AGRICULTURAL POLICY AND FARM PRICE SUPPORT IN ETHIOPIA

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Preface

The problems of hunger, malnutrition, unemployment, inadequate and poor social and health services, overall abject poverty and underdevelopment are our own (Ethiopians) makings; they are the makings of neither foreigners nor unknown external forces. The fate of Ethiopia rests in the hands of Ethiopians. No person or country from outside should be blamed.

Recently, some Ethiopians try to link these problems to religious beliefs as if they were indicators of the Dooms Day and others take the problems as a punishment from God for the many ungodly practices the present generation is making. Some others believe that the problems occur because of the high population growth rate and the shrinking and degradation of our natural resources. Still some others say that we have no problem of natural resources because Ethiopia has immense untapped resources in areas such as plant and livestock, water, fishery and minerals. The potentials, however, have not been actualized to adequately feed the population, to create business and to generate employment in order to improve the standard of living of its people.

Today it is a fashion to talk how poor Ethiopia is. Talks about prosperity are scarce. Ethiopia's human, natural, and physical resources have not been used to bring prosperity. Instead, poverty is on a rise and its consequences are becoming tragic and unbridled.

When one asks why the aforementioned problems exist persistently in Ethiopia, the fashionable answers today
are that it is because of policy, the policy is not appropriate, the policy is bad, it is a failure of policy, and the like. Is this true that most problems of Ethiopia are policy problems? What is policy per se? Who makes policy? How is policy formulated? Is a problem of policy implementation different from the problem of policy formulation? Who is responsible for policymaking and deciding on a policy position? What is the relationship between policy and politics? Is policy an issue of empirical model building, which employs statistical data, or does policy contain beliefs and values that dictate policy goals and positions? Can our problem of hunger and malnutrition or simply food insecurity be solved by a policy change? What policy options do we have to tackle the problem of food insecurity? Does an agricultural policy, which uses farm support prices as key instrument, solve our problem of food insecurity? What is the experience of other countries in this regard? We can raise these and many other questions about policy.

This short book is not prepared to answer all these questions to the satisfaction of all segments of the society in Ethiopia. The issues revolving around the questions could be broad and deep depending on the education level of the reader. In fact, some of the reviewers of the draft of this book have asked who the audience is for this book. Any one who reads it and claims to get something out of it or who, after reading it, runs to read more on policy related issues from other sources is the audience for this book. People who have a reasonable command of the English language, hoping I will put an Amharic version of this material in future, or who struggle with the English language with an assistance of a dictionary are all targeted audiences.
This quick reference book is designed and prepared primarily for Ethiopians. You do not have to be surprised if you come across and read a statement that Ethiopia's policies, at national or sector levels, should be prepared by Ethiopians. Foreigners, how good they are and how experts they are, should not indulge to formulate Ethiopia's policy. This is a belief and beliefs are major components of a policy be it at micro or macro level.

Leaving the rest for reader, I take this opportunity to thank all who were with me in the writing of this short book, as collectors of documents and literature, computerizing of the draft, reviewing and editing. Specifically I would like to thank Ato Addis Anteneh, Ato Yohannes Agonasir, Dr. Werotaw Bezabih, and Dr. Berhanu Sisay for reading the draft at different times and giving me constructive comments and suggestions. Ato Matebu Tadesse did the language editing. W/t Rahel Teklu has assisted in computerizing the draft paper. For all of them, I say thank you. Last but not least, my thanks and appreciation goes to my dear wife Martha; without her unreserved assistance and encouragement, all what I always do would have been incomplete. She is my manager and monitor, draft reader, commentator and also a typing assistant. This, however, does not mean any mistake or error in this book is to be shared with the persons acknowledged here. I take full responsibility for errors which may be encountered, as well as for what this small book contains and tries to convey.
CHAPTER 1

Introduction

When I came back from abroad after 15 years of study leave and work, I resumed my job in the Ethiopian Agriculture Research Organization. Soon, I was assigned to a national committee which was established to study the World Trade Organization (WTO) Agreement documents in order to recommend whether Ethiopia shall become a member of the WTO or not. I was assigned to the sub-committee, which studied the Agreement on Agriculture (AoA) and Sanitary and Phyto-sanitary Agreement. Furthermore, I was privileged to lead the group, which revised and studied the WTO AoA. It was that time that I realized we Ethiopians have a problem with farm support programs. I suppose it was partly due to pressure from donors and international financial institutions and partly due to lack of proper advice to policy makers and politicians from the academics and development experts working in economic policy areas. Perhaps, the later have knowledge gap too.

During this study of the WTO AoA, when I first raised the issue of subsidizing our farmers, quite a good number of colleagues in the academia and public organizations advised me not to dare to raise the issue. Some said it is a political rather than an economic issue; others said that it is cumbersome for the government to embark on agriculture commodity subsidy programs for budgetary reasons. There were also individuals who argued that in a market economy, subsidies distort prices and market operations. But economic theory itself
has a proposition that in an inefficient economy, subsidies can be used to change the inefficient market to efficient one, to bring efficient market prices and efficient use of resources. Hence, the decision to support our farmers and agriculture at large should rest not only on efficiency but also on the principle of benefit optimization from imperfect world trade concurrently by maintaining national interest and security and the right to exist and operate as a sovereign nation. A fair play should be prospected in domestic markets using instruments other countries use to secure the most attainable comparative and competitive advantage in international trade.

As time went on, it was realized that the confusion about membership to the WTO, subsidy, and the comment that 'subsidy is a political rather than an economic issue' was emanated from a confusion about policy itself and the link between understanding politics and economics in policy formulation and policy position. Being a member of the WTO or subsidizing farmers is a policy issue. The policy positions on this issue are bound by the prevailing politics and the regime, which holds government authority in the nation of concern. The positions of the government are the results of interactions of goals, values, beliefs and facts that are used in the policy making process. In this context, policy is not a mathematical formula or a modeling issue. This short book is designed to give a highlight on these and other theoretical and practical concerns about policymaking process and policy positions starting from the very basic, thing i.e. "policy idea".

In the world, be it in developed or developing countries, policy has become a crucial factor determining the rate of economic growth and development. However, it has
been also the most abused, ill-used factor of growth in many countries. Knowingly or unknowingly, governments in developed and developing countries design and implement policies that hurt some individuals, communities, or countries. Of course, it may be difficult to set a policy that is not hurting some elements of a given society. Because of this, theories and practices of policy formulation and implementation, if not often, are seldom in disarray. Whatever the nature of the policy, all countries have policy.

Policy can be formulated at national level, sector level and down to firm or community level. The theoretical constructs of policy formulation and implementation have been discussed in various textbooks. Chapter two of this book presents list of lessons to be learnt as the reader voyages through the book. A highlight on the idea of policy, policy definition, goals and position is given in Chapter three. Chapter four revolves around the national level policy spectrum, the sectoral policy issues and interfaces as well as on agriculture and food policy in a precise and focused manner. It recapitulates definition and application issues related specifically to agriculture and food policy. Chapter five gives the recent trend in Ethiopia’s policy formulation practices and also recaps relevant parts of the Rural Development Policy Strategies and Instrument (RDPSI) of the government of the Federal Democratic Republic of Ethiopia (FDRE). In Chapter six, a relatively detailed theoretical presentation is made on the subject area of agricultural domestic support programs. Chapter seven presents short note from the U.S.A. experience in designing and using agricultural commodity price support programs and their outcomes. The U.S.A experience was considered since the experience of developing countries in this regard is scarce. Chapter eight revisits lessons to be
learnt if Ethiopia wants to capture and maximize on alternative farm support programs such as commodity loans, government purchase using floor prices, target-price and deficient payment arrangements. The last chapter gives concluding remarks and the way ahead.
While reading this book, the reader is expected to capitalize on the following lessons.

Lesson 1: While formulating policy, don't be caught in the single problem trap.

Lesson 2: Policy is determined in the political arena and policy decisions are fundamentally political decisions.

Lesson 3: For a given policy problem or issue, there can be several policy options.

Lesson 4: Public policy making is based on the principle of incrementalism, i.e., policy is built step by step, and wise decisions as well as mistakes of the past are the foundations for current and future policy.

Lesson 5: Agricultural policy requires knowledge of both the political process by which laws are enacted and administered and the economic origin and consequences of the laws.

Lesson 6: The classical economic theory represents the way in which we should like our economy to behave. But, to assume that it actually does so is to assume our difficulties away.

Lesson 7: If we leave everything to the market, then we may face a free market equilibrium price deemed too low to avoid hardship and reduce poverty among producers, and too high to avoid hardship and reduce poverty among consumers.
Lesson 8: All parties in an economy, i.e., producers, consumers and taxpayers, shall take share of the gain and loss of fair trade, and no one shall be the sole loser or beneficiary in the game of trade.

