

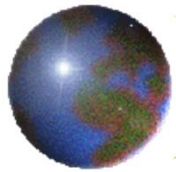


Distortions to global ag & nonag markets: what needs explaining?

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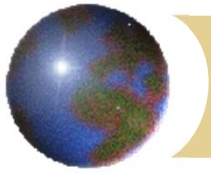
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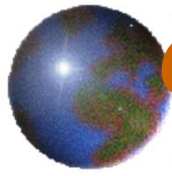
Outline

- ✚ Evidence: trends and fluctuations in agric trade-related policies pre- and post-1980s
 - ▣ Based on recent price distortions database at www.worldbank.org/agdistortions
- ✚ What next, in terms of:
 - ▣ Further research on political economy of distortions to agric vs nonag incentives
 - ▣ Implications for sectoral and economy-wide baseline model projections: what are prospective trade and agric price policy trends?

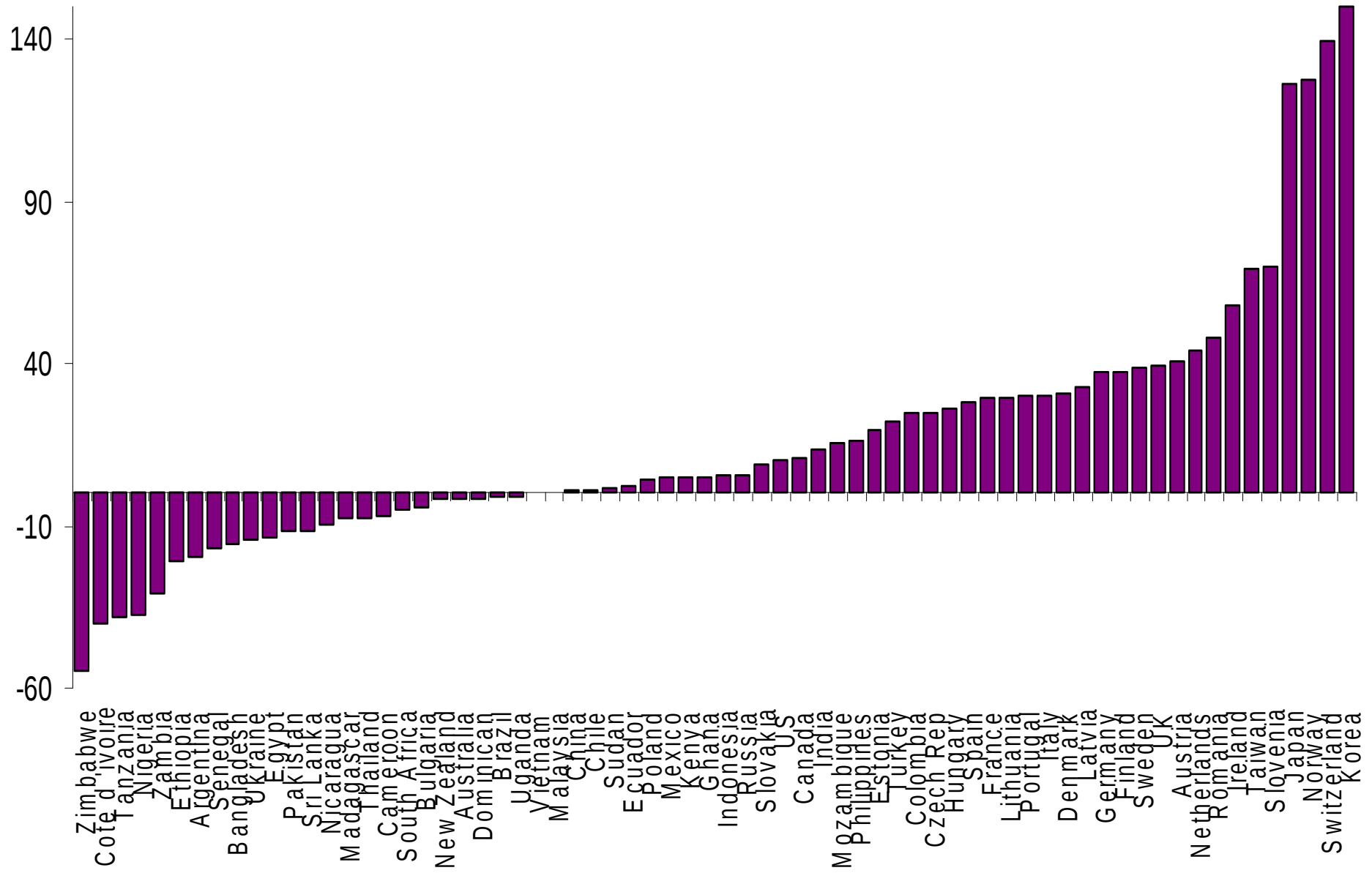


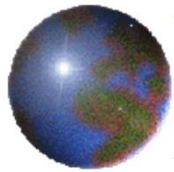
New evidence: what needs explaining (1)

- ✚ Traditionally, **HICs have supported, and DCs taxed, agric relative to manuf**
- ✚ **Nominal and relative** rates of assistance to farmers, in both HICs and DCs, have grown with econ devt
 - ▣ But some reform evident for HICs since 1980s

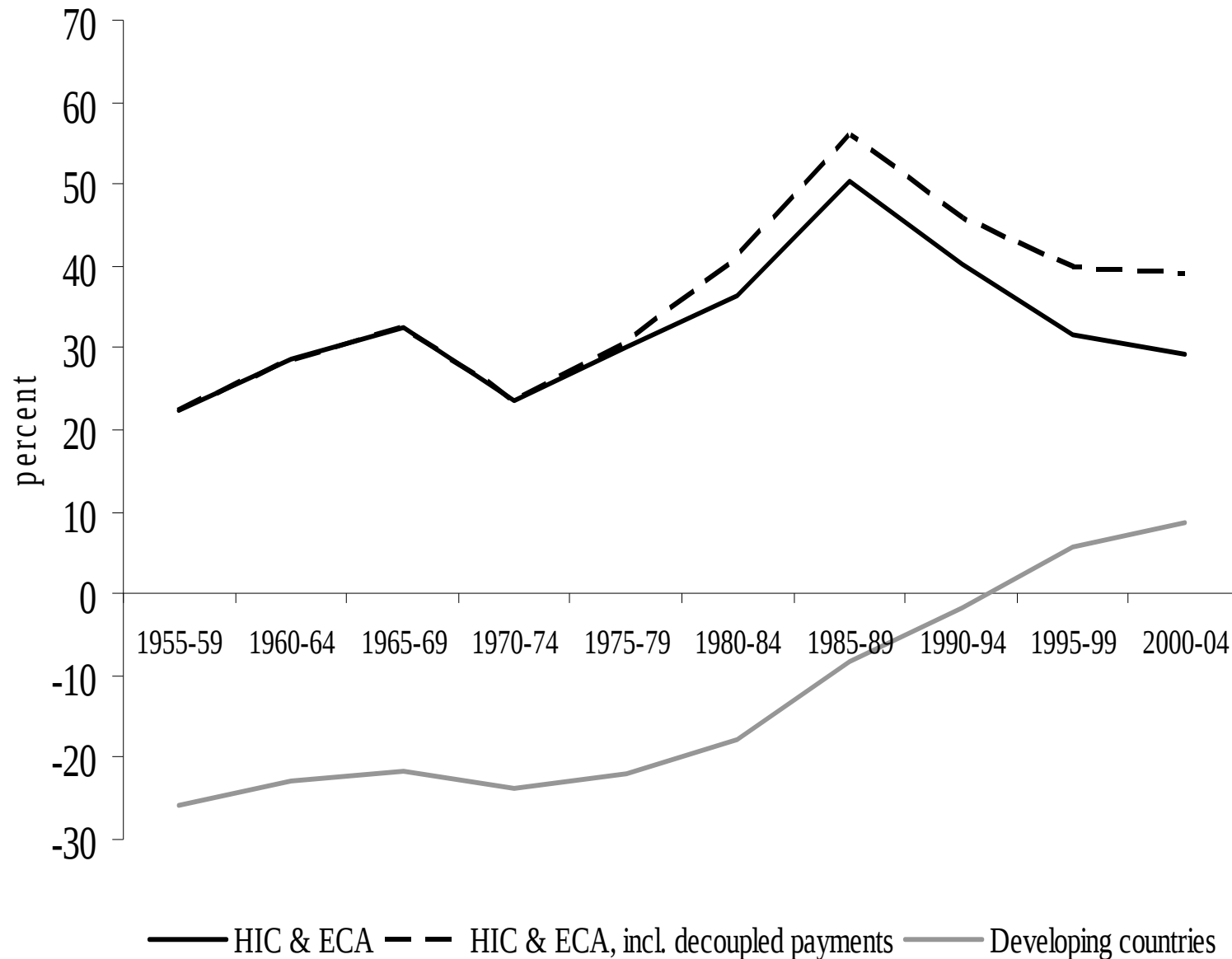


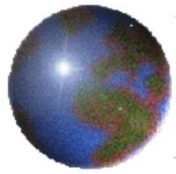
Cross-country dispersion in RRA, 2000-04



