PLOW Learning Resource: History of Agricultural Policy

Important Note:

This learning resource was developed as part of the Professional Development for Livelihoods Advisers Website (PLOW) which was operational between 2006-2008.

PLOW was funded by the Department for International Development (DFID) and supported the professional development of DFID livelihoods advisers. PLOW hosted 17 learning modules of which this is one. Modules were produced using guidance provided by the Livelihoods Technical Competence Framework that described technical competencies, knowledge, and experience required by DFID Livelihoods Advisers.

PLOW modules were designed to help advisers get up to speed on areas of the competency framework, to prepare for new postings, or to refresh existing knowledge on particular subject areas. They were produced and developed by a partnership comprising the Programme of Advisory Support Service (PASS) and Livelihoods Connect based at the Institute of Development Studies (IDS). Each module was written by an expert or experts in the subject and provided:

- an overview of the subject in a briefing note;
- key texts;
- a summary of recent policy debates;
- points on where to find other resources; and
- a glossary of key terms used in the briefing note.

Although the learning modules produced were written with the DFID Livelihoods cadre in mind they were accessible to a global audience through the website.

Twelve of the original PLOW modules are now hosted on the Evidence on Demand website. This PLOW module was produced between 2005 and 2008 and has not been updated since. Some of the material that it draws upon may no longer represent current thinking and some of the links to resources may no longer exist. Nevertheless, we believe that it is still a useful resource that provides useful reference material.

History of Agricultural Policy

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Views about agricultural policy have changed greatly over the past forty years, from widespread acceptance of a powerful set of arguments for intervention in agricultural markets, through enthusiasm for market liberalisation, and disappointment with the outcomes of the liberalisation era. In the 1960s and 1970s it was commonplace for countries to put in place an array of farm support policies including fixed output prices, subsidised input prices, low cost credit, single channel marketing boards, irrigation schemes, and research and extension provision. Nowadays, only vestiges of these support policies are left, mainly in the research and extension area, and these are increasingly pushed towards public-private partnerships or private provision.

It remains useful to grasp the arguments that resulted in these policies, if only to keep an open mind about future policy options rather than closing them off without any further thought. Fixed prices or floor prices were devices to stabilise markets and permit farmers to plan ahead with confidence; fertilizer subsidies had the role of lowering the input:output price ratio, thus encouraging faster, greater, and more widespread uptake of fertilisers than would otherwise have occurred; credit provision enabled farmers to purchase fertiliser and other inputs in the cultivation season when they are typically most short of cash; government marketing agencies were created in order to implement price policies and to overcome failures of coverage by private traders; state irrigation investments were made on the grounds that this was a public good that farmers if left to their own devices would not organise on their own; research and extension advice to farmers were also regarded as public goods, the provision of which would be undersupplied if left to the private sector.

The **Briefing Note** below addresses the history of agricultural policies in rural development focusing particularly upon crop production and crop farming. It explores how views about agricultural support policies have changed over the last forty years from a preference towards supporting the sector is the 1960s and 1970s to a more market-orientated approach in the 1980s. In addition to the Briefing Note, two Key Texts on the History of Agriculture in Rural Development are recommended, as well as a focus upon key future policy debates.

Contents:

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Briefing Notes

Contents:

The 1960s/70s and Agricultural Support Policies

During the 1960 inputs and 1970s a very sophisticated case was built in developing countries for intervening in agricultural input and output markets. It was noted from careful research that small farmers in all countries were responsive to economic signals, but that their production behaviour was also strongly influenced by risk considerations. This might make them unwilling to change cropping patterns, experiment with new varieties, or engage in higher levels of market sales. At this time new varieties of food crops, especially rice and wheat, were emerging from the international research system, and a principal task of policy was seen as securing their rapid adoption by small farmers, with benefits for food security, growth and equity.

It was not considered at all unusual in that era for governments to pursue comprehensive agricultural support policies. The industrialised countries all possessed such policies dating from the Second World War or earlier, and these are still with us today in the form of the EU Common Agricultural Policy, US Farm Policy, and equivalent policies in other OECD countries. These policies took it as axiomatic that competitive agricultural markets represent difficulties for the producer that are not faced by manufacturing firms; namely, planting decisions made on the basis of current prices, not those that pertain at harvest time, giving rise to high price and production instability in agricultural markets. When added to the strategic value of food self-sufficiency in times of war, and the political clout of the farm lobby, the case for farm support policies seemed compelling.

