



# The Political Economy of Agricultural Price Distortions

EDITED BY Kym Anderson

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Edited by

**KYM ANDERSON**

University of Adelaide



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## 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.

Kym Anderson is George Gollin Professor of Economics, School of Economics, University of Adelaide, Australia. During 2004–07, he was on extended leave at the World Bank's Development Research Group as Lead Economist, Trade Policy. Earlier, he spent 1990–92 at the Research Division of the GATT (now the WTO) Secretariat in Geneva. Professor Anderson has published approximately 300 articles and 30 books, including *The Political Economy of Agricultural Protection* (with Yujiro Hayami and others), which received the Tohata Memorial Award from Japan's National Institute for Research Advancement; *Disarray in World Food Markets* (Cambridge University Press, with Rod Tyers); *New Silk Roads* (Cambridge University Press); and *Agricultural Trade Reform and the Doha Development Agenda* (with Will Martin), which received the American Agricultural Economics Association's (AAEA) 2006 Quality of Communication Award and the Australian Agricultural and Resource Economics Society's (AARES) 2007 Quality of Research Discovery Prize. During 2006–09, Professor Anderson directed a large empirical research project for the World Bank on distortions to agricultural incentives, covering seventy-five countries. From this research project, four region-oriented books and two globally oriented books appeared in 2008–09 and 2009–10, respectively, in addition to the present book. His 2009 volume on *Distortions to Agricultural Incentives: A Global Perspective, 1955–2007*, received the AAEA's 2010 Bruce Gardner Memorial Prize for Applied Policy Analysis and the AARES's 2010 Quality of Research Discovery Prize.

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

## Contributors

**Kym Anderson** is George Gollin Professor of Economics at the University of Adelaide and a Research Fellow of the Centre for Economic Policy Research in London. During 2004–2007, he was on an extended sabbatical as Lead Economist (Trade Policy) in the Development Research Group of the World Bank in Washington, DC.

**Robert H. Bates** is Eaton Professor of the Science of Government in the Department of Government and a member of the faculty of African and African-American Studies, Harvard University, Cambridge, MA. His latest books are *The Political Economy of Economic Growth in Africa, 1960–2000* (Cambridge 2007) and *When Things Fell Apart* (Cambridge 2008), the latter focusing on state failure and conflict in Africa.

**David Blandford** is a Professor in the Department of Agricultural Economics and Rural Sociology and in the School of International Affairs at the Pennsylvania State University, University Park. Before that, he was at the OECD in Paris, analyzing impacts of OECD policies, and he has chaired the International Agricultural Trade Research Consortium.

**Steven Block** is an Associate Professor of International Economics and head of the international development program at the Fletcher School of Law and Diplomacy, and Associate Professor at the Friedman School of Nutrition Science and Policy, both at Tufts University. His research concentrates on food policy, rural development, and nutrition.

**Olivier Cadot** is a Professor of Economics at the University of Lausanne, an Associate Scholar at CERDI and CEPREMAP, and a Research Fellow of the Centre for Economic Policy Research in London. His research interests are in the area of international trade and development with an emphasis in political economy determinants of trade policy.

**Johanna Croser** has been a short-term consultant with this project and is a PhD and law student at the University of Adelaide, having completed her doctoral economics coursework at the University of British Columbia in Vancouver, Canada.

**Pushan Dutt** is an Associate Professor of Economics at the Asia campus of INSEAD, Singapore. His research lies at the intersection of politics, institutions, and international economics.

**Andres F. Garcia** was an Assistant Professor in the Development Economics Research Group of the University of Copenhagen in Denmark after completing his PhD at Purdue University (when he contributed to this volume). He is now with the Young Professionals Program of the World Bank in Washington, DC.

**Kishore Gawande** holds the Roy and Helen Ryu Chair of Economics and Government at the Bush School of Government and Public Service, Texas A&M University at College Station, where he heads the International Economics and Development track.

