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Agricultural Price Policy: Revisiting Krueger, Schiff, and Valdés

Two alternative interpretations of history have very different implications for future agricultural trade reform

Two decades ago a major World Bank study of distortions to agricultural incentives in 18 developing countries was published by Anne O. Krueger, Maurice Schiff, and Alberto Valdés (*The Political Economy of Agricultural Pricing Policy*, 3 vols., Baltimore: Johns Hopkins University Press, 1991). That K/S/V study, which covered 1960–84, found that policies in most of those developing countries were harming their farmers—either directly, through such things as taxes on agricultural exports, or indirectly, through manufacturing protection and exchange rate overvaluation.

Revisiting this issue, a new World Bank study provides indicators for a much larger sample—more than 40 developing countries (plus all high-income countries and key European transition economies)—for as many years as possible since 1955. A comparison of the results of the two studies reveals that if Krueger, Schiff, and Valdés had included the same broader range of countries and covered products as the new study, they would not have altered their key conclusions. But they would have been able to stress the policy implications even more forcefully, because the estimated magnitudes of the antiagricultural and antitrade bias indicators would have been about two-thirds larger. The difference is due mainly to the inclusion of China and India but also to the inclusion of far more Sub-Saharan African countries and far more livestock products.

Since the mid-1980s many developing countries have undertaken a great deal of policy reform and opened to trade. The new study estimates that the intersectoral bias against agriculture and the antitrade bias have been reduced substantially—and more so, and at a faster pace, for the full

sample of developing countries than for the smaller K/S/V sample. High-income countries have also undertaken some agricultural policy reforms since the late 1980s, reversing their protection growth of the previous three decades. The world is estimated to have moved nearly three-fifths of the way toward global free trade in goods over the quarter century since the mid-1980s.

Developing countries have benefited proportionately more (relative to GDP) than high-income economies from those trade-related policy reforms, and they would gain nearly twice as much as those richer economies by completing that reform process—with 72 percent of those prospective gains to developing countries coming from agricultural and food policy reform. In the developing-country group, net farm income (agricultural value added) is estimated to have been 5 percent higher in 2004 than it would have been without the reforms since the mid-1980s. And if policies remaining in 2004 were removed, that net farm income would rise by another 6 percent (far more than the proportional gain to nonagricultural households). These findings suggest that such reforms could further alleviate global inequality and poverty, since three-quarters of the world's extreme poor are in farm households in developing countries.

If the trade reform processes of the past quarter century were to continue, this could suggest that the period on which K/S/V focused, from the early 1960s to the mid-1980s, was an aberrant period of welfare-reducing policy divergence and that the reforms since the 1980s are the result of learning from the differing growth experiences of more and less open developing economies.

An alternative interpretation of history is that it is the most recent 25-year period of policy changes that is aberrant. The policy changes of developing countries, in this alternative view, might simply involve their following

the example of higher-income countries in moving from anti- to pro-farmer policies as they develop. Supporters of that view could point to another finding of the new World Bank study, showing that import-competing farmers in developing countries are being increasingly protected over time. Moreover, there are few signs of a slowdown in that upward trend in the World Trade Organization's ongoing Doha Round of multilateral trade negotiations, suggesting that developing-country governments want to keep open their options to increase agricultural assistance in the future, particularly through import restrictions.

These two alternative interpretations of history have profoundly different implications for the future. The first suggests that the Doha Round is likely to conclude with substantial cuts to agricultural tariff and subsidy bindings that lock in recent reforms. The second suggests that the Doha Round will struggle to reach an ambitious reform outcome in agriculture.

Kym Anderson. 2010. "Krueger/Schiff/Valdés Revisited: Agricultural Price and Trade Policy Reform in Developing Countries since 1960." *Policy Research Working Paper 5165*, World Bank, Washington, DC. (Also forthcoming in *Applied Economic Perspectives and Policy*.)
For more resources, visit the study's Web site (<http://www.worldbank.org/agdistortions>).