Not surprisingly emerging independent low-income countries already possessed agricultural policies bequeathed to them by outgoing colonial powers, and typically comprising marketing boards for key strategic food and export crops. These boards often had considerable powers to stabilise or fix producer prices, supply inputs at preferential prices, provide credit to farmers, and conduct the marketing of individual crops. Of course, in the majority of cases, these boards operated for settler farmers or estate crops, not for the small farm sector. However, new thinking in the 1970s about ways to achieve rapid increases in yields of food crops on small farms resulted in a massive extension of these policies to the small farm sector.

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These arguments came together most powerfully in the shape of the so-called “seed-fertilizer-water” revolution, which required all the agricultural policies to line up with each other in order to promote the rapid uptake of new high yielding varieties of rice, wheat and maize. In Asia there were spectacular examples of the success of this approach. For example, in Indonesia between 1974 and 1984, average rice yields per hectare increased by two-thirds, production doubled, and the country went from requiring rice imports of 2-3 million tons per year to being in small surplus and exporting to the world market. Fertilizer use grew from 0.25 to 3.2 million tons in this period, and the area under technical irrigation grew from 1.2 to 2.2 million ha. The costs, however, were high too, by 1987 the fertilizer subsidy alone corresponded to 20 per cent of entire government recurrent expenditure.

Agricultural Support Policies: Mixed Implementation

Towards the end of the 1970s it became apparent that although the micro economics of these policies may well have been sound, their practical implementation had in many cases gone off the rails. The spiralling cost of input subsidies were one thing: while it is all very well to deduct 50 per cent off the price of fertilizer when usage is only 100,000 tons, it is quite another when farmers are using 3 million tons. However, further than this, the implementing agencies of agricultural policy, especially in Sub-Saharan Africa, took on a momentum of their own. They became in effect parastatal empires, thriving by widening the margin between producer and sales prices (thus taxing farmers), and borrowing money for crop purchases from central banking systems that they were unable to repay later.

Moreover, they became ineffective and inefficient in what they did. Ineffective in the sense that they did not even properly discharge the function of buying from farmers and delivering to consumers or to export (farmers would often get paid months in arrears, or not at all). Inefficient in the sense that their specialisation in single crops often meant that a vast permanent staff (and associated overhead costs) were in place for perhaps a single short buying period in each year (this applied to crops like cocoa, coffee, tobacco, pyrethrum, cashew nuts).

The 1980s and Neo-Liberalism

It is not surprising then that a radical change of thinking occurred in the 1980s, corresponding to a broader shift in thinking worldwide towards market solutions to perceived public sector deficiencies (so called “neo-liberalism”). Over the next decade, the agricultural policy apparatus in weak states that were dependent on donor assistance for their survival were mainly dismantled, although this occurred less in large countries, like India, where donors had less leverage on national policies. The prediction was that devaluation of currencies and market liberalisation would visibly result in rising real prices to farmers, thus helping to reduce rural poverty, encourage investment in new technologies, and set agriculture on a virtuous growth path. External influences of IMF and donor policies such as structural adjustment also played their part in the move towards a more market-orientated approach.

Alas, in Sub-Saharan Africa at least, these purported benefits of liberalisation failed to materialise for a number of reasons. The real prices of agricultural commodities in world markets have declined by nearly 50 per cent from the mid-1980s to the present day. This trend is transmitted to domestic economies via trade liberalisation and globalisation. As predicted by micro economic theory, output prices have also become unstable locally and in the short term, increasing the risks of undue reliance on farming in rural livelihoods. Use of fertilizer and other modern inputs has fallen, and yields have stagnated or declined. Farm sub-division at inheritance has inexorably led to farm sizes that can at best provide a part-livelihood from agriculture, and young people are increasingly unable to take up farming as an occupation at all.

Neo-liberalism: Diverse Experiences

In examining the balance of arguments about the success or failure of market liberalisation, the interpretation is complicated by how far liberalisation really occurred in practice in different places. Some researchers have emphasised the widespread existence of remnants of previous parastatal agencies that continue to inhibit the development of competitive private trading; as well as efforts by some governments to restore the powers of discredited institutions. Others have pointed to success stories of marketing boards that have disengaged from governments and become commercially viable institutions in their own right such as the Ghanacocoa marketing board. Agricultural market liberalisation experiences are diverse and not easily separated from broader governance issues that permeate state behaviours in many low-income countries.

Past Lessons Within Future Policies?

