

Constraints discussion

- Broad agreement on the constraints**
- Less agreement on their costs**
- Less on role of public policy in reducing costs**

Physical constraints (1st)

□ Geography

- Land-locked countries have high transport costs
- Even coastal countries have high costs to the interior
- Low population density
- ❖ *Isolation raises costs of public services and lowers private returns*
- ❖ *It is now most important but its costs can be reduced by public investments*

□ Climate and biology

- Low and variable rainfall in dry areas
- Intense rainfall, with leaching of fragile soils, in humid tropics
- Pest and disease pressure
- ❖ *These factors lower (public and private) returns and raise risks*
- ❖ *They are very important and costs more difficult to reduce because of specific (often public) research needed*

Institutional constraints (2nd)

❑ Legacy issues (the “stock” of problems)

- Colonial states did not leave durable national institutions (research, extension, regulation, investment promotion, policy analysis)
- Few agricultural scientists and administrators
- Bias in political economy against tradables production creates disincentives for talented people to enter agriculture
- ❖ *Costs can be reduced and in fact are being so (slowly)*

❑ Failure leads to more failure (“flow” of new problems)

- Weak institutions do not contribute to growth
- Less growth -> more instability
- More instability -> weaker institutions, etc
- ❖ *Problem is political; can only be solved slowly and with much greater political will*

Incentive problems (3rd)

□ Domestic bias against agriculture

- Marketing boards and regulatory agencies
- Overvalued exchange rates
- Corruption in domestic transport and marketing
- ❖ *Policy solutions require decisions about national income distribution cooperation and hence are costly*

□ World terms of trade

- Cotton: unambiguously unfavorable for production and exports
- Other exportables: unfavorable but effects small
- Cereals: unfavorable for production, but favorable for imports and consumption
- Booms in non-agricultural commodities (e.g., copper today) penalize agriculture indirectly through Dutch disease
- ❖ *Policy solutions require international cooperation and hence are very costly*

Other social and economic constraints (4th)

□ Factor markets

- “Inappropriate tenure” (though this is grossly exaggerated)
- Discrimination against women in land and capital markets
- ❖ *Costly but much less so in long run as economic and demographic growth induce radical changes in factor markets*

□ Reductions in labor supply

- Effects of AIDS and malaria (reduces labor quantity)
- Underinvestment in health and education of rural people (reduces labor quality)
- ❖ *Costly but solutions are generally understood (with exception of AIDS)*