WORKING PAPER

Reforming Agricultural Policy: Lessons from four countries

Summary and Conclusions

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July 2006

Future Agricultures

Comparing reform of agricultural policy in Bangladesh, Chile, China and New Zealand, this paper derives lessons for countries contemplating reform. In all cases reforms to farm policy were undertaken as part of overall reforms across the whole economy, started in response to a perceived national crisis and usually implemented by new governments with a mandate to make major changes. Political will is, not surprisingly, a necessary condition.

In designing reforms and their implementation, much depends on context, including external conditions such as world market prices. The scope for change, and certainly the sequence and pace of reform, may be as much a matter of administrative feasibility as choice. Where outcomes are uncertain and state capacity limited, gradual approaches to reform that allow for learning may be better than swift and comprehensive 'big bang' packages.

This working paper presents the first stage of a review of agricultural reform experiences within African countries, specifically Ethiopia, Kenya and Malawi. It aims to draw out issues for would-be reformers by examining the experience of four cases of agricultural reform, purposely selected as often being seen as successful. These are:

- Reform of agricultural input markets in Bangladesh in the early 1980s, followed by liberalisation of grain trading and the cancellation of several longstanding programmes of public distribution of grains during the late 1980s and early 1990s;
- The impact of economy-wide reforms and counter-reform of land on Chilean agriculture from 1973 through to the 1980s;
- Introduction of the 'household responsibility system' of production and liberalisation of marketing in China starting around 1978; and,
- Removal of price and other support to New Zealand farming that began in 1984 and continued into the 1990s.

This review seeks to answer the following questions:

- What were the conditions that created the impetus for agricultural reform?
- What factors determined the actual content of the reform packages?
- What challenges were faced in the implementation of the reform and what lessons, if any, can be learnt from these for future reform programmes?
- What opposition was there to the reforms and how was this overcome?
- What factors exerted the greatest influence on the outcomes of the reform?

The country cases

Bangladesh undertook two waves of agricultural reforms between the late 1970s and early 1990s. In the first, the markets for agricultural inputs — above all fertiliser and irrigation equipment were liberalised. This led to falling prices, greater availability, and increased use of these inputs. Tubewells and pumps, in particular, allowed a major expansion of winter ('boro') rice production that saw increases in domestic supply of rice outstrip population growth and thereby drove down the price of rice. This in turn made it easier to implement the second round of reforms where the markets for food grains were liberalised and some large-scale programmes of food subsidies were ended.

Bangladesh benefited from phased implementation of reforms that allowed for learning, monitoring and adjustment to developments in the markets. Timing was important — and fortuitous, since the liberalisation of inputs took place just as

international prices dropped, thereby more than offsetting the loss of subsidies on inputs.

Much of the impetus for reform came from domestic concerns over the costs and ineffectiveness of controls on markets and subsidies. Donors were also concerned, provided some help for research on the costs, and also ended up acting as a target to draw the fire of domestic opponents of reform.

Formal research played a role in revealing the high costs of existing policies. The numbers were fed into debate by cabinet briefings, policy seminars and by (leaked) press reports. People were aware that there were problems, but it seems the numbers shocked them sufficiently to act.

Chile's reforms took place within the context of sweeping changes to overall economic policy carried out after the coup of 1973. The first phase that lasted until 1975 consisted of gradual measures to liberalise the economy and open the country for trade, while cutting back on the role of the state. For agriculture, the main measure was the part reversal of the redistributive land reforms that had taken place in the decade or so before the coup, as some large farms were returned to their former owners. From 1975, economic policy became more radical in a determined attempt to create conditions for business to invest. But after a banking collapse in 1982, more pragmatic policies were introduced that allowed some trade protection, some regulation of finance markets, and some programmes and projects that saw the government trying actively to stimulate investment and productivity.

Farming was affected by changes in land ownership, the more open trading regime, and by a reduction in the provision of public services. By the early 1980s the sector had adjusted to reforms and began to take the opportunity to boost exports of fruit, forest products, fisheries, and wine. The freer market had allowed some concentration in supply chains with large conglomerates then bringing in capital and know-how. From the mid-1980s to the mid-1990s the farm sector grew at annual rates that were usually 5% a year or more.

Reformers in Chile were able to take advantage of an authoritarian regime that was determined to reform the economy to push through changes that favoured business, albeit at the expense of workers and small farmers. But the path taken by Chile was far from being a blueprint: reform went through stages, as lessons, sometimes quite painful, were learned. The precise configuration of policies was worked out through interactions between technocratic economists — the 'Chicago boys' — and elite groups within industry and farming, mediated by a leadership that was prepared to take unpopular decisions if convinced by the arguments.