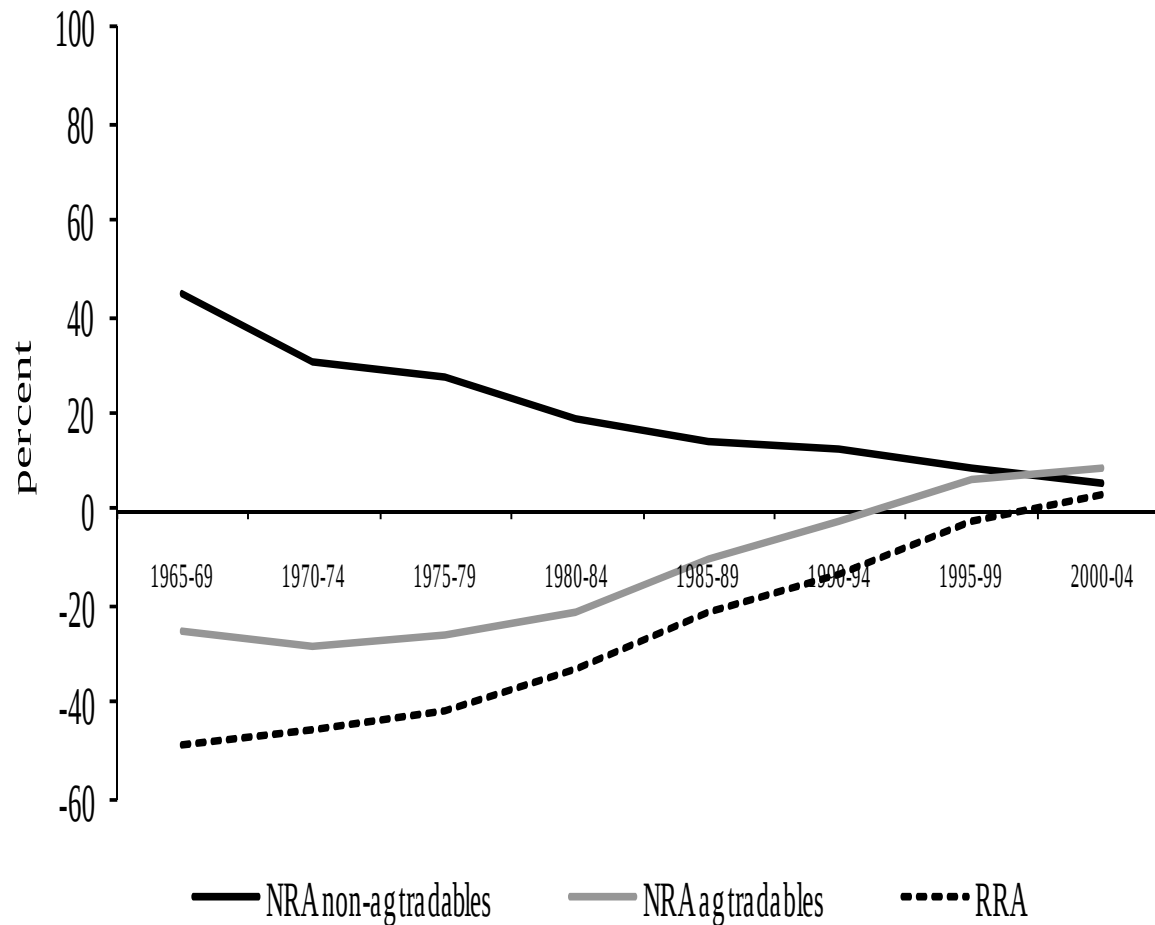


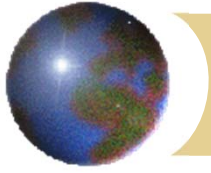
NRAagric for HICs and DCs, 1955-2004





*Evolution of average RRA for **all DCs**, 1965-2004: from very negative to slightly positive*

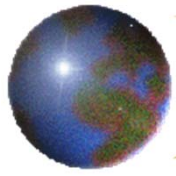




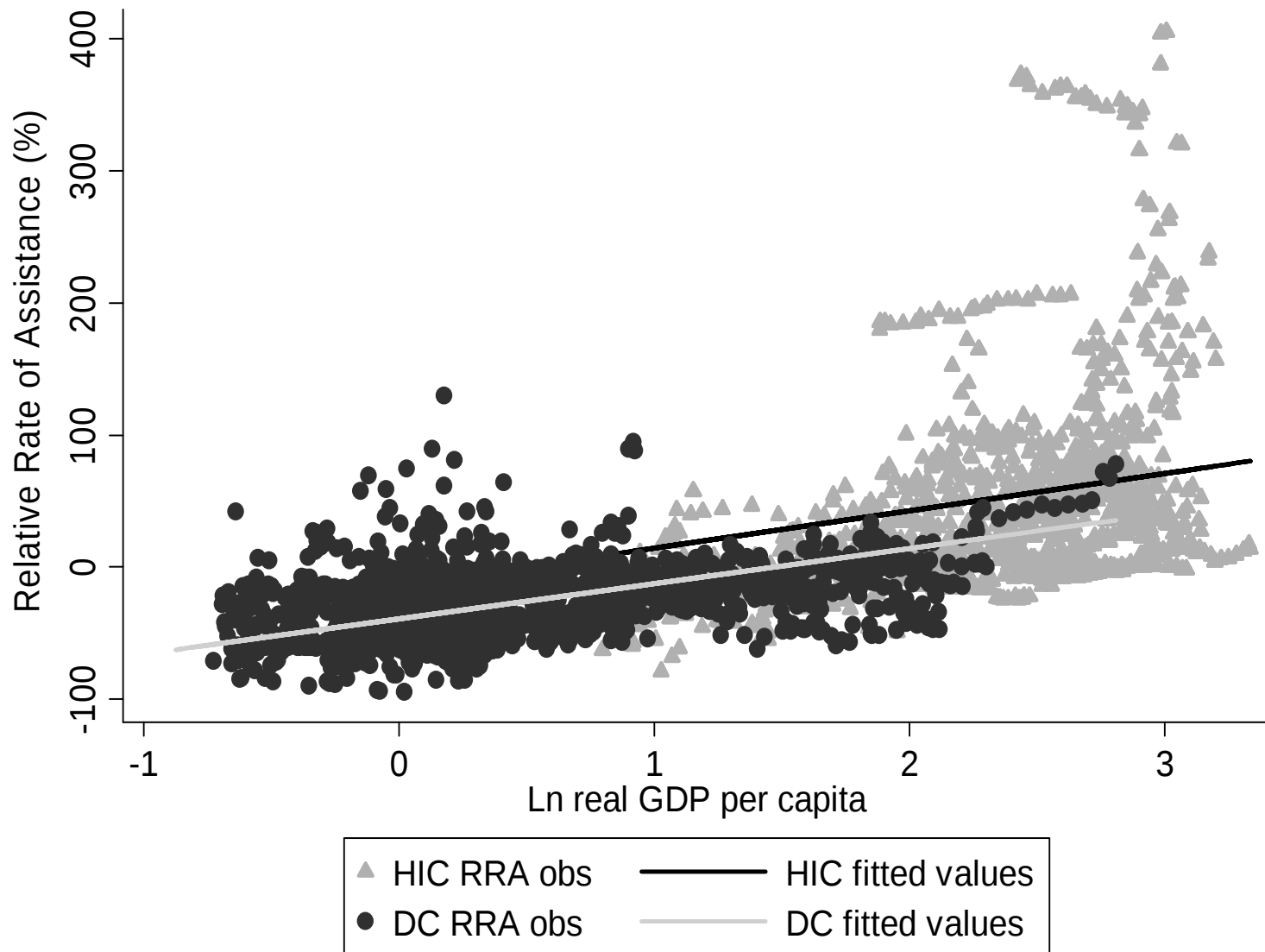
New evidence: what needs explaining (2)