Lesson 9: Economic efficiency as a measure of policy or program performance ignores other socio-economic objectives such as equity and stability.

Lesson 10: Agricultural commodity price support programs cause excessive production and accumulation of large amount of food crops. This makes them a preferable instrument for attaining food security.

Lesson 11: Economic policy formulation is not a modeling issue. It is a readiness to act and react, given the prevailing ability and capacity, to the synergetic movement of actors and factors of economic development in the flux of institutions governed by political, social, economic and cultural situations and conditions.

Lesson 12: Policy making has to be free from a mob movement where a particular interest group is working on to impose something on the society in order to derive a pre-set individual or group benefit.

Lesson 13: National or sector level development policy must arise from a realization to change the economic life of citizens of that nation as are not forced upon it from without; but arise by its own initiative from within. Simply, a given nation’s economic policy should not be designed and decided on by outsiders whether they are experts or not.
Lesson 14: Creating a free market economy does not mean everything should be left for the market. The government has to regulate the market when the market fails to lead towards the fulfillment of the nation's food security and prosperity (poverty reduction) objectives.

Lesson 15: Policy does not fail. Rather what may happen is that, given the political system and the socio-economic circumstances the policy was formulated in and implemented at, it becomes antiquated even to the extent of being incapable of adjusting to internal and external, national and international changes in political, economical, social, cultural, and institutional spheres as well as in the cyclical dynamics of theoretical and practical knowledge.
CHAPTER THREE

Policy Idea, Definition, Goals and Position

In order to understand agriculture and food policy, one first needs to understand the idea of policy, what policy is and how policy goals are set and policy positions are taken.

Policy idea and government authority

Usually, someone is hurt by any policy initiative. In this connection, several questions and issues may arise. The first question can be what is policy? The second is, specifically at national and sector level, who gave the authority to the government to set policy?

The idea of policy connotes decision and action by and for the collective. Individuals who cannot negotiate easily and solve the problem(s) they face seek policy solutions. Problems or issues that can be resolved satisfactorily by people acting alone or by few individuals negotiating with one another do not become policy problems.

Policy formulation and implementation at different levels of government structures require the authority of the government. In Ethiopia, Kebele is the lowest level of government that ensures the formulation and implementation of policy. At all levels of government, policy involves laws, rules and regulations that affect
different economic and social agents as well as institutions. If, as mentioned before, at least few persons will be hurt at any level by any policy initiation, then one major and perhaps philosophical, question to raise, is 'who gave the authority to the government to hurt some people?' On what bases and subject to what restrictions may individuals be open to harm imposed by the collective, i.e., the state or the government?

This monograph is not, however, designed to present various theoretical and philosophical arguments around the afore-mentioned questions and issues. In political science, there are several theories and models built around these questions. One of these is the Social Contract Theory, which promotes the continuing relevance of governmental institutions and political ideologies. Here, to give way to the concern of market failure and public support to some groups of the society, for example farmers, the relevance of government policy formulations and implementation exercises is endorsed based on one of the assumptions of the social contract model that a general will (a public interest) exists and that in an environment of political equality, deliberating bodies are capable of identifying and interpreting it and establishing policies and programs. This assumption gives way to argue for the need to support Ethiopian farmers. It further suggests that though priority is given for a private economy, a large and important role be left for markets. I also believe that it is legitimate for the government to fine-tune market behaviors through various instruments and regulations.

At this juncture, it is important to note that policy is not a mob exercise where few persons promote their interest instead of the publics'. As Melossi (1990) said, "individual human beings may lose their identity in a
mob or in political convention or in a joint-stock corporation or at the polls. But this does not mean that some mysterious collective agency is making decisions, but that some few persons who know what they are about are taking advantages of massed force to conduct the mob their way, boss a political machine, and manage the affairs of corporate business." The public has to remain alert to differentiate such persons from those individuals whom the public has identified and delegated to formulate policy and development programs on its behalf; for which it has given part of its fundamental individual rights to the authority of the collective.

Policy definition, goals and positions

Definition
Policy has been defined as a deliberate course of action, as contrasted with a haphazard or capricious type of activity followed by a public body (Halcraw 1994). Knutson et.al (1995) argued that specifically economic policy is a course of action pursued by a government in the management of national economic affairs and policy decision is a political decision. In this regard, one can easily notice that economic policy is a product of both economics and politics. Government programs are enacted into law by elected political representatives on behalf of the citizenry or special interest groups of the population implement policy.

This may not mean that the study of policy does cover the full discipline of political services. Rather, it indicates that policy involves the political systems on which governments are based, and on this basis, we
may draw sharp distinctions among different systems and political regimes for making policy.

**Elements of policy**

Any policy is expected to encompass four elements:

1. goals
2. means
3. implements and
4. constraints

Goals are desired ultimate end results or focused objectives. The choice of goals is influenced by values and beliefs of the collective. Beliefs and values provide the foundation on which the policy goals are built. The means include resources used to reach the goals (natural, labor, capital, entrepreneurial, financial). The implements are agents or agencies that activate and control the means, and constraints are things, conditions, or situations considered in the plan or programs to implement the plan or programs to implement the policy. Policy involves program setting and project designing based on certain beliefs, values and goals, which also take into account the resources that may be available for reaching the goals, and analyzing the benefits and costs of using one program or another.

**Process**

Policy making passes the following processes.

- Start with a recognition that a change in the current state of affairs is desired,
- Develop public awareness that something should be and can be done for a change,
- Develop policy alternative in an environment of political equality,
• Allow the public to participate and accept some proposed policies and involve in the action to get one or another of these policies adopted for a change,
• Evaluate and analyze the adopted policy. This can take place at any stage in the process of making policy, or as an additional step in reappraisal of policy.

Simply, public policymaking involves the concept of incrementalism, as each new decision is added to the old. Policy is built step-by-step or decision-by-decision. Wise decisions as well as mistakes of the past are the foundation for current and future action or policy.

**Policy position**
Given the various categories of the national policy spectrum, various agents of the society may, individually or collectively, have varying policy positions in different times and locations on a given issue. A policy position indicates a conclusion as to what the role of government ought to be with respect to a particular problem or a set of circumstances. Policy positions are derived from the interaction of facts, beliefs, values and goals that are held by individuals (Figure 1).
Figure 1. Interaction of factors influencing policy position

Facts are derived from experiences. A fact is something known with certainty. Beliefs describe what people think is reality. Beliefs involve mental conviction, acceptance, confidence, or faith that a proposition is true. Beliefs may be totally or partially based on fact, or they may have no factual base. Values are conceptions of what should be. Values are normative constructs, which provide an image of what is good and right and specify that some things are better than others in a policy position context. Values may be influenced by beliefs and facts and they may also influence beliefs.

In general, policymaking can be based on normative, positive or pragmatic underpinnings. With such philosophic variation, the policy positions can be reflective of:
* the free market
* humanitarian
* agricultural fundamentalist
* stabilizer and
* regulator approaches (Knutson et.al, 1995).

**Goals and values: The century’s paradigms**

Issues of goals, means, and values directed the American Farm Policy in the nineteenth and the first half of the twentieth century (Tweeten, 1970). Highlighting Tweeten’s discussion of the goals-means-values linkage, an attempt is made here to relate it to the goals, values and means that Ethiopian governments have tried to use in their national and agricultural policy making at least starting from the regime of Ate Menlik.

According to Tweeten (1970), goals are defined as ends or objectives toward which behavior may be directed. Means are the ways in which goals are achieved. Values are standards of preferences that guide behavior. Values—feelings of what is desirable or what ought to be—can often be interpreted as goals and means held with some degree of intensity. A clear-cut distinction between means, goals, and values is neither feasible nor functional.

Tweeten (1970) argued that the farm value structure of U.S has deep roots. First, there is the Judeo-Christian culture of the Western world, which places emphasis on learning and active mastery of the world, in contrast to the more contemplative, ascetic culture of the Eastern world. There is the Reformation, which emphasized the individuality and secular worth of all men and which stimulated the emergence of the Protestant Ethic. There is English democracy, with roots in Greek antiquity, the
Magna Carta, and the Reformation. There is Capitalism strengthened by the English political stability and institutional structure and the Industrial Revolution.

Then there is *laissez faire*, with its origins in the philosophy of John Locke, which emphasized that the ideal world lies in the natural order of no collective restraints on individual actions, and in the utilitarian philosophy of Adam Smith, whereby economic man, because of his acquisitive instinct, is led to Utopia by the invisible hand of the perfect market. With this background, Tweeten (1970) argued that America is a melting pot of philosophies as well as of ethnic groups. Hence, the amalgam of philosophies in early American life resulted in what may be called agrarian creeds.

The following four creeds are idealized value judgments, which permeated both rural and urban societies in the nineteenth-century America. They were the main guides to individual behavior consistent with respect of self and society.

