PART I

Agricultural policy analysis
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Market, state and policy

Overview

This book is about agricultural policies in developing countries. It is concerned with the methods used by governments to change the social and economic context within which agricultural production takes place: by altering the prices of farm inputs and outputs, by changing the institutions in which farm input and output markets operate, or by promoting new technologies in agriculture.

The book has a particular emphasis, which is on policies affecting peasant production. This means that it focuses on policies for small farmers, mainly engaged in crop production. However, many of the policies examined in the book are sectoral in scope, and they therefore have an impact across many different types of agricultural production.

There are many ways in which a book on agricultural policies could be organised. The approach here focuses on the relationship of policy to the inputs and outputs of the farm system. This provides a direct connection between decisions taken far away in capital cities, and the influence of those decisions down on the farm. The core of the book consists of a set of eight chapters, which are delineated according to the following interaction between policy decisions and farm production:

Price policy

Policies designed to influence the level and stability of the prices received by farmers for farm outputs.

Marketing policy

Policies concerned with the transfer of farm outputs from the farm gate to the domestic consumer, or to ports of exportation.
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Input policy
Policies designed to influence the prices and delivery systems of purchased variable inputs used in farm production.

Credit policy
Policies related mainly, but not exclusively, to the provision of working capital for the purchase of variable inputs used in farm production.

Mechanisation policy
Policies that affect the pace and direction of the adoption of mechanical technologies, or farm fixed capital, by farmers.

Land reform policy
Policies that seek to alter the ownership distribution or conditions of access to land as a resource in farm production.

Research policy
Policies concerned with the generation and diffusion of new technology designed to increase the productivity of resources in farm production.

Irrigation policy
Policies concerned with the provision of water as a resource in farm production, often involving large-scale public investment in the infrastructure of farm production.

These policies are all defined as sectoral policies. They aim to influence the social and economic development of the agricultural sector, as distinct from the rural economy at large, which contains many other types of activity in addition to farm production. Policies that affect the entire economy are not covered in this book except in so far as they influence the working of the policies already listed. Such economy-wide policies include exchange rate policy, monetary policy, and fiscal policy. They are referred to as macro policies or macroeconomic policies in this book.

The agricultural policies examined in the book involve three main categories of state economic intervention. First, there is intervention in price levels and trends for farm outputs and farm inputs. Second, there is intervention in the institutions involved, either in the marketing of agricultural commodities or in the delivery of farm inputs or technology. Third, there is intervention in technology creation and its transmission to
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farmers. These three categories are sometimes referred to as price policies, institutional policies, and technology policies respectively. The term price policies in this context refers to a wider set of price interventions than just output price policy, which is listed above as the first of the core policy topics of this book. Output price policy is a subset of this wider category of price interventions.

The literature on agricultural policy in developing countries often poses a contrast between price policies and technology policies, while ignoring institutional policies. The aim is usually to argue that technology policies are a superior type of state intervention compared to price policies. In reality, these two types of policy are often closely entwined. Moreover, institutional policies tend to cut across both price and technology policies. The relative success of these categories of policy at achieving specified goals is examined on a continuing basis throughout the book.

The book contains two other main components in addition to the central part. The first of these, covered in this and the next two chapters, is concerned with the context and concepts of agricultural policy analysis, treated as a branch of applied welfare economics. The aims of this component are to provide the reader with (i) working definitions of policy-related concepts such as market, state, policy, and social welfare, (ii) a framework within which to locate the economic approach to policy analysis, and (iii) the main concepts of policy analysis that are widely encountered in the economics literature on agricultural policy.

The second additional component covers policy concerns that do not fit into the central scheme of the book as described so far. One of these is the impact of the various agricultural policies on women in farm households. This aims to provide a gender dimension to the discussion of agricultural policies. The other is the topic of food security and food policy. Food security cuts across other policies described in this book but also involves important aspects that do not feature in the coverage of general agricultural policies. The gender dimension and the food security dimension are examined in the penultimate two chapters of the book.

Aside from gender and food security, there are two further cross-cutting themes that inform the approach to policy in this book. One of these is a state versus market theme, which concerns the scope and limitations of state action in the economy and the division of economic roles between the state and private markets. The second is a peasant farmer theme, which recognises that peasant households possess special economic characteristics that make them interact with state policies in
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ways that may differ from farmers operating in fully formed and competitive markets.

In summary, the core of this book consists of a set of eight chapters covering the topics of price policy, marketing policy, input policy, credit policy, mechanisation policy, land reform policy, research policy, and irrigation policy in developing countries. These chapters are supported, in the first part of the book, by an exposition of the concepts and methods of agricultural policy analysis, and, in the second part of the book, by cross-cutting themes of gender and food security. Additional cross-cutting themes of state versus market and peasant household production inform the development of the argument throughout the book.

The remainder of this chapter has three preliminary purposes. The first is to clarify some terms related to agricultural policies: market, policy, government and state. The second is to provide a summary of relevant aspects of the state versus market debate in development economics. The third is to consider special features of peasant production that influence the way policies work at farm level in developing countries.

