

Why is agriculture protected in rich countries and penalised in poor countries?

The economic importance of agriculture is generally much greater in poor countries than in rich countries. Whereas the economic weight of agriculture is often more than 30% of GDP in non-industrialised countries and while the sector employs the majority of its active population, agriculture usually generates only a few percent of the wealth of industrialised countries and less than 5% of jobs.

Considering this relative importance, one could reasonably expect that agriculture would be at the heart of government concerns in non-industrialised countries and somewhat neglected in rich countries. But in fact it is quite the contrary. Agriculture is protected and subsidised in rich countries and abandoned and taxed in poor countries. Why such a paradoxical situation? Why is agriculture, the main source of wealth, so badly treated in the so-called “developing” countries?

The rural bias of agricultural policies in rich countries

Its causes

Protection of agriculture in rich countries¹ can be explained by four main reasons:

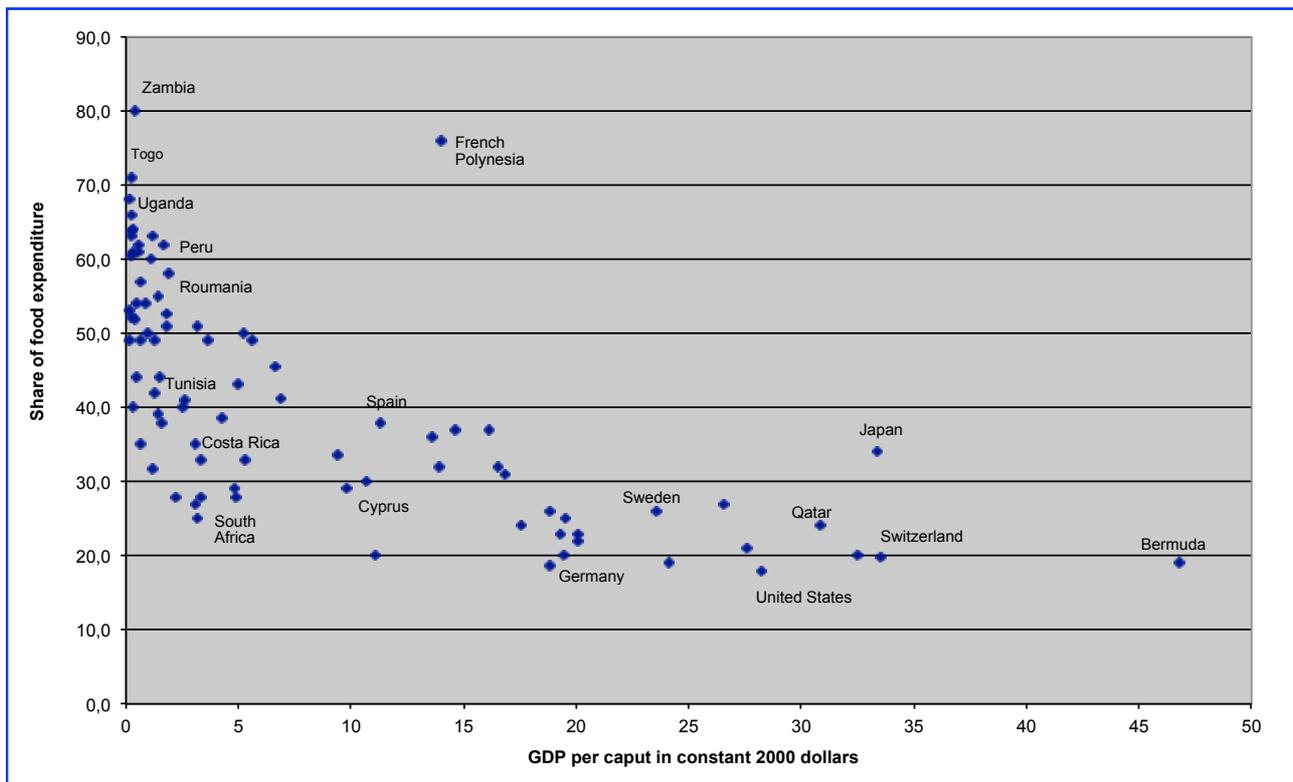
- The **over-representation of the rural and agricultural population in political institutions**, particularly in elected bodies. It is interesting to note that rurality also often has a strong cultural dimension which contributes to increase the political weight of rural areas and their population. In Japan, for example, rurality has a central role in culture, although the country is highly urbanised. The same can be said for Switzerland where agriculture and rural areas are considered very positively. In France, being rooted in rural areas has historically been an important factor for politicians who want to build a favourable image and obtain political success. This is demonstrated by the examples and strategies adopted by F. Mitterand and even more by J. Chirac for whom agriculture, and particularly the Ministry of Agriculture, had played the role of political springboard.
- The **very high level of organisation and the sometimes radical mode of operation of agricultural unions** have also been important for the promotion of strong support policies for agriculture. In France they have been at the basis of the creation of strong links between the National Federation of Farmer Unions (Fédération Nationale des Syndicats d'Exploitants Agricoles - FNSEA) and the political establishment, particularly political parties of the Right. They have also given farmers a strong capacity to mobilise and organise spectacular demonstrations (dumping of agricultural products in public places, blockade of

