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WHY DO GOVERNMENTS DO WHAT THEY DO? THE CASE OF FOOD PRICE POLICY

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1. Role of the State in the Making of Food Prices

Belief in the existence of free-market determination of food and agricultural prices is largely a myth. In essentially all countries, even in those most dedicated to the rule of free enterprise--both less and more developed--these prices are highly influenced by state intervention. Controls can be direct, such as through farm price supports or consumer price ceilings, forced deliveries to governments at mandated prices, export controls and taxes, import tariffs or subsidies, and input price subsidies, or indirect, such as through exchange rate policies. In a recent survey of 50 developing countries, Saleh found that, in at least 46 of those, government policies undervalued agricultural commodities and created serious disincentives to production. Policy interventions are no less pervasive in the more developed countries, if usually in the opposite direction, resulting in a general overvaluation of agricultural commodities (Schultz; Bale and Lutz). Peterson thus calculated that the terms of trade for agriculture were more than twice as favorable in a sample of 23 more developed countries than in 30 less-developed countries. The result has been a tendency toward overproduction and underconsumption of agricultural goods in these former countries. Hidden behind these general tendencies is, of course, a tremendous heterogeneity among countries, crops, and time periods. The consequence of this pervasive involvement of government in price policy making is that both successes and failures in the performance of agriculture have been attributed to the state. For example, successes with agricultural development in the United States and India have been attributed to the policies of price support and public agricultural research, while the failure of food production to follow effective demand in Egypt and most Latin American and African countries has been blamed on price disincentives resulting from the implementation of cheap food policies. At the level of specific crops, the success of rice production and the failure of wheat in Colombia, the success of wheat and the failure of corn in Mexico, and the success of wheat and the failure of pulses in India have all been attributed to differential price policies among crops.

Since price policy is important in determining the prevailing food and agricultural prices for particular crops in different countries, we need to relocate the study of agricultural prices out of a pure theory of markets into a theory of the state. Why do governments implement such markedly different food and agricultural price policies resulting in sharply contrasted patterns of agricultural and rural development?[1] That is, we need to go beyond the neoclassical equilibrium analysis of markets consisting of observing price distortions, calculating the resulting social costs, and merely calling on their removal. To the contrary, these distortions must be understood in terms of their dynamic historical and social reality if any proposal to amend them is to have political relevance: What did governments achieve or try to achieve by the policies implemented? What were the coalitions of forces that led governments to follow the observed courses of action and what were the resulting distributions of gains and losses?

While tremendously complex to understand and highly historically/geographically specific in each instance, a first step toward answering these questions is to identify some regular patterns in the relation between (1) the economic and social structure of particular societies; (2) the forms, functions, and limits of the state; (3) the making and implementation of food and agricultural price policy; and (4) the economic and social consequences of these policies, both within agriculture (in terms of agricultural and rural development) and in the economy at large. It is the identification of these patterns that will serve as a basis to develop a theory of the political economy of food prices. It is consequently toward this ambitious goal that we attempt here to take some modest first steps. To do this, we will seek to answer the following four groups of questions:

1. How do we explain the behavior of the state in a capitalist society, in particular its forms, functions, and limits? Without engaging in a full-fledged review of the competing theories of the state, what we need is to extract from these theories some key concepts that can serve as classificatory dimensions to identify repeated patterns in government behavior toward agricultural price policy.
2. What is specific about food and agricultural prices in terms of state policy making? In particular, how do the origins and the destinations of supply locate different social groups relative to the payoffs of price policy? How does the pricing of agricultural and food products enter in the definition and the resolution of particular economic and political crises that call upon state intervention?
3. What are some key hypotheses about the relation between social and economic structure; forms, functions, and limits of the state; and price policy that explain the observed highly contrasted patterns of price policy across countries (especially

overvaluation versus undervaluation of agricultural commodities and the existence or not of a price wedge between farm and consumer prices) and across crops.

4. Why do specific governments implement specific price policies? Here we will study the cases of the United States, India, Colombia, and Egypt in reference to the selected elements of the theory of the state, the specificity of policy making regarding food and agricultural prices, and the hypotheses advanced on the relation between socioeconomic structure, state, and policy.

2. Elements of a Theory of the State

The key questions that a theory of the state should be able to answer relate to the forms, functions, and limits of the state: Why does the state assume different <u>forms</u> (liberal democratic, corporatists, dictatorial, etc.)? What are the <u>functions</u> that the state attributes to itself or is forced to endorse, i.e., why do governments do what they do? What are the <u>limits</u> to state intervention and, hence, what is the effectiveness of the state in performing its functions? These, indeed, would appear to be basic questions to address. Yet, it is evident that the state has been largely understudied in the social sciences of all slants in spite of the growing importance of the state in social life, particularly in economics since the Keynesian revolution and in politics since the events of 1968. Nevertheless, these events have stimulated a growing interest in the subject over the last 15 years.

There does not exist at this stage a unified consistent theory of the state, neither in the classics of the state like Weber or Marx nor in subsequent developments in either the pluralist or Marxist traditions. What we have, instead, are different approaches to the state, each with different purposes and in different historical contexts that complement one another in an eventually illuminating fashion. To a large extent, this is due precisely to the fact that a theory of the state, which is developed in relation to a characterization of social classes and of the emergence of crises, has to be made in reference to a particular historical context which thus limits the scope of the theory and severely curtails its predictive power. As a result, theories of the state tend to have eventually strong ex post explanatory power but remain weak in ex ante predictive power.

Having introduced these caveats, let us identify several concepts and approaches to the theory of the state which can be useful for our purpose of understanding observed patterns of food and agricultural price policy.

