

Farm Policy in Developing Countries: What Next?

Agricultural protectionism could erode benefits from removal of anti-agriculture policy biases in developing countries

Two decades ago a major World Bank research project showed that many developing countries, postindependence, directly or indirectly taxed agriculture relative to other sectors of their economy (Anne O. Krueger, Maurice Schiff, and Alberto Valdés, "Agricultural Incentives in Developing Countries," *World Bank Economic Review* 2 [1988]: 255–72). A new research project revisits that issue to see how much the situation has changed in different parts of the world since the mid-1980s. It seeks to draw out lessons from successful reform experiences for countries that are still discriminating against their farmers—or that have "overshot" and are now protecting their farmers from import competition.

Based on a sample of more than 70 countries, the project covers the full spectrum of per capita incomes and food trade positions—and up to 50 years of policy history. Its estimates of distortions, derived using a standard methodology, account for more than 60 percent of global agricultural production and consumption. The results of the country case studies will appear in a series of books covering four regions—Africa, Asia, Latin America, and European transition economies—that are being published by the World Bank by late 2008. They will also be summarized, along with comparable studies of high-income countries, in an overview volume to appear in early 2009, *Distortions to Agricultural Incentives: A Global Perspective, 1955–2005*.

What has been learned so far?

- Since the 1980s there has been a gradual move away from taxing farmers relative to nonagricultural producers, and during the past decade positive assistance on average for developing country farmers has emerged.
- The dispersion across developing countries in the average nominal

rate of assistance to farmers has increased rather than decreased, suggesting that there are opportunities for reducing distortions in the use of resources in agriculture through more policy-reform-induced international relocation of production.

- The dispersion in nominal rates of assistance to farmers also has increased rather than decreased *within* most developing countries studied. That means that there is still much scope for reducing distortions in resource use within the farm sector even in countries with an average nominal rate of assistance for agriculture close to zero.

- A strong anti-agricultural-trade bias in assistance rates remains in place: the positive assistance for import-competing farm industries has increased over the decades studied at the same time as the negative nominal rate of assistance for agricultural exportables has been phased down.

- The products with the highest rates of distortion and highest gross subsidy equivalent values are rice, sugar, and milk, just as in high-income countries.

- The most important instruments of farm taxation and assistance continue to be trade-restrictive measures, with domestic taxes and subsidies on farm inputs and outputs, and non-product-specific assistance, making only minor contributions to the estimates of nominal rates of assistance for most developing countries.

- Movements in the consumer tax equivalent closely replicate changes in farm support and taxation, because agricultural assistance or taxation is due mostly to trade measures.

- Rates of assistance to nonagricultural sectors have declined as much as rates of taxation of agricultural sectors, underscoring the fact that reductions in distortions to agricultural incentives have been part of a series of economywide reform programs and not just due to farm policy reforms.

- Food price and trade policies continue to be used to reduce fluctuations in domestic food prices and in

the quantities available for consumption through fluctuations in barriers to trade—as has been evident in government reactions to the spike in international food prices in 2008. Some developing country governments are again taxing export-oriented farmers, cutting off their opportunity to contribute to economic growth and poverty reduction.

The distortion estimates will be placed on the project's Web site (<http://www.worldbank.org/agdistortions>) in October 2008. Meanwhile, a prerelease version of the database has been made available to analysts in the second stage of the project. One group is seeking to better understand the political economy forces behind the patterns that have evolved over the past five decades. Another is examining the inequality and poverty consequences of the distortions remaining in 2004. Preliminary findings were discussed in May and June 2008 at conferences in Washington, D.C., and Helsinki. They will be fine-tuned over the summer, then placed on the project's Web site and prepared for publication in 2009.

Kym Anderson, ed. Forthcoming. Distortions to Agricultural Incentives: A Global Perspective, 1955–2005. New York: Palgrave Macmillan; Washington, DC: World Bank.

Kym Anderson and Will Martin, eds. Forthcoming. Distortions to Agricultural Incentives in Asia. Washington, DC: World Bank.

Kym Anderson and Will Masters, eds. Forthcoming. Distortions to Agricultural Incentives in Africa. Washington, DC: World Bank.

Kym Anderson and Johan Swinnen, eds. 2008.

Distortions to Agricultural Incentives in Europe's Transition Economies. Washington, DC: World Bank.

Kym Anderson and Alberto Valdés, eds. Forthcoming. Distortions to Agricultural Incentives in Latin America. Washington, DC: World Bank.

Kym Anderson and Ernesto Valenzuela. Forthcoming. "Global Estimates of Distortions to Agricultural Incentives, 1955 to 2005." Spreadsheet. <http://www.worldbank.org/agdistortions>.

Kym Anderson, Marianne Kurzweil, Will Martin, Damiano Sandri, and Ernesto Valenzuela. 2008. "Measuring Distortions to Agricultural Incentives, Revisited." Policy Research Working Paper 4612, World Bank, Washington, DC. Also forthcoming in World Trade Review.