¹ This protection policy is frequent but not general. For example, countries like Australia and New Zealand have adopted very liberalised agricultural policies which provide little protection to producers.

motorways and other main roads in the country) which farmers have often used when they felt that their interests at stake.

- **The good image of rural areas in public opinion** has helped to make the population which is mainly made of consumers to accept to pay for the support given to agriculture. In France, for example, agriculture has been presented as the “green oil” (*pétrole vert*) since the 80s.
- Finally, as **food represents a relatively low share of the budget of consumers** in rich countries (see graph below), the issue of the price of food is relatively less sensitive politically than others. This is particularly true during the last 50 years during which the purchasing power has grown tremendously in OECD countries.

Importance of expenditure on food as a function of GDP per caput around 1990



Source: FAO, World Bank

This set of causes has created conditions that allowed the implementation of policies supporting agriculture. On the one hand, the main group of beneficiaries of the policy is well organised and has strong linkages with political decision makers, and on the other hand, those who pay the price of the policy “agree to do it” in so far as it does not cost them too much compared to their total income and that they are made to believe that this sacrifice is good for them indirectly, in economic, environmental and cultural terms.

Its consequences

In Europe, the policy of support to agriculture has been implemented through the European Union’s Common Agricultural Policy (CAP). France has been one of the main supporters and beneficiaries of CAP whose two objectives were (i) to secure the supply of food mainly from local production - it is important to remember that Europe was in food

deficit after World War II - and (ii) to ensure for farmers an income comparable to that of workers in urban areas, while stabilising markets and maintaining the price of food at a level accessible to the majority of consumers. The funding of this policy has been for decades the main line of expenditure of the European budget and still represented 40% of expenditures of the EU in 2007. This policy was remarkably successful in resisting the strong world wide movement towards liberalisation of economic policies which started in the early 90s.

The big farmers have, together with the argo-industrialists (particularly the sugar producers), been the main beneficiaries of the CAP. These two groups have been able to communicate extremely well around the real difficulties that were met by small producers and to mobilise them in order to preserve the European subsidies of which they are the main beneficiaries (see box).

EU: who are the beneficiaries of the CAP subsidies?

A report produced by the French Institute of Statistics and Economic Studies (INSEE) dated Novembre 2005 (B. Chevalier, *Disparités du revenu dans l'agriculture - Outre la spécialisation, avantage à la taille et à l'intensification*) illustrates the relative importance of CAP subsidies in the income of different categories of farmers. Cereal and oil crops producers appear to be the main beneficiaries: they constitute 21% of the farmers and 25.6% of the gross margin generated by agriculture, but were getting 39.9% of the subsidies. These subsidies represented 1.34 times the income that these farmers were making from their production activities. Cattle producers constituted 10.9% of the farmers and 5.1% of the gross margin and were getting 12.7% of the subsidies or 1.38 times the income they were making from their production activities.