2.1. *Structural Characterization of a Society*

Since the state must be understood in reference to its social and economic context, the first step toward a theory of the state consists in defining the structural dimensions of particular societies. Characterizing a society is a highly complex task but, for the purpose of our analysis, I propose to retain the following three dimensions:

1. The social class structure. Here the essential element is to characterize what is the class alliance in control of the state. In terms of agricultural and food policy, the important elements of class characterization are the following three:
   a. Landlord power and importance of rent. The key issue is to locate the social position of landlords in terms of their relationship with the capitalist class. Are

they in a prerepeal of the Corn Laws-type situation where the capitalist class is too weak to control the state on its own and must consequently establish an alliance with the landlord class?[2] In this transitory stage, the landlords contribute to the alliance with political support and release on the market of a labor force (e.g., through the enclosure movement), while capitalists insure landlords the preservation of land rent through favorable terms of trade for agriculture (Rey). As we will show, this is a situation still characteristic of India today. Or, to the contrary, are the landlords in a postrepeal of the Corn Laws-type situation where the capitalist class has acquired enough political power of its own to do away with an alliance with landlords and thus cancel the rent through lower agricultural prices, allowing to raise the rate of profit in the whole economy? As we have argued elsewhere, the land reform programs of the 1960s in Latin America and Egypt had as a fundamental purpose to destroy the political power of the landed elites and allow to eliminate the category of rent from the formation of food prices (de Janvry).

b. Social dualism in food production: capitalist versus peasant producers. There are here two imbedded questions. The first is to characterize the relative social and economic importance of peasant and family farmers versus capitalist and agribusiness farmers. In most instances studied, both social categories are present and the latter, while a numerical minority, controls the bulk of the land, produces most of the marketed surplus, and has a virtual monopoly in political representation of sectoral interests. The second question, however, is whether this structural dualism is reflected or not in a dualism in cropping patterns. In some countries like the United States and India, structural dualism is not reflected in cropping patterns dualism since the same crops are found across all farm types. In this case, agricultural price policies will affect both family and capitalist farmers. In other countries like those of Latin America and Egypt, many lines and sometimes the bulk of staple food production are left to peasants while capitalist farms specialize in the production of agroindustrial goods, luxury foods, and agroexports. In this case (staple) food policy affects differentially the peasant sector, while the political power of capitalist farmers can be devoted to the defense of profits in other lines of economic activity.

c. Social democratic alliance and urban constituency of the state. The third important characterization of the social class structure is the position of the working class and peasantry relative to the class alliance in control of the state. There are two issues here. The first is whether workers and peasants are incorporated into the ruling alliance allowing them to share through wage and terms-of-trade conditions into the productivity gains of industry and agriculture. In this case, the concept of parity income becomes an important element of price policy. Or are they rejected in open political opposition, submitting them to intense surplus extraction under the form of cheap food policies and cheap labor growth? As we will see, this contrasted social alliance has a corresponding basis in the logic of growth according to the alternative economic structures.

The second issue is to characterize the strength of the urban constituency of the state in the making of food price policy. This constituency includes three politically powerful groups that coincide in their demands for cheap food, even if for different purposes. Urban consumers want higher real wages through lower food prices, a particularly important variable when more than half of their take-home pay is spent on food. Employers want to raise the rate of profit through lower monetary wages allowed by cheaper wage foods. And government employees also want cheap food as they are part of the other two groups: urban consumers in their own rights and employers as managers of public enterprises.

2. The economic structure. While, again, there are many relevant characteristic elements of the economic structure (in particular, the nature of intersectoral linkages and the labor intensity of technology), we only retain here two features.

   a. Social articulation or disarticulation. Under social articulation, the market for final consumption goods originates principally in the incomes of wage earners and peasants (de Janvry and Sadoulet). As a result, expansion of the domestic market ultimately has to occur via a rise in real wages and peasant incomes tailored to productivity gains. Under social disarticulation, by contrast, the market for final consumption goods originates in upper incomes derived from rents and profits. Market expansion thus requires concentration in the distribution of income, and the dynamics of growth is based on cheap labor. This, in turn, requires cheap food as the level of monetary wages is principally determined by the level of food prices at low-income levels. In terms of forms of the state, social articulation tends to correspond to democratic governments, while disarticulation leads to authoritarian and militaristic regimes. In terms of class alliances in control of the state, social articulation tends to lead to a broad (if, indeed, always conflictive) alliance between capitalist, workers, and peasants, while, under social disarticulation, workers and peasants are marginalized from access to the state, and the alliance in power is atrophied to the landlord and capitalist classes.

b. Alternative sources of economic surplus. Industrial development requires the mobilization of an investable surplus from other economic sectors. As Kuznets has argued, agriculture is the sector from which this surplus must originate unless there exists a rich mining export base or other sources of revenue like merchant activities or international transfers of funds. Transfers out of agriculture occur voluntarily through the investment of agricultural savings and rents outside of agriculture and coercively through land, export, and income taxes. But the most common transfer mechanism, particularly for domestically consumed commodities, has been through the undervaluation of agricultural output. We thus have a situation where the more forcefully a country wants to industrialize and the less the availability of nonagricultural sources of surplus, the more extractivist agricultural price policy will tend to be.

3. Insertion in the international division of labor. Here the two key features are the degree of food dependency and the balance-of-payments position of the country. The first determines, for example, how sensitive are domestic prices to fluctuations in international market prices and in the exchange rate. The second determines the possibilities of making up for deficient domestic production via imports. It also defines the capacity for the state to let a price wedge develop between consumer and producer prices and to make up for the difference out of public revenues.

2.2. *Two Complementary Approaches to the State*

There are fundamentally two contrasted ways in which the state has been conceptualized in the framework of political economy. These two approaches have not been unified in a consistent framework, but they reinforce each other in illuminating the forms, functions, and limits of the state from two different angles.

1. The instrumentalist or class-political analysis of the state. This approach looks at the state in terms of class domination (Poulantzas): the state is both an object of political conflicts, where the purpose of struggle is to appropriate its institutions and the rents they distribute, and an instrument of domination in using control of the state to redefine its forms and functions. It is thus the constellation of political forces in society that determines how the state becomes an instrument of the satisfaction of group interests via political power. In its most operational form, the approach focuses on a class-based analysis of pressure groups which compete for access to and influence over the state bureaucracies. Deprived of their class basis, this analysis of pressure groups reduces to the pluralist logic of collective action (Olson). A key to this analysis is thus to define how different competing interest groups are organized, the extent of their economic and political power, and their ability to gain control of particular aspects of policy making in defense of their own advantages. In some cases, this results in appropriating the state apparatus in its totality, allowing the making of consistent policies for the group in

power, while in others it leads to control of specific branches of government by rival interest groups, leading to a veritable "balkanization" of the state.

An important aspect of this approach is to delineate the realm of individual versus collective initiatives in the quest for economic advantages. Individuals are, indeed, always faced with the alternative of either trying to outcompete or outwit other members of the same class, for example in deciding on resource allocation or technological alternatives at the level of the firm, or of organizing collective action, for example to modify the price conditions faced in markets or the rules for access to additional resources. In general, collective action tends to be in response not so much to incentives but to coercion occurring in the context of economic or political crises. In that sense, crises are important focusing devices that stir class mobilization and guide the direction of collective action (Hirschman, 1958).

