



## Book Review: The Political Economy of Agricultural and Food Policies

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Swinnen, J. (2018). *The Political Economy of Agricultural and Food Policies*. New York: Palgrave Macmillan: 254 pages. ISBN: 978-1-137-50101-1.

*"Governments intervene extensively in agricultural and food markets and they do so for political reasons. This book summarizes recent research on the political economy processes underlying these interventions."*

For students of economics, the term "political economy" is confusing. Two quite distinct strands of literature use the same term to describe themselves. The first strand arises out of mainstream economics. It uses the core tools of economics to explain political behavior, based on the hypothesis of self-interested action on the part of consumers, producers and governments, in much the same way as conventional economics explains the behavior of consumers and producers within markets for private goods and services. It uses the analytical tools of economics, including analysis of quantitative data, econometrics and mathematics, to do this.

The second strand, also calling itself "political economy", consists mainly of a politically-based attack on capitalism. The central theme is that the cause of major economic, social and psychological problems of the day is capitalism itself. The implication, following Marx, is that the organization of economic activity along a socialist model of some kind is potentially superior. This literature generally uses little or no quantitative data and almost never employs the analytic methods of mathematics or econometrics. It sees itself strongly in opposition to mainstream economics, which it interprets as defending capitalism.

Sadly, these two strands of "political economy" literature ignore one another almost completely. The literature belonging to the first strand virtually never refers to any writings belonging to the second. The second strand refers to the first, if at all, solely for the purpose of denouncing it.

The important new book on the political economy of agricultural price policies by Johan Swinnen falls squarely within the first category. Swinnen, a Belgian professor of economics and former senior staff member of the World Bank and the European Commission, has made important analytical contributions to the economic literature on explaining the causes and consequences of government interventions in markets for both agricultural outputs and inputs, using the conventional tools of economic analysis. These contributions, and related work by many others, is generally scattered in academic journals and technical reports. This book provides a clearly-written and accessible synthesis of this literature and students will find it particularly helpful.

A core question addressed in the book is a familiar puzzle in the development economics literature, which Swinnen calls "the development paradox". A stylized fact of economic development is that as economies grow, agriculture almost always contracts, as a share of both GDP and total employment. In poor countries, farmers typically comprise more than half the workforce, but in most rich countries, fewer than 5 per cent of

workers are farmers. Nevertheless, a second stylized fact of economic development is that in poor countries governments tend to tax agriculture, whereas in rich countries, such as the US, Europe and Japan, agriculture is normally heavily subsidized. Why does the declining economic importance of agriculture during economic development coincide with rising political strength, in the sense of rising capacity to extract economic benefits from the government?

The answer offered by the literature, and summarized well in this book, is that as incomes rise with economic growth, food declines as a share of household budgets. In poor countries, food accounts for a high proportion of expenditures and urban workers are highly sensitive to the price of food; increases in food prices can topple governments. In rich countries, policies that increase the price of food have proportionately less impact on the budgets of urban households and generate far less political resistance. On the other hand, as the numbers of farmers contracts, the free-rider problems of organizing them become less severe and the political demand for policies that redistribute income from consumers to farmers becomes stronger. Hence, as economies grow, policies that raise food prices, benefiting farmers but harming consumers, become more attractive to politicians. There are other, more nuanced dimensions to the literature on the development paradox, which Swinnen summarizes, but this is the main story.

It is tempting to think of the development paradox, described above, as a feature of democratic, market-based economies. Nevertheless, the literature has shown clearly that the same development paradox can be seen in non-democratic, non-market-based systems as well. The identical process occurred in Communist countries including the former Soviet Union, China following the 1978 reforms, and in Eastern Europe prior to the collapse of communism. Swinnen summarizes this literature well.

As economic development proceeds, policies that raise food prices typically become more attractive politically. One interpretation of this phenomenon is that this process has seemingly desirable income distributional effects. This account points out that as agriculture's share of GDP falls during economic growth, the share of the workforce in agriculture also falls, but crucially, the latter occurs more slowly than the former. The movement of workers out of agriculture and into more productive employment elsewhere faces resistances that mean that incomes per person in agriculture decline relative to incomes in growing sectors. Does this mean that policies that redistribute income towards poor farmers are desirable on equity grounds?

Again, it is tempting to think so, but this argument is also false. Its weakness is that the farmers who benefit the most from higher food prices are those who sell the most food – those who own or control the most land, and are consequently the richest. The poorest farmers may be barely self-sufficient in food and sell very little, if any food. Their benefit is correspondingly small. It is surprising how many poor farmers are actually net purchasers of food. The losers from higher food prices, net purchasers, include both rich and poor consumers alike. The poorest consumers are those for whom food represents the largest share of their budgets. They are the consumers who lose most heavily. As a result, policies that raise food prices are a means of redistributing

incomes primarily from the poorest net consumers of food to the richest farmers. Even within rural areas, these policies generally result in the redistribution of incomes from the poor to the rich.

Swinnen's book also addresses other important aspects of the political economy of agricultural and food policy. They include policies on agricultural research and development, food product standards, pesticide regulation and land reforms. The book provides a clear and uncluttered summary of the literature on these policy issues. This reviewer is aware of no other source that does this and the book is strongly recommended for all students of economic development.

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