

ASSA Meeting Invited Paper Sessions

THE POLITICAL ECONOMY OF FOOD POLICIES: THE ROLE OF POLITICAL INSTITUTIONS
(Johan Swinnen, University of Leuven, Organizer)

GOVERNANCE STRUCTURES, POLITICAL ECONOMY, AND PUBLIC POLICY

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Where do governance structures sit in the public policymaking process? A schematic representation of the policymaking process revealing the critical importance of governance structures is represented in figure 1. Historically, the right-hand box has been the domain of political science, while the left-hand box has been the domain of economics. At the top of the right box, particular governance structures set the constitutional design establishing voting rules, the rule of law, property rights, laws governing exchange, and more generally the rules by which rules are made. Governance structures also determine the nature and scope of the political feedback mechanisms from groups affected by public policies. In its most expansive representation, any causal analysis of constitutional rules investigates the implications of alternative legal, regulatory, and institutional frameworks, as well as various degrees of political, civil, and economic freedoms. In other words, governance structures set the boundaries for the political economic link. Over the course of the last decade, economists have begun to make significant theoretical and empirical advancements in analyzing the link between governance structures, political economics, and the selection of actual policies.

The governance structure determines to what extent the government, once appointed, can rule with *ex post* control: what type of majorities it needs to ensure its ability to pass legislation and whether groups have veto power. Different mechanisms can translate the preferences of citizens into controls on the government and majority formations, and hence policies. These issues relate to the differential effects of democracy (whether parliamentary or presidential) and autocratic regimes, to the effect of different electoral systems, including systems set up on the basis of proportional representation versus majoritarian systems, and to the effect of autonomy given to bureaucrats and implementing institutions.

In our forthcoming book (Rausser, Swinnen, and Zusman 2010) we evaluate and extend the literature, focusing on political power and economic analysis; ideology, prescription, and political power coefficients; the analysis of specific structures; and empirical applications of political power estimation. Here we summarize some key issues, examples, and insights on the role of governance structures on public policymaking in general and food policy in particular.

Governance Structures and Policy: Some Conceptual Issues

A political power and bargaining paradigm as developed in Rausser, Swinnen, and Zusman (2010) can be used to evaluate and assess alternative governance structures or more specifically constitutional rules. Alternative settings

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