2. <u>The capital logic analysis of the state</u>. A major difficulty with the instrumentalist analysis of the state is that it fails to ground state action in the systemic logic of capital, both in terms of the requirements of the process of capital accumulation and the preservation of the social relations of capitalism. As a result, the bounds within which social conflicts occur over and through the state are not clearly delineated: the approach is mainly concerned with distributional struggles, and the boundaries of these struggles are left unspecified.

The capital logic approach, by contrast, explains the need for and the behavior of the state in terms of the economic and political needs of capital to insure both sustained economic growth and reproduction of the social relations of capital (Baran and Sweezy). The key idea is that there are collective interests to capital that cannot be insured by individual capitals alone. This creates the need for the state to act as an ideal collective capitalist. And since this need becomes recognized in the context of economic and political crises, it is in those circumstances that the forms, functions, and limits of the state are redefined.

The functions of the state are established in relation to the needs of capital accumulation and of the reproduction of the social relations of capital. These collective functions of the state imply that it is relatively <u>autonomous</u> from specific segments of the dominant class alliance. At the same time, the state is both <u>excluded</u> from the direct generation of surplus that forms the basis of a fiscal budget and <u>dependent</u> upon surplus generation in civil society if its budget, and the salaries of politicians and civil servants, is to be maintained. As a result, successful management of the process of accumulation by the state itself is a precondition for continued existence of the state and of the vested interests it contains. Indeed, the most binding limit of the state is the occurrence of fiscal crises which are themselves determined by accumulation crises (O'Connor). The other limits of the state are found in the legitimacy of the state apparatus and in its administrative capabilities of handling specific forms of crises.

The main contribution of the capital logic approach to the state is to show that the state is not a mere political instrument of class conflicts. Indeed, this is what the pressure group analysis of the state fails to take into account--the fact that the interests of specific groups, endorsed by the state, are limited by the economic and political requirements of the reproduction of capital as a whole. Yet, the capital logic approach has several shortcomings. One is that it imbues the state with the semblance of excessive logic and power over civil society and fails to account for the internal devisiveness, imperfect information, and limited capacity of the state apparatus. In particular, it fails to acknowledge that the state, itself, can be a source of crises which often originate in the contradiction between forms of the state (liberal democracy for legitimation purposes) and functions of the state (keeping wages, especially the social wage, in check in defense of the rate of profit and accumulation). The other is that it excessively privileges the collective good over the interests of individual capitals precisely when the instrumentalist approach was stressing exclusively the redistributive gains of interest groups over the collective interests of the dominant class alliance. Clearly, a balanced approach between these two is necessary to approximate a theory of the state. This is what we propose to do in analyzing the making of agricultural and food price policy.

2.3. *Specificities of the State in Regimes of Transition*

The elements of a theory of the state we outlined above were defined in the context of advanced industrialized countries. Their application to less-developed countries characterized by regimes of transition toward eventually mature capitalist systems requires specification of the features of regimes of transition that affect both the instrumentalist and capital logic performances of the state.

We will retain here only one structural feature of transitory regimes, whatever the type of society they emerge from (but usually either feudal, populist, or state capitalist), which is the weakness of the emerging urban industrialists to politically confront the power of their peasantries and working classes. This feature can be used as a definition of transitory regimes, and it is all the more evident in the Third World countries of today where economic growth tends to produce serious disruptions of traditional society (due, for example, to inappropriate technology, social disarticulation, and international dependency) and sharply worsening patterns in the distribution of income. We find, as a result, the emerging capitalist class in need of relying on either one of two strategies:

1. Maintain a political alliance with the landlord or rich farmer class in an exchange of agrarian political support against perpetuation of a land rent paid under the form of favorable terms of trade for agriculture (Rey; Mitra). We will refer to this situation as one of "prerepeal of the Corn Laws" when the state surrenders high agricultural prices to the landlord and rich farmers' lobby at the cost of reduced profit rates in the

rest of the economic system, slower economic growth, and reduced real wage earnings.

2. Buy legitimacy from the politically demanding segments of the working class (usually the urban constituency) through extensive welfare assistance, in particular under the form of massive food subsidies. We will refer to this situation as one of "prerepeal of the Poor Laws" where the state incurs high social expenses for the sake of political legitimation. The legitimacy crisis of the capitalist class is thus displaced at the level of the state under the form of high public expenditures. The possibility for the state to absorb this crisis very much depends on its capacity to mobilize a financial surplus, either from dominated segments of domestic society or from abroad.

2.4. *Crisis Response Versus Planning Mode*

The final characteristic of the state that we want to retain to analyze food price policy is the role of crises in stirring state action and, hence, in defining the time horizon which the state confronts in the definition of policy. If the state fundamentally acts in crisis response, the time horizon which it faces to solve the crisis at hand is typically short and often further shortened by a lack of correspondence between political time and the economic time needed for solutions to be developed. In a crisis response mode, most instruments used tend to be redistributive, with price policy a particularly evident instance of a short-run zero sum game (Thurow). If the state acts in a planning mode, defining policy in terms of either longer run structural changes or the anticipation of crises, then the instruments used can be not only redistributive but also growth promoting. Thus, price policy can become an important instrument to stimulate investment and technological change through the income effects it creates. With the failure of "developmentalist" planning in Third World countries (Healy; Hirschman, 1981), especially Latin America, and the increasing shift toward neoliberal and bureaucratic-authoritarian regimes (Collier), the time horizon of economic policy making has typically been shortened, planned structural change and crisis anticipation have given way to short-run stabilization policies, and planning modes have given way to crisis response. In the making of price policy, this implies increasing dominance of redistributive over growth purposes and, hence, of instrumentalist over capital logic motives.

3. Specificity of Agricultural and Food Price Policies

Given these general features of the state, there are specific aspects which differentiate the issue of agricultural and food price policies from other forms of state intervention. In an instrumentalist sense, one is the particular social constellation which finds itself affected by these price policies. The other, in a capital logic sense, is the kinds of economic and political crises to which food prices potentially contribute.