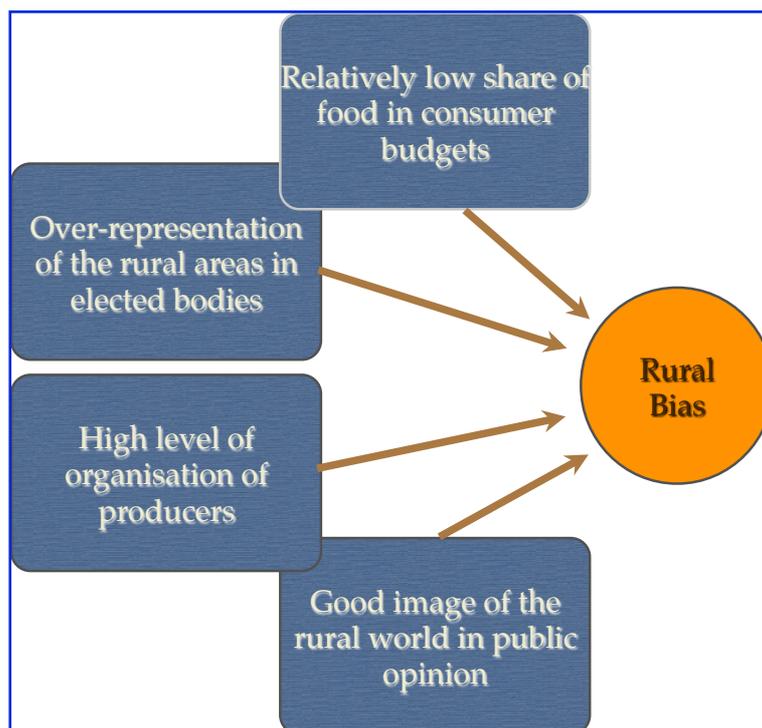
Between October 16, 2008 and October 15, 2009, 174 CAP beneficiaries each had cashed in subsidies of more than €1 million. The first beneficiary in France was TEREOS, a company specialised in sugar, starch and alcohol (€177 million), followed by Saint Louis Sucre (€143 million) and Cristal Union (€57 millions), both sugar producers.

(<https://www3.telepac.agriculture.gouv.fr/telepac/tbp/accueil/accueil.action>)

The situation is quite similar in the USA where between 1984 and 1987, USD3.2 billion went annually to the 325,000 US wheat producers. Over the same period, the 627,000 maize producers were paid USD4.2 billion. However, it was the sugar and rice producers who benefitted from the highest support per producer: an average of around USD68,000 for every sugar producer and more than USD38,000 on average for every rice producer!

The result of the US agricultural policy has been a rapid growth of agricultural production since 1950. There was a first boom in US wheat production during the 60s, and then a real explosion during the 70s. During the 80s and 90s, half of the US wheat production was exported, either through subsidised exports or through aid programmes. In Europe, the CAP also brought a strong increase of production: starting from a situation of wheat deficit in the 50s, Europe became self-sufficient during the 70s, then increasingly an exporter during the 80s. This led to an increase the EU expenditures for subsidising exports and fast increasing food stocks.

The causes of the rural bias of agricultural policies in rich countries



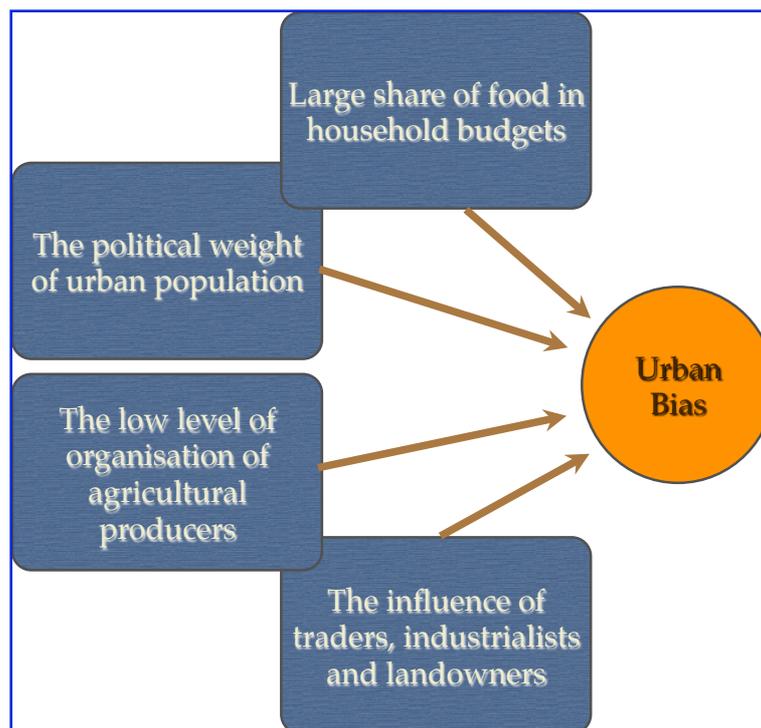
The urban bias of agricultural policies in poor countries

Its causes

The situation prevailing in poor countries is fundamentally different from what has just been described in rich countries. Agriculture is generally getting little support or is even penalised. This can be explained by several reasons:

- **Food represents a large share of household budgets** in poor countries, particularly for the poorer categories of the population who often use more than 75% of their budget for food. In rural areas, most of the food is home-consumed, while in urban areas, consumers have to rely almost wholly on the market. The increase of food prices carries with it considerable risks of social and political disturbances in cities, as illustrated by the riots that occurred in 2008 during the peak of the food crisis. These political disturbances have in some cases been the cause of a destabilisation of the government in place. The price of staple foods is therefore an important political issue and a very sensitive parameter that the political power is monitoring carefully. This situation is in favour of keeping agricultural prices as low as possible.
- Because of the nature of most of the political regimes in place and the weak organisation of rural populations, the **urban population has a political influence that goes way beyond its demographic weight**.
- Finally, it is in **the interest of traders and industrialists** who are often linked with the power in place to keep food prices as low as possible to keep salaries down. Even landowners may have an interest in such a situation, as they use a large labour force working on their plantations that in most cases specialise in the production of export products and as they also often are owners of non-agricultural enterprises.

