

# The Political Economy of Policies for Smallholder Agriculture

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**Summary.** — As the experience of the 20th century has shown, implementing policies that increase agricultural productivity among smallholders is a particularly promising strategy to achieve pro-poor growth. However, history also reveals major political challenges to adopting this strategy. The paper compares the experience of Asian countries that were able to launch a smallholder-based Green Revolution with the experience of African countries that are still struggling with this goal. It then reviews the political economy literature to identify the factors that account for these divergent experiences. Finally, the paper develops a conceptual framework to guide empirical research to close the knowledge gaps identified by the review.

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## 1. INTRODUCTION

More than 100 years ago, Karl Kautsky published “The Agrarian Question” (Kautsky, 1899). The question he analyzed remains important today: is there a need and justification for agricultural policies that specifically support smallholder agriculture? Kautsky argued that the peasant producers persisted due to self-exploitation and underconsumption, which were not deemed to be socially desirable situations. Kautsky was convinced of the technical superiority of large farms and saw no justification for agricultural policies designed to support small farmers.<sup>1</sup> The experience of the 20th century tells a different story; implementing policies to support the economic development of small farmers has proven to be a particularly successful strategy to reduce rural poverty and to use agriculture as an engine of growth on the road to industrialization (Mellor, 1976). Both Western industrialized countries and the fast-growing Asian economies document the success of this development strategy. As Lipton (2005) notes, there is virtually no example of mass poverty reduction in modern history that did not start with sharp increases in employment and self-employment income due to increased productivity among small family farms.

Nevertheless, the experience of the 20th century has also shown that it is a major challenge to implement agricultural policies that support small farmers in ways that lead to poverty reduction and economic development. While most African and Asian countries initially neglected agriculture after achieving their independence, several Asian countries changed their strategies and started to promote a smallholder-based agricultural intensification, which led to the Green Revolution. Why did they decide at some point in time to embark on this strategy? And why have so few African countries chosen a similar strategy? What is the political rationale behind this phenomenon? And what is the potential for change?

Understanding the political economy of policies that support smallholder agriculture is important, as more than 90% of the world’s 1.1 billion poor live on small family farms (Lipton, 2005). While the future of smallholders remains

debated, there is substantial evidence that the contribution of agriculture to growth and poverty reduction will continue to depend on the broad participation of smallholder farmers (Diao, Hazell, Resnick, & Thurlow, 2007; Lipton, 2005; World Bank, 2007). This evidence is supported both by studies that analyze past experiences and by simulation models (Dorward *et al.*, 2004). The rationale for public policies that support small farmers is based on the insight that they are affected by a variety of market failures. These arise due to the non-excludability of many agricultural technologies, coordination challenges that prevent exploiting economies of scale, information asymmetries, a lack of assets that can serve as collateral, and the vulnerability of smallholders to the biological, climatic, and market risks inherent in agricultural production (Binswanger & McIntire, 1987; Kydd & Dorward, 2004; Petit, 1995; Scandizzo, Hazell, & Anderson, 1984; Schmitt, 1991). While the actual extent of such market failures remains debated, it is now widely acknowledged that they are particularly relevant in early phases of agricultural development and that public policies are required to address them (Dorward *et al.*, 2004; World Bank, 2007).

Against this background, this paper reviews the available evidence on the changing patterns of agricultural policies that affect smallholder agriculture, focusing on a comparison between Africa and Asia. The paper also reviews approaches that have been developed in economics and political science to explain agricultural policy choices. The review shows that existing political economy models are better able to explain why inefficient agricultural policies persist than to explain why and when countries are able to change their agricultural

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policies in favor of smallholder agriculture. The paper argues that empirical case studies will be a useful first step to closing existing knowledge gaps regarding the political economy of smallholder-oriented policies, and it develops a conceptual framework for this purpose.

## 2. POLICIES FOR SMALLHOLDER AGRICULTURE IN AFRICA AND ASIA

To review the changing patterns of agricultural policies, it is useful to distinguish between two periods: the pre-structural adjustment period and the structural adjustment and post-structural adjustment period. Even though there are time differences across countries, most African countries adopted structural adjustment policies during 1985–95 (Friis-Hansen, 2000). In Asian countries, the adoption of structural adjustment policies has been more diverse. Still, distinguishing these two time periods appears useful, as many Asian countries launched their Green Revolution before the mid-1980s.