3.1. *Distribution of Payoffs from Food Price Policy*

In the short run, without output response, the payoffs from price policy are determined by whether price changes create a net income or a net cost effect for specific social groups. Income effects are determined by the mapping of cropping patterns over social class structure, i.e., who produces which crops and for what purpose (home consumption versus sale). In the longer run, when output effects are induced by price changes, income effects for other social groups also result from changes in employment opportunities (Mellor). Cost effects are created by the impact of changing price on real income and real wage in terms of consumption capacity. In addition, monetary wages are affected in the longer run by changes in food prices, resulting in changes in the rate of profit for employers in the economy at large. The important distinction here is between types of commodities in terms of social and geographical absorption: subsistence goods produced and consumed by peasants, wage foods consumed out of urban and rural wage incomes, luxuries consumed out of upper income levels derived from profits and rents, and exportables. As we saw before, the mapping of production of these commodities over rural social classes indicates whether there exists a dualism in production, whereby peasants/family farmers produce wage foods while capitalist farms produce luxuries and exportables, or whether cropping patterns are relatively homogenous across farm types. In an instrumentalist sense, since the social class structure determines access to and control over the state, this dualism in production is key in explaining differential policies toward types of commodities defined in terms of the social/geographical absorption locus.

3.2. *Crisis to Which Food Prices Contribute*

Food prices contribute to the definition and potential resolution of both accumulation and legitimacy crises--the two main purposes of the state in a capital logic sense. In accumulation crises, the role of food prices is essential in the following six fashions:

1. Since food items are essential wage goods, food prices influence the level of monetary wages and, hence, the rate of profit.
2. Since food items are important elements in the consumer price index, food prices affect the prevailing rate of inflation.

3. Since the sale of agricultural commodities is the source of agricultural incomes, agricultural prices determine both the level of investment and growth in agriculture and the level of effective demand for other sectors of economic activity originating in the agricultural sector.
4. Since agricultural products are exportable and importable commodities, agricultural and food prices contribute to the country's balance-of-payments position.
5. Since agriculture is a source of surplus captured by the state, principally under the form of procurement and export taxes, agricultural and food prices contribute to public revenues.
6. If a price wedge is left to develop between world and domestic or between consumer and producer prices, with the former below the latter, the state has to make up for the difference through public subsidies.

Agricultural and food prices are also important in the definition and management of legitimacy crises:

1. The prices of wage foods define the levels of real income and wage and, hence, influence the consumption and nutritional levels of the population.
2. The farm price of agricultural commodities affects the level and distribution of income in agriculture.
3. Farm prices affect the level of employment and, hence, the welfare of the rural landless and marginal farmers.
4. As the prices of the essential elements of basic needs and of the ethical "right" of populations to these needs, food prices strongly determine the legitimacy of the state in power.

The key issue in the management of crises through agricultural and food price policy is the contradiction between legitimacy and accumulation crises, where the former calls on cheap food policies and public subsidies, while the second, if it occurs in agriculture, requires the defense of agricultural incomes and the stimulation of investment and technological change. The management of this contradiction is at the essence of a theory of the political economy of food and agricultural price policies. It relates to the origin and relative urgency of legitimacy and accumulation crises, to the performance of the state in a crisis versus a planning mode, to the availability or not of resources external to agriculture for the state to manage both legitimacy and accumulation crises in the rest of the economic system, and to the degree of relative autonomy of the state from narrow class interests, i.e., from its ability to perform in a capital logic sense versus merely an instrumentalist fashion.

4. Hypotheses About the Relation Among Structure, State, and Agricultural and Food Price Policy

We are now equipped with the following elements to advance hypotheses on the contrasted nature of observed food and agricultural price policies in different countries and time periods and for different crops and products. They are:

1. A structural characterization of societies in terms of:
    a. Social class structure: class alliances and control of the state.
    b. Economic structure: social articulation or disarticulation and sources of economic surplus.
    c. Insertion in the international division of labor: food dependency and balance-of-payments positions.

2. Two complementary approaches to the state:

   a. A class political-instrumentalist approach with an identified social distribution of payoffs from agricultural and food price policies.

   b. A capital logic approach with a specified role for the management of accumulation and legitimacy crises through food price policies.

3. A specification of states of transition to capitalism in terms of class alliances with either the landlords or the urban constituency.

4. Identification of the contradictions inherent to price policies in the context of legitimacy versus accumulation crises, of instrumentalist versus capital logic demands on the state, and of crisis response versus planning mode in policymaking.

These elements of a model of the making of agricultural and food price policy are to be used to explain the following contrasted observations:

1. General overvaluation versus undervaluation of agricultural commodities in particular countries.

2. Favorable versus unfavorable price policies toward specific crops within a country.

3. Public budget deficits or not in the management of agriculture and food policies due to the existence or not of a price wedge between consumer and farm or import prices.

The countries we have taken as case studies are the United States, India, Colombia, and Egypt in that they illustrate the relevance of many of the key categories we are working with.

The contribution of each of the structural variables selected above on the direction of price policy for staple food items is as follows:

1. Social articulation creates the capital logic for a broad alliance in favor of the defense of farm prices in relation to productivity growth for the sake of creating effective demand for the key growth sectors, while social disarticulation implies the capital logic of cheap labor and cheap food.

2. Availability of nonagricultural sources of economic surplus creates the possibility for favorable price policies toward agriculture and of the development of a price wedge between producers and consumers. The reverse, which characterizes most resource-poor, less-developed countries, implies that programs of accelerated industrialization occur on the basis of undervalued agricultural commodities through both cheap food policies and export taxes.

3. Unimodal production patterns establish the instrumentalist defense by rich farmers' lobbies of a favorable price policy toward food items. By contrast, a bimodal production structure (with peasants and family farmers producing staple food while rich farmers produce principally other commodities) leads to incipient political defense of the pricing of staple foods. This dualism (a) is generally itself created by cheap food policies but leads to reinforcement of the political possibility of cheap food; (b) is not static and exclusive as peasants can sometimes partially shift their cropping patterns toward the more profitable activities; and (c) is reinforced by institutional rents whereby subsidized credit, access to technology, and infrastructure are distributed by nonmarket mechanisms.

4. In regimes of transition where the dominant class alliance rests heavily on the landlords and rich farmers for political control, the making of agricultural price policy results in the transfer of rents to agriculture via favorable terms of trade.

5. Regimes of transition that face serious legitimacy crises with their urban constituency implement cheap food policies at the urban level. If public revenues or foreign aid transfers allow for it, a price wedge may develop between producer and consumer prices.

