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# **AGRICULTURAL RESTRUCTURING IN SOUTHERN AFRICA**

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**Edited by**

**Csaba Csáki  
Theodor Dams  
Diethelm Metzger  
Johan van Zyl**

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## THE IMPACT OF INSTITUTIONAL PARTICULARITIES ON AGRICULTURAL POLICY

K Hagedorn

### INTRODUCTION

The process of restructuring the agricultural sector in Southern Africa will require a wide range of incentives and subsidies provided by agricultural policies. But it may depend even more on certain preconditions which have to be fulfilled by general politics, e.g. protection of human rights, implementation of democratic principles and abolition of racial discrimination. Economic efficiency in agriculture and - what may be even more important - social peace can only be achieved and maintained if all groups of farmers have equal access to land, markets, education, technology, infrastructure, political measures, and the process of policy-making from which decisions on agrarian institutions and policies derive (cf. Van Zyl & Van Rooyen, 1990:1; Kassier & Vink, 1990:21). Recent experiences in Eastern Europe have shown that large-scale agriculture based on a non-democratic system lacks economic efficiency and social stability. Instead, in most industrialised states without central planning, smaller farms integrated in a pluralistic political framework have become the prevailing institutional arrangement in agriculture. According to Schmitt (1990:22), "the dominance and persistence of family farms (in Western countries, K.H.) is explained economically by flexibility and stability in resource allocation to farm and non-farm employment as well as household production. Their economic superiority *vis-à-vis* large farms employing hired labour or organized by producer cooperatives is explained by lower transaction costs. Most likely, advantageous transaction costs of smaller family managed farms are not outweighed by increasing returns due to economics of scale and size of larger farms".

However, even if the institutional and political prerequisites mentioned above are given to a large extent, as is the case in the European Community, numerous problems still arise, e.g. social hardship in the process of structural change, increasing budgetary claims resulting from costly agricultural programmes, trade conflicts caused by protectionist policies and a whole variety of environmental issues. Because the author of this paper is not expert in Southern African agriculture and agricultural policies, he cannot say whether similar issues will arise during the restructuring process in this region, so that politicians in Southern Africa can demonstrate that they have learnt from the European experience. However, there may be some similarities (or contrasts) in the political economy or agricultural policies as well as some analogies between those systems of interpretation which are used to legitimate agricultural policies in Western Europe and the dominating political arguments in Southern Africa<sup>1</sup>.

Political decision-making takes place in a process of competition and cooperation

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<sup>1</sup> This paper relies heavily on a similar paper presented at the 9th World Congress of the International Economic Association, Athens, 28 August - 1 September 1989 (Hagedorn, 1989a).

among social groups, which determines the 'equilibrium structure' of taxes, subsidies, and other political burdens and favours. 'Political equilibrium' and the groups' positions of power depend on their different abilities to influence government institutions, e.g. by means of voting, political pressure, convincing arguments, economic incentives, or threats and intimidation. Since aggregate political influence is zero in this model, "the political effectiveness of a group is mainly determined not by its absolute efficiency - e.g. its absolute skill at controlling free riding - but by its efficiency relative to the efficiency of other groups" (Becker, 1983:380). This is important if we want to find out why in developed countries farmers, as a **minority**, have succeeded to protect their interests against the **majority** of non-agricultural groups and voters: we have to start from the assumption that this is due to **relative efficiency advantages** of agriculture in producing political influence, compared to those groups and voters who might be interested in less costly agricultural policies.

### POLITICAL PREFERENCES

Our initial question is whether or not the formation of intensive and organizable political preferences of farmers could be the first reason for efficiency advantages. "A group of persons who have made considerable irreversible investments to reach a particular economic status forms a natural community of interests" (V. Weizsäcker, 1983:15). The irreversible investments act as a **barrier to entry** into the market and, consequently, lead to a quasi-rent for the group members. In case of an unfavourable economic evolution of the sector, however, the irreversible investments also become a **barrier to exit**. This motivates the group members to organize as a pressure group to defend their existing quasi-rent by collective action.