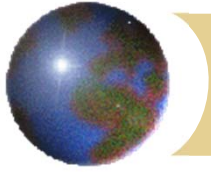
✚ **Relative** assistance to farmers:

- ▣ Is convergence towards zero (or small +ve) **intersectoral** distortions permanent, or just an aberration?



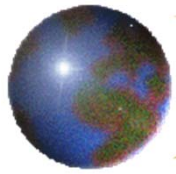
Will DCs move, like HICs did, to protecting agric as their incomes rise?



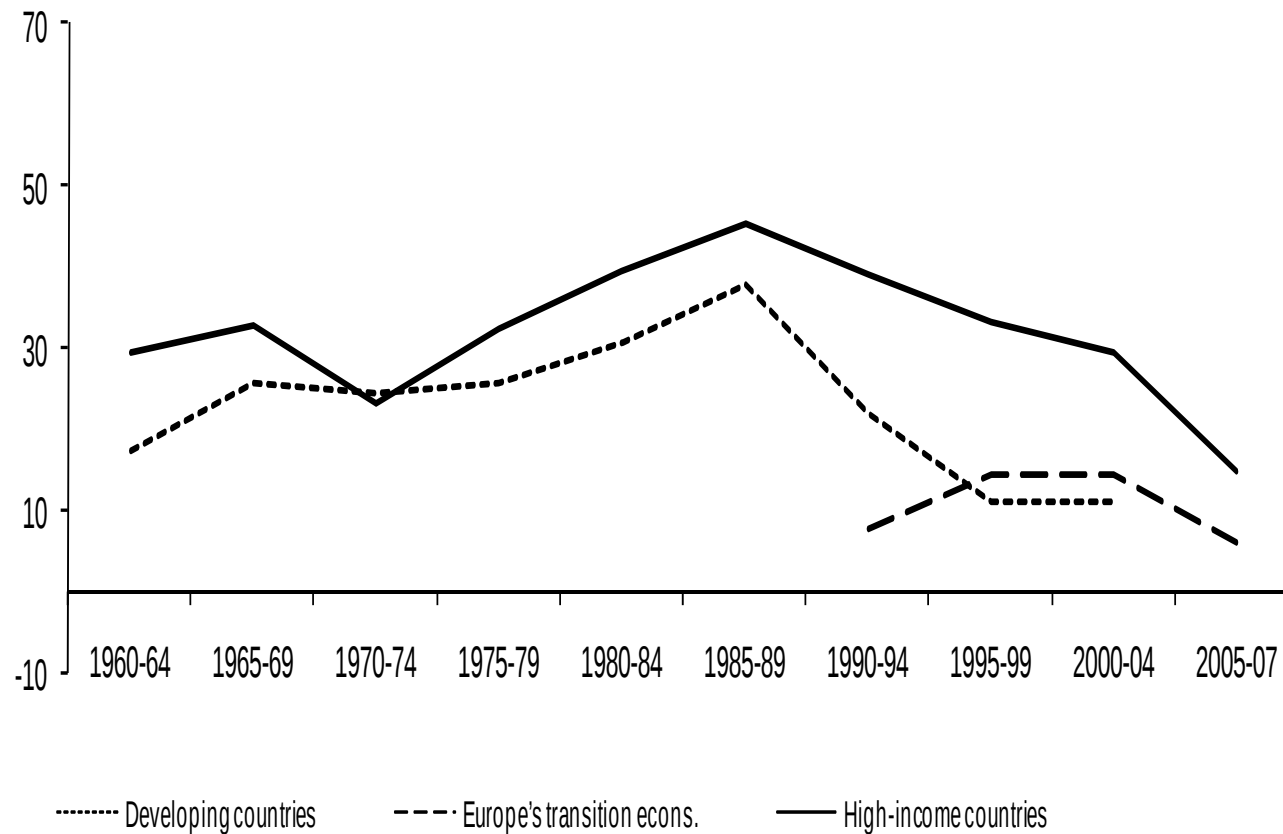


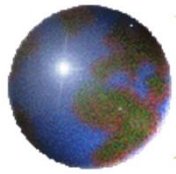
New evidence: what needs explaining (3)

- ✚ **Reforms since 1980s:** decoupling of some HIC agric support, removal of DC agric taxation
 - ▣ **Halving of global welfare & trade effects**
 - according to global CGE, and partial TRI measures



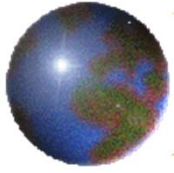
Agric policies' *trade* reduction indexes: DCs, HICs and ETEs, 1960-64 to 2005-07, %





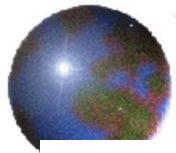
Agric policies' *welfare* reduction indexes: DCs, HICs and ETEs, 1960-64 to 2005-07, %