6. The social and geographical origin of supply of specific agricultural products and the social and geographical destination of that supply create a correspondence between unequal power positions relative to the state (instrumentalist logic), unequal significance of different products relative to accumulation and legitimation crises (capital logic), and unequally favorable or unfavorable price policies for specific products.

5. Case Studies of the Political Economy of Agricultural and Food Price Policy

5.1. *The United States*

In the United States, the joint structural features of social articulation and unimodal production patterns have implied the rare coincidence of a capital logic possibility for agricultural incomes to increase in relation with productivity growth and of a strong instrumentalist defense of the parity of agricultural incomes through the Congressional power of the large farmers' lobbies. As a result, agricultural price policy since the 1930s has been effectively legitimized in the name of concerns with rural development issues such as defense of the family farm, rural communities, and the fundamentalism of agrarian values. The consequences have been a favorable price policy toward agriculture, the unleashing of a dynamic technological treadmill sequence of falling relative prices following the cheapening of production costs, and a strong record of land and labor productivity growth. Yet, the rhetoric of price policies in the name of rural development has negated its promises. The family farm has been rapidly undermined, land and production have been concentrated on large farms under the strong domination of agribusiness, the mass of rural population has been expelled to the cities, and farm poverty has been minimized only because of the strong labor absorption capacity of the rest of the economic system and the decentralization of industry allowing important off-farm income opportunities.

Social articulation of the U. S. economy is evidenced by the fact that an important share of final consumption for the key sectors of economic growth originates in the incomes of workers and employees. For instance, the 60 percent poorest (which corresponds to Singleman and Wright's estimate of the share of households headed by workers and semiautonomous employees in the U. S. population) consume 42 percent of the production of electrical appliances and 35 percent of the production of cars. By contrast, these figures for Mexico are, respectively, 22 percent and 1 percent and for Brazil, 5 percent and 2 percent (de Janvry and Sadoulet). It is this feature of social articulation that has made it possible for wages and farmers' incomes to increase in relation to productivity growth. As a result, the purchasing power of the farm sector has, historically, played an important role in expanding the domestic market for U. S. industry. This, in turn, has been allowed for by a policy of cheap food resulting from promotion of a developmentalist sequence of favorable terms of trade inducing a technological treadmill instead of an extractivist policy cheapening food but stifling agricultural incomes, productivity growth in agriculture, and expansion of a domestic market for industry out of farm incomes.

Unimodality of production patterns exists even though a wide spectrum of farm sizes is found in the production of all main commodities, although evidently not to the same degree. The result of this unevenness in the presence of large farms across commodities and of the different political power of large farmers across regions is that not all commodities have gained equally favorable terms of trade protection. This is important in the United States because agricultural policy is made not as a comprehensive policy package but fundamentally on a commodity-by-commodity basis in response to the instrumental demands of farmers' lobbies. The southern cotton lobby has, for instance, had a strong control of price policy for that commodity over the years. Yet, we find that strong farmer lobbies have been present for the defense of prices of all major commodities, leading Gardner to conclude that "it is difficult to say which commodities are treated best" (p. 74).

Agricultural price policy in the United States has been the cornerstone of farm policy in the sense that the main purpose of policy has been the instrumental distribution of <u>income</u> among interest groups (made possible in a broader capital logic sense by the feature of social articulation) and that the main instrument used for the defense of income has been to raise <u>prices</u> on a commodity-by-commodity basis. This has been obtained through the stimulation of domestic (food stamp program) and foreign demand (P. L. 480), the support of farm prices through "loan rates" for cereals at which the state guarantees purchase, direct deficiency payments to farmers to make up the difference between target and market prices, and acreage controls to restrict supply while compensating farmers for the corresponding loss in income. These programs were usually legitimized in the name of protecting family farmers' incomes even though they were evidently sponsored by large farmers who were able to capture the bulk of the resulting benefits and use them to consolidate their economic and political positions. Thus, Hadwiger and Talbot observed that "the great concentrations of landholdings in the South supported a structure of elites that provided national leaders who helped secure federal policies amenable to large-farm agriculture notwithstanding the national-legal symbolisms favoring small-farm holdings" (p. 23). Instrumentally, this was made possible by the control southern and mid-western interests had been able to establish over key Congressional committees legislating farm policy as well as cooption of the urban vote under the legitimation of defense of democratic ideals in agriculture (Vogeler).

The combination of favorable terms of trade policies and a developmentalist policy package, including agricultural research and extension as well as infrastructure development and subsidized credit, led to strong achievements in land and labor productivity growth. The very instrumentalist basis of policymaking resulted, however, in a regressive redistribution of income toward large farmers and contributed to accelerating the demise of the family farm and rural communities, negating the rhetorical purpose of farm policy without significant political challenge, at least until the early 1970s. Thus, in 1969, the largest 7 percent of farms in terms of volume of sales captured 40 percent of the benefits from commodity programs, while the smallest 51 percent received only 9 percent of the subsidy benefits (Schultze). In addition, the larger farms' share of the subsidies was higher than their share of presubsidy income, with the result that farm programs increased income inequality. These farm programs have also resulted in a heavy cost to consumers and taxpayers. Gardner estimated that, in 1978-79, 80 percent of the income transfer to the farm sector was paid by consumers under the form of higher prices while 20 percent was paid by taxpayers as the cost of public programs (p. 73).

The conclusion is that, when rich farmers dominate farm policy in an articulated-unimodal context, the benefits of policy are necessarily captured by a minority of them while the majority ends up having to move into town. The rhetoric of rural development serves effectively the purpose of agricultural development; and the social cost is the accelerated demise of the family farm and rural communities.

5.2. *India*

The punch line of agricultural and food price policy in India since 1965 is that it has been successful in stimulating technological change and the production of food grains to the point of eliminating reliance on imports but not in increasing per capita consumption nor in reducing the percentage of the population below required nutritional intake. This has been the consequence of an agricultural price policy relatively favorable to commercial farmers while consumer subsidies have generally not benefited the most needy majority of the rural population. At the level of the state, this has been the consequence of a strong instrumental domination of the commercial farmers' lobby over the making of agricultural policy and their sharing of government control in an alliance with the technocracy and the owners of monopolistic industrial houses.