Farmers are a group of this kind. They usually have made considerable irreversible investments (in physical and human capital), and then experience unfavourable economic conditions which they did not anticipate. According to the opportunity cost approach provided by fixed asset and exit barrier theory, it is rational for an individual farmer to continue as long as his revenues exceed the alternative non-farm income minus transaction costs. Since the resulting low resource returns affect the whole sector and lead to income disparity, solidarity arises among farmers and supports collective action. These activities have to take place in the political sector, because non-political collective action in the market sector, e.g. cartel agreements among producers, cannot **sufficiently** be developed by agriculture due to its atomistic structure.

These arguments illustrate the basic reason for the efficiency of agriculture in organizing itself as a pressure group: there is no adequate alternative available to secure a quasi-rent. Neither can this be accomplished by individual or collective action within the market sector. This serves as a **reliable political basis** for a consensus within agricultural groups to employ political coordination mechanisms as an alternative way to pursue their interests. This **substitution effect** between market coordination and political coordination can be explained by means of two approaches. The first is the **rent-seeking theory**: the more farmers experience the frustrations of economic profit-seeking - striving for profits by innovations which cannot be realized - the more they will be inclined to political rent-seeking by means of influencing farm policy. The same reaction can be illustrated by an **exit-and-voice approach** suggested by Hirschman: the more exit from farming is restricted - raising the transaction costs which must be borne by farmers themselves - the more voice will come up in terms of political protest.

However, the relationships between economics and politics outlined above can be found in many branches and groups. Accordingly, Tullock & Hillman (1989:574) assume "that, in a sense of political economic analysis, agriculture is no different than other elements of society". However, there are numerous institutional differences between sectors and branches, and agriculture is an illustrative example for differences of this sort. Family farms are the outcome of a process of institutional choice which seems to be reasonable, because they are able to keep the transaction costs of production low. Simultaneously, this economic institution has led to political institutions which also show certain peculiarities. If we use Kenneth Boulding's (1970:43 ff.) classification of coordination mechanisms (i.e. 'exchange', 'threat' and 'love'), family farms have to be regarded as integrative systems of decision-making. In such systems large bundles of entitlements are given to the economic agents. As a consequence, the latter suffer from a special disadvantage in the process of structural adjustment which requires mobility. This phenomenon can be explained by a specific 'cumulation of transaction costs' which is exclusively due to institutional reasons (for details, cf. Hagedorn, 1989b:280-491).

The particular institutional structure of agriculture has given rise to political institutions that are also in some respects different from those institutional solutions which have been developed by other groups. First, the mobility-reducing impact of the family farm system reinforces the intensive and organizable political preferences of farmers. Secondly, collective action cannot take place on the level of factor allocation where the prices for labour, capital and land are determined, because self-employed farmers will not negotiate with themselves or strike against themselves collectively, like workers negotiate with or strike against their employees. Instead, the process of collective action has to be shifted to the level of product pricing and income support.

### PARTY COMPETITION

The causal relationships indicated above can certainly explain why farmers are able to organize as an interest group with effective rent-seeking and voice mechanisms at its disposal. This does not answer the question, however, why agriculture is successful in gaining general acceptance of its specific group objectives, given the fact that **the farm population is a minority**. Why don't consumers and tax payers, who have, or at least could be expected to have, a great interest in the financial relief achievable by reducing agricultural protectionism, use their **electoral influence as a majority** to cause farm politicians to reform agricultural policies? In order to explain this contradiction, we have to discuss the basic question, i.e. what role electoral control and party competition can actually play in agricultural policy.

If we first look at this question **from the farmers' point of view**, we are bound to conclude that party competition merely provides an extremely unprecise control of agricultural policy decisions. Therefore, a more detailed control by parliament, the system of interest groups, bureaucracy, etc. is indispensable. By means of his vote a farmer can support a general party programme, but not particular agricultural policy measures. In addition, it is questionable whether or not the farmer calculates his party differential only according to agricultural policy or also takes into account his other political preferences. Thus, farmers certainly have a great interest in choosing among different agricultural policy programmes, because they are a passionate minority with clear preferences regarding farm policy issues. At the level of general elections, however, they cannot find corresponding

alternatives which are sufficiently differentiated. As a consequence, representation of agricultural interests has to be delegated to farm politicians in parliament, farmers' associations, bureaucrats, etc.