**Work Ethic Creed**

The work ethic contains four component judgments. The *work imperative* is a judgment that the proper way to fulfill one's need for a higher status is to be proficient in one's chosen field. Backward or easy ways are not to be placed above excellence in job performance. A second judgment, the *self-made man ideal*, is that a man who improves his income through honest efforts is worthy of respect and emulation. The judgment precludes dependence on family pedigree for status. A corollary of the ideal is that men and nations alike possess sufficient means to improve the lot of the common man, i.e., to close the gap between present circumstances and aspirations.
By referring to the works of Brewster, Tweeten made two final judgments of the work ethic. These are that society owes to each man (1) *com mutative justice*, defined as the value of his contribution, and (2) *distributive justice*, defined as equal access to the means of developing creative or earning potential.

**Democratic Creed**
The democratic creed contains two component value judgments: (1) all men are of equal worth and dignity, and (2) none, however wise or good, is good or wise enough to have dictatorial power over any other. Included is the idea that all deserve an equal voice in shaping the rules deemed necessary for the sake of general welfare.

**Enterprise Creed**
The enterprise creed entails four component value judgments. (1) The individual or his immediate family ought to be responsible for his economic security throughout life; (2) a prime function of the government is to prevent the imprudent from pressing government, business, or any other organization or institution into sharing the burden of an individual's economic security; (3) proprietors deserve exclusive right to prescribe the rules under which their production units operate; and (4) a prime function of the government is to prevent anyone, including the government itself, from infringing upon the managerial freedom of proprietors.

**Self-integrity Creed**
The self-integrity creed relates to the status of dissenters. Its central judgment is that, in the case of conflict, both the individual and his or her group are responsible for seeking new modes of thought and practice that will unify the hitherto conflicting views of
each. In line with this judgment, the community prizes its dissenting members as its agents for achieving new knowledge and practices. The individual and his/her group share the common judgment that the highest responsibility of the individual is to follow the dictates of his/her own exceptional insights. The high status of dissenters in agrarian society was afforded primarily to those whose insights were of practical significance.

We Ethiopians can learn a lot from these creeds. Again, readers are advised to consult Tweeten (1970) and other books for broader and deeper understanding of the goals-means-values concern in policy making.

When it comes to Ethiopia's national policy formulation process, the place of the creeds listed before can be traced back to centuries. Particularly in the nineteenth century, what Ate Menlik did embed with the creeds listed before. Specifically, the creed of self-integrity gives a mirror image of what Menlik faced while attempting to change Ethiopia's economy by making internal and external as well as national and sector level policies.

Paulos Ngongo (1984 E.C/1992; 236–368) stated that Menlik faced several challenges in the national policy formulation process which mainly arose from the beliefs, values, facts and objectives of the monarchs, the royal family, the Pop and the priests. Challenges also arose from the common people who considered importing cars, bicycles, telephone services, etc. is devilish and ungodly, which negates Ethiopia's religious and social values, beliefs, culture and institutions. Despite oppositions from various corners, Menlik made policy decisions that affected and influenced the birth of modern education, agriculture, textile, construction, industry, communication, transport, and other sectors.
of the country. Ate Haile Selassie’s regime experienced similar challenges to that of Ate Menlik, though not that much serious as they were during Ate Menlik’s regime. The Ate Haile Selassie’s regime embarked on three different five-year development plans which were reflective of policy positions taken under changing values and facts, as well as beliefs and goals commensurate to the dynamics of policy formulation in view of international undertakings. According to Alemayehu (2004), for example, the First-Five-year Development Plan that spanned the years 1957–1961 represented the first genuinely systematic expression of nationwide economic policy in modern Ethiopia.

The Derg digressed from the traditional Orthodox Ethiopian values and beliefs footed in the monarchy, predominantly religious and feudal system. The Derg’s acceptance of Socialism as a lead ideology made Ethiopia’s policy to be footed on the creeds of Socialism, which, for example in the agriculture sector, ought a change in the agricultural policy by focusing on:

- peasants or farmers instead of tenants and landlords,
- farming, which was considered as a way of life and the right of people in rural agriculture setting instead of as a business undertaking,
- farming, which became a collective (producers’ cooperative) or peasant association enterprise instead of an individual occupational area,
- farming, which became a controlled rather than a free enterprise and an activity which farmers were given quotas in terms of commodity types and quantity to produce, and
- land, which became the property of the state and those who used to till it didn’t have the right to own it.
The Ethiopian Peoples’ Revolutionary Democratic Front (EPRDF) regime, which has been in power since 1991, started to change some of the aforementioned policy dimensions. The market orientation, the abolition of agricultural producers’ cooperatives and the commodity quota rationing system showed a change in policy positions compared to its predecessor. However, all the changes were fundamentally footed on the beliefs and values held by EPRDF and its constituent political parties. For example, the regime still believes, regardless of what facts may suggest, that land must remain in the ownership of the public and government, indicating that policy positions are not only the outcomes of facts and models that linger over evidences presented by the use of statistical data.

**Policy and scientific objectivity**

In general, policy advisors and makers have to grasp that much of policymaking is a result of connecting goals, values, beliefs and facts given the available means. It is a question and grasp of neither economic theory nor empirical modeling.

Randall (1987) states that (a) economic theory fails to answer some fundamental questions about efficiency and equity, (b) in a given economy, complex and fundamentally imperfect institutional arrangements are the norm, (c) currently available techniques for empirical analyses were seen to be inadequate to analyze complex systems and to be subject to serious data limitations when applied in the partial analyses that substitute for systems analyses. Randall (1987) also states.

> “Almost always, economists have inadequate information about the workings of the systems under study, in addition to an inadequate
philosophical basis for determining the “best” solutions to policy problems.... Economists in the policy arena must eventually fall back on their intuition, or “fly by the seat of their pants.” It is good that their adherence to the notion of scientific objectivity and the individual ethics of their discipline should make economists modest, and even a little nervous, in this role. Such feelings are a good antidote to the self-importance that sometimes affects those active in the policy process. Nevertheless, these feelings should not lead economists to withdraw from the public-policy process. They have too much to offer.”

In short, the process stages; the approaches and components of policy position entail that policymaking is not a modeling issue or an empirical exercise. Empiricism, which is laden with positivistic knowledge, can be part of the policymaking process in an effort to appeal for facts while taking a policy position. However, facts alone cannot make one to take a policy position. In real world, policy formulation lies more on the beliefs and values the collective in a democratic system or individuals or interest groups in a seemingly dictatorial regime adhere to. In this regard, policymaking is nothing but a readiness to act and react to the synergetic movement of actors and factors of economic development in the flux of institutions governed by political, social, economic and cultural situations that exist within or inflicted from outside.
The national policy spectrum

McCalla and Timothy (1985) discussed the national policy spectrum using three core policy categories and three corresponding policy interface areas (Figure 2). Points A, B and C represent core policy categories, while points D, E and F represent the three policy interface areas. The core and interface policy areas have to be studied in an integrated manner in order to achieve national goals such as economic and social development. The pyramid indicates that the core policy categories in any nation are:

A. National policy
B. Agricultural sector issues, and
C. International policy issues

The policy interfaces are:

D. Domestic interface
E. International interface-agricultural, and
F. International interface-non agricultural
A. National policy
1. Economic growth
2. Population
3. Food supply
4. Employment
5. Social equity

B. Agricultural sector policy issue
1. Land use/ownership
2. Credit
3. Technology
4. Inputs supply
5. Rural incomes

C. International policy issues
1. World prices
2. Export markets
3. Food aid
4. Capital flows
5. Technical assistance

D. Domestic interface
1. Food Vs farm prices
2. Rural urban migration
3. Investment
4. Domestic food production
5. Taxation

E. International Interface-agriculture
1. Import strategy
2. Export policy
3. Price isolation
4. Technology transfers

F. International interface
non-agriculture
1. Balance of payments
2. Currency value
3. Foreign investment
4. International dependency

Readers are advised to refer to Mc Calla and Timothy (1995); Knutson et al. (1995), Halcrow (1994); Tweeten 1970 and 1989, Burger et.al (1991) or other relevant books and published materials to have in depth knowledge of national policy categories and their
interface with an emphasis on agriculture and food policy. The Pyramid may enable those interested and concerned about Ethiopia’s agricultural policy to have a broader picture of what policy is and how policy makers and politicians have to deal with agriculture and food policy as part of the national policy.

As Knutson et.al (1995) said, the first lesson one has to learn about policy formulation is not to be caught in the ‘single-problem trap (SPT)’. It is too easy to fall into the trap of treating each of the six core and interface policy categories and areas separately. It is also common to observe politicians, policy makers and even academicians in Ethiopia being indulged in and responding to single policy problems or driven by mob mentality or external fusion reflective of the day’s politics. This too has to be changed.