In the case of **China**, the reforms introduced after 1978 marked a significant departure from previous economic policies. In agriculture, markets for produce that previously had been under tight control of the state were partly liberalised. Land that formerly had been worked by production units was leased out to households who a few years later were even allowed to rent out their plots. Labour markets were eventually allowed.

The results have been striking: per capita agricultural output more than doubled in the two decades following reforms, and rural incomes have risen considerably making a big dent in poverty. Not all of the increases in income can be attributed to agriculture: jobs in burgeoning rural industries and remittances from the increasing numbers of migrants from rural areas have contributed. But some of those changes have been linked to reforms in agriculture.

Although at first sight China made dramatic reforms, the process was more gradual, based on experimentation and pragmatic choices. The reformers of the late 1970s could draw on the results of tolerated trials in small areas carried out in the 1960s and 1970s. Moreover, once the initial round of reforms of 1978–1979 brought gains that exceeded expectations, policy-makers were thus encouraged to introduce further rounds of reforms from 1984 onwards that deepened and strengthened the initial changes.

For much of the twentieth century, **New Zealand** farming suffered negative net protection within an economy pursuing import-substituting industrialisation. However, for a brief period from 1980–84 it enjoyed considerably increased support levels that were quickly identified by economists and policy makers as unsustainable. A Labour government came to power in 1984 following a snap general election and was quickly forced into devaluation of the New Zealand dollar by a financial crisis. Despite not having signalled this in its election campaign, it then embarked on a radical reform of the entire economy, focusing on achieving macroeconomic balance and stripping away sectoral policy support.

Agricultural support — the majority of which was to sheep meat, wool and beef production — was the first to be cut. In the first year, 1984–85, the effects of the cuts were offset by the benefits from exchange rate devaluation combined with high international commodity prices. It took longer to control inflation than had been expected. In the meantime, high real interest rates caused the exchange rate to appreciate again and this, combined with two years of lower international commodity prices, made the adjustment for New Zealand's farmers to their loss of policy support much more painful than would otherwise have been the case. Land prices fell when support was withdrawn, leaving some farmers severely indebted, whilst farmers in marginal areas found it hard to compete in the undistorted market. Some support to ease the adjustment process was forthcoming from the Labour government after it was returned to power in 1987.

Government agencies in all sectors were subject to 'new public management' aimed at increasing their efficiency. Within the Ministry of Agriculture and Fisheries reform began in 1985, with initial targets set for cost recovery of services such as quality control and extension. Organisationally, services were separated from policy and ultimately the former were either privatised or spun off into independent agencies. An interesting exception to radical reform was the preservation of export marketing organisations. Instead of introducing competition, efforts were made to increase their efficiency and accountability to producers.

Inflation was eventually brought under control in 1989 and both the economy as a whole and the agricultural sector in particular resumed growth in the early 1990s. There was some switching out of sheep meat and wool towards, in particular, dairy and horticulture. Overall, farmers managed to raise total factor productivity, so as to maintain overall output levels with reduced inputs, thereby fairly quickly restoring profit levels after an initial shock.

New Zealand's reforms were not opposed by the main farmers' organisation. This broadly supported reform and indeed, pressed the government to reform other sectors such as ports and transport where inefficiencies impaired the competitiveness of export agriculture.

Conclusions

The **context** of agricultural reform was that of response to a perceived crisis, either economic, political or a combination of both. In all cases, with the part exception of China, reforms were undertaken following a change of government. The crisis seen was not specifically agricultural, nor even rural: in all four cases, it was a national problem. It was not surprising then to see that agricultural reform was part of a wider set of measures designed to affect the entire economy. In all four cases studied here, the national programme included liberalisation of markets and a retreat of the state from intervening in the economy, although we do not mean to imply that this is the only form that reform can take.

The main difference within the four cases was the pace and sequencing of the reforms. Chile and New Zealand went for swift and comprehensive reforms — 'big-bangs', while the approach in Bangladesh and China was more gradual, with reforms introduced in stages.
When examining the agricultural **content** of the reforms, in many cases these were the sectoral concomitants of a more general strategy, as seen

for example in the liberalisation of markets for agricultural produce and inputs, in reducing subsidies, and in reducing the extent of state intervention in production and markets. In all cases, the reforms saw the scope of public agencies, and especially parastatals, reduced.

Process: the sense of crisis gave incoming governments a mandate to make substantial changes. In all cases, the new leaders of the countries had a vision of change and were prepared to bring this about. It helped that in three of the cases, the reforming governments were not subject to full democratic scrutiny: two military administrations in power after coups, and a single-party state. In New Zealand, where this condition did not apply, it seemed the elected government benefited from a widespread acknowledgment that change was needed.