From the **standpoint of the competing parties**, the question arises whether or not employment of agricultural policy instruments can help them win general elections. This would be possible if farmers could become marginal voters who could be motivated by a favourable redistributional policy. However, since both parties - assuming a two party-system as is usual in the Economic Theory of Democracy - will make use of such redistributional strategies to secure the marginal votes, every decision of the one party will constantly be countered by purposive redistributional promises of the other one. In the end, victory will only be attainable by concentrating redistribution on as small as possible a group of voters, but still assuring the majority. Since the budget available for redistribution is supposed to be as large as possible, the number of citizens who have to carry the burden must be as high as possible, and the individual burden has to be maximized: "In the model of pure democracy the 'optimal redistribution strategy' is characterized by 'maximum favours for a minimum majority' resulting in 'maximum burdens on a maximum minority'" (Knappe, 1982:124). In countries like South Africa this strategy seems even more attractive, because not only 49 percent of the voters, but also all those citizens who have no equal rights to participate in general elections can be burdened.

However, if a party has decided in favour of a particular '51 percent group' and burdens the remaining '49 percent group' in its election programme, then the competing party will try to prevent its victory by improving the situation of the disadvantaged '49 percent group' by means of adequate reliefs and favours. In addition, it will isolate a small '2 percent group' from the '51 percent group' by promising them even more advantages than the other party. According to this model, farmers could be quite suitable for such a role of procuring the majority, because they only amount to a few percent of the whole constituency in developed countries. In reality, however, this would not prove an advisable strategy, neither for the politicians nor for the farmers, because it does not lead to a **reliable majority for the politicians or a stable agricultural policy for the farmers**. In fact, after one party had prohibited the winning strategy of the other one by associating the '49 percent minority' with the particularly favoured '2 percent group', it could be replaced in the same way again, and so forth (Knappe, 1982:125). This would result in unstable political conditions, characterized by exploitation of changing minorities by changing majorities.

Finally, considering the problem of the **perspective of non-agricultural voters** is very enlightening. Due to the farmers' high party identification (cf. Lewis-Beck, 1977:450), not only the number of voters, but also the voting flexibility of most consumers and tax payers is considerably higher. Consequently, the grain of agricultural votes achieved by a policy favouring the farmers' interests would be over-compensated by the resulting loss of non-agricultural votes. Furthermore, many more votes could be mobilized in other groups with lower party identification by means of the same redistribution budget. In other words: the **electoral opportunity costs** caused by redistribution in favour of agriculture would be much higher than the benefits.

These are the reasons why farmers and farm politicians have a **common interest** in protecting agricultural policy against electoral control of this sort. An insulated sphere of political action is established, which allows agricultural policy to be biased in favour of the farmers' interests **without overwhelming electoral opportunity costs**. In countries like

South Africa these electoral opportunity costs are already very low, because a large number of consumers who have to carry the costs of agricultural policies are excluded from voting anyway. Thus it seems logical that many commercial farmers in South Africa are interested in maintaining the apartheid system and vote for the right-wing opposition. However, there are also other strategies to reduce the electoral opportunity costs of agricultural policies: specific interpretation systems are established by public relations work for legitimating a type of agricultural policy which is mainly devoted to the farmers' interests. In this way, opposing voters' preferences can be prevented, neutralized or even reversed in order to generate broad solidarity with agriculture.

### **POLITICAL LEGITIMATION**

The coordination potential of political institutions would be hopelessly overburdened, if each and every policy decision had to be justified in all details and, with respect to its approval, by all agents concerned. Therefore, legitimation of political action is usually provided by referring to the normative standards which are an element of a general consensus in society. To be acceptable, it is important that these standards are based on adequate theories, capable of convincing the citizens that they should agree to the basic rule in question, first, because it is a fair one, and second, because policies based on it will be in their own interests.