### (a) *The pre-structural adjustment period*

One of the major studies of agricultural policies in the pre-structural adjustment period is the comparative analysis by Krueger, Schiff, and Valdés (1991) which included 18 countries and covered the period during 1960–85. This study confirms earlier research that establishes that low-income countries tend to discriminate against agriculture, while high-income countries tend to protect this sector (see Anderson & Hayami, 1986, and the literature quoted there). The study also shows that the indirect tax on agriculture from macroeconomic policies, such as overvalued exchange rates, was three times the direct tax on agriculture, such as export taxes. Of the countries covered in the study, Côte d'Ivoire, Ghana, and Zambia had the highest degree of discrimination against agriculture, with an average total nominal protection rate of  $-52$ . Of the 18 countries included, only Korea and Portugal had policies that were favorable to agriculture, with mildly positive protection rates. The average rate of economic growth in these two countries was double that of the three countries with the highest discrimination against agriculture. In the other countries included in the study, protection rates varied from  $-44$  to  $-8$ . The study uncovered another important trend: export crops tended to be discriminated against, while import-competing crops were often protected.

Bates (1981) illustrates these trends for the case of Africa. With regard to export crops, he finds that marketing boards may not only have protected producers from world price volatility but also provided the resources for investing in large-scale infrastructure and industrialization projects that were disproportionately concentrated in urban areas. Bates' (1981) study also shows that subsidized inputs and grain marketing boards were a common strategy in the pre-structural adjustment period to encourage high food production and low food prices. There were also important variations to this trend. If elites were involved in the production of a food crop, governments were less likely to use policies that depressed prices. In Malawi, smallholders continued to face legal restrictions in growing cash crops even after the country's independence. Growing cash crops was the privilege of the owners of large-scale estates, including the country's president and the leading members of his party (Orr, 2000).

Several authors have pointed out that in many African countries, public support for agricultural production has supported clientelistic networks of the state, even though such

support was often implemented under the pretext of "fair treatment" in the form of pan-seasonal and pan-territorial pricing for inputs and produce (Holmen, 2005). Efforts to improve agriculture often benefited politically influential people and political supporters, including retired civil servants and soldiers, who did not necessarily have any background in farming. At the same time, subsidized inputs, credit, and extension largely bypassed small farmers (Holmen, 2005; van de Walle, 2001). Setting up capital-intensive mechanized state farms was also a common approach. Nigeria, for example, established large-scale state-run companies in the mid-1970s to produce grains, roots, sugar, and livestock. None of these farms ever became profitable (Akande, 2005), which resembled the experience of similar approaches in other African countries (Bates, 1981).

Just as the African countries, many Asian countries also adopted policies that depressed food prices in the early periods following their independence. However, in the mid-1960s, the three "early Green Revolution" countries—India, Indonesia, and the Philippines—abandoned low-price policies for food grains and implemented agricultural policies that were focused on increasing the productivity of small farms. In addition to exploiting a major breakthrough in plant breeding, the success of the Green Revolution was based on a combination of policies that addressed the market failures confronting smallholders. These policies included public investment in agricultural research, extension and irrigation infrastructure, subsidized access to inputs, and agricultural credit as well as price guarantees. This policy shift occurred simultaneously in India, Indonesia, and the Philippines but apparently did so without any direct connection between them. In fact, the political circumstances in which the Green Revolution occurred were country specific, even though food shortages were central in each of the three cases (Djurfeldt & Jirström, 2005). In India, the goal of reaching food self-sufficiency emerged as a major condition to remain politically independent after the United States decided to use food exports as an instrument of foreign policy (Subramaniam, 1995). In Indonesia, the political and economic crisis caused by rice shortages in the mid-1960s, which coincided with a problematic world rice market situation, stimulated a shift in food price policies in favor of rice producers. In the Philippines, a similar policy shift also followed serious rice shortages, which were associated with a change in government (Djurfeldt & Jirström, 2005). Taiwan and Korea had already adopted smallholder-oriented policies of agricultural intensification. Reaching food self-sufficiency in food grains had become a major goal for them as well (Jirström, 2005). Later on, other Asian countries, including China, Malaysia, and Thailand, followed the strategy of smallholder-based agricultural intensification with impressive results in terms of growth and poverty reduction.

In spite of the frequent claim that the Green Revolution mainly benefited large farmers, empirical studies document that the Green Revolution technologies were scale-neutral and that they often benefited smallholders in particular (Akande, Djurfeldt, Holmen, & Isinika, 2005; Hazell & Ramasamy, 1991; Lipton, 1989). In the case of India, the explicit political focus on smallholders in launching the Green Revolution is well documented. The Minister of Agriculture who masterminded India's Green Revolution, Subramaniam, initially targeted larger progressive farmers in Punjab, but—according to his own account—this was a strategic choice to convince smallholders that the new technologies would work. His explicit goal was a smallholder-based agricultural intensification—a goal that he had to defend strongly against internal critics and against advisors from both the United States and

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