms are difficult to achieve and status quo bias exists in trade policy must be appreciated (Fernandez and Rodrik, 1991). This process leads to “political – economic equilibria”, that reflect relative political power” (Rausser, Swinnen, and Zusman, 2011). In such equilibria, policy inertia is therefore often the consequence of a stationary equilibrium. It is therefore necessary for large external changes in the form of crisis are often needed in order to overcome the status quo that characterizes such equilibria. Crises must stimulate reform and therefore, such studies would

have to address several challenges. In this regard key external factors need to be incorporated. It has been noted that reform packages such as those triggered by global financial, institutional, and political crises are well known. Political institutions affect agricultural policy reforms, as was shown in the European Union, in terms of decision – making rules for agricultural policy. This is influenced by voting rules, changes in the external environment, and the preferences of member states and of the European Commission located in Brussels. This Commission can therefore as an agenda setting bureaucracy, determine a pro – reform or anti – reform outcome. There has been much controversy due to subsidized food exports and the constraints imposed by the integration of agriculture into the GATT and for purposes of reducing farm trade distortions and the inclusion of new member states with more liberal policy preferences and lower income countries. These factors all led to a series of reforms and brought about a shift from a discretionary system which resulted in fewer trade distortions. What then is the future of policy reform? “There has to be cautious optimism in respect to a number of concerns and variables that need to be dealt with, particularly lowering of bound tariffs and the binding of export taxes, for purposes of dealing with the instability of international food prices” (Francois and Martin, 2004; Anderson and Nelgen, 2012a). “Policy reform will be influenced by the changing landscape of organized economic interests and the formation of coalitions among agricultural interests and food policy groups. In this regard, the vertical relationships between farmers and agribusinesses are often critical and therefore this aspect as to be looked into (Cadot, deMelo, and Olarreaga, 2004). Another challenge is to distinguish between short – and long term effects of external crises. It must be noted in this regard that in Eastern Europe where “extreme liberalization of trade policies took place in the early 1990’s because of the dramatic changes in institutions and policies, eliminated agricultural market and trade distortions. In the mind – 1990’s, protection increased in this region toward moderate levels” (Tyers and Anderson, 1992; Rausser and de Gorter, 2012).

The shift in agricultural policies focusing on renewable energy has and will have major implications for world food prices and security. This will worsen as fuel prices increase over time, as is being experienced currently world – wide and is having devastating effects upon all facets of human and animal life, particularly in developing countries, experiencing shortages in food, high inflation rates and in many countries the collapse of agriculture and food security regimens. All, of this has serious implications for subsidies and insurance programmes. It brings into sharp focus the question of Biofuels and corn – ethanol energy production. Along with a number of changes that have occurred in high – income countries, agricultural protection and market – distortion growth has recently emerged in two developing countries, China and India, due to input subsidies.

## **CONCLUSION**

The lens of political economy is indeed depressing, because it leaves little room for economists to offer policy advice. This analysis however, leads to a more optimistic perspective because of political – economic analysis, sustainable policy reform which can be implemented by sound advice in the face of crises, by changes in governance structures, by political entrepreneurship, information by the mass media, to counter recalcitrant interest groups, powerful coalitions that detract from public interest. This will lead to designing policy options to address global concerns, such as food security, energy security, and climate change and thus secure the world and its people from doom, securing a world for peace and relative prosperity and thus securing the emergence of the developing world to deal decisively with poverty, inequality and for purposes of securing that people go to bed with food in their stomachs and indeed the option of

securing employment opportunities, thus securing sound public administration and governance regimens in both developed and developing economies.

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