

Policy Pennings by Dr. Daryll E. Ray

# Development policy driven by common sense not edicts

A last ditch effort to conclude the Doha Development Round of World Trade Organization negotiations was held in the summer of 2008 in the hope that George W. Bush would sign it and be able to get it through a Republican House and, with help from a few Democrats, the Senate. For many reasons, the negotiators were unable to come to an agreement that satisfied the various nations of the world.

The idea behind the Doha Development Round was the belief that increased trade liberalization would lead to increased development in the least developed countries of the world. It was argued that they would gain through the comparative advantage of cheap labor, cheap production, cheap land, and cheap resources.

Early economic models showed that the bulk of the gain from liberalized trade would be enjoyed by developing countries, including the least developed, and millions would be lifted out of poverty. Many analysts including the authors of this column pointed out the structural weaknesses of these early models.

Later models showed a much lower level of economic gain from the Doha round and even noted that as much as two-thirds of the gains would be enjoyed by developed countries with developing countries, which constitute most of the world's population, left to share the remaining third. Because of the differential distribution of benefits, many less developed countries showed a loss as a result of trade negotiations that were supposed to be designed to help them develop.

In most of the less developed countries the bulk of their population consists of farmers, pastoralists, and fishers—people who wreak their livelihood from the land and waters of the earth. In recent columns we have laid out a broad plan for development in these societies—a plan that starts at the grassroots by taking local people seriously, respecting their traditions when it comes to food and food production.

Recently we came across a paper in *The Journal of Peasant Studies* titled "Rethinking public policy in agriculture: lessons from history, distant and recent" by Ha-Joon Chang a member of the economics faculty at the University of Cambridge, UK. In the paper, Chang argues that, with regard to developing and less developed countries, "trade liberalization has led to increased import penetration, which has threatened the livelihood of many farmers. [The] simultaneous push for agricultural exports in a large number of

countries that specialize in the same products has often resulted in falling prices and even export earnings."

Chang starts by examining the New Conventional Wisdom (NCW) which is a more benevolent face of the Washington Consensus that focused on fiscal austerity, privatization, and trade liberalization. He notes that "the persistent theme of the NCW is the need to 'eliminate distortions' because they create market inefficiencies.

He continues, "At one level it is impossible to disagree with this view. If prices are 'distorted,' by definition they lead to 'distorted' outcomes, which, by definition, cannot be good... However, if markets are not working well, distorting the prices that prevail may be a good thing, if that is done for the right purpose."

"Agricultural tariffs certainly can impose short-run efficiency costs," he writes, "but they may promote agricultural growth and overall economic growth in the long run, if the tariff revenues are invested by the government in improving agricultural productivity...and/or if the increased agricultural incomes create offsetting extra demand for local industries."

Chang then develops a series of recommendations based upon an analysis not of textbook Washington Consensus recommendations but of how the current crop of developed and increasingly prosperous countries improved their economic situation.

His first recommendation is what he calls "Inputs policy" and involves land policy, land (tenure) reform and land quality improvement. Chang notes that most countries "in the early states of development...have problems with landless rural populations. Land reform, he argues, is the fastest way to give them an opportunity to earn a livelihood in the absence of "rural off-farm employment [and]...industrial employment."

As part of this recommendation he argues for access to finance, rules that prevent re-concentration of land, the creation of non-farm jobs to absorb a growing population, measures to stabilize farm prices and income, research to raise the productivity of the land, the prevention of land degradation, and policies to enable the consolidation of dispersed plots in order to increase agricultural efficiency.

The second recommendation concerns "knowledge: research, extension, education, and information." While

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many national research and extension efforts were dismantled as the result of the Structural Adjustment Program that was imposed on the basis of the Washington Consensus and moderated a little with the NCW, the gap that was created was not filled by the commercial sector. As a result farmers were left with a lack of information and guidance. Chang gives special attention to education, citing the Morrill Act of 1862 which set up the land-grant colleges in the US.

Chang's other recommendations include credit; physical and infrastructure inputs (irrigation, transportation, and electrification); divisible inputs like fertilizers, seeds, and farm machinery; and outputs policy (measures to increase farm income stability including trade protection).

He points out that most of the recommendations he identifies are drawn from the actual practice employed by many of the leading countries of the world

as they went through the development phase in their history. In the absence of global institutions, these countries had the political and economic space that allowed them to experiment and draw on the agricultural policies of other nations' policies as they designed their unique development path.

As trade ministers begin to rethink their strategies for getting the current "development" round back on track, they would do well to consider Chang's analysis which argues for a more flexible approach than is currently being advocated.

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