A paradox underlies the story of the disappearance of proactive farm support policies in low income countries. The fundamental reasons for treating agriculture as a special case - seasonality and risk - remain just as powerful as ever, and no single northern industrial country has taken the route of entirely removing supports to agriculture, although the nature of those supports is nowadays shifting (for example, in Europe the trend is towards supporting farmers as custodians of the environment, rather than as producers of unwanted surpluses of farm output). At the same time, the poorest countries of the world with the most vulnerable rural populations are expected to adhere to the free market route. It should not therefore be found surprising if governments every now and then advance ideas about recreating some of those past policies, such as price stabilisation or input subsidies. Such ideas should perhaps be granted a fairer hearing than is the current tendency to give them. However, this is with the proviso that the way such policies are implemented (is this being done in the least cost and most effective manner possible?) is just as important to examine critically as the ostensible purpose of the policy (improving the market environment for poor small farmers).

Key Texts:

A Policy Agenda for Pro-Poor Agricultural Growth
Dorward, A., J. Kydd, J. Morrison and I. Urey, 2004, *World Development*, Vol. 32, No.1, pp.73-89

Growth in agriculture in Sub-Saharan Africa confronts a range of difficulties, some originating within poor rural areas themselves, some stemming from processes of global change, and some arising from the dominant policy environment, emphasizing liberalization and state withdrawal. Examination of 20th century Green Revolutions suggests that active state interventions were important in supporting critical stages of agricultural market development. Unfortunately the benefits of such interventions are easily overlooked, whereas their high costs are more visible. Agricultural policy implications for SSA are discussed.

Evolving Themes in Rural Development 1950s-2000s
Ellis, F. and S. Biggs, 2001, *Development Policy Review*, Vol. 19, No.4, pp.437-448

This paper provides a brief overview of the major switches in rural development thinking that have occurred over the past half century or so. Dominant and subsidiary themes are identified, as well as the co-existence of different narratives running in parallel. The continuing success of the long running "small-farm efficiency" approach is highlighted. The paper is complementary to the briefing paper.

Policy Debates

Several important debates arise from the history and place of agricultural policies in contributing to poverty reduction in low income countries. These debates are apparent in the readings that have been provided for this topic, and they can be followed up by other reading and by utilising web resources.

Key debates are:

- Debate 1: How far have developing countries really dismantled state controls over agricultural markets, and is the persistence of market failures more to do with too little liberalisation than too much?
- Debate 2: Is there a case for the limited reintroduction of price supports and input subsidies, perhaps by reviving previous marketing boards that served a useful function as buyers of last resort, and in providing targeted advice and input support to farmers?
- Debate 3: Can yield growth in agriculture in Sub-Saharan Africa act as the primary motor of rural poverty reduction?

Debate 1:

How far have developing countries really dismantled state controls over agricultural markets, and is the persistence of market failures more to do with too little liberalisation than too much?

Key Text: **False Promise or False Premise? The Experience of Food and Input Market Reform in Eastern and Southern Africa,** Jayne, T.S., J. Govereh, A. Mwanaumo, A, Chapoto and J.K. Nyoro *World Development*, 2001, Vol. 30, No.11, pp.1967-85

Other Key Text: **Marketing Reform? The Rise and Fall of Agricultural Liberalisation in Tanzania**, Cooksey, B., 2005, Ch.10 in F. Ellis and H.A. Freeman (eds), 2005, *Rural Livelihoods and Poverty Reduction Policies*, London: Routledge, pp.149-65

Debate 2:

Is there a case for the limited reintroduction of price supports and input subsidies, perhaps by reviving previous marketing boards that served a useful function as buyers of last resort, and in providing targeted advice and input support to farmers?

Key Text: **A Policy Agenda for Pro-Poor Agricultural Growth** , Dorward, A., J. Kydd, J. Morrison and I. Urey, 2004, *World Development*, Vol. 32, No.1, pp.73-89.

Key resources: Various Experiences of Marketing Boards:

The Ghana cocoa marketing board - reinvented itself as a commercially viable agency with a useful function

Grain marketing parastatal in India - background and history

Debate 3:

Can yield growth in agriculture in Sub-Saharan Africa act as the primary motor of rural poverty reduction?