Since both crisis and response were national, rather than specifically agricultural, the politics of agricultural reform were subsumed within national debates on overall economic strategy. Indeed, in three of the cases, important reforms were seemingly imposed on agriculture and the state agencies concerned with the sector by policy-makers and advisors situated in more powerful parts of the government, notably the ministry of finance.

None of the reforms necessarily went smoothly: all were marked by adjustments and indeed, some important deviations from the initial schemes were seen. Given the more comprehensive nature of reforms in Chile and New Zealand than in China and Bangladesh, it is perhaps not surprising to find that there were also some ‘fits and starts’ in implementation in both these countries.

Outcomes: Success did not depend on the degree of reform. In Bangladesh and China, the modest initial measures taken paid off within a year or two. In both cases, food production for the domestic market increased well ahead of population growth: a valuable gain for countries that were very poor at the time and where the availability and price of food was a key issue. Initial success strengthened the hands of reformers and allowed bolder subsequent changes.

Success came quickly in Bangladesh and China since the changes were designed to stimulate farmers to increase production of crops and livestock that they knew well, for domestic markets that they knew equally well. Farmers had to make few adjustments. The main challenge in these cases was to encourage the emergence of private entrepreneurs in the supply chains: input dealers, credit intermediaries traders and processors.

In Chile and New Zealand, on the other hand, the response of farming to the changes was delayed, by a dozen years in the first case and by half that time in the latter. Two reasons relevant to both cases may explain the lag in response. First, some of the measures undertaken to stabilise the macro-economy — higher interest rates, less public spending — had deflationary effects that affected farming as it did other sectors.

Second, many farms eventually changed their production mix and techniques. In Chile the shift was from producing staple foods for the domestic market towards fruit, wine, nuts and other high-value crops for export. Exporting was clearly a challenge requiring learning about distant markets, achieving standards, and investing in the necessary equipment for processing and packing — a process that was assisted by the entry of foreign capital. In New Zealand farmers knew all about exporting, but they also shifted their production mix, away from sheep and beef cattle towards horticulture. New Zealand farmers also found that they could cut their costs of production to their advantage, costs savings outweighing any loss of production.

Lessons for Africa and other would-be reformers:

Clearly, reform does not take place without political will. These cases support the hypothesis that significant changes only emerge from crises. But crisis is not the only requirement — if it were,

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Africa would lead the world in reforms. There has also to be a political response to crisis, usually a change of administration that has a mandate to act. This too is not sufficient: there has to be a reasonably coherent vision of strategic change amongst leaders and their policy advisers plus a sense that change is imperative.

External conditions usually matter as well: they can help or hinder reforms. Few countries can choose the moments when external conditions are suitable for reform: windows of opportunity for domestic policy reform may have to be seized irrespective of international market conditions. In most cases it is a question of designing measures in the light of external conditions — and hoping that they are advantageous.

Should reform packages be comprehensive and swift — the '**big bang', or gradual** and phased? Big bang has the advantages of changing while there is the political will, often taking opponents by surprise and giving them little chance to obstruct change. If, however, producers are to respond quickly to new incentives and opportunities it does require functioning markets and indeed a set of economic institutions in place. It also requires capacity and competence within the public service. Both of these conditions existed within the developed New Zealand economy, whilst the large farm focus of policy in Chile reduced the market access and service delivery constraints. However, such conditions rarely exist in Africa.

Gradual approaches, on the other hand, run the risks of being waylaid, and may delay unnecessarily the adoption of key reforms. But they have the advantages that they allow for some learning; they may be administratively feasible when the civil service has limited capacity; and if initial measures are successful, they may whet the appetite of leaders and the public for further reforms.

The choice may be more apparent than real. Some reforms are relatively simple and swift to carry out, requiring little more than high level policy advice and a ministerial decision — think, for example, of altering a tariff, changing central bank interest rates, or even adjusting government budgets. Others inherently require more time and more staff: as applies when restructuring a ministry, privatising a state-owned enterprise, or redistributing land. By and large, most measures for macro-economic stabilisation belong to the first category; structural changes, institution building, and many other measures that enhance supply response belong to the second.

Not only so different aspects of reform vary, but their feasibility will also vary by context — depending on factors such as the capacity of the public service, the extent of development of markets, institutions and private enterprises, and the experience and abilities of farmers. Hence the feasibility, pace and sequencing of reform require considerable adaptation to circumstances. There may thus be less room to choose the pace and sequence of reform than may be imagined.

Since political choices do not have to be rational, and rarely are fully informed, it is perfectly possible to misjudge the feasible range, pace and sequence of reforms. Given such uncertainties, there is something to be said for a prior preference for gradual reform, since this avoids large mistakes and allows more time for learning and adjustment. It may be just coincidence, but the two countries that took a more gradual approach to reform took no longer to see through the various stages of policy changes and see the benefits, than it took the two countries that opted for more rapid reforms to see the benefits of their changes.