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Constitutional Rules and Agricultural Policy Outcomes

Alessandro Olper¹ and Valentina Raimondi¹

¹ University of Milano, Department of Agricultural Economics

Abstract—The analysis deals with the effect of constitutional rules on agricultural policy outcomes in a panel of 74 developing and developed countries, observed in the 1955-2005 period. Testable hypotheses are drawn from recent developments in comparative politics that see political institutions as key elements in shaping public policies. We focus the attention on the effect of both broad political reforms – reforms in (and out of) democracy – and on narrow details of democracy, such as electoral rules and forms of government. Using differences-in-differences estimation we find a positive effect of a transition into democracy on agricultural protection. However, the average effect masks substantial heterogeneities across different forms of democracy. Transitions into parliamentary and, especially, proportional democracy – as opposed to presidential and majoritarian – appear to produce the most increase in agricultural protection and support.

Keywords—Constitutional Rules, Agricultural Protection, Differences-in-differences estimation

I. INTRODUCTION AND SUMMARY¹

Literature concerning political and economic determinants of agricultural protection hardly takes into account the role constitutional rules play in shaping agricultural policy patterns. In contrast, the newly emerging field of comparative political economics places growing emphasis on the effect of political institutions on public policy outcome. The conceptualization of formal political institutions – like electoral rules and forms of government – into formal political economy models, has produced several testable hypotheses firmly motivated by theory. One of the most influential lines of research in this area is by Persson and Tabellini (2000, 2003), who look at how constitutional rules shape policy outcomes. Other recent contributions along the same research line are those by Grossman and Helpman (2005), who studied the effect of ‘party discipline’ on trade policy, Persson

et al. (2007) who focused attention on the link between electoral rule, party structure and government spending and, finally, Persson (2005), Persson and Tabellini (2006; 2007), Besley and Persson (2007), and Acemoglu and Robinson (2007) who, among others, look at the economic and political effects of different forms of democracy and the origins of the ‘State Capacity’.

Actual evidence that links political institutions to agricultural policy outcomes (e.g. Beghin and Kherallah, 1994; Swinnen et al. 2001; Henning et al. 2002; Olper, 2001, 2007; Thies and Porsche, 2007) provides a weak link with this ‘new generation’ of political economy models, lessening our understanding of the mechanism in place and, consequently, of the policy implications. More recently, some contributions have tried to go further, closing the gap between theory and evidence (see Henning 2004; Olper and Raimondi, 2004; Henning, 2008).

However, questions still remain regarding the robustness and generalization of existing empirical findings. First, the low within-country variation in political institutions forces the researcher to look especially at the cross-country variation in the data, rendering the robustness of the inferences questionable. At the same time the limited number of countries normally involved, rarely above thirty, tends to limit the generalization of the results. Last, but not least, actual evidence often refers to broad definition of institutions, like proxies for the degree of democracy or composite indices for institutions quality. Differently, conceptual studies as well as more recent empirical evidence stress that democratic *details* matter (see Acemoglu, 2005; Persson, 2005). The last point is important to avoid the Glasear et al. (2004) claim that it is hard to find rules-based measures of institutions systematically correlated with structural policies.

1. For the full version of the paper, please, contact the authors.

Starting from these considerations, our objective is to find robust empirical regularity that maps constitutional rules into agricultural policy outcomes. The analysis takes advantage of a recent database on agricultural trade distortions developed by the World Bank (see Anderson et al. 2008), covering a sample of 74 countries in the period 1955-2005. By exploiting the panel dimensions of the dataset we investigate the effect of regime changes – autocracy vs. democracy – on agricultural protection, as well as whether details of these forms of democracy, such as the nature of electoral rules and government types, systematically affect the level of agricultural protection and support.

From a methodological point of view we follow the recent tendency of including democracies as well as non-democracies in the sample, to overcome the fact that established democracies do not display sufficient (time) variation in their constitutional features. This gives us the possibility of using a more robust empirical approach exploiting the within country variation in the data (see Papaioannou and Siourounis, 2004; Giavazzi and Tabellini, 2005). Indeed, we use a before-after event study to analyze both the average treatment effects of a regime change on agricultural protection, as well as multiple treatment effects to disentangle the effect of democracy *per se*, from the effects of its details, along the line first introduced by Persson (2005) and Persson and Tabellini (2006).

The main results can be summarized as follows. First, we find a robust positive effect of transition to democracy on agricultural protection: a shift from autocracy to democracy induces an increase in protection (or a reduction in taxation) of about 3-4%, and the effect appears to be persistent in that a transition into autocracy only marginally affects agricultural protection. Secondly, this average effect masks substantial heterogeneities across different forms of democracy. Indeed, what matters are transitions to parliamentary – as opposed to presidential – democracy and, especially, transition to proportional – as opposed to majoritarian democracy. We show that a transition from autocracy to a parliamentary-proportional democracy, induces a growth acceleration in agricultural protection of about 11 percent points. Interestingly, such evidence is broadly in line with results obtained at a more aggregate level.

The remainder of the paper is organised as follows. Section (2) reviews previous empirical evidence on the effect of political institutions on agricultural protection. Section (3) summarizes the main ideas of recent comparative political economy models, focusing on the economic and political effects of political institutions. Starting from this literature we draw our key testable hypotheses. Section (4) describes the data on political institutions and other structural controls, while Section (5) introduces the econometric approach and discusses the results. Finally, Section (6) draws the conclusions.

ACKNOWLEDGMENT

Paper prepared for the second stage of the World Bank project “Distortions to Agricultural Incentives”, directed by Kym Anderson and Will Martin. The authors thank Mauro Vigani for research assistance; and Jo Swinnen for many discussions and insights on this issue.

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- Author: Alessandro Olper
- Institute: University of Milano
- Street: Via Celoria, 2
- City: 20133 - Milano
- Country: Italy
- Email: alessandro.olper@unimi.it