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Agrarian Social Pacts and Poverty Reduction

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Three out of four people in developing countries live in rural areas, most depend on agriculture for their livelihood, and many live in extreme poverty (World Bank 2007, 1). Consequently, any effort to address poverty must consider the central place of agriculture in the developing world. For some, agriculture holds great promise in this regard. According to a recent World Bank study, *World Development Report 2008: Agriculture for Development*, “today’s agriculture offers new opportunities to hundreds of millions of rural poor to move out of poverty (Ibid.).” GDP growth originating in agriculture is at least twice as effective at reducing poverty as GDP growth originating in other sectors (Ibid, 30).¹ In some countries, poverty rates in rural areas declined dramatically in the past decade, most notably in China where rural poverty rates fell from 76% in 1980 to 12% in 2001 (Ibid., 3, 46).² Impressive reductions in rural poverty occurred in other countries as well, such as Vietnam, Bangladesh, and Ghana. Overall, however, rural poverty rates outside China declined only modestly, from 35 to 32% in the past 10 years. At the same time, gaps between rural and urban income levels have widened (Ibid, 45-47).

This stubborn persistence of rural poverty stems in part from domestic and international policies that conspire against agricultural growth in developing countries. Underinvestment remains a major problem with the lowest levels of public spending on agriculture in those countries where the share of economic activity from farming is highest (Ibid, 41). In part, this reflects a longstanding pro-urban bias in the politics and policies of developing countries. In an effort to maintain urban political control and support, governments often pursued policies geared toward industrial development and low food prices. This resulted in overvalued currencies and industrial protection measures that operated as an effective tax on agriculture, further stunting agricultural growth (Bates 1981). Compounding this problem, wealthy countries heavily subsidize their farmers, depressing world commodity prices and contributing further to low returns on agriculture in the developing world (Stiglitz and Charlton 2005, 57-65). However, there are some indications of change. The effective tax on agriculture in many sub-

¹ See also Hasan and Quibria (2004) who find that industrial growth was the principal instrument of poverty reduction in East Asia, but agriculture had a greater effect in Latin America, South Asia, and Sub-Saharan Africa.

² Rural poverty is defined as the share of the rural population living on less than \$1.08 (1993 PPP).

Saharan countries declined considerably in the past twenty years. And although subsidies to agriculture in industrialized countries have dipped only slightly, hope remains that a successful conclusion of the Doha Round of multilateral trade negotiations will reduce this further. Meanwhile, an interesting trend has emerged with some developing countries such as India and Indonesia increasing protection for their agricultural producers (World Bank 2007, 96-102).

These developments underscore the importance of agricultural policies for poverty reduction strategies. Indeed, a stated purpose of the *World Development Report 2008* is to “reverse years of policy neglect...in agriculture” and promote an “agriculture-for-development agenda (Ibid, 2).” This agenda might take various forms, and must be sensitive to the great diversity of agricultural conditions in the developing world. Where agriculture occupies a large share of GDP and most of the poor reside in rural areas, as in sub-Saharan Africa, the *Report* envisions policies that increase the productivity of smallholder farming so that agriculture may become the basis for economic growth. Where agriculture is no longer a major source of growth but high rural poverty remains, as in India, policies should address urban-rural income disparities by encouraging high-value agriculture and easing the transition to nonagricultural employment through rural social measures. In countries where agriculture typically contributes a smaller share of overall growth and more than half the poor reside in cities, as in many Latin American countries, the *Report* recommends that agricultural policies promote environmental sustainability and link producers to urban markets and agroindustrial sectors. Although some might criticize the *World Development Report 2008* for its focus on growth and development within a neoliberal framework, many have welcomed the report for highlighting agriculture’s role in poverty reduction.

Policy debates aside, however, a fundamental question remains about how any development agenda in agriculture is to be pursued. What is often lacking in discussions about poverty reduction measures, in other words, is the political context in which policy decisions occur. Too often, in fact, policy elites ignore questions of politics, focusing instead on the technical merits of policy prescriptions. Although important, technical feasibility will not guarantee success. The authors of the *Report*, for example, acknowledge the importance of state capacity “to coordinate across sectors and to form

partnerships,” adding that “civil society empowerment, particularly of producer organizations, is essential to improving governance at all levels (Ibid.).” Yet, the authors of the *Report* do not unpack these relations between state and society sufficiently, nor is any attention paid to the historical antecedents that might shape whether such partnerships can develop.

This paper hopes to address this shortcoming through a discussion of agrarian social pacts and their relationship to agricultural policies in the developed and developing world. It operates from the premise that a distinct political economy characterizes agricultural policy: that the economic features of commodity production create particular policy challenges as well as political opportunities for farmers. More precisely, it describes how efforts to solve the collective action problems endemic in agriculture can lead to the creation of producer organizations responsible for policy coordination with the state. This, in turn, can have spillover effects that result in the political incorporation of farmers and magnify the influence of producers in politics. In the developed world, for example, close links between farmers, politicians, and bureaucrats was historically a key feature in the evolution of agricultural policies that insulated farmers from the vagaries of market forces. Today, in fact, these close relations between farmers and the state are a major obstacle to reaching political agreement on the reduction of agricultural subsidies in wealthy countries. In the developing world, relations between farmers and the state look much different with very few examples of producer political incorporation or stable arrangements of policy coordination built around agricultural associations.