In terms of the structural variables we selected for analysis, India fits into the category of disarticulated industrialization. Massive investments in capital goods and intermediate goods were made between 1955 and 1975 which sustained a respectable average annual growth rate in industrial production of 5.8 percent. With the demand for wage goods limited by massive poverty, industrialization for final consumption has been oriented at the production of luxury goods. Yet, the production of luxuries remains confined to a narrow market and constrained by monopolistic practices and government licensing restrictions on new investments. The result is that the overall growth rate of national income has, for the last 30 years, "been stagnating around a miserable mean of about 3.5 percent" (Krishna).

The production structure is largely unimodal across farm types not in the sense that all farm sizes have the same cropping patterns but at least in that the major food grains (rice, wheat, jowar) tend to dominate land use across all farm sizes. The result is that the impact of agricultural price policy toward food grains affects commercial as well as peasant farms. Among food grains, however, wheat tends to be grown on large commercial farms while rice has traditionally been a peasant crop. Historically, this has implied much more favorable price, credit, technology, and infrastructure policies toward the farmer, resulting in successful production and productivity growth in wheat and only mediocre gains in rice. In recent years, however, the north-western commercial farms have increasingly diversified production with wheat as a winter crop and rice as a summer crop, bringing the instrumental basis of wheat and rice price policies in closer correspondence.

Finally, the dominant political coalition in India is, since occurrence of the Green Revolution in the late 1960s, based on an alliance between landlords and commercial farmers, the monopolistic industrial establishment, and the technocracy (Mitra, Bardhan). In this alliance, the landlords and commercial farmers receive benefits in the form of protected agricultural prices, subsidized inputs, institutional rents (credit, fiscal rebates, infrastructure investments), and postponed land reforms. The industrialists "obtain the prerogative of exercising unfettered jurisdiction over industrial, trade, and licensing policies as well as over the management of foreign exchange and of the monetary and fiscal instrument" (Mitra, p. 170). And the technocrats have privileged access to subsidized food in "fair price shops." In the context of democratic policies, the extreme minority industrial class needs to maintain this alliance with landed interests to be part of the power bloc. The cost, to them, has been the agrarian rent paid through favorable terms of trade policies toward agriculture.

The agricultural and food policies of India since 1965 have been characterized by a system of farm price support on the one hand and of limited consumer subsidies on the other hand. Price support has been insured through definition of a "procurement price" at which government purchases all grains offered. This price is fixed annually by the Agricultural Prices Commission (APC) and later marginally adjusted at the level of each state. It is supposed to be determined in relation to both the prevailing average cost of cultivation and some principle of income parity. In a recent study of Indian price policy, Krishna and Chaudhuri have shown that, since the mid-1960s, the procurement price for wheat has been well above the cost of production and, in some years, very close to the free-market price itself inflated by the scheme of consumer subsidies. For rice, which has not benefited from defense of an equally strong farm lobby, the procurement price has been below the cost of production in the southern states and West Bengal, but it covered the costs of production in the politically powerful northern states. For India as a whole during the 1970s, the procurement price of rice has, however, generally been higher than the weighted average cost of production (Subbarao).

Consumers are protected to some extent through distribution of food at subsidized prices (issue price) in the context of fair price shops to which access is restricted by ration cards. But these shops are only available to a minority of urban consumers who may constitute the most politically demanding segment of the population but not necessarily the one in greatest nutritional need.

The making of agricultural price policy evolved from a capital logic purpose between 1950 and 1965 to an increasingly instrumentalist response thereafter. During Nehru's regime, the crisis provoked by an acute food shortage led to the definition of policies directed at increasing the marketed surplus of food grains through forced deliveries (which were not successful) and the import of subsidized P. L. 480 gains (which could not be sustained). At that time, the state was operating in a planning mode with considerable autonomy and several leaders had visions of national purpose. In the subsequent period, however, after the successful achievements of the Green Revolution, the class alliance in power became increasingly atrophied and the state fell prey to parochial instrumentalist demands enforced on an authoritarian basis. In relation to agricultural price policy, this took the form of lobbies attempting to influence the estimation of costs of production and government procurement decisions. In general, it can be said that the APC has increasingly become dominated by rich farmers' interests and that it has failed to include representation of consumers' interests.

The consequences of policy have been favorable prices, particularly for the commodities more dominated by rich farmers. Thus, wheat price policy has allowed high rents, and the fall in wheat prices in recent years has lagged far behind the significant productivity gains from the Green Revolution. The consequences of high farm prices have been substantial income gains for the large farmers who not only produce the bulk of the marketed surplus [18 percent of farm households produce 67 percent of the marketed surplus (Patnaik)] but have also been the prime adopters of cost-reducing modern technology. The impact on consumers has been the opposite. Between 1962 and 1974, the consumer price of cereals increased faster than the general level of prices. Incomes of the poor, by contrast, remained essentially stagnant. The result is that per capita consumption of cereals has declined by 14 percent in rural and 9 percent in urban areas. As George has shown, these observed changes in income and price levels explain more than half of the observed changes in per capital consumption. Success in production with falling per capita consumption has led to the accumulation of substantial stocks of food grains and to increasing exports of food grains as a palliative to deficient domestic effective demand.

Control of the rich farmer's lobby over agricultural price policy has led to implementation of developmentalist policies. The technological treadmill has allowed prices to fall after costs and thus stimulated the diffusion of modern technology. And the management of policy has been conducted in the planning mode inherited from the Soviet inclinations of Nehru's regime. Particularly in recent years, with increasing visibility of the contradiction between successful growth of production and stagnating effective demand, as well as growing inequalities within agriculture itself, farm price policies have been justified in the name of farm income parity. As a result, there has been an increasing shift away from broad-based land reform and commodity development programs toward narrowly defined agricultural development programs aimed at a small but viable spectrum of commercial farmers.

5.3. *Colombia*

Among major Latin American countries, Colombia is probably the one where the state has remained most exclusively under control of an upper class elite, with strong roots in agriculture, that has shed its ancient feudal privileges and engaged aggressively and often violently in a process of capitalist modernization. The result has been an agricultural policy strongly determined in terms of the direct interests of the landed elites. It has induced economic growth in the lines of production controlled by the large commercial farms. At the same time, exclusion of peasants from the political process, failure of the land reform to redistribute the land, the most unequal distribution of income in Latin America, and an often repressive form of government dominated by the executive and ruling by decree have created a deep social dualism. The peasant sector has been repressed both economically and politically, and the crisis of peasant agriculture has pushed upward the price of staple foods and created a domestic food crisis.