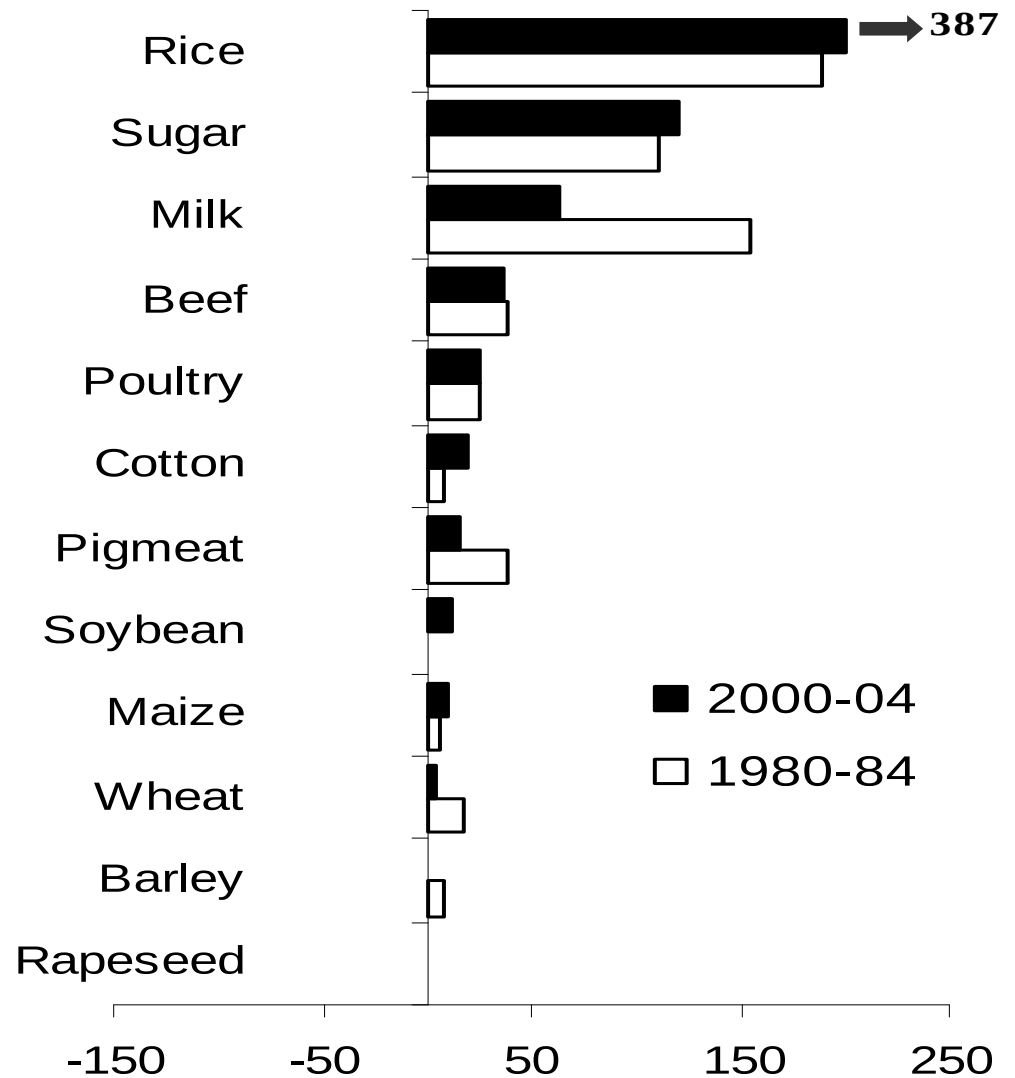
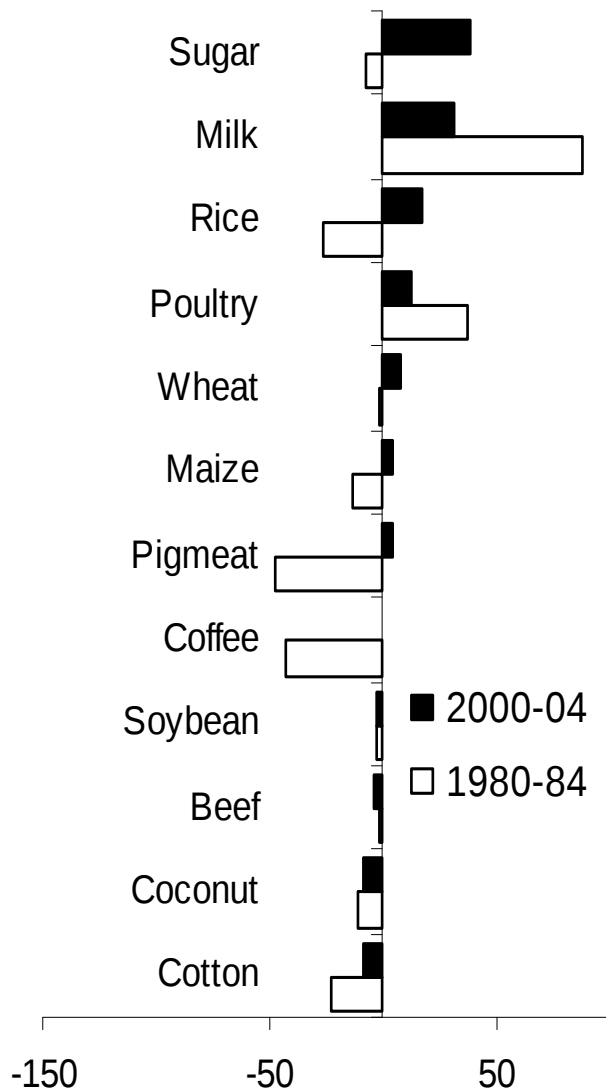


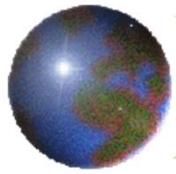
New evidence: what needs explaining (4)

- ✚ Assistance within a sector **varies a lot across industries**
 - ▣ Which is why TRI and WRI (in previous two slides) are still a long way from zero
- ✚ Assistance within agric sector has a **strong anti-trade bias**