However, there are some exceptions to this pattern that are suggestive for understanding the conditions in which agrarian social pacts might emerge. In parts of India, for example, policies designed to increase dairying helped to promote producer cooperatives. In policy terms, the program has been a success with a pronounced increase in per capita production of milk over the past decades (Kurien 2004). But there are also indications that cooperative members, many of them women, have become politically influential as a source of votes in local, state, and national elections. Meanwhile in Eastern Europe, agrarian political parties have been influential players in the post-communist transition in several countries. In Poland, where 20% of the labor force is employed in farming, agrarian parties have competed successfully for the rural

vote, frequently earning a place as a junior coalition partner in the Polish government (Batory and Sitter 2004; Jasiewicz and Jasiewicz-Betkiewicz 2007). Finally, in Senegal, local peasant organizations, producer cooperatives, and other farmer associations came together in the early 1990s to create the *Conseil national de concertation et de cooperation rurale* (CNCR). With a membership that reached more than 3 million farmers by 1995, the CNCR plays a central role in the elaboration of government policies toward agriculture. One close observer described the CNCR as “a full participant in a range of programs and policy problems (McKeon 1999, 4).”

These examples of producer organizations responsible for policy formation and coordination, as well as the political incorporation of farmers in rural-based parties and as an object of political competition evokes clear similarities to the kinds of agrarian social pacts characteristic of industrialized countries. But how do such relationships take shape? As described below, historical legacies matter a great deal, especially with regard to the character of agricultural policies, the development of rural organizations, and the structure of macro political institutions. In addition, however, the experiences of industrialized countries as well as the examples from India, Poland, and Senegal each took place within a context of democratic politics. Although generalizations are difficult, this paper argues that *competitive elections are a necessary condition for the emergence of agrarian social pacts*. This is because the capacity for agricultural associations to shape sectoral policies depends on the political value of farmers as an influential source of votes. However, an important caveat must be noted as well: *farmers do not always or necessarily vote qua farmers*. Where regional, ethnic, or religious cleavages are the basis of political identities, it will be more difficult for producers to become influential in politics and, accordingly, influence policy.

In the next section, I describe the evolution of agrarian social pacts in the developed world, and especially what I call the “agricultural welfare state” that emerged through the creation of government income support policies and the political incorporation of farmers into national politics. I pay particular attention to the distinct political economy of agriculture and how the unique challenges of agricultural policy can lead to the creation of producer organizations that simultaneously augment farmers’ political clout. Next, I describe rural agrarian conditions in the developing world, the

institutions and actors in agrarian settings, and the interactions and negotiations among them. I then turn to a discussion of the three examples mentioned above: dairy cooperatives in India, rural-based parties in Poland, and peak producer associations in Senegal. Finally, I draw some conclusions about the relationship between agrarian social pacts and democratic politics, especially competitive elections. I close with a consideration of the contribution of agrarian social pacts to poverty reduction strategies.

The Political Economy of Agricultural Policy³

As a policy domain, agriculture presents several unique challenges. Most farm commodities are highly inelastic with respect to demand and supply: both the consumption and the production of food are relatively insensitive to price. As a result, small changes in output can produce large swings in price. At the same time, the asset and factor specificity of agricultural inputs, plus the constraints and uncertainties of the growing cycle, prevent farmers from simply adjusting production levels to meet demand. Consequently, agriculture is subject to boom and bust cycles that can leave farm incomes highly unstable and agricultural investments exceptionally risky.⁴ These challenges are exacerbated by the atomistic nature of agricultural production. The farm sector is typically composed of millions of individual producers. Collectively, farmers have an interest to cooperate: together, they can lift prices by limiting production or by spreading out the marketing of their crops over several months. However, the temptation to defect from such collective arrangements is very high since an individual farmer can reap windfall profits by selling more than her prescribed amount or unloading his crop earlier than the prescribed time. Moreover, monitoring compliance to prevent such defections is costly due to the large number of individual producers. Knowing this, and fearful that they will be left with large stocks as prices drop, farmers have an incentive to rush their product to market come harvest time, resulting in the glut in supply and decline in price farmers collectively hope to avoid.

Historically, most industrialized countries sought to address the income volatility in agriculture through a variety of government policies. When commodity prices dropped precipitously during the worldwide depression of the 1930s, for example,

³ This section draws heavily from Sheingate (2001).

⁴ The classic statement is in Schultz (1953), pp. 175-194.

governments in Europe and the United States instituted programs that limited production, controlled prices, and regulated the marketing of farm commodities. Such policies, however, posed challenges for these governments since the capacity to intervene successfully in agricultural markets still depended on the actions of millions of individual farmers. Farm-level production controls required adequate surveillance of planting and harvest, as well as the capacity to sanction those who exceeded limits. Government price controls for basic commodities would fail unless the state or its agents controlled distribution networks and public officials possessed the capacity to punish individuals who bought and sold in the underground economy. In addition to these administrative challenges, governments faced political challenges as well. Although most farmers welcomed efforts by government to lift farm incomes in the 1930s, many producers viewed their loss of autonomy over basic production decisions with a mix of skepticism and hostility.

Corporatist arrangements between governments and farm organizations were a particularly attractive way to address the collective dilemma in agriculture, the technical complexity of regulation, and the political acquiescence of farmers necessary for policy success (Keeler 1987, 256-258). Under corporatism, “interest groups, licensed, recognized or encouraged by the state, enjoy the right to represent their sector of society and...work in partnership with the government in both the formulation and implementation of policy (Wilson 1990, 22).” Through such partnerships, bureaucrats gained critical assistance from farm organization in the implementation of government programs. In addition, corporatism had distinct advantages as a political strategy. By designating an official representative of farmers as an agent of government policy,

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