Structurally, Colombia is characterized by social disarticulation which is evident in the strong polarization in the distribution of income and in a rapid rate of industrial growth dominated by the production of consumption goods for the upper income levels. In agriculture, there exists a strong dualism in production, with a minority of large-scale estates devoted mainly to the production of agroindustrial inputs, luxury foods, and agroexports, while a multitude of peasants produces staple foods on minute plots of land. The result is a sharply unequal political representation of commodity interests. In the struggles over policymaking, price policy has, however, been a relatively secondary instrument compared to the issues of land reform, credit, infrastructure investments, trade, and rural development programs. In contrast to India, institutional rents instead of agricultural prices have been the instrument of income transfers in favor of the landed elite. This is due to the fact that Colombia is a much more urbanized and industrialized country where the economic interests of the dominant groups are highly diversified out of land assets, implying economic gains for them in the promotion of cheap food policies, either through developmentalist sequences (rice) or, and more generally, through extractivist policies toward staple foods. Price support policies, consequently, have been generally ineffective as prices were set too low and were subsequently exceeded by market prices (Sanders). The level of agricultural prices has been more influenced by global economic policies such as exchange rate and import policies than by direct price manipulations. Key among these has been a tendency for overvaluation of the exchange rate due to favorable balance of payment positions, resulting in the cheapening of domestic food, and massive imports of subsidized American wheat in the 1960s which have collapsed domestic prices and deeply undermined domestic production.

The making of agricultural policy occurs through a bargaining process between the producer associations--the so-called "gremios" of coffee growers, sugar producers, rice farmers, cattlemen, etc.--and the technocracy and the executive. In the bargain, the first push their instrumental demands for commodity-specific economic advantages while the second presumably reconcile those in the capital-logic sense of dealing with the requirements of both accumulation and legitimation. In the balance of power, however, it is clear that at least some of the gremios have considerable weight to the point of undermining the formulation of a consistent policy package. The legislature, for all practical purposes, has been removed from the policy process while peasants have simply never gained access to decision making and are reduced to expressing their demands outside institutional channels through, for example, land invasions and strikes. Since the 1950s, by contrast, international lending agencies have had considerable influence over the making of domestic policies--often in the direction of promoting the capital-logic legitimation functions that national governments, hard pressed with instrumentalist demands, have failed to assume. This has been particularly evident with the financing of the schemes of integrated rural development (DRI) and nutritional assistance (PAN) in the 1970s. Due to the strong dualism in production, rural development programs have been managed separately from the main stream of agricultural policy. They have acquired a fundamentally legitimating purpose as they were organized as a substitute for land reform once the land reform program had effectively fulfilled its antifeudal objective but had, evidently, failed to eliminate rural poverty.

Agricultural policy has been strongly developmentalist for those commodities underwritten by strong associations of large producers, particularly coffee, sugar, rice, cattle, and cotton. The case of rice is remarkable since the combination of protective trade policies, government subsidies, and technological change has unleashed one of the most successful technological treadmills in Latin America (Scobie and Posada). It is, as a result, one of the few staple foods produced profitably in commercial agriculture. At the same time, policy has been extractivist or negligent of peasant agriculture, destroying it through land reform laws that repeatedly forbade sharecropping and tenancy arrangements and marginalizing it from access to supportive institutions (Kalmanovitz). As we said before, this has resulted in the strong growth of the crops produced by large-scale agriculture (cotton, sugar, rice, soybeans, and sorghum) and the stagnation of those produced by peasants (raw sugar, beans, corn, wheat, and potatoes). With agricultural policy dominated by the lobbies of an agrarian elite, the outcome has been successful agricultural development in the production of agroexports, agroindustrial inputs, and rice but failure to insure rural development--with the consequent engineering of a domestic food crisis and strong inflation in staple food prices--and the impossibility of improving substantially the nutritional standards of the mass of the population.

5.4. *Egypt*

Agricultural and food price policy in Egypt today is the contradictory product of the populist (Arab socialism) policies introduced by Nasser and of the policies of economic opening (infitah) initiated under Sadat. This materializes in a combination of strong government control over and surplus extraction from peasant agriculture, massive food subsidies to the benefit of consumers, and emergence of a new class of capitalist farmers who largely escape government controls. The upshot has been stagnant production of traditional crops, rapid increase in food dependency, and expenses on food subsidies exhausting 12 to 15 percent of the public budget.

In terms of the structural categories used in this paper, Egypt's growth pattern is characterized by social disarticulation. Growth has, in recent years, been rapid but directed at the production of capital goods (Soviet planning), luxury goods (including upper income urban construction), and services. This growth has been stimulated by a favorable foreign exchange situation (due particularly to oil exports, U. S. foreign aid, and remittances from Egyptian workers abroad) but has remained of the wrong type in terms of both creation of self-sustaining domestic employment and satisfaction of basic needs beyond food. As in the model of disarticulated growth, it remains based on cheap labor and cheap food.

Agriculture itself is bimodal in terms of production patterns. While the land reform of 1952 eliminated feudal estates, it only redistributed some 13 percent of the land and resulted in creating a new minority class of capitalist farmers which acquired strong political power (Radwan and Lee). The mass of peasant producers is strictly controlled through forced affiliation to supervised cooperatives. These cooperatives control the delivery of inputs (water, fertilizers, credit); the pattern of land use (land quotas in certain crops); and the mobilization of agricultural surpluses (forced deliveries at prices below both world and domestic residual free-market levels). In spite of input subsidies, the result is a substantial net resource transfer out of agriculture estimated at 5 to 22 percent of agricultural income. Rich farmers, however, escape these controls by producing uncontrolled items such as fruits, vegetables, soybeans, berseem, and meat and appropriate the lion's share of credit and subsidized inputs. The result has been regressive on the distribution of income in agriculture.

Finally, while Egyptian agriculture is either negatively protected (traditional food crops and cotton) or in a free-trade regime (new crops) the distribution of staple foods (wheat, rice, cooking oil) is heavily subsidized, particularly in the urban sector. These subsidies derive from a long heritage of Islamic communitarian solidarity and from populist redistributive measures initiated by Nasser but which the subsequent regimes were unable to remove. They have produced the remarkable result of virtually eliminating malnutrition in Eygpt in spite of abysmally low income levels for a majority of the population.