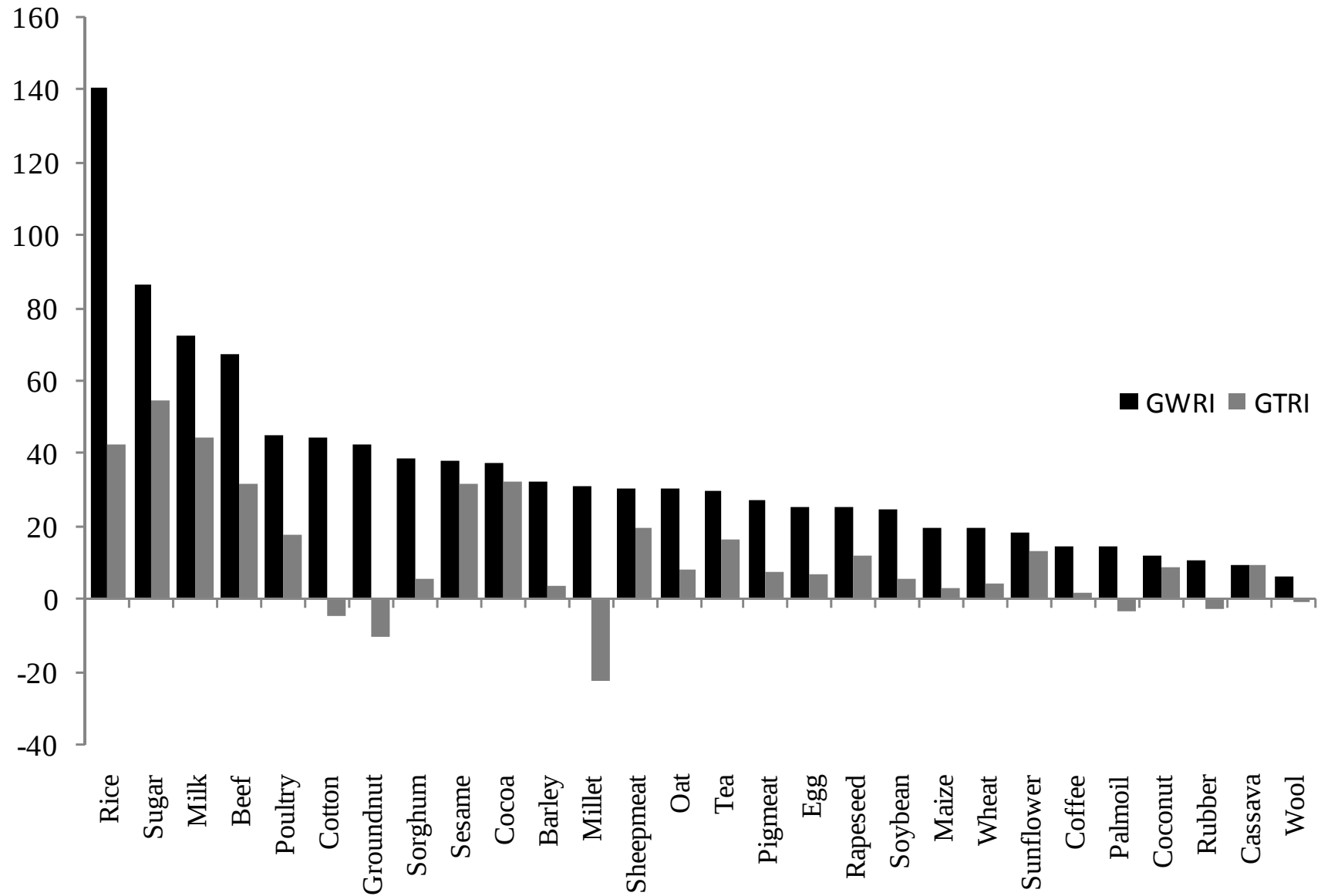


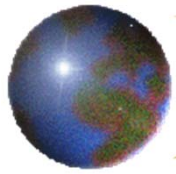
NRAs by product: DCs versus HICs



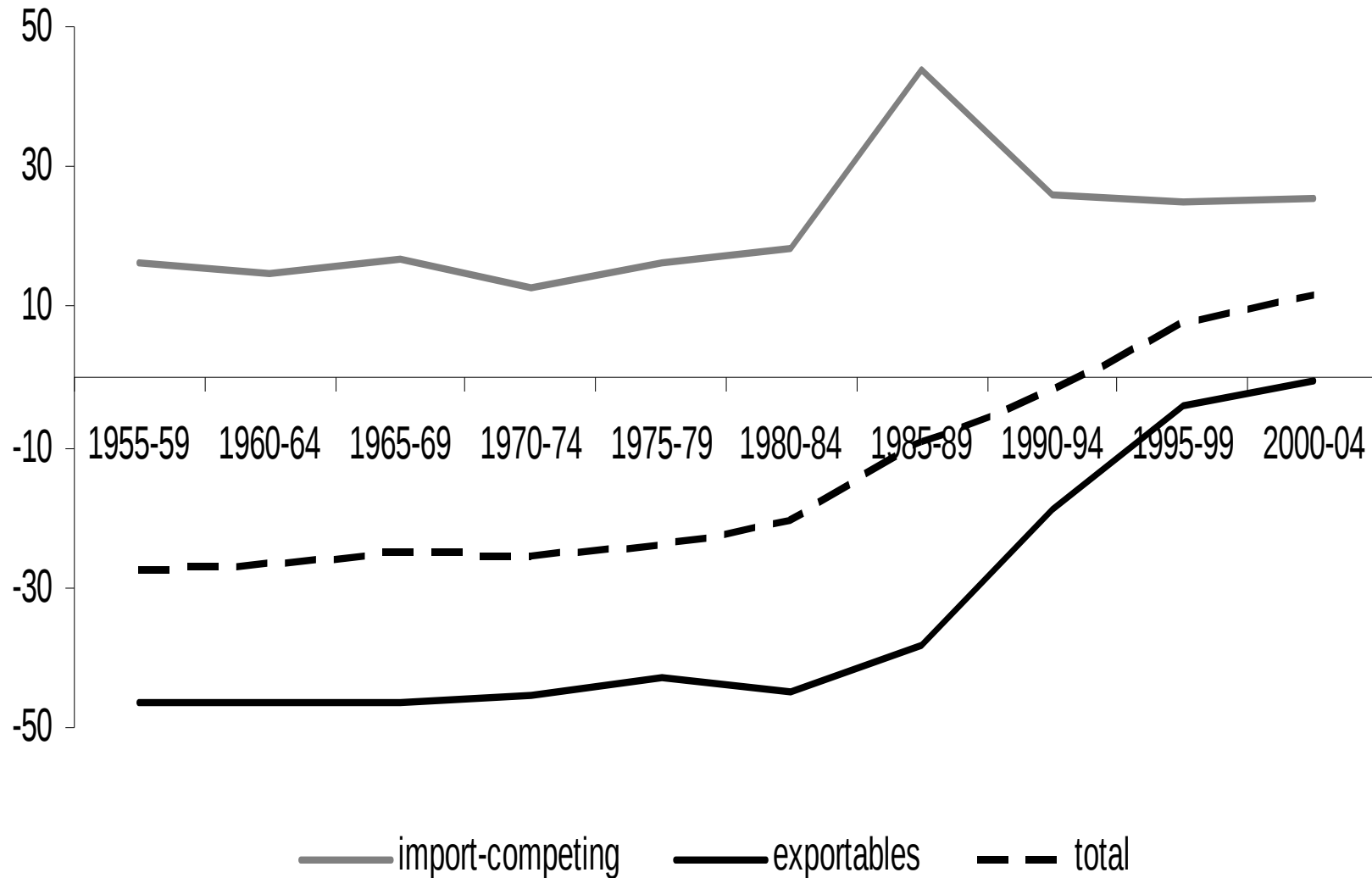


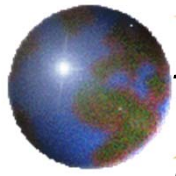
Global WRI and TRI, by product, 2000-04



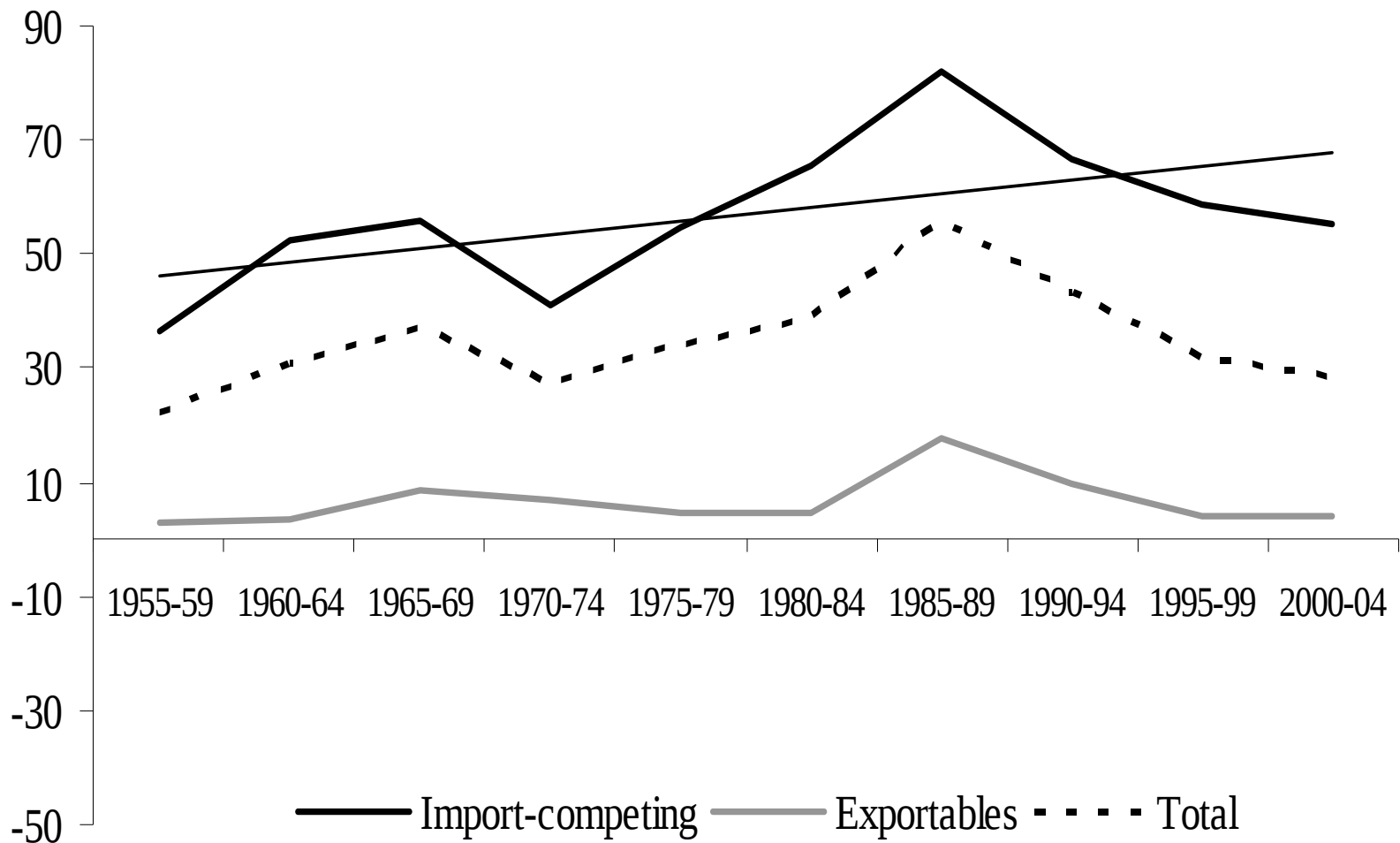


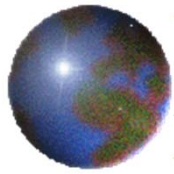
***Anti-trade bias in DCs: NRA agric export
taxation disappearing, **but** NRA ag import-
competing is >0 & growing***