Policy needs a broader outlook and multi-sectoral knowledge. In other words, the different categories and interface areas are not mutually exclusive but, are interrelated. Of course, “policy is determined in the political area and policy decisions are fundamentally political decisions” (ibid). Any person who deals with policy issues has to know the political environment he/she is living in and working with.

### Agriculture and Food Policy

**Definition**
Being governed by the afore-mentioned policy definition and elements of policy, agricultural policy may be defined as a course of public action directed primarily,
but not exclusively, toward the farm and agribusiness sectors of society (Halcrow, 1984).

Broadly speaking, agricultural policy involves the full range of public decisions that influence individuals and firms to decide on
- what products shall be produced
- how they shall be produced and
- for whom they shall be produced.

Application
Agricultural policy applies to two broad sets of markets: agricultural input markets and agricultural product markets. Agricultural input markets are markets through which the resources and commodities used in farming are made available for production; and agricultural product markets are markets through which farm and food products are marketed and processed for consumption at home and abroad.

Policy in the input markets covers problems or issues related to:
- use of land, water (irrigation), soil, forest and other natural resources and the environment
- agricultural credit,
- industrial products used by agriculture, and
- the human resource employed in sector the agricultural.

Policy in the product markets involves a broad range of laws, government rules and regulations that apply to these markets. For instance, it deals with issues such as:
- free markets, or price supports with or without production controls
• free trade in farm food products (or trade agreements), subsidies, tariff and non-tariff barriers to trade and protection measures
• consumer food subsidies, such as food stamps, and school lunch programs,
• value adding, standards, and related practices,
• role of NGOs in buying and selling of aid commodities, and domestic agricultural inputs and outputs, and
• dumping practices, contrabands, cross-border trade.

Policy issues related to the agricultural input markets and output markets are studied using the demand and supply principles of agricultural economies.

**Interface and goals**
As defined before, agriculture policy involves farm and agribusiness issues as an interface with food policy issues. Broadly, agriculture and food policy involves the principles that guide government involvement in production; resources utilized in production; the marketing and consumption of food; and conditions under which people live in rural areas.

In many instances, farm policy is considered as a sectoral economic policy that deals with agriculture and food. Understanding farm policy requires knowledge of both the political process by which laws are enacted and administered and the economic origin and consequences of those laws (Knutson et al., 1995). In this context, the goals of food and agricultural policy could be:
• producing an ample supply of food at reasonable price,
• removing hunger and malnutrition,
- maintaining health and reducing health hazards,
- conserving and allocating resources such as land, water, forest and wildlife, and
- preserving crop and livestock genetic resources.

**Policy problems**

Today, food and agriculture problems are not unique to a given country. They are similar and require not only national efforts but also international actions. Besides, the policy problems of food and agriculture are interwoven. These are world food problems; farm and resources problems; rural development problems; and consumer problems (Figure 3).

Any one who is engaged in food and agriculture must examine these four dimensions of the policy formulation process and also avoid being trapped with the SPT. In this case, the SPT may arise in a way that it is all too easy to fall in to the trap of treating each of the four agriculture and food problem areas separately. Policy makers do this regularly by responding only to the single issue of the moment. Reality suggests that the four areas are not mutually exclusive but in fact are interrelated.
Figure 3. The policy problems of food and agriculture
CHAPTER FIVE

Agricultural Policy in Ethiopia

Agricultural Policy Filtering: Rural Development Policies, Strategies and Instruments (RDPSI)

As mentioned in Chapter three, the Agricultural Policy of the Ate Haileselasie regime was different from that of the Derg regime. The Agricultural Policy of the Ate Haileselasie regime had a feudal cum capitalist orientation while the Agricultural Policy of the Derg regime had a socialist footing. The current EPRDF regime has a mixed type.

The EPRDF regime has attempted to design and implement agriculture and food policy since it came to power. However, a comprehensive document that encompasses world food, farm and resources, rural development and consumers' issues was in vain till 2001. In November 2001 (Hedar 1994 E.C), the FDRE government issued 'Rural Development Policies, Strategies and Instruments (RDPSI)' document written in Amharic. RDPSI is the reference document to know and study Ethiopia's food and agriculture policy at present.

Prior to the publication of RDPSI, there were several policy papers and documents prepared at national level.

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1 The author of this book has translated the Amharic version into English together with other colleagues and on behalf of the Agricultural Economics Society of Ethiopia, commissioned by the World Bank.
'Ethiopia’s Economic Policy during the Transition Period, written in 1991 and ‘Agricultural Sector Policy and Strategy in Ethiopia (unpublished document by the Ministry of Agriculture) and others are examples. One officially distributed policy document written in Amharic was the ‘Agriculture Policy (zero draft)’ prepared by MOA FDRE in Yekatit 1993 E.C (February 2001). This draft was distributed stakeholders in public and private sectors including civic societies such as Agricultural Economics Society of Ethiopia, and after comments and suggestion were received, the MOA organized a workshop in Debrezite in December 2001. Many experts from the private sector, public and civic societies participated in this workshop. However, this draft remained as a draft because of the issuance of RDPSI and the assumption that RDPSI covers what was included in the Agriculture Policy Draft of the MOA. Simply, this implies that in order to know Ethiopia’s current Food and Agriculture Policy, one has to read and understand the RDPSI document.

According to the RDPSI document, the basic objective of the FDRE government is to create a developed free market economy, which will benefit the Ethiopian people at various stages, which will liberate Ethiopia from being dependent on aid, and guarantee rapid economic development. It also describes the four aspects of the government’s basic economic objectives:

1. ensuring rapid economic development,
2. making the people benefit from it,
3. liberating the Ethiopian economy from aid dependency and continuously improving its role and position in international economic integration, and
4. achieving rapid economic development with the afore-mentioned properties through developed free market economic system.

The RDPSI reaffirms the government’s strong belief in the core strategy of the nation’s economic development, that is, the Agricultural Development Led Industrialization (ADLI). Though the debate on whether agriculture be given the priority to lead the overall economic development is continuing, no one doubts that agriculture is the dominant sector which will determine the growth and decline of Ethiopia’s economy for several years ahead.

The RDPSI has been criticized in various aspects (Demese et.al, Unpublished). The Critique revolves around issues of goals and approaches; land and other factors of production; settlement and population; capacity and socio-economic effects; subsidy and others. Of course, the debate on farm subsidy and support started prior to the distribution and discussion of the RDPSI document. Demese (2000) argued that “...Ethiopian farmers have to be supported to emerge out from the deepening poverty mainly related to low farm income, which in turn is associated with low prices for agricultural products and high price of farm inputs... All parties in the economy, i.e., producers, consumers and taxpayers shall take share of the gain and loss of fair trade, and no one shall be the sole loser or beneficiary in the game.” Further more, *Ethiopia has to maintain its own development policies. To do so, it must be able to maintain its ADLI strategy and use domestic support measures, specifically those related to increased agricultural productivity, rural development, food security, and*
Improvement of income and living standards of subsistence framers... The economic restructuring and reform exercise in Ethiopia must be implemented with a clear understanding and monitoring of the socio-economic effects... In Ethiopia, as of now, we may not have the ability to grant domestic support to cover for various production and price imperfections arising from weather and market risks. However, flexibility to use support measures has to be instated in the economy (Ibid).

Despite the suggestion made in various fora and workshops, in the RDPSI document, the government restated its position of no subsidy. Following is an extract from FDRE (2001) Part I Section 2.

One alternative to make the people benefit a lot from development is to ensure development via capital-intensity and technology use. With such an alternative, those who can benefit from the development process can benefit, and those who cannot could be subsidized in different ways by the government so that they will not massively die due to hunger and illiteracy. This alternative may ensure peace and stability that are vital for development.

This alternative, however, has been criticized for its many shortcomings. First, it has been criticized on the bases that it creates an army of unemployed people who do not have any meaningful contribution to development and who are dependent on government subsidy. These people suffer from dependency and are vulnerable to various social problems. It is also criticized on the ground that it wastes public money on subsidy, which could have contributed a lot if invested on development, and thus it suppresses economic development. It is important to underscore these points as the
shortcoming of this alternative. In fact, even advocates of this alternative do not deny these shortcomings. They support subsidy because they believe in that the costs of having such people may outweigh the costs of subsidy.

Whether the subsidy option is preferred or not, it cannot be implemented given the real condition of our country. Since we do not have high level of capital accumulation and technology, we cannot implement a development strategy based on them; no matter we want and wish to do so or not. Moreover, it is impossible for us to subsidize those who are not able to earn their own living since we do not have enough money for that. Therefore, subsidy-based development strategy is impractical in our country, whether we want it or not. If we want to achieve development capable of ensuring peace and stability through benefiting the people, we have to search for an alternative strategy, which is not based on subsidy.

An alternative strategy that is not based on subsidy is building the production capacity of the people and using that capacity for an extensive development of which the people can benefit at large. This has been implemented and proved to be effective by some East Asian countries.

