Executive summary

This study addresses the role of agricultural policies in raising incomes in developing countries. Higher incomes are essential for sustained progress on the first Millennium Development Goal (MDG1), which calls for the eradication of extreme poverty and hunger, and includes a specific target of reducing by 50% between 1990 and 2015 the proportion of people living on less than a dollar a day. The aim is to identify ways in which the appropriate set of policies may vary according to a country's stage of development.

In addressing this question, it is helpful to make a distinction between policies that are likely to be effective in the short to medium term, a period which now encompasses the timeframe of MDG1, and those that are likely to produce fundamentally stronger incomes in the long term. In the short to medium term economic structures are fixed, while in the long term they can evolve.

In the short to medium term, there is a need to raise the basic incomes of the poor and to strengthen systems of social protection. Since two-thirds of the world's dollar-a-day poor live in rural areas, where farming is a core economic activity, this implies policies and investments that raise economic returns within agriculture.

In the long run, there is a need to anticipate the structural changes in agriculture that accompany successful economic development. These include (i) a declining share of agriculture in GDP as the economy develops and diversifies; (ii) a release of labour from the sector driven by a combination of the "push" of labour-saving technical change in agriculture and the "pull" of growing labour demand in non-agricultural sectors; and (iii) rising agricultural output.

This means offering multiple development pathways for farm households: improving competitiveness (i.e. productivity) within the agricultural sector; diversifying income sources among household members; and, for some, leaving the sector for better paid jobs.

Within agriculture, there are rising opportunities for smallholders, who typically underpin developing country agriculture, to establish commercially viable operations. Yet exploitation of those opportunities will itself imply

some less productive smallholders moving on to other, ultimately more remunerative, activities. Even in poor agriculture-dependent economies there is thus a need to strengthen opportunities outside as well as within farming.

Many of the policies required to improve farmers' opportunities are non-agricultural. Improvements in education and primary healthcare are key to prospects within and outside the sector. Equally important is the overall investment climate, which depends on factors such as peace and political stability, sound macroeconomic management, developed institutions, property rights and governance. In agriculture-dependent economies, there is a strong case for increasing the share of public spending allocated to sectoral public goods, such as rural roads and agricultural research, and to technology transfer, farm extension and advisory services.

This long-term approach is consistent with the overall policy recommendation for OECD countries, which suggests that governments can promote long-term agricultural development by reducing market failures, ideally by tackling them at source, and by providing public goods. It leaves an important role for targeted social policies in helping farmers who cannot adjust within the current generation, and for addressing immediate concerns about the level and distribution of income.

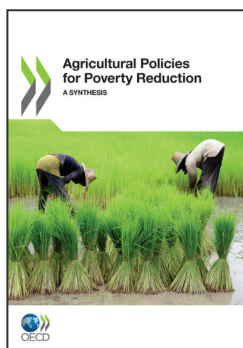
In low-income countries, however, it has been suggested that – because of weak institutions and endemic market failures – market interventions might also be warranted. Price support, price stabilisation, and input subsidies have been proposed as ways of addressing short-term objectives with respect to incomes, poverty and food security, and of promoting long-term economic development.

In the short term, price policies provide an easy lever for government, but are inefficient at addressing income concerns. Price support for food products is a blunt instrument because, among the poor, there are net sellers and net buyers of food – in many poor countries, the majority of farm households are net buyers. Price stabilisation (as opposed to price support) can limit the impact of adverse shocks on producers and consumers, but often proves to be fiscally unsustainable. A preferable option for the poor – both producers and consumers – is targeted social programmes, including cash transfers, although these may be difficult to implement in the poorest economies. At the same time, agricultural investments can improve farmers' resilience to risk.

Over the long term, market interventions treat the symptoms of market failure and under-development, rather than the causes. Price stabilisation can provide a more stable investment climate, but thwarts the development of private risk management, and can export instability onto world markets.

Input subsidies can redress failings such as the under-development of infrastructure, missing markets for credit and inputs, and a lack of knowledge of the benefits of using improved seed and fertiliser, but can impede the development of private markets. In both cases, the benefits and costs of intervention need to be judged relative to the benefits and costs of tackling the underlying problems directly.

Finally, there are dangers in using market interventions to address multiple economic and social objectives. Such programmes can become an easy target for interest groups, outliving their original justification and becoming a budgetary millstone. An important priority is that expenditures on market interventions should not crowd out essential investments in support of long-term agricultural development.



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