The current orthodoxy is to say "yes" to this question. Yield growth in agriculture is the policy priority in the strategic policy documents of donors, UN organisations, the World Bank, NEPAD and the Commission for Africa. The intellectual origins of this position can be traced back about 40 years, and are especially strongly associated with the International Food Policy Research Institute (IFPRI), a CGIAR research centre located in Washington DC

Yet this question does need some unpacking, and in view of past experiences with the over-enthusiastic promotion of particular "solutions" to Africa's difficulties a moderate degree of scepticism is warranted. Some subsidiary questions that are worth thinking about are as follows:

(a) what is the market environment facing farmers in different places in a particular country? in particular, how stable or unstable are output prices for different crops? and what happens to prices when there is a good harvest?
Note: if the answer to this last question is that prices drop significantly, then this provokes further thought about the implications of rising output for future prices in the domestic market.

(b) at a more aggregate level, what are the market sizes and price prospects of commodities that are being supported through renewed emphasis on agriculture? how big is the domestic market (for local foods)? what are prices like in international markets (for export crops)? how big is the supply requirement for new higher-value crops that are demanded by food processing firms or local supermarket companies?

(c) what is happening to farm sizes in different places in the rural economy? in places where farm sub-division has reduced farm size to under 1 hectare on average, what is the next generation doing for access to land, or in order to construct a livelihood in the absence of access to land? how far will they benefit from a policy emphasis oriented more to agriculture than to other potential sources of growth and employment?

(d) if there seems a strategic need to accelerate the pace at which people leave agriculture to take up other occupations, what is being done to support this? in general, how does the policy environment work for diversity, mobility, migration and rural-urban transitions? what can be done to improve that environment?

Note: it is pertinent here to reflect that a rising non-farm population can help agriculture in two ways - first, by raising demand for agricultural outputs; and second, by reducing the pressures on land sub-division and even, perhaps, allowing farm sizes to grow through the development of a rental market in land. Land tenure issues are also critical in this policy arena.

Some relevant references in respect of pro- and sceptical positions on agriculture in Africa are as follows:

The Agriculture First Argument

Key Text: **Farm-Nonfarm Growth Linkages and the Welfare of the Poor** , Hazell, P. and S. Haggblade, 1993, Ch.8 in Lipton, M. and J. van der Gaag (eds), *Including the Poor*, Proceedings of a Symposium Organized by the World Bank and the International Food Policy Research Institute, Washington D.C.: World Bank, pp.190-204

Fighting Famine in Southern Africa: Steps out of the Crisis, *IFPRI Briefing Paper* , IFPRI, 2002, Washington, DC: International Food Policy Research Institute

Rural Poverty Report 2001: The Challenge of Ending Rural Poverty International Fund for Agricultural Development (IFAD), 2001, Oxford: Oxford University Press for IFAD

See index of full report www.ifad.org/poverty/index.htm

The Sceptical Position

Key Text: **Understanding the Implications of Migration for Pro-Poor Agricultural Growth** , Deshingkar, P., 2004, Paper prepared for the DAC POVNET Agriculture Task Group Meeting, Helsinki, 17-18 June

Key text: **Development Patterns, Mobility and Livelihood Diversification** , Ellis, F. and N. Harris, 2004, Keynote Paper for DFID Sustainable Livelihood Retreat, July

Key resource: **Launching the DFID Consultation "New Directions of Agriculture in Reducing Poverty**, S. Maxwell 2004, document published on website:

Read: http://dfid-agriculture-consultation.nri.org/launchpapers/simonmaxwell.html

On how far market liberalisation actually occurred, see:

Marketing Reform? The Rise and Fall of Agricultural Liberalisation in Tanzania , Cooksey, B., 2005, Ch.10 in F. Ellis and H.A. Freeman (eds), 2005, *Rural Livelihoods and Poverty Reduction Policies*, London: Routledge, pp.149-65

Marketing reform? The rise and fall of agricultural liberalisation in Tanzania' , B.Cooksey, 2003, *Development Policy Review*, Vol. 21, No.1, pp.67-91

Further Reading

Research and technical resources to explore the History of Agricultural Policy themes in more depth

Documents

Nonfarm Income Diversification and Household Livelihood Strategies in Rural Africa: Concepts, Dynamics, and Policy Implications, Barret, C.B., T. Reardon and P. Webb, 2001, *Food Policy*, Vol. 26, No.4, pp.315-331

Institutions and Economic Policies for Pro-Poor Agricultural Growth, Dorward et al. 2004, DSGD Paper No. 15, International Food Policy Research Institute and Centre for Development and Poverty Reduction, Imperial College, London

Web Resources

International Food Policy Research Institute (IFPRI)
Web: www.ifpri.org
Email: ifpri@cgiar.org

Washington based international research centre within the CGIAR network focusing on economic growth and poverty alleviation in low-income countries, improvement of the well-being of poor people, and sound management of the natural resource base that supports agriculture.