People possess work force, which can enable them to be employed. It is possible to enhance their production capacity by improving their health, skill and self-initiation for using their labor. In countries like ours, in addition to labor, the people have the right to use land; anyone who is willing to depend on farming has a right to get a bit of land. Therefore, people can use their labor and land and be producers. Thus, the development can be effected through developing production capacity of the people.
The major source of development is outputs produced by the people using their work force and land. Since the outputs produced by using their own work force and land will largely belong to the producers themselves, the people will be the prime beneficiaries from the development. Therefore, this alternative ensures rapid growth and makes the people prime beneficiaries without embarking on subsidy.

As indicated before, agriculture and rural-centered development strategy is the only feasible option available to ensure rapid and sustainable development in our poverty-stricken country where subsidy is not feasible, to make the people the prime beneficiaries of development. There are many reasons for that.

The EPRDF government, however, has opened its ears and has been listening to various comments and suggestions on the issues raised and discussed in Part I Section 2 of RDPSI document. Particularly, after the drastic fall of agricultural commodity prices in 2002, it started to filter the Policy and the RDPSI document itself. Indeed, this exemplifies the eminence of the regime in terms of its readiness to listen to comments and learn from reality. This is because, as indicated in Chapter 2, policymaking is based on the principle of incrementalism, i.e., policy is built step by step, and both the wise decisions of the past as well as the mistakes are the foundations for current and future policy.
Farm price support and food security

Learning from our past mistakes is a sign of progress towards searching a solution for our economic underdevelopment. Some years back, raising the question of farm support programs, specifically subsidies, was receiving resistance and rarely an outright rejection from the FDRE government. After lengthy and sometimes seemingly frustrating debates on various fora, the government has come to agree on the need and use of farm support programs, especially agricultural commodities price support in Ethiopia. Such a change of attitude and perception from the policy makers' side deserves appreciation. Beyond that, the debate has to continue to have a handle on farm-price support as a key instrument in Ethiopia's food security strategy.

The Prime Minister, in his Report of the 1996 E.C. FDRE Government Work Plan, stated the government's readiness to set floor prices and pay the difference between market prices and floor price if market prices happen to be lower than floor prices. However, when he stated about the food security strategy, he gave emphasis to settlement and water harvesting (woha maqor), as instruments to attain food security and, knowingly or unknowingly, avoided farm price support as an instrument which can lead to the achievement of food security in Ethiopia. In a market economy, price gives signal which plays a role in the allocation of resources, including labor, to their highest use value. As policy instruments, regulated prices can be used more effectively when markets fail, and fail to make government policies fulfill their goals.
Today, not only politicians and policy makers, but also some economists in academia, research and development areas are confused about the need for and the effect of farm support programs in Ethiopia. For many people, what comes in mind is the cost of such programs instead of the output. If so, why should we expect politicians, farmers, and farm and commodity groups to come together and agree on appropriate future policies for agriculture when economists themselves have a problem to analyze it in a framework that encompasses realism?

While inquiring about why farm price support is not considered as one of the major instruments of our food security strategy, I came across some individuals who argue that Ethiopia cannot afford farm price-support program and hence it has to reconsider withdrawing from it. Anyone who read about the experiences of North American and European countries in terms of farm support programs would have advocated to using price support in Ethiopia as an instrument to attain food security rather than discouraging or discarding it.

The experience of other countries, including the United States of America (USA), which is the pioneer of such program, is that price support to farmers results, ceteris paribus, in excessive production and stock accumulation with increased ratio of food stock to use. What do we want more than this to attain food security endeavor? To solve Ethiopia's food insecurity problem, should the argument be affordability of a program or questioning the program's merit for the purpose it is designed? Is the argument of unaffordability intended to state and remind us that Ethiopia is a poor country hence it cannot afford such a program? Does this mean that we have to sit crossing our hands, remain
incarcerated in cursive poverty, continue to beg, live on the hopes for pledged food (or die), and increasingly become dependent on food aid?

In the next chapter a highlight on the theory of subsidy and domestic support programs is presented in order to help readers to reexamine the statements extracted from Part I Section 2 of the RDPSI document.
CHAPTER SIX

Agricultural Support: Theory and Reality

Trade and subsidy: theory and practice

Theoretical and practical approaches can be employed in addressing issues like membership to the WTO or specifically agricultural policy concerns such as domestic support programs. Either approach could be used provided that we understand the consequence of the recommendations one would draw based on it. "The classical theory represents the way in which we should like our economy to behave. But to assume that it actually does so is to assume our difficulties away" (Keynes, 1935). It is the difficulties facing the economy of Ethiopia rather than the theory of trade and free market which shall govern the decision on whether the country has to follow a policy of domestic support programs. Ethiopia must examine market and trade theories in view of their relevance and support to explain its economic realities. Theories and principles which might have been valid and appropriate for one economy in a given region or at a given time might not be valid for other economies at the same or different time.

The various agreements of the WTO, including the AoA, are crafted based on the theory of free trade. The free trade theory puts restrictions on government interventions. It prohibits domestic support programs including subsidies, protecting local industries via quotas and tariffs and other similar measures. Of
course, in the WTO AoA, one can read that a country can be exempted from no-support obligations if the support has no or at most minimal trade or production distorting effects. Besides, the support shall be provided through a publicly funded government program not involving transfers from consumers; and the support shall not have the effect of providing price support to producers. Overall, the AoA was supposedly designed to bring the agriculture sector under new set of multilateral trade rules and disciplines, which cover the three components of agricultural liberalization: market access, export subsidies and domestic support.

A quick review of basic concepts and principles related to domestic support programs involving price support, taxes and subsidies to understand the exemption clauses and the entire issues related to the domestic support measures is made as follows. The discussion does not cover the full course of the pros and cons of the three major components of the AoA. For details, the reader can consult the original WTO AOA document, and in view of Ethiopia's agricultural policy, the study report by the Agriculture Sub-committee (Unpublished).

- It is important to first recognize that there is no government, particularly in developing countries, whose source of fund (tax) is not heavily dependent on consumers' income and commodities. Of course, producers are also consumers. Generally, in view of agricultural commodities, taxes decrease while subsidies increase production and consumption in domestic economic activities. Besides, we have to recognize that, ceteris paribus, governments act on behalf of the public interest and use both taxes and subsidies to stimulate and maintain a fair
distribution of domestic resources in production and consumption of agricultural commodities.

- In theory, countries may formulate different commodity programs to intervene in domestic markets in order to benefit the producer or the consumer or the society at large. Commodity program interventions could be in the form of supply management or price supports without production controls. Given the supply and demand functions and their elasticities, the results of supply management measures may vary. Supply controls packed up with price support for producers and consumers, however, may be used to make producers and consumers gain while the society loses.

- Price support without production controls could result in excess supply, and program implementers could take two measures: they can decide to accumulate excess and pay the price for maintaining and managing the stock, or to pay the difference (deficit payment) between the supply and demand prices to avoid the burden of stock accumulation and management (Tweeten, 1989). To minimize stock management problems, the support programs can be designed in a way that the farmer can also serve as a storekeeper too. This clears the market.

- Subsidies to producers and consumers are transfers from taxpayers to producers and consumers in order to maintain producers' price at a predetermined higher-than-equilibrium price, at the same time maintaining consumers' prices lower than equilibrium prices. In this exercise, it is
possible that both consumers and producers gain at the expense of taxpayers, i.e. taxpayers lose. This is the cause of food price dilemma in many economies. If we leave everything to the market, then we may face a free market equilibrium price deemed too low to avoid hardship and reduce poverty among producers, and too high to avoid hardship and reduce poverty among consumers. It is important to note that though consumers and producers seem to gain from subsidies, they could also lose, in theory, because taxpayers are either producers or consumers. It is common to hear that subsidies are a negative sum game. Consumers and producers lose more as taxpayers than they gain as consumers and producers. Despite the theoretical shortcomings of this game, many countries in the world play it.

One lesson to learn here is that domestic support programs at large and price support programs specifically could be used to redistribute income, to reduce social costs in domestic markets and to augment food security. Price support can also be used to decrease food cost through a ceiling on food-price in a country where incidence of food poverty is high. Like the other afore-mentioned intervention policies, the food security policy that raises producers' prices to increase domestic quantity supplies could end with gains to producers and losses to consumers or a well-studied price support measures yield gains to both producers and consumers while the society at large may be a loser. So-called society may also be a loser if the theoretical analysis of domestic intervention policies is based, like other welfare measures, only on the principle of economic efficiency measured by national income. Economic efficiency as a measure of policy or program
performance ignores other socio-economic objectives such as equity, stability and mitigating the prevalence and consequences of poverty.