Farm prices for the traditional food crops and cotton, as well as consumer prices, are determined by a constellation of ministries with relatively weak coordination. The result is a system of prices which is far from internally consistent and which contradictions are rejected at the level of the state and absorbed under the form of rapidly growing public budgets. While, initially, the dominant objective of farm price policy was the capital-logic purpose of mobilizing a surplus out of agriculture (especially through cotton and rice exports and domestic cheap food), to sustain rapid heavy industrialization (the Soviet model) agriculture has, in the 1970s, been replaced by oil, foreign aid, and worker's remittances as important sources of investable funds and foreign currency. In the process, agriculture has lost its leading sector role. Yet, surplus extraction out of peasant agriculture remains unabated due to lack of political power for that class while capitalist agriculture progresses in the production of (well instrumentally defended) new crops. The making of agricultural and food price policy in Egypt should thus be understood in terms of (1) the capital logic purpose of facing a strong legitimacy crisis at the level of the urban constituency (the food riots of 1976) through surplus extraction out of peasant agriculture, extensive food subsidies, and massive public budget costs and (2) the instrumental alliance among bureaucracy (including the military); the new infitah class in the industrial, merchant, and services sector; and the rich capitalist farmers resulting in the latter capturing favorable terms of trade for their new crops and generous institutional rents.

The consequence of this price policy has been a strong undervaluation of staple foods and cotton. For instance, the effective rate of protection between 1965 and 1970 has been, on the average, .76 for rice and .58 for cotton (Cuddihy). As stagnation in the yields of cotton and rice clearly indicates, cheap food has been obtained through extractivist policies, where prices have been forced down ahead of costs, resulting in stagnation of domestic production and increasing food dependency. Thus, in 1980, the self-sufficiency ratio of Egypt was only 24 percent for wheat, 26 percent for edible oils, 57 percent for sugar, and 10 percent for lentils, with an overall self-sufficiency ratio of 72 percent (Alderman). Clearly, Egyptian price policy has increasingly been implemented in a crisis mode, responding to a legitimacy crisis through cheap food policies that could only condemn long-run Egyptian food security. In the short run, the crisis can be displaced at the level of the state, through massive imports and food subsidies, only because of the exceptionally favorable balance of payments situation. As it is well known, however, these abundant sources of foreign and public revenues have short-run viability: oil exports are expected to last only a few years, massive U. S. foreign aid is politically unreliable, and workers' remittances from the Gulf countries have already started to decline. In an instrumentalist sense, it is evident that continued extractivist policies toward staple foods and cotton can only happen because of dualism in production, whereby the politically powerful rich farmers are engaged in the production of other lucrative crops. Strong growth in these new crops, which abide to the international comparative advantages of Egypt, remains, however, atrophied by inadequate marketing channels and paralyzing bureaucratic constraints.

6. Conclusion

I have started with the observation that the role of the state has been and is pervasive in the determination of agricultural and food prices and that, consequently, these prices and the resulting growth and welfare effects they create must be understood by reference to a theory of the state. This role of the state must be looked at critically against the backdrop of an increasingly food-dependent Third World with extensive malnutrition and rural poverty as well as the joint occurrence of successful agricultural development and failing rural development (in terms of the defense of the family farm and rural communities) in the United States. Why, then, do governments get so deeply involved in tampering with agricultural and food prices, and why are they so rarely able to engineer a policy package successful in terms of agricultural development, rural development, and satisfaction of the nutritional needs of their populations?

There are several suggestions for answering these questions that derive from the analysis in this paper:

(1) One is that the broader the constituency of the dominant alliance, the lesser the narrow instrumental functions of the state and the greater its relative autonomy. This, in turn, provides a greater possibility for the state to act in a capital-logic fashion and, hence, to manage its accumulation and legitimation functions in a more balanced way. This, in a sense, is a reminder of the importance of more participatory forms of government of the contradictions between growth and welfare implicit in the manipulation of prices are to be minimized.

Another is that developmentalist price policies toward agriculture have generally originated in strong instrumental demands from the farm lobbies. In the advanced countries, with a decline in the political representation of farm interests and with a catching up in per capita incomes making less convincing the political legitimacy of expensive farm budgets to support income parity, it is likely that farm policy will increasingly be made in terms of economy-wide capital logic (cheap food, increasing agroexports) and less in terms of instrumental demand on rural development purposes.

(2) The joint achievement of growth and farm income objectives, which is advocated under the purpose of rural development in the more unimodal farm production structures, through use of price policy instruments, is possible only with relatively egalitarian initial patterns in the distribution of farm assets. The more unequal the distribution of farm assets, the more regressive the subsequent impact on the distribution of income in agriculture and the more agricultural development is obtained at the cost of rural underdevelopment or the expulsion of rural populations. Use of the price instrument for the joint achievement of agricultural and rural development thus requires an egalitarian land settlement or land reform policy and either the subsequent control of social differentiation or a strong labor absorptive capacity in the rest of the economic system.

(3) The structural feature of social disarticulation is a major determinant of the capital logic for cheap labor and cheap food which, in turn, has been singled out by Schultz and others as the key factor responsible for stagnation of production and rural poverty. It is important to recall here that social disarticulation is not a mere stage of growth that precedes the turning point in the Kuznets U curve in the distribution of income but is defined by a particular social class structure and is backed by usually nondemocratic forms of government. The question of distortions in agricultural price policy and the logic of the state in undervaluing food prices must consequently be seen in terms of the urgent need to transform the social basis of disarticulation.

(4) In evolving from generally developmentalist regimes to more bureaucratic and authoritarian forms of government, many Third World countries have sacrified planning for the sake of short-run stabilization policies. The result has been an increasing myopia in the handling of price policy, the

dominance of short-run income distribution objectives over long-run growth promoting goals, and the primacy of immediate crisis response purposes over preoccupations with long-run food security. To a large extent, the continuing agricultural and food difficulties of many Third World countries are consequently nothing else but the epiphenomena of the underlying crises of their states.

Footnotes

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[1]By agricultural development, I mean output and productivity growth, while rural development refers to improvements in the level and distribution of income in the sector (which include, in particular, issues of employment, land concentration and landlessness, and on and off farm sources of income).

[2]I am referring here to the repeal of the Corn Laws in 1846 which allowed the entry of cheap American wheat in England, thus collapsing the domestic price of wheat and eliminating landlord's rent. It was made famous by Ricardo's advocacy of comparative advantages and free trade, the so-called Manchester Doctrine.

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