Michigan State University
Web: http://aec.msu.edu/fs2/
Email: aec@msu.edu

USAID funded research programme, valuable for exploring agricultural policy issues although historical issues often nestled within broader themes. Recommended resource is International Development Papers and related land policy papers:
www.landpolicy.msu.edu

Cornell University
Web: www.aem.cornell.edu/research

The Applied Economics and Management Department has useful papers on agricultural policy issues, but again historical issues are generally covered within broader themes. Recommended resource is the research index:
www.aem.cornell.edu/research

Glossary

Agricultural support policies Interventions by governments or other agencies including NGOs in agricultural input and output markets for diverse objectives e.g. food self-sufficiency, protection of farmers income, incentives to increase production, incentives to adopt organic farming etc

Common Agricultural Policy The Common Agricultural Policy (CAP) is the comprehensive agricultural sector support system of the European Union. It works by setting target farm output prices linked to guaranteed minimum prices at which farmers are able to sell to public purchase authorities, a system known as 'intervention'. Internal prices are protected from world prices by variable external tariffs, and by export subsidies on surplus output that make up the difference between internal and world prices. The existence of the CAP shrinks the potential export market for developing countries (cane sugar being the classic example in which sugar from beet is produced by European farmers at prices double or more the world price level), and also adversely reduces world prices due to the export subsidies. The CAP is expensive: it represents about two-thirds of all EU public spending.

Equity Equity can be defined as fairness or the equality of rights. The absence of equity is perceived as a barrier for development and in addition as ethically unacceptable or unjust.

Fertilizer subsidies Government intervention to lower the price of fertilizers by subsidising the cost of purchase, either through state controlled manufacture and distribution or by import subsidies on external supplies. The effect on farm decision making is to lower the input:output price ratio, thus encouraging faster, greater, and more widespread uptake of fertilizers than would otherwise have occurred.

Fixed prices or floor prices Government or marketing board setting of minimum commodity prices which aim to stabilise markets and permit farmers to plan ahead with confidence.

Growth Economic growth is an increase in a country's total output. It may be measured by the annual rate of increase in a country's Gross National Product (GNP) or Gross Domestic Product (GDP) as adjusted for price changes. The increase in GNP, at constant prices per head of the population, indicates changes in the average level of living in that country but says nothing about the distribution of the levels for different social groups around that average.

Input policies The way that governments try to influence the quantities and combinations of purchased variable inputs. This has three main dimensions: firstly, the price level of input, and s concerns state intervention to influence prices paid by farmers for inputs; second, the delivery system involves state actions to influence the flow of inputs to farmers, and; thirdly the information available to farmers concerning the type, quantity and combination of inputs available to them.

Market liberalisation See neoliberalism

Marketing boards These are government or quasi-government bodies that regulate the marketing of agricultural commodities, and are chiefly associated with export commodities like cocoa, tea and coffee. Their purposes can range from minimal oversight of quality standards and the provision of export trading facilities to monopoly control over marketing and fixing of producer and sales prices.

Neo liberalism A broad shift in thinking worldwide towards market solutions to perceived public sector deficiencies. It encouraged market liberalisation or free-market methods and therefore less government regulation of the supply and consumption of goods and services previously mediated by state control.

Parastatals These are organisations such as marketing boards, that are wholly-owned by the state , but are legislatively independent in terms of their operating decisions (however, this freedom from political intervention is seldom achieved in practice).

Price stabilisation This is a type of agricultural policy intervention by which governments seek to stabilise prices for several reasons. On the production side, the aims are to reduce risk, increase marketed supply and stabilise farm incomes. On the consumption side the objectives are to ensure stable wage costs for the non-farm economy and protect the urban poor from malnutrition or starvation.

Risk An understanding of the likelihood of events occurring, for example, on the basis of past experience. This concept contrasts with that of uncertainty, in which the likelihood is unknown. An individual or household may assess that the likelihood of a bad event, such as drought, occurring is high enough to alter the mix of species cultivated. This on-farm diversification of species, which has parallels in off-farm diversification of activities, is known as risk spreading.

Seed-fertilizer-water revolution An approach that recognises the complementarity between inputs in the spread of high yielding varieties, and therefore aligns agricultural policies in order to promote the rapid uptake of new high yielding varieties of rice, wheat and maize.

Trade liberalisation The reduction or abolition of tariffs, preferences and other trade barriers in order to reduce artificial or government imposed restrictions to trade among individuals and firms in different nations.