Those with equity concerns argue that economic efficiency entails allocating resources to uses contributing the most to output. However, an efficient allocation is not necessarily an equitable allocation. Markets can be in equilibrium even when some people are starved and under poverty while others are fattening. Equity-laden policies have to be followed in predominantly poor countries. Therefore, taxpayers shall provide subsidies to producers and consumers in order to raise producer prices and lower consumer prices even though national income could be reduced.

Simply, Ethiopian farmers have to be supported to emerge out from the deepening poverty mainly related to low farm income, which in turn is associated with low prices for agricultural products and high prices of farm inputs. Damping of cheap agricultural commodities in the name of free trade has to be resisted in view of national interest and security. All parties in the economy, i.e., producers, consumers and taxpayers shall take share of the gain and loss of fair trade, and no one shall be the sole loser or beneficiary in the game. Thus, Ethiopia has to stand against any agreement with the WTO, the World Bank/IMF or bilateral agreements which may worsen its problems of food insecurity, poverty, and unemployment and increase its dependency on foreign countries.
Domestic support and affordability

As far as Ethiopia's policy position on AoA and membership to the WTO is concerned, the government has to know very well the present state of Ethiopia's agriculture sector and the future planned measures in order to be a beneficiary of WTO membership. Specifically, it has to examine RDPSI and the ADLI strategy in the context of AoA's market access, domestic support, and export subsidy obligations, rights, and exemption clauses.

Specifically, there are two important issues to be discussed in view of agriculture support programs in Ethiopia. The first one is the issue of affordability. My theoretical and practical perceptions on these issues affirm that Ethiopia could afford to pay for such programs without additional budget from the treasury. By reducing the existing inefficiencies in various public sectors, particularly in the agriculture sector, the saving we can make can pay for such program and at the same time bring the inefficient sectors towards a relatively high level of efficiency. If some donors also fear that the government is to use their pledges or actual deliveries of aid resources for this purpose, I presume their fear is unjustifiable. If they are giving support to make Ethiopia food secure, indeed the first program they ought to finance shall be the farm price-support program. But, as of now, there may not be need for their assistance to execute the price-support programs, putting politics and their interest aside. Ethiopia can afford if the government takes measures to bring its budget appropriation in order. Reducing the inefficiencies, reallocating finance, material and human resources in such a way to minimize waste and generate saved fund to finance agriculture support programs can lead
Ethiopia to food security without additional burden on the treasury.

The second issue is that whether domestic support programs, including farm price support, have a potential to solve problems of food insecurity via a well-set policy framework, dependency and inefficiency. If yes, on what basis; in theory or practice? What kind of lessons can we learn from experience of other countries?

To develop a sound agricultural domestic program, studying what other countries have done is one side of the task. The other side is that all parties within the nation have to work together by recognizing the interdependence of facts (positive knowledge) and values (normative knowledge) in a pragmatic policymaking process so that it can be possible to design conditional policies and instruments that are based on existing local situations, and available resources. According to Just and Rausser, conditional policies are simply policies that follow formal specification for change in policy instruments or instrument levels as a result of changes in economic conditions.

The need for pragmatism

In general, Ethiopia's politicians, policy makers and academicians and researchers have to be pragmatic in their advocacy for free trade and market economy practices. Particularly, they should not jump on a hasty conclusion to say farm support programs are not required. Based on classical and neo-classical economic theories of trade, some may argue that free trade with the rest of the world could benefit many countries and minimize their time and cost to implement various and
complicated programs of domestic support, particularly to intervene in the agricultural sector. In this regard, till today, based on theory of free trade, especially developing countries have been advised to rely on the market because government interventions in these countries often entailed high social costs than did the private market failure which the policies were attempting to correct. I suppose that the theory represents the way in which theorists and foreign interest groups should like our economy to behave. But to follow what they say is to let their interests fulfilled while ignoring our peoples' suffering from poverty and food insecurity.

Further more, proponents of open world trade argue that world trade enables countries to specialize in production and consumption, and because of big economies, trade raises full income of participating countries. If tariffs, subsidies and quotas are used, they reduce full world income. At the same time, they try to comfort us by saying that not everyone gains from trade. Legitimate questions here are “what is the so-called full world income? Whose income is the world income? and what do countries like Ethiopia get from the increase or decrease of this so-called world income?” The reality so far reflects that if we continue getting poorer while others are becoming richer, the notion of full world income is mainly related to the richer not to the poorer. In this regard, pragmatism should be inculcated in the thinking and working practice of politicians, policy makers, researches and academicians in Ethiopia.
CHAPTER SEVEN
Agriculture Support: The U.S.A Experience

Background

In this section, a glimpse background of farm price-support programs practiced in the U.S. economy is presented focusing specifically on commodity loans, acreage reduction programs, target prices and income transfers. It is, however, impossible to grasp knowledge about U.S agriculture and food policy and specifically price support programs for agricultural commodities only by reading this Chapter. Cochrane (1979), Tweeten, (1970) Rausser and Farrell, as well as Knutson et al (1995) give a broader and detailed knowledge of U.S. agricultural policy and farm support programs.

The U.S experience is considered for two major reasons. First, there is no developing country the experience of which is worth sharing. When U.S and European countries were practicing farm support programs aggressively, many developing countries were under colony and had no their own policy. Since independence, the former colonized and presumptuously the newly trapped colonies-in-absentia, including Liberia and Ethiopia (Demese, 2002) are not allowed to make a policy that enables them to embark on such programs. Second, the present agriculture and food policy-making processes of Ethiopia resemble the U.S experiences and its current undertakings. Learning from experience has nothing to do with the level of development of countries.
Only few programs which may help us to formulate an agricultural policy that leads towards realizing food security of the nation are considered here. The reader can get additional knowledge on farm support and various subsidy programs from the European common agricultural policy documents, too, like Burger et al (1991)

In this Chapter, the reader is expected to examine a supposition that the prior policy focus in the agricultural sector of Ethiopia has to be on agricultural commodity prices and the relationship between this policy and others. If the concern is poverty, and that many farmers in rural Ethiopia are poor and live below subsistence, it is neither because they are lazy nor because nature and God are punishing them for some unorthodoxy practices. It is not also because they are allergic to the market system. It is only because agricultural prices (both input and output prices) were not right.

In the capitalist and market economy of North America and Europe, governments use output price-support policies for various reasons. When governments of developing countries opt for such policies, they are told not to use them. We have to ask ourselves why agricultural policies of different types, whether they achieved the intended goals or not and that sometimes are capricious and performed poor, adjudged by economic criteria, are implemented in Europe and North America while developing countries are advised not to design and implement them.

Academicians and researchers in the developed countries answer this question in part on the basis of recognition of the fact that public policies are not based
on economic efficiency criteria alone. Public policies depend also on other criteria, such as societal well-being, which heavily depends on beliefs and values than on facts. Besides government structure, the politics of government changes itself and the policy formulation process and the democratic practices make governments in the North to implement farm price-support programs. When the majorities support farm programs, it is not because of economic reasons. It is mainly for political and socio-cultural concerns.

In the U.S.A., the pro-farmers' agricultural policy formulation started together the creation of the Department of Agriculture, the 'Peoples Department' according to William G. Lesher, an Assistant Secretary for Economics, U.S. Department of Agriculture in the early 1980s. Lesher gave an evaluation of the different farm programs of the U.S.A. that were designed and implemented till mid 1980s.

According to Johnson, in the 1940s and early 1950s, there was a lively debate in the U.S.A about the future course of agricultural policy in general and of farm price policy in particular with a considerable professional, academic, and political support for a policy of full production and moderate price supports. Eventually, the Congress and the Administration opted for price supports at levels that quickly resulted in the accumulation of large stocks of the major farm crops. Of course, managing the rapidly accumulating stocks of agricultural commodities and the increasing cost of administering such program made the Congress and the President (Kennedy) in early 1960s to propose government intervention through strict mandatory government intervention and strict mandatory supply management covering most farm commodities.
Although academicians and researchers like Johnson report that U.S. price support distorts domestic and international markets and leads to economic inefficiency, the major features and most of the basic concepts of agricultural policies evolved in the mid 1950s remained unchanged even till late 1970s. These features and concepts include price supports including the maintenance of farm prices at levels permitting the market to allocate supplies among the various markets; income supports which were also achieved by direct payments; and voluntary methods of supply management when deemed necessary.

Rausser and Farrell discuss various kinds of agricultural policy issues, options and dilemmas. Three policy options from Rausser and Farrell felt to be deductive in view of Ethiopia's objectives of the food security programs are (1) commodity loans, (2) acreage adjustment programs and (3) target prices and income transfer. Points by many academicians and researchers like Rausser and Farrell who wrote extensively on these policy options are summarized here in few paragraphs.

**Commodity Loans**

Though public support programs for the U.S. agriculture date back to the creation of the Department of Agriculture— the Peoples' Department, the Authority for Commodity Loan Programs, known as price supports, came from the Agricultural Adjustment Acts of 1933 and 1938. Support prices served in various degrees as price floors, income support mechanisms,

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2 In the U.S government structure, Department of Agriculture is equivalent to Ministry of Agriculture in Ethiopia
price stabilizers, and marketing tools, depending on the commodity and the period.