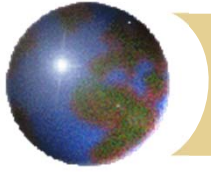
In HICs: export support > 0, but fallen after 1980s





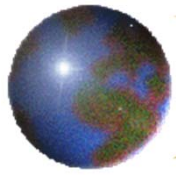
Long-run trend in NRA ag import-competing goods is growing as fast in DCs as in HICs: a worry for WTO



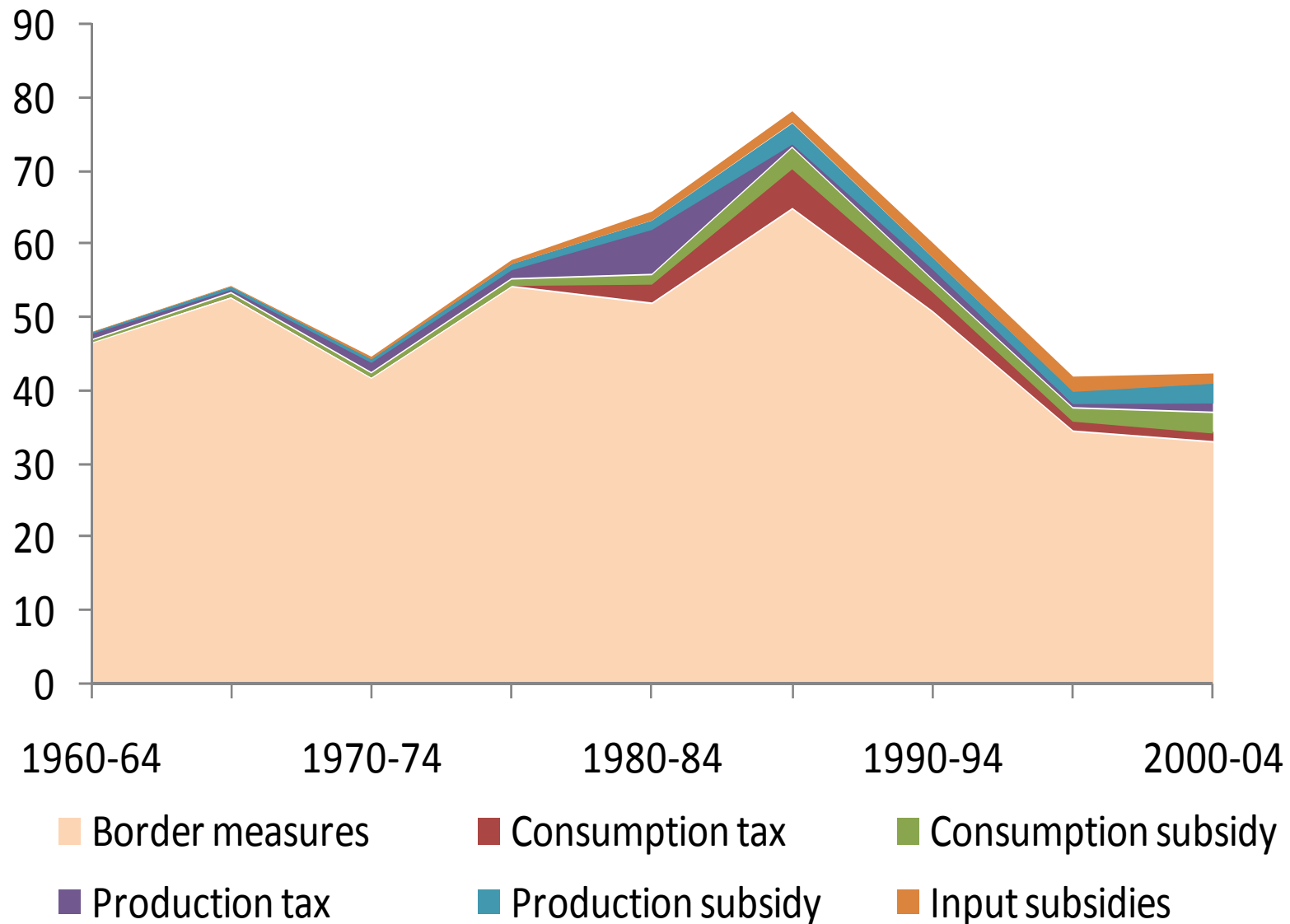


New evidence: what needs explaining (5)

- ❖ **Trade measures are used**, even though main purpose seems to be to achieve non-trade objectives
 - ❖ **regardless of stage of econ devt**, at least until the **recent decoupling** of some agric support in HICs

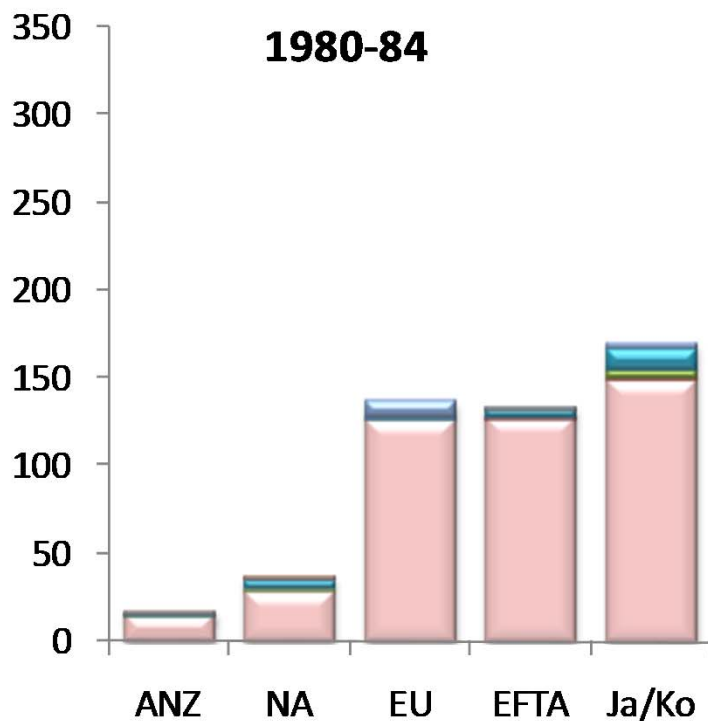


Border measures still the most impt. instruments for global **WRI**

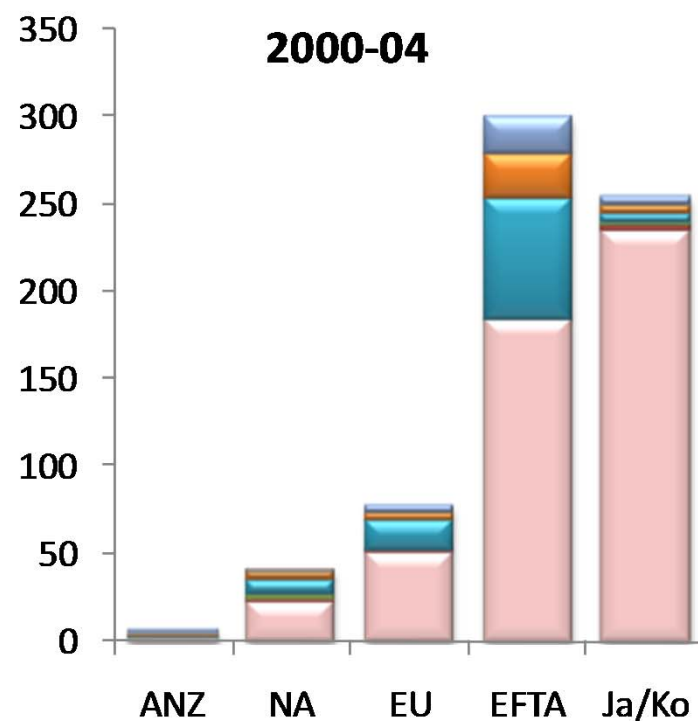




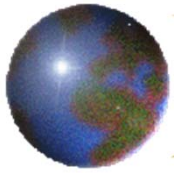
'Decoupled' and NPS now more important to WRI in high-income countries