**Bernard Hoekman** is Director of the International Trade Department and former Research Manager of the trade and integration unit of the Development Research Group at the World Bank in Washington, DC. He is also a Research Fellow of the Centre for Economic Policy Research in London.

**Timothy Josling** is Professor Emeritus in the Food Research Institute and Senior Fellow at the Freeman Spogli Institute for International Studies at Stanford University, CA. His research covers a wide range of agricultural trade policy areas, including the relationship between multilateral and regional trade agreements and domestic policies.

**William A. Masters** is a Professor and Associate Head of the Department of Agricultural Economics at Purdue University in West Lafayette, IN. He has also been a lecturer at the University of Zimbabwe (1988–1990). He is currently a coeditor of *Agricultural Economics*, the IAAE's journal.

**Devashish Mitra** is a Professor of Economics and the Gerald B. and Daphna Cramer Professor of Global Affairs at the Maxwell School of Citizenship and Public Affairs, Syracuse University in Syracuse, NY. He is also a coeditor of the journal *Economics and Politics* and associate editor of the *Journal of International Economics*.

**John V. C. Nye** is the Frederic Bastiat Chair in Political Economy and Professor of Economics at George Mason University in Fairfax, VA. He specializes in British and French economic history and the new institutional economics. He is the author of *War, Wine, and Taxes* and coeditor of *Frontiers in the New Institutional Economics* (2008).

**Marcelo Olarreaga** is a Professor of Economics at the University of Geneva and a Research Fellow of the Centre for Economic Policy Research in London. His research interests are in the areas of political economy of trade policy, barriers to developing countries' exports, and the impact of trade reforms on income inequality and poverty.

**Alessandro Olper** is an Associate Professor in the Department of Agricultural and Food Economics at the University of Milan in Italy. His research interests are in the areas of international trade, political economy, and agricultural policy analysis.

**David Orden** is a Senior Research Fellow at the International Food Policy Research Institute (IFPRI) in Washington, DC, and Director of the Global Issues Initiative, Institute for Society, Culture and Environment at Virginia Polytechnic Institute and State University in Alexandria. His research focuses on the economics and political economy of agricultural policies.

**Valentina Raimondi** is an Assistant Professor in the Department of Agricultural and Food Economics at the University of Milan in Italy. Her research interests are in the areas of international trade and the economics and politics of agricultural policies.

**Gordon C. Rausser** is the Robert Gordon Sproul Distinguished Professor in the Department of Agricultural and Resource Economics at the University of California in Berkeley. His research interests include a wide range of agricultural and resource economics areas and associated policy issues.

**Gérard Roland** is a Professor of Economics and Political Science at the University of California in Berkeley, where his research includes the political economy of transition economies, particularly in Europe.

**Scott Rozelle** holds the Helen Farnsworth Endowed Professorship and is Senior Fellow in the Freeman Spogli Institute of International Studies at Stanford University, having previously been at the University of California, Davis. His research focuses on all aspects of agricultural developments in China.



**Damiano Sandri** was a PhD candidate in economics at the Johns Hopkins University in Baltimore, MD, during 2006–2007, when he worked as a short-term consultant with this project in the Development Research Group at the World Bank in Washington, DC. He is now with the Research Department of the International Monetary Fund.

**Johan F. M. Swinnen** is a Professor in the Department of Economics and Director of the LICOS Center for Institutions and Economic Performance at the Katholieke Universiteit Leuven in Belgium, and a Senior Fellow of the Center for European Policy Studies in Brussels. He focuses on agricultural policies in both Eastern and Western Europe.

**Jeanne Tschopp** is a doctoral student in Economics at the University of Lausanne in Switzerland. Her research interests are in the area of international trade and development, including the political economy of trade policy.

**Ernesto Valenzuela** is a Senior Lecturer in the School of Economics and Director of the Centre for International Economic Studies at the University of Adelaide in Australia. During 2005–2007, he was an extended-term consultant at the Development Research Group of the World Bank in Washington, DC.

## 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.<sup>1</sup>

<sup>1</sup> 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

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