As price floor, commodity loan rates have been used as a safety-net to protect farmers from sharp price drops due to short-term weather or demand factors. It is argued that this use helps to maintain the productive capacity of agriculture by providing some assurance that random and uncontrollable shocks to the market will be cushioned when market prices deviate substantially and temporarily below trend levels. Besides, it is argued by Lausser that in years of short crops, stocks acquired under loan and purchase programs can be released as prices rise to help dampen upside price swings, lessening the short-term impact on dairy, livestock, and poultry feeders while buffering the rise in food prices. This, in turn, benefits consumers by assuring adequate wholesome food supplies at relatively stable prices.

As marketing tools, it is argued by Lausser that commodity loans allow farmers to obtain cash to satisfy immediate obligations to creditors while retaining control of the commodity. Rather than selling at depressed prices during the harvest season, the producer stores the commodity until later in the marketing year when prices are usually higher. This evens out marketing and tends to make supplies available at more stable prices throughout the year. Some argue that loan ratios are valuable even when they are below market-clearing levels because they allow producers to use the cash flow and provide for more orderly marketing.

The recorded results of U.S. price support policies are excessive production, raising stock accumulation, and loss of world and domestic markets.
When loan rates are set above variable costs, farmers are guaranteed a return. The reduction in risk is an incentive to expand production despite developments in the marketplace. Even if prices decline and surpluses grow, a large acreage remains uncultivated and production increases. This occurs because farmers not only fail to respond to price signals but also produce more to cover their costs. Besides, it has also been reported that price supports have encouraged further acreage expansion including use of more fragile land, i.e. land that can be idled under acreage programs with little loss of total output. Of course, the excess production problem was further aggravated by new production techniques.

In the U.S., high rate of stock accumulation is also caused due to price support program. Price supports above market-clearing levels increased the ratio of stocks to total use. Reports also indicated that due to commodity loan, the U.S experienced loss of world and domestic markets.

- When loan levels exceed world prices, the country which made loan provision loses competitiveness. Moreover, competitors expand their production based on the price floor created with the support levels.
- Support prices make domestic prices rise above world market levels. As a result, imports increase—further leading to a climbing ending stock. Example, U.S. honey support prices. Besides, high supports and the resulting impact on market prices led to market substitutes or alternate preferences. Synthetic fibers substituting cotton and corn sweeteners replacing sugar were examples.
Acreage Reduction Programs (ARP)

In the U.S.A., the Agricultural Marketing Act of 1929 established a Federal Farm Board with the authority to take action to prevent and control surpluses and to provide for more orderly marketing. This continued vigorously even in the 1980s. The prevention and control of surplus were handled by a policy option called Acreage Reduction Programs (ARPs). The rationale was that farmers would receive price and income supports, consumers would be provided with a reliable supply of food, and production controls would be used to fine-tune supplies and help avoid surplus stocks and large government costs. But, ARPs too resulted in excessive production and stock accumulation.

For the first 30 years, acreage restriction programs such as allotments were used in an attempt to achieve production control. Such programs, however, seldom achieved their intended results, primarily because acreage rather than output was restricted. Farmers rapidly increased yields on allotment acreage, and overproduction continued to be a chronic problem.

Voluntary acreage reduction programs have also been largely ineffective for many reasons. First, farmers who choose not to participate in the voluntary acreage reduction programs tend to expand acreage for two reasons: they hope to capitalize on high market prices expected to result from the programs and they wish to increase the size of their base for the purpose of future programs.

Second, the law limits the amount of deficiency and diversion payments that an individual may receive to $50,000 per year. The payment limitation, therefore,
makes participation less attractive to large units as the benefit to be gained seldom outweighs the potential value of foregone production.

**Target Prices and Income Transfers**

The Agricultural and Consumer Protection Act of 1973 introduced the concept of target prices and deficiency payments. Deficiency payments are paid to producers whenever the announced target price is above the average farm price for a designated portion of the marketing year. The deficiency payment rate equals the minimum difference between the target price and the average farm price or the loan rate and, thus, generally varies inversely with the level of market prices. Simply, the Target Price-Deficiency Payment Program is a direct result of setting price supports above market-clearing levels and the inability to control production through voluntary acreage reduction programs.

It was envisioned that separating price and income support objectives of commodity programs would permit reductions in loan rates to increase exports, strengthen domestic demand for grain, eliminate surpluses, and reduce the need for the ineffective and complicated production control programs. Farmers' incomes were to be supported at minimum level whenever prices fell below target levels.

Target price and income transfer programs did not also stop the excess production and high stock accumulation syndrome. In addition to these outcomes, the programs lead to unintended results including raising land prices and cost of production; adding fuel to an inflationary spiral and loss of competitiveness.
In the U.S., Target Price-Deficiency Payment Program has raised land prices and production costs, reducing the country’s competitiveness in world markets, and encouraging farmers to expand acreage even under surplus conditions. Some complain bitterly about program benefits going to larger producers as well as smaller ones without regard to need. If target prices cover more than production costs for some geographically concentrated group of farmers, land prices and production costs in that location will be bid up, with the benefits going to existing landowners and not to new entrants or renters. As a result, production costs could go up, making these farm products less competitive on world markets.

Basing target prices on cost of production added fuel to an inflationary spiral. Including land costs in the determination of target prices can lead to an increase in land prices—affecting production costs, which in turn led to a further increase in target prices. High target prices then led to high land prices as farmers attempted to profit from high target prices through expanding acreage either by purchasing or renting more.

In general, the U.S experience showed that the income-transfer mechanism to interfere with the signals from the market place which can lead to increased production costs, reduced competitiveness, increased production abroad, and increased surpluses in the long term.

There were also other farm support programs designed and implemented in the U.S. These include commodity purchases, direct payments, crop insurance, disaster payments, government storage or buffer stock program, farmer-owned reserves, allotment and quotas, retirement and set-asides, allotment diversion, buy-out
program, and farm consolidation decoupled income support.

Ethiopians in various positions and institutions, whether they are in politics, academics or research, should understand that farm price support programs lead to excess production and stock accumulation. These outcomes are what each and every Ethiopian is striving for in the efforts exerted to make the country food secure. If billions of Birr can be budgeted for Ethiopia's food security program, which is the case in the 1996 E.C. fiscal year, it is not much to allocate few millions for farm support programs in order to achieve the goals of RDPSI such as making the country less dependent on food aid from foreign sources and eventually building a food secured and surplus nation.

As noted before, we also need to realize that policy does not fail. Rather, what may happen is that, given the political system and the socio-economic circumstances the policy was formulated in and implemented at, it becomes antiquated even to the extent of being incapable of adjusting to internal and external, national and international changes in political, economical, social, cultural, and institutional spheres as well as in the cyclical dynamics of theoretical and practical knowledge.

In the case of the U.S., no one talks about agricultural policy failure despite the fact that, for more than a century, agricultural policies of different types were formulated and implemented because a previous policy and its programs and instruments were judged to perform poorly or political parties and incoming presidents felt a need to change the policy given the prevailing national and international economic, trade
and political environments. Regardless of the changes in political parties and presidents in power, farm policies in the U.S. were designed to bring U.S. farmers at least at same level to farmers in Europe and other developed countries both in terms of their living standard as well as to keep them in farming, since farming was not considered only a business but a way of life (Paarlberg 1964).

From the U.S. experience, we can also learn that agricultural policy crises do not lead to a conclusion of policy failure. It is the political system not policy that may fail. Policy crises entail policy disequilibria. According to Just and Rausser, many instances in U.S. agricultural policy can be cited where the political system has failed, i.e., policies that have been established to accomplish some task have led to contrary results. Such outcomes can be avoided by appropriately designed conditional policies. Besides, since the introduction of commodity-specific policy in the United States, a number of agricultural policy crises or disequilibria have arisen.

Agricultural policy disequilibria emerge when significant changes occur in the agricultural economy which the government is attempting to influence. These policies are generally structured on the basis of perceived conditions at the time of policy formulation. If and when these perceived conditions prove false, a policy disequilibria arises; and pressure mounts for changes in policy instruments or even changes in the mix of policy instruments (Rausser, 1982).

Given the afore-mentioned points, the desire for farm support programs by the involvement of the FDRE government in the domestic agricultural sector is to be
emphasized. Langley (1983) cited in Just and Rausser wrote that the general purpose of U.S. agricultural policy is 'to provide price and income protection for farmers, assure consumers an abundance of food and fiber at reasonable prices, continue food assistance to low-income households, and for other purposes.' Given these general purposes, the rationale for government involvement in the domestic agricultural sector includes a number of perspectives such as (1) farmers are, in some sense, an economically hard pressed, if not deprived, group; (2) the principal reason for farmers' economic status is their relatively disadvantaged position in the marketplace; and (3) in the absence of governmental intervention, there would be an intolerable degree of instability in commodity markets adversely affecting not only farmers but also consumers of food and fiber (Langley, 1983).

