7. Policy conclusions

Income growth is essential for progress on the first Millennium Development Goal (MDG1), which calls for the eradication of extreme poverty and hunger, with specific targets that include halving between 1990 and 2015 the proportion of people living on less than a dollar a day and the proportion of hungry. The MDG1 deadline calls for policies that can be effective quickly, i.e. over the short to medium term in which basic economic structures are essentially fixed.

One priority is to strengthen systems of social protection, the other is to raise the basic incomes of the poor. Since two-thirds of the world's dollar-a-day poor live in rural areas, where farming is a core economic activity, this implies raising economic returns within agriculture. Under-investment in agriculture has been identified as a key reason for weak economic performance among poorer countries, notably in Sub-Saharan Africa (World Bank World Development Report, 2008).

However, government policy cannot focus exclusively on agriculture-led development. In the longer term, there is a need to take account of the structural changes in agriculture that accompany successful economic development. These include a declining share of agriculture in GDP as the economy develops and diversifies; a release of labour from the sector driven by the "push" of labour-saving technical change in agriculture and the "pull" of growing labour demand in non-agricultural sectors; and, despite the release of resources, rising agricultural output.

Recognising that successful agricultural development is associated with adjustment pressures, policy needs to focus on improving economic opportunities for farmers outside the sector as well as within it. This study proposes a strategic framework for strengthening rural incomes that emphasises three development pathways for farm households: improving productivity and competitiveness within the agricultural sector; diversifying income sources among household members; and, finally, leaving the sector for better paid jobs. This leaves an important role for social policies in addressing the needs of those unable to adjust within the current generation.

This approach is relevant for countries at all stages of development, even if the balance of opportunities within and outside agriculture may vary.

Smallholder farming dominates agriculture in most poor countries, and there may be improving opportunities for smallholders to establish commercially viable operations. Yet exploitation of those opportunities will imply some less productive smallholders moving on to other, ultimately more remunerative, activities. Such a pattern of development is evident from the successful transformations witnessed in Thailand and Viet Nam, among others.

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, and governance. In agriculture-dependent economies, there is a strong case for increasing the share of public spending allocated to sector-specific public goods, such as rural roads and agricultural research. Public investments may be effective in helping farmers become more integrated with vertical supply chains. There is also a need to situate agricultural policies among broader rural development policies, in order to facilitate balanced economic development in rural areas and avoid unwanted mass migration to the cities. Secure land rights provide farmers with an incentive to invest in their land, but also the possibility to rent or sell, and thereby diversify their incomes sources or leave farming under favourable terms. In each case, efforts to raise incomes need to be reconciled with other policy objectives, such as protecting the environment and ensuring the sustainability of agricultural production.

In terms of public spending, the choices are not always straightforward. There may be complementarities, for example between agricultural extension and the development of infrastructure and broader investments in human capital. There may equally be trade-offs, for example between investments in rural roads versus spending on health and education programmes. For many countries, there is a need to improve the analytical basis on which such decisions are made.

Such a strategic orientation is consistent with a twin-track approach for agricultural policies, as recommended for OECD countries (OECD, 2002). Specifically, governments can use targeted social programmes instead of agricultural policies to address immediate concerns about the level and distribution of income, while promoting sustained income growth by reducing market failures, ideally by tackling them at source, and by providing public goods, such as agricultural research and rural infrastructure. OECD analysis has found that, if the objective is to raise farmers' incomes, then market distorting instruments, such as price supports and input subsidies, are a poor alternative, because the induced increase in

the demand for land and other inputs leads to a large share of the benefits leaking to non-farm landlord and suppliers of purchased inputs (OECD, 2001). Analysis using DEVPEM suggests that such leakages may be less of a problem in poorer countries because farmers tend to supply more of their own factors, purchasing few inputs. On the other hand, price support for staples is likely to be problematic because many, if not a majority, of poor farm households are net buyers of food. Furthermore, price policies and input subsidies are still found to be less efficient at transferring income than economy-wide social programmes, including cash transfers, which can be targeted to the poor.

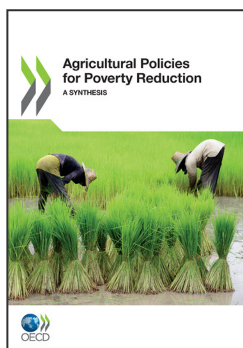
In developing countries, it has nevertheless been argued that this "best practice" policy advice may need to be qualified. The first argument is that it may not be possible to implement standard social programmes. A possible reason is that necessary institutions and infrastructure, such as an information base on which to establish criteria of eligibility, may not exist. This has led to alternative policies being proposed, such as price stabilisation, which provides an operationally simpler way of mitigating the impacts of price shocks on poor households than to market-based forms of risk management or the provision of income safety nets. The second argument is that market failures are likely to be more widespread than in developed countries, with many markets missing altogether, and it may not be possible to address the root causes directly. For example, farmers may have low incomes partly because they have no access to credit. Hence, input subsidies have been suggested as a practical solution to the otherwise difficult problem of developing input markets and providing financial services to small farmers.

Over the long-term, however, market interventions treat the symptoms of market failure and underdevelopment, rather than the causes. Price stabilisation can provide a more stable investment climate, but deters private risk management and may 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.

An attraction of using price policies and input subsidies is that in each case a single policy lever can seemingly address multiple objectives. Yet there is a basic incompatibility. If the objective is one of redressing market failure and under-development, then there needs to be an exit strategy, with intervention being phased out once the underlying problems have been addressed. But that in turn means moving towards economy-wide social

safety nets. The appeal to both market failure and social objectives has led to programmes becoming a budgetary millstone: no longer addressing the market failure that prompted their use in the first place (in fact becoming counter-productive) and developing into a source of income transfers from which the government cannot exit.

Thus, while there may be plausible reasons for intervening in markets in poorer economies, such actions need to be contemplated with caution. The scale of intervention may be more important than the simple decision on whether or not to intervene. An important priority is that expenditures on market interventions should not crowd out essential investments in support of long-term agricultural development.



From:

Agricultural Policies for Poverty Reduction

A Synthesis

Access the complete publication at:

https://doi.org/10.1787/9789264167698-en

Please cite this chapter as:

OECD (2012), “Policy conclusions”, in *Agricultural Policies for Poverty Reduction: A Synthesis*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264167698-9-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d’exploitation du droit de copie (CFC) at contact@cfcopies.com.

OECD