

Outline of research project on
Distortions to Agricultural Incentives

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The vast majority of the world's poorest households depend on farming for their livelihood. In the past their earnings were often depressed by their own country's policies which had pro-urban and anti-agricultural biases. While progress has been made over the past two decades by numerous developing countries in reducing those policy biases, many trade-reducing price distortions remain intersectorally as well as within the agricultural sector of low-income countries. This project seeks answers to questions about the changing extent of such distortions, their economic effects, and the political economy reasons behind their evolution, including:

On evolution of extent of distortions:

- To what extent have countries tended to gradually transform from negatively to positively assisting farmers (and the opposite for food consumers) in the course of their economic development, and where is there still an anti-agricultural bias intersectorally?
- How has the anti-trade bias within agriculture changed over time?
- How do the rates of distortion differ within the agricultural sector, including between primary agricultural goods and processed foods, in rich vs developing countries?

On effects of current policy regimes vs alternative regimes incl. laissez faire

- How are current own-country policies affecting national economic welfare and its distributional effects on net farm incomes and on overall inequality and poverty?
- What additional impacts are other countries' policies having, relative to own-country policies?
- What policy lessons can be drawn from differing reform experiences to ensure better growth-enhancing and poverty-reducing outcomes from own-country reforms in the future, including less protectionist 'over-shooting'?
- How important would be the potential direct contributions from agricultural policy reform relative to the indirect contributions from non-agricultural policy changes?

On political economy reasons behind past policy choices and reform paths

- Why the gradual transformation from negatively to positively assisting farmers (and the opposite for food consumers) in the course of economic development?
- What differs between the political economy forces in the more-successful as compared with the less-successful reforming countries?
- How important have international forces (IFIs, GATT/WTO, PTAs) been relative to domestic political forces in bringing about reform during the past two decades?

This project is addressing these questions in a two-stage research project which began in 2006. The first stage involves more than 40 national country studies in Africa, Asia, Latin America and Europe's economies in transition, which will lead to a set of regional volumes to be published in 2007. They will be summarized and supplemented with overviews of policy trends in more-advanced economies, together with CGE analysis so as to get a better global picture of distortions to agricultural incentives, for a global overview volume which is also to be published in 2007. The second stage of the project – on effects and causes of those policy choices – will begin in late 2006.