Market, policy and state

Policies are typically thought of as types of state intervention in the market economy. For example, when someone refers to 'credit policy' this evokes an image of government involvement in the provision of credit to farmers. The government does this in order to substitute for, or modify, the ways farmers obtain credit in the absence of state intervention. This commonsense picture of policies is broadly correct. In the following paragraphs, the various elements of this picture – market, policy, government and state – are defined and discussed in more detail.

Market

The term 'market' as used by economists has a different meaning from ordinary usage. It does not mean literally the physical place in which commodities are sold or purchased (as in 'village market'), nor does it mean the stages that a commodity passes through between the producer and the consumer (as in 'marketing channels'). Rather it refers in an abstract way to the purchase and sale transactions of a commodity and the formation of its price. Used in this way, the term refers to the countless decisions made by producers of a commodity (the supply side of the market) and consumers of a commodity (the demand side of the market) which taken together determine the price level of the commodity.
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Definition

The market refers to production and consumption decisions by households and individuals, the combined effects of which result in the determination of a market price for a commodity.

This definition indicates that the term market is detached from any particular geographical coverage. The geographical scope of the term depends on the context in which it is being used. It may refer to the local situation in some part of the rural economy, for example the market for cassava in southern Tanzania, or it can refer to the country as a whole, the region, or the international economy. Thus the expression ‘world market’ refers to the process of price formation at an international level for traded agricultural commodities.

Markets work in different ways according to the number and size of participants on each side of the market, the adequacy of information flows between buyers and sellers, and the physical infrastructure (roads, railways, etc.) by which commodities are moved. Economists use the term ‘competitive market’ to describe a situation in which there are numerous buyers and sellers, each too small on their own to influence directly the market price.

The terms ‘imperfect market’ or ‘market failure’ mean that some ingredients of the competitive situation are absent. For example, a single very large buyer or seller can directly influence the market price by purchase or sale decisions, a condition known as monopoly. Information about prices and their trends may be unevenly distributed, favouring some market participants above others. Markets may be fragmented due to poor transport and communications, or they may be absent due to high transaction costs, information failures, and other reasons.

Policy

There is no single definition of the term ‘policy’ that is used by all writers. However, economists usually think of policies as the goals and methods adopted by governments in order to influence the level of economic variables like prices, incomes, national income, the exchange rate and so on. ‘Policy’ as a general term therefore implies state intervention in the economy, while ‘policies’ are the specific types of intervention such as, for example, producer price policy, exchange rate policy, credit policy, or research policy.

This definition is adequate in so far as it goes, but in some ways it is restrictive of the courses of action open to government because it does not allow non-intervention as a policy option. Given that there are doubts,
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described below, about the efficacy of many types of state intervention, it becomes relevant to include non-intervention decisions as well as intervention decisions under the scope of policy. One of the many dictionary definitions of policy is ‘the art of government’, and we may presume that part of such an art might be to make informed judgements about whether intervention is necessary at all, in addition to the appropriate degree of intervention when it occurs.

Definition
Policy is defined as the course of action chosen by government towards an aspect of the economy, including the goals the government seeks to achieve, and the choice of methods to pursue those goals.

Government and state
Policies are adopted by governments, but tend to be formulated and implemented by the state or agencies of the state. The term ‘government’ refers to the group of people who are (at least nominally) in charge of running a country at any particular moment of time; while the term ‘state’ refers to the whole apparatus of public institutions and bureaucracies – the civil service and the armed forces – through which government exercises its rule. Another way of posing this distinction is to say that governments are concerned with political decision making, while states are concerned with administration and enforcement of decisions. Governments change – rather frequently in some countries – but the state tends to be more enduring in size and scope over lengthy periods of history. Organisations, such as marketing boards, that are wholly-owned by the state, but that supposedly make independent operating decisions, are usually called ‘parastatals’.

Definitions
The government is defined as the group of people in charge of running a country, and who are responsible for making policy decisions. The state is defined as the whole set of public institutions responsible for the administration and enforcement of policy decisions.

State versus market
The ‘state’ is often counterposed to the ‘market’, the latter referring to the outcome of the myriad of economic decisions that are made independently by producers and consumers. A growing literature in
State versus market

development economics contrasts the idea of 'market failure' (meaning the adverse impact on society of imperfect or non-working markets) with that of 'state failure' (meaning the adverse impact on society of inefficiencies and improprieties on the part of government and the state). This distinction has become central to debates about the role of the state in economic development, and therefore provides relevant background to the later exposition of agricultural policies.

During most of the period from the 1950s to the 1980s an implicit assumption of all major perspectives on development was that the state had a central role to play in accelerating the pace of economic growth, modifying its outcomes for different groups of people (e.g. by measures for ensuring a more equal distribution of income), or by carrying out tasks that by their nature would be unlikely or impossible for the private sector to carry out (e.g. provision of social services such as health and education, or investment in public infrastructure such as roads and communications). States varied in the degree to which they decided to modify or supplant the working of the market: some governments chose to replace markets almost entirely by state-led forms of production and exchange, others opted for co-existence of market and state in many different guises.