The causes of the urban bias of agricultural policies in poor countries



Its consequences

The urban bias of agricultural policies resulted, immediately after many former colonies gained independences, in the establishment of systems which had as main function the extraction of resources from agriculture in order to finance the state. This was often done through the creation of public companies, public boards, or parastatal organisations in charge of managing the export of agricultural commodities - in most cases tropical commodities - and through the collection of a financial rent for funding the state apparatus.

For example, in the case of Ghana, cocoa represented 50 to 60% of the export income between 1960 and 1980. Cocoa exports were the monopoly of COCOBOD (Ghana Cocoa Marketing Board), a public board. Between 1960 and 1995, Ghanaian cocoa producers were paid a price that has been constantly below half of the world price. This low price was basically due to an export tax that was collected on every ton of cocoa leaving the country and because of the high running costs of COCOBOD. This tax was one of the main sources of finance for the Ghanaian state and represented between 25 and 40% of the country's budgetary income during the 70s and still as much as 5% of the national budget in 2005 despite a long period of economic liberalisation. Moreover, COCOBOD had been employing a very large staff, some of which were recruited through political patronage and it provided considerable benefits in kind to high level government officials and politicians.

The opening up of markets which resulted from stabilisation and structural adjustment programmes, and the sometimes excessive use of food aid favoured the dumping of US and European surpluses on domestic markets of poor countries. This led to a decrease in the price of some staple food commodities and acted as a disincentive to local production. One of the consequences of these policies was that the population of these countries, including the most vulnerable groups, could find cheap food on the market. They also

reduced the profitability of local agriculture and the attractiveness of the agricultural sector, thus discouraging private investments which could have developed the local agricultural production and improved its stability and competitiveness.

This unfavourable configuration for the rural areas has sometimes led to the emergence of alliances of politicians, national economic operators, development financing agencies and external investors (see the example of Vietnam in the box below).

Sugar in Vietnam: an alliance of the national elite, an external investor and development financing institutions

Towards the end of the 90s, the sugar policy of Vietnam was characterised by a high protection of local production from the competition of imported sugar, the price of which was artificially low because of the specific characteristics of the world sugar market. Policies in place implied an annual transfer of around USD145 million from consumers to the sugar plants and the state. Those who benefited most from this rent were the provincial sugar plants run by local government officials who managed the processing of sugarcane using a technology imported from China and had a very high living standard. This situation presented an excellent opportunity for any investor who would be able to become involved in the sugar sector.

It was at around this time that the French company Bourbon (linked to Tereos, one of the main beneficiaries of EU subsidies - see above) originating from Reunion Island declared its interest in investing in the sugar sector by building a modern sugar plant in Tay Ninh which would eventually produce around 1/3 of the industrial sugar production of Vietnam (100,000 tonnes). The negotiation was conducted brilliantly. Bourbon committed to bring only USD26.6 million from its own funds, and succeeded in getting loans of USD 15 million from the French development agency (Caisse française de développement) and of USD 42 million from the World Bank (International Finance Corporation and its private sector development programme). The Vietnamese government committed to contribute through a loan of USD 11.4 million, to bear the costs of the building of transport infrastructure required to bring sugar cane to the plant, to continue its sugar price policy and not to let any new investor come into the sugar sector, unless they would invest in remote and very poor areas.

During the visit of President J. Chirac to Vietnam in November 1997 for the Francophone Summit, the 8 p.m. News on the French public television (France 2) broadcasted an interview of «a representative of the booming Vietnamese private sector» who was none other than the (French) director of the Bourbon sugar plant in Tay Ninh...

In 2010, 49% of the company was sold for an amount of EUR 75 million (!!!) to Vietnamese investors, the Ho Chi Minh City stock exchange, sugar plant employees and sugar producers (the latter for an amount of EUR 6.4 million). That turned out to be a remarkably profitable operation in just about 13 years.

Source : the author on the occasion of the analysis of the sugar sector in Vietnam in 1997.

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