However, if basic rules of this sort are successful in generating a consensus, they also offer incentives to various interest groups **to exploit them in favour of their specific group objectives**. Public acceptance of such group objectives essentially depends on whether or not they are acknowledged as legitimate by the citizens and politicians inside and outside the group. Thus, reliable legitimation of particular group interests is easier attainable if the group officials succeed in interpreting them in accordance with the prevailing conceptions of social justice or/and in manipulating these general notions of fair behaviour in favour of their specific group interests.

The outcome of these activities also increases internal and external solidarity: The members of the own group can now stand up for their own interests without scruples of conscience (principle of cognitive consonance). For the same reason, the group objectives obtain legitimacy in the eyes of the non-members. Since the non-members usually represent the majority of voters, interest groups depend on their public for tacit agreement in a democracy. Accordingly, the farmers' interests are legitimated by a normative 'theory' which interprets agricultural policy in the sense of a **social contract** which has been concluded on the constitutional level of politics, analogous to the Economic Theory of Constitutions (cf. Buchanan, 1975). In this view, which is constantly reinforced by the well-known ideologies based on agrarian fundamentalism, agricultural policy is justified by an **exchange of public goods**: agriculture provides security of food supply, reliable food quality, environmental protection, social stability, and other external benefits. In return, agricultural policy ensures farmers' equal participation in income and wealth. Following this legitimation theory, agricultural policy is nothing but a **just reward for important public goods** produced by agriculture. The persuasiveness of such legitimation theories is due to the fact that they are either actually or at least supposed to be based on a voluntary agreement between social groups on the internalization of external effects. Since social contracts of this sort are - or at least give the appearance to be - in accordance with the valid notions of social justice, they are able to mobilize positive value judgements of the citizens



(V. Weizsäcker, 1983:13-20).

These constitutional foundations of agricultural policy act, in a way, as an amplification of existing 'natural' sources of influence particular to farmers. The public goods supposed to be provided by agriculture - security of food supply, reliable food quality, environmental protection, social stability, etc. - relate to essential human needs, because short supply of these goods could be immediately dangerous. From an individual citizen's point of view, it may be reasonable to agree to a general consensus on preferring a type of agricultural policy, which is oriented towards these security needs. Therefore, many people may be ready to bear higher costs to maintain the possibility of making use of these precautions some day. Thus, this agricultural policy may have a high 'option value' (Frey, 1981:50).

The efforts of other social groups to produce political solidarity in favour of the farmers are also supported by the attractiveness of agriculture as a member of **winning coalitions**. The decline in the number of farmers is usually regarded as a reason for decreasing the power of agriculture. However, the process of out-migration may also be a source of increasing power: Constant per capita benefits for farmers can be maintained by reduced per capita costs for non-farmers, which are a determining factor of the attractiveness of agriculture for winning coalitions. Pressure groups seeking to manipulate relative prices to their advantage often cannot achieve this solely by their own forces, but need support from other groups and therefore are bound to form coalitions. However, price rises in favour of one industrial group lower the real incomes of every other group. "Consequently, *ceteris paribus*, any group seeking to maximize its real incomes by forming a coalition to secure a price rise has an incentive to exclude from that coalition industries whose goods comprise a high share of that group's purchases and to seek instead an alliance with industries whose goods comprise a lower share of their purchases" (Bates & Rogerson, 1980:514; Becker, 1983:385).

### EXPLOITATION OF LEGITIMATION SYSTEMS

As a result of the interpretations outlined above, most industrial societies have developed a broad basis of goodwill for agriculture. Not surprisingly, influential subgroups of farmers try to exploit this important political asset in favour of their specific objectives. Tullock & Hillman (1989:579) have shown how this strategy works in the USA: Due to the pressure of small producer groups, congressmen engage in log-rolling with other congressmen who want to gain acceptance of the specific group interests they represent. However, a congressman will only agree to such a bargain if other groups and voters do not protest against it, so that he will not lose more votes than he gains. According to Tullock & Hillman (1989:576) this is possible because "the costs are diffused and small on an individual basis but the benefits are concentrated and large per farmer-recipient". As a consequence, farmers are motivated to be well-informed while the other citizens are ill-informed.