Should these not be also the purposes and rationale why the FDRE government has to support our farmers?
CHAPTER EIGHT

Lessons to Be Learnt: A Revisit

1. From the preceding notes on U.S experience, Lesson 1 is that price support leads to excessive production and stock accumulation. If this is the experience of other countries, is it not the right time to use price-support programs in Ethiopia to achieve success in the food security policy and strategy? A loss of world market should not be a bother to us. Our share of the world food crop market is negligible if not nil. Instead, loss of domestic market should be a concern for a country like Ethiopia, which has a high concentration of agriculture population when about 42% of the total population and 46% of the urban population is under food poverty (MOFED, 2002). We have to embark on a trade policy, which protects our farmers from damping of cheap agricultural commodities in the name of free trade. Even with the absolute production trade theory of comparative advantage, we can maintain a viable and stable farm sector with appropriate price support programs.

2. We should not embark on a policy or program solely for single economic or political reason or due to pressure from foreign sources. Neither should we consider complex programs nor use single-problem sector-based strategies, which have failed to recognize the interdependencies within the agricultural sector and between the agricultural sector and other sectors of the domestic and world economy. Anytime before embarking on the implementation of a policy or program, we have to check whether appropriate and adequate preparation
has been made and alternative policies and program options considered in view of their consequences in the use and allocation of domestic resources, product choice, benefit distribution and national interest and sovereignty.

3. In Ethiopia, policy analysts, policy makers, and development agents have to go in depth to isolate the major outcome of agricultural commodity policies practiced by others on the basis of our own policy goals. Academicians and researchers should not be naive to advise policy makers and politicians only by reading text books or published materials of foreign origin and presenting them at their face values. Those who are in the academic circle should strive to stimulate thinking and alternative solutions to come into the minds of policy analysts and policy makers based on the reality of Ethiopia. Reality, not theory, has to dictate Ethiopia’s agriculture and farm sector in the decade ahead. Reality does not mean playing with numbers, statistics, and the media. It has to contain and reflect the status quo and the way ahead by encompassing beliefs and values that enable to set visions and goals.

4. Farm price support should not be seen as if it were a support only to farmers. It is also a support to agribusiness and to manufacturing as well as consumers both in rural and urban areas.

5. It is important to know that price support does not mean setting floor prices and state purchase of grain when the market is not offering prices above average variable costs. It includes provision of loans, which include or exclude grain procurement, pre-planting target price announcement, deficit payments as well as farmers own stock management.
6. We should not be trapped in the single policy problem syndrome of policy making. One time, for the sake of liberalization and promotion of market-oriented economy, we denied farmers to be supported. Subsidies were abandoned. Stock management became less concern. Some of us asked why. We were told it is a dead case. Now, time has come and price support using floor-price is considered. We say it is good, but it is not the only choice, neither is it the best choice alone. Various farm support programs have to be considered, studied and implemented so long as they maintain the interest of the nation and not that of foreign interest groups and their interest keepers.

7. We should look at price support policies in combination with and interacting with monetary and fiscal policies, technological change, and off-farm earning possibility as well as factors dictating the changes in farm structure and gradually the structure of the whole economy.

8. To decide on alternative farm support programs or specifically price-support levels in Ethiopia, studies have to consider not only the local market system and its characteristics but also:
   - the change in exchange rate,
   - the amount of grain imports through purchase and in a form of food aid,
   - changes in food demand,
   - the change in farm output together with technology and domestic demand,
   - availability of credit and loan rates,
   - rate of price differentials among commodity,
   - Cost of production and its use to determine target prices, and
   - the budgetary cost.
CHAPTER NINE
The Way Ahead

In assessing the future course of Ethiopia's farm policy, we must be realistic about the performance of past policies. If our farm policies are working and we are experiencing reduction in food problem, dependency, low level of living and poverty, we do not need to adjust them. If the facts strongly suggest otherwise, as some argue using opinion of surveying level of farm household in Ethiopia (EEA/EEPRI, 2002), it seems that the burden of proof is upon those who advocate a continuation of the policies, strategies and instruments of the past 12 years, and particularly those covered in RDPSI and ADLI.

If we want to come up with appropriate and timely agricultural policy in Ethiopia, RDPSI has to be revised and refined. In this regard,

• the interest and role of politics or government,
• the concern to improve farmers’ income,
• the design for food security,
• the need to reduce risk,
• the free mobility of resources in the agriculture sector,
• policy flexibility and readiness to consider alternative policy directions and actions,
• the burden to treasury and the role of the private sector and
• the existence of institutional capacities have to be included in the dynamic formulation and analysis of Ethiopia's agriculture, food and rural development policies.
The different policy alternatives policy analysts and policy makers could consider are free market, regulated markets, farm revenue insurance, flexible storage policies, stock and supply management, demand expansion, and direct income enhancement.

The inclusion of dynamic elements and assessments of alternatives provide useful insights into the effects of the specified policy alternatives. However, the effects of the alternatives or combinations of alternatives may be understood if the critical variables are well studied and quantified. Besides, the framework is potentially useful as a means of ordering much needed policy analysis.

In Ethiopia today, there is unprecedented need for more clearly specified agricultural policy analytic framework, which incorporates explicit policy goals and policy instruments to guide comparative policy studies. Hence, there is a need for great continuity, vigor and substance in agricultural policy research which captures the interaction and interdependence of beliefs, values and facts in setting policy goals, making policy decisions and holding on policy positions arising from a realization to change the economic life of Ethiopians in general and farmers in particular, as are not forced upon them from without but arise by their own initiative from within.

Simply, Ethiopia's Economic policy in general and agricultural policy in particular should not be designed and decided on by outsiders whether they are experts or not. There are many experts within. The future will be a period of prosperity in Ethiopia if and only if Ethiopia uses its own experts and takes a policy position that protects the interest of its people, their businesses including farming, and the sovereignty of the nation.
In this regard, the recent move by the FDRE government to accept farm support program is encouraging. Specially, the decision to set floor prices to buy selected commodities, mainly maize and wheat, when the market price is lower than the floor price is one step forward to make farming a business and improve farmers' living standard. However, there are also other options within a price-support program menu, such as commodity loans and target prices.

Floor prices entail the purchase of the commodity by a government enterprise. This enterprise has to transport, command a storage facility and establish an institutional capacity in terms of managing the transaction as well as the logistics related to stock administration. Experiences of other countries indicate that these are the costly aspects of the floor price option. The government has to consider other options including a price support through which farmers own and keep reserves. Others like the commodity loan arrangements provide loans for farmers at the time of harvest when prices are low so that they can keep the commodities produced to sell them later when prices are high. Most likely, a further preferred option may be the target price option. This option requires that at least the government, via studies, set the price ahead of the production period for selected strategic commodities and farmers make a decision on the commodity to produce based on their spatial and market competitive advantages. This will support government's efforts of promoting spatial specialization of agricultural commodities production in the different regions of the country. The target price option can be coupled with deficiency payment arrangements with or without government stock reserve programs.
There are other options which we may also consider as we progress in the implementation of the support programs that have started in Ethiopia. Of course, even the floor price option that has started need to cater not only for two commodities but for several strategic staple and cash crops and livestock products which are strategically chosen with a prior established regional agricultural production specialization programs. Still, such programs can be financed by budget saved from restructuring of existing agriculture sector public institutions or allocating at least a quarter of what is budgeted for the food security strategy.

It is important to note one critical condition. That is when U.S. and Europe formulate and implement farm support programs, they are acting in a market economy where all factors of production including capital, labor, land, and technology are freely mobile. However, even under this type of economy, the formulation and implementation of farm support programs has not been an easy task. They are still practicing it in a complex manner. The complexity, therefore, has to be high and intense in Ethiopia, where free mobility of factors of production is constrained. In a constrained economic environment, subsidies both in product and input markets should be well studied and carefully designed. In such environment, the program options should be established on a political will that a change in farm income and farmer living standard be non-ephemeral. The political will has to target to make Ethiopian farmers to sustain in farming where farming is considered not only as a way of life but also as a business firm.
References


Lead-WeDeB is legally established to undertake the following broad activities:

- establish educational institutions at different levels
- provide regular and mobile short courses and trainings
- provide consultancy service and undertake research
- organize, prepare or coordinate lectures, seminars, symposiums, workshops and conferences on current thematic areas
- render information technology services
- involve in the preparation, production, and distribution of educational and training materials
- provide translation services
- provide tutorial and supplementary lectures and study sessions to regular, extension and distance education students up to MA/MSc degree programs level and
- carry out any other duties related to the aforementioned objectives