- Border measures
- Production tax
- Production subsidy
- Input subsidy
- Decoupled payments
- Non-product-specific (NPS) support
- NPS to inputs

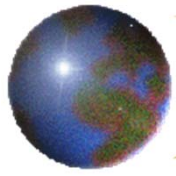


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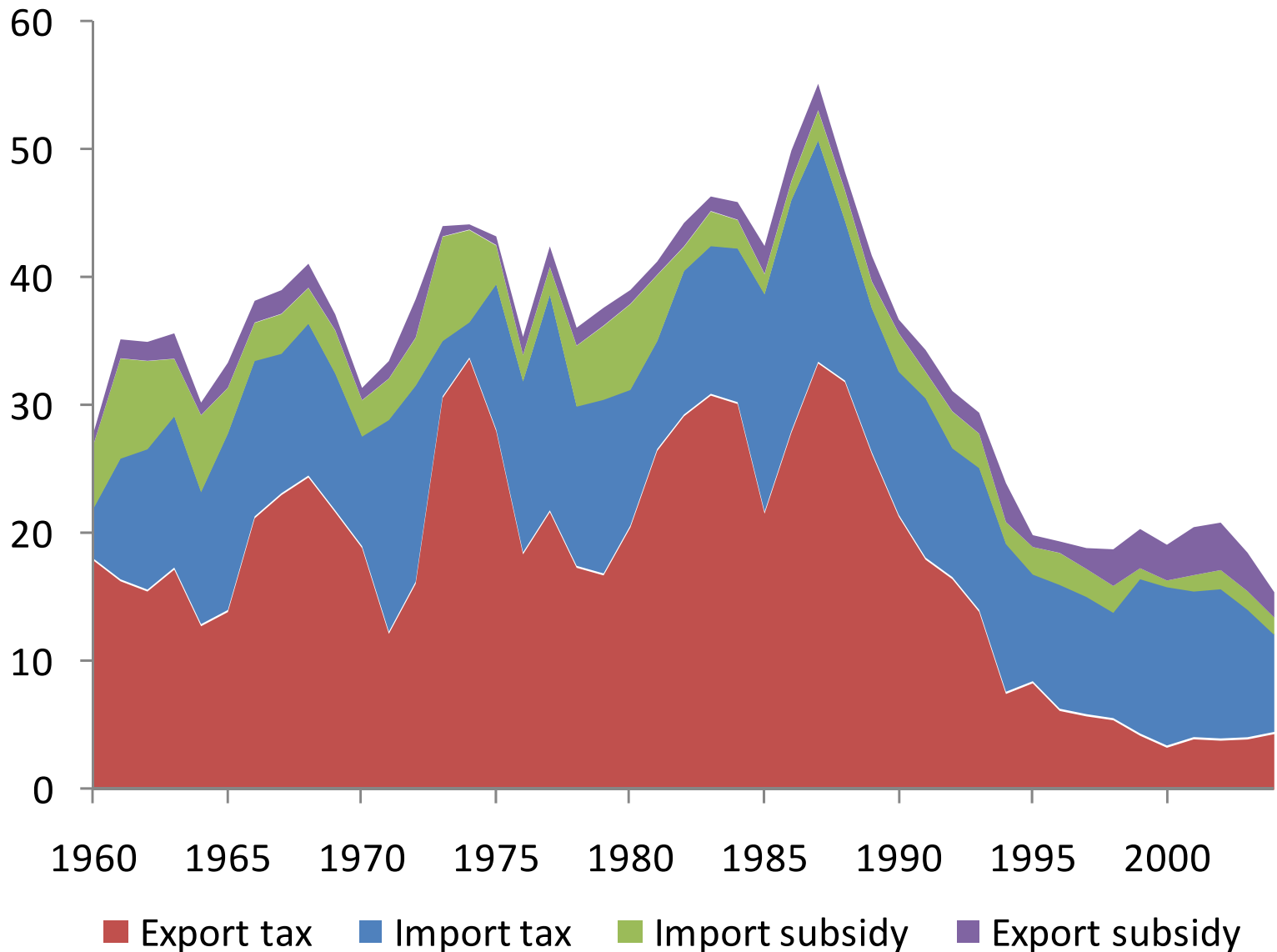


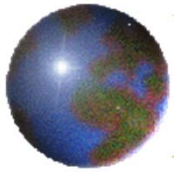
New evidence: what needs explaining (6)

- ❖ Relative importance of different trade measures alters during spikes up or down in international food prices
 - ❖ Reflected in WRI, and also in negative correlation between NRA and int'l food price
- ❖ Suggests govts. support the group who would be hurt most at such times
 - ❖ Freund and Ozden, “Trade Policy and Loss Aversion”, *Amer Econ Review* , Sept 2008



*Earlier importance of export taxes for DCs: **WRI** for border measures*

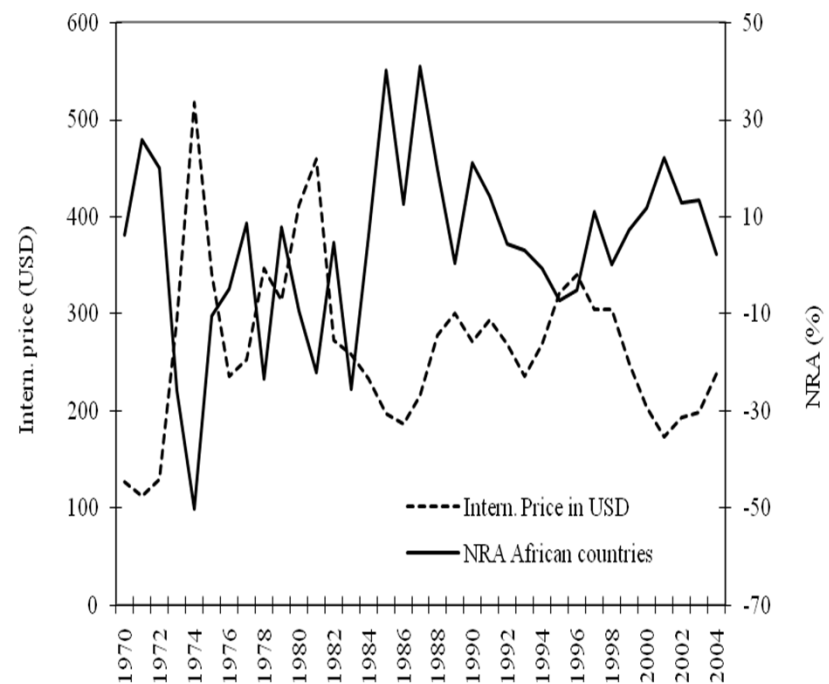
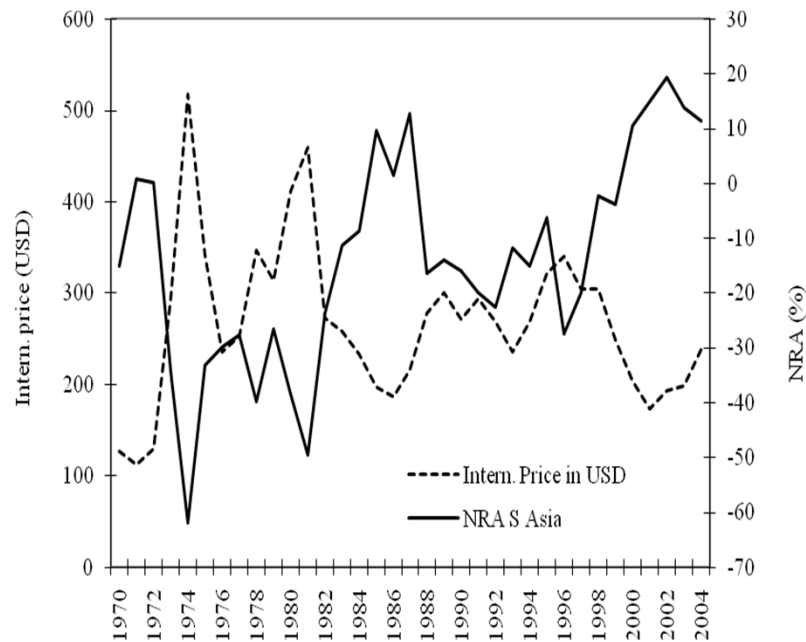