Although unequal motivation to become informed may play a major role, this is not the main source of legitimation for agricultural protection. Most citizens **want** farmers to be protected, because they have a perception of agriculture that has been shaped by the particular social contract outlined above, based on deeply-rooted ideologies of agrarian fundamentalism which can be found in many countries. In Germany we call this 'Bauerntumsideologie', and in the United States similar convictions exist, which can be

traced back to the ideal of an 'agrarian democracy' established by Thomas Jefferson. In South Africa such interpretation systems focus on the specific role which white commercial farmers are supposed to play in society.

The political activities of large commercial farms cannot be regarded as being typical for the major part of agricultural policies. Even in the United States, the agricultural sector mainly consists of family farms. Therefore, the way agricultural interests become organized and are justified in public is based on political attitudes associated with family farming. In a historical perspective, the family farm system and the political subsystem established for the farm sector are both outcomes of a **process of co-evolution**. Accordingly, the political influence of large commercial farms cannot be explained in an isolated perspective. Their political success is not based exclusively on their own forces, but they exploit the broad public acceptance derived from the family farm system. Thus, these groups can be considered to be 'free riders' within agricultural politics.

Obviously, small groups of powerful farmers play a similar role in South Africa. Kassier & Vink (1990:20) have pointed out that there are several similarities between the political relationships described in the previous sections and the determinants of agricultural policies in Southern Africa. "What distinguishes South African agriculture is, however, the fact that the favoured position of farmers has largely been captured by large-scale, full-time, white property-owning farmers". In contrast, there is a "bias against small, part-time and tenant farmers". South African agriculture shows a high level of efficiency but a low level of equity. The distribution of income and wealth among farmers is severely skewed. These structural imbalances are to a large extent caused by the fact that different groups of farmers are not equally favoured by state policy towards agriculture.

This unequal treatment can be explained by unequal access to political power of different groups of farmers, so that they cannot equally participate in the policy-making process. In a similar way Van Zyl & Van Rooyen (1990:1) explain the 'inherent dualism' of agriculture in Southern Africa. The main reason for this phenomenon lies in the political economy of the agricultural sector in which restricted access to factor and product markets along racial lines is one of the most visible characteristics. "Surplus-producing, commercially oriented and capital-intensive White farming exists alongside small-scale, subsistence-oriented Black farming in the independent and national states". As sector-specific policies are often shaped within the agricultural sector, "such policies will be more equitable if all groups of farmers (in the case of South Africa this also includes Black farmers, part-time farmers and tenant farmers) had fair access to this process of policy making".

The authors also emphasize that the Marketing Boards are "dominated by certain producer interests (generally large-scale, full-time White property owners)"; and the same is true with respect of factor policy which has led to "major inequalities in the ownership of factors of production, especially land; in the distortion of the relative prices of the labour and capital; and in the favourable treatment of White, full-time property-owning entrepreneurs. These characteristics have been reinforced by technology policy, which has traditionally been targeted at the above group of farmers ... The current state of imbalances in agriculture serves as a powerful argument in favour of a more neutral treatment of different groups of farmers. This again implies policies in support of markets and of a wider representation in policy making forums" (Kassier & Vink, 1990:22).

Obviously, there are various similarities between the political economy of agricultural policies in Western Europe and in South Africa. Moreover, the commercial

farmers in South Africa can make use of special privileges. First, the electoral opportunity costs of agricultural policies are low, because - as has been mentioned before - the majority of citizens is not allowed to participate in general elections. Second, the farmers' votes have a much higher weight than the votes of urban citizens, because the rural constituencies contain much less voters than the urban constituencies. Third, the dominating political ideologies underlying the apartheid system simultaneously act as ideologies in support of agrarian fundamentalism. Farmers did not have to establish their own interpretation system but could employ an existing one for their political objectives. The population of South Africa grew up in a cultural environment which has strongly been influenced by those fundamentalistic political attitudes, because these beliefs have been taught in the schools and even by the churches.

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