Development economists did not in general have too much quarrel with these state interventions. The inability of private markets to deliver all the ingredients of development, taken together with the non-working or imperfection of many markets, provided a well-known set of 'market failures' that state action was considered necessary to overcome. These 'market failures' are listed as follows (Stiglitz, 1986a: 90; Killick, 1989: 25):

(a) failures of competition: the existence of various types of monopoly power in the economy, for example the existence of localised trading monopolies in the supply of consumer goods to rural areas or in the purchase of crops from farmers;

(b) failures of provision: the existence of a class of goods and services that private operators are not prepared to supply because once they are made available it is impossible exclude individuals from making free use of them ('public goods' such as street lighting, police force, national defence, and public roads);

(c) externalities: costs that are not incurred by the private operator but represent disbenefits to other members of the community, such as the impact on downstream river users of pollution by a private industrial plant (negative externality), or benefits that do not accrue to the private
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operator but represent gains to society, such as the beneficial impact of higher education on the level of skills in the country (positive externality);

(d) open access resources: resources of communal access (e.g. forests for firewood) where the private cost of using more of the resource is lower than the social cost incurred by the community as a whole, resulting in over-exploitation and possible permanent damage to the resource;

(e) incomplete markets: where markets fail to produce commodities or services for which there is a private demand at prices above production cost, due to transaction cost and moral hazard problems (the credit market, with high risk of default and high cost of enforcing repayment, is a good example);

(f) failures of information: a tendency to under-produce the type of information to which everyone should have access if markets are to work well (e.g. information on prices and technologies);

(g) macroeconomic problems: problems that can only be handled by a central authority, for example, money supply, inflation, exchange rate, taxation and so on;

(h) poverty and inequality: the market outcome may result in a degree of inequality or an incidence of poverty that is regarded as socially unacceptable by the majority of people in society.

The view that state interventions are effective in overcoming these ‘market failures’ is based on the critical assumption that government and state ‘act benevolently to secure the public interest’ (Dearlove, 1987: 5), or, as summarised by Killick (1989: 14), ‘the general presumption was that the state was benign in its intentions, with the theory of policy centred around the question of how best the state could maximise social welfare’. It is this assumption that has been called into question in much recent writing, resulting in the identification of ‘state failures’, which some would argue are more detrimental in their impact on the material well-being of people in society than the market failures which they purport to overcome.

State failure can take many different forms. Particular emphasis has been placed on the pervasive inefficiency and impropriety of state institutions in many developing countries, and the descriptions that have been used to capture these facets include mismanagement, malpractice, overstaffing, nepotism, bribery, corruption, personal fortune seeking, and so on. These factors lead to the state sometimes being characterised
as a 'parasitic' or 'predatory' state rather than as a 'benign' or 'beneficial' state.

Several different explanations have been advanced to explain the causes of these and other attributes of 'state failure'. The first approach emphasises the absence in postcolonial societies of a viable capitalist class, causing the state and its agencies to fill the ensuing vacuum. This is said to place the state in an inherently contradictory and unstable position since its bureaucratic roles are at odds with its involvement in direct productive activity. Variants of this explanation include interpreting the state as:

(a) a 'comprador' class mediating between foreign and domestic capital, and exacting 'fees' for services rendered in this role (Beckman, 1988);

(b) a 'bureaucratic' class, which has to plunder the private sector for its own renewal and expansion (Shivji, 1976; Brett, 1986);

(c) a 'rootless' class, which remains fatally entangled in peasant-style relations of patronage and kinship, described as the 'economy of affection' (Hyden, 1980; 1983).

A second approach derives from the neoclassical school of political economy known as public choice theory (e.g. Colander, 1984). This stresses the self-interest motivation of government officials and state employees, which can only be curbed by a political system that allows the population many and diverse ways of vetoing the actions of people in state positions. A pluralistic democracy is considered to satisfy this condition to some degree, even if it does so imperfectly. Where this is absent, the state can essentially act as a monopoly agency unrestrained by public accountability. This monopoly power enables state functionaries to maximise the surplus accruing to themselves. Bates (1981) on agricultural price and marketing interventions in Africa is regarded as a classic work in this tradition.

A third approach sees the state as operating on the basis of patrimonial or 'personal rule' systems in which personal loyalty, patron–client relations, nepotism, reward and coercion override and replace the rule of law (Jackson & Rosberg, 1984; Sandbrook, 1986). The weaker the popular credibility of the person in power the more that person has to resort to 'personal rule' mechanisms to stay in power. Meanwhile, with state officials operating in varying degrees outside the law, a mockery is made of the orthodox idea of the bureaucracy as a neutral, efficient, specialised, and rational administrative agency.