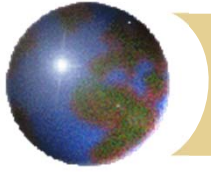


Rice NRA (%) and int'l price, 1970-2005

(a) South Asia

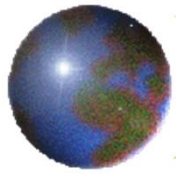
(b) Sub-Saharan Africa



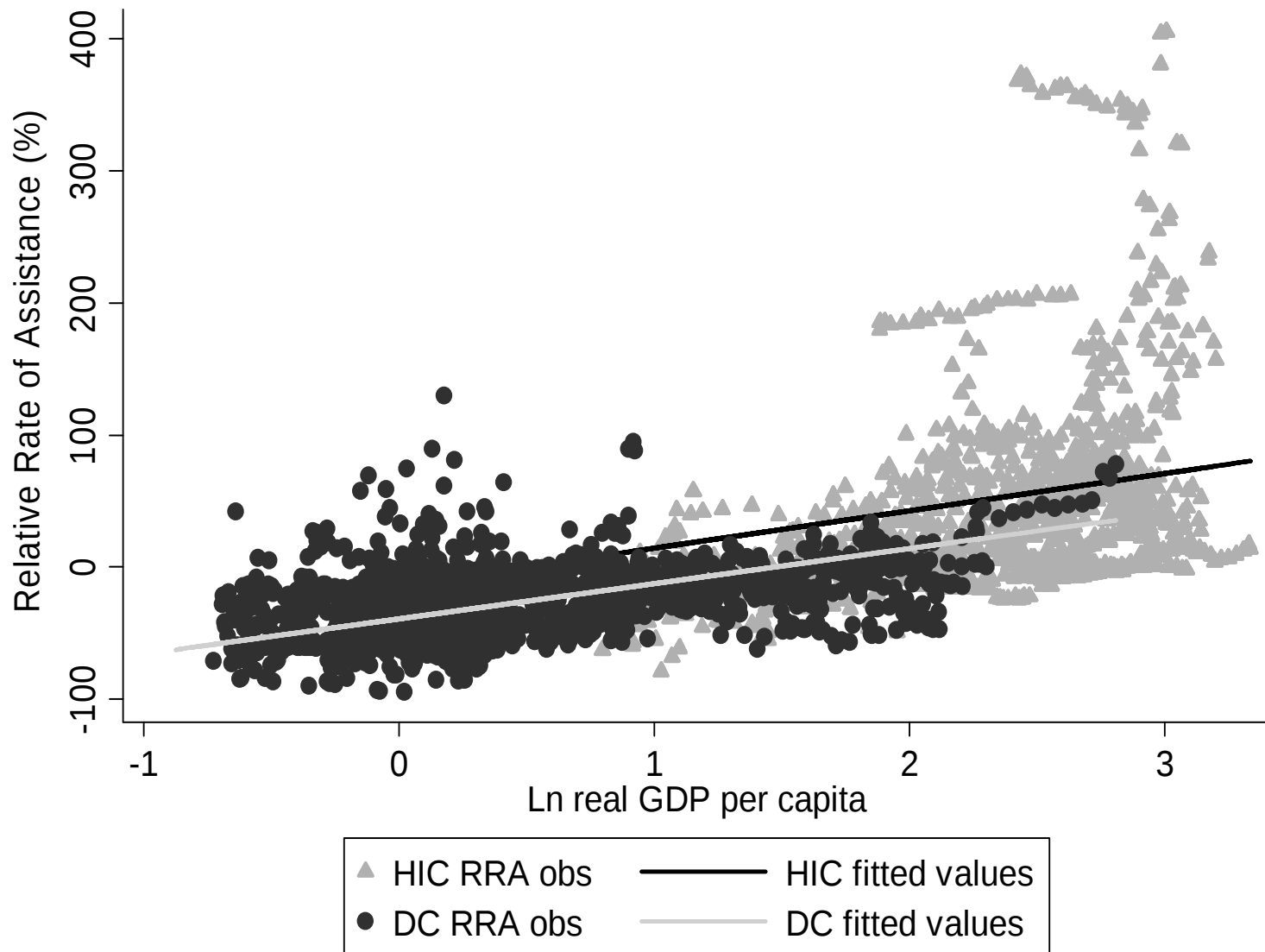


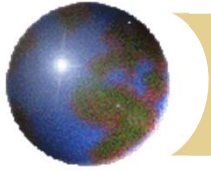
New evidence: what needs explaining (7)

- ✚ Assistance to agric varies a lot **across countries even with the same per capita income**
 - ▣ See dispersion around trend in next figure
- ✚ Suggests importance of differences in political institutions, such as constitution?



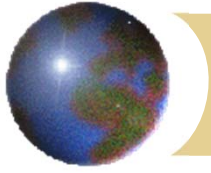
Will DCs move, like HICs did, to protecting agric as their incomes rise?





A forthcoming book begins to address such questions

- ✚ The above and related facts needing explanation are laid out in Ch 2 of:
 - ✚ Anderson, K. (ed.), *The Political Economy of Agricultural Price Distortions* , New York: Cambridge University Press, Sept 2010
- ✚ Rest of book covers:
 - ✚ Recent devts in theory of pol econ
 - ✚ Analytical narratives of ag protection growth since Corn Laws
 - ✚ Political e'metrics using the NRA/RRA database



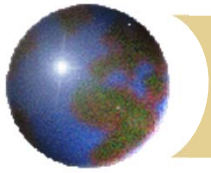
*E'metics using agric **NRA** database: Olper and Raimondi (2010)*

- ⊕ Transition to democracy raises NRA, but more so for:
 - ⊞ permanent vs temporary democracy
 - ⊞ proportional vs majoritarian democracy
 - Exacerbated by parliamentary systems, but dampened under presidential system



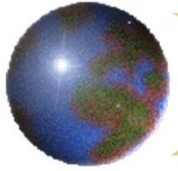
*E'metics using agric **RRA** database: Bates and Block (2010) on SSAfrica*

- ⊗ Negative RRAs, and NRAs for ag exporters, have moderated, but persist even though farmers comprise a political majority
- ⊗ Three factors matter: institutions, regional inequality, and the need to generate tax revenue.
- ⊗ They find that:
 - ⊗ In the **absence** of electoral party competition, agricultural taxation increases with the share of the population that is rural
 - ⊗ In the **presence** of party competition, the lobbying disadvantage of the rural majority turns into political advantage
 - ⊗ Privileged cash crop regions are targets for redistributive taxation
 - unless the country's president comes from a cash cropping region
 - ⊗ Governments of resource-rich African countries, while continuing to tax export producers, tend to tax their food consumers less than in other African countries



Implications for ag trade research agenda

- ✚ More analysis needed of causes of govt interventions
 - ▣ Political econometrics to explain differences – across countries, products and instruments – in NRA trends, fluctuations & turning points
- ✚ Should modelers use insights from those analyses when generating a projection baseline (eg for climate change analysis), instead of simply assuming current policies continue into the future?



Thanks!

- ✦ For all Agric Distortions Research Project working papers, regional and poverty e-books, and global distortions database, go to www.worldbank.org/agdistortions
- ✦ Anderson, K. (ed), *Distortions to Agricultural Incentives: A Global Perspective, 1955-2007* , London: Palgrave Macmillan and Washington DC: World Bank, Oct. 2009
- ✦ **Anderson, K. (ed.), *The Political Economy of Agricultural Price Distortions* , New York: Cambridge University Press, forthcoming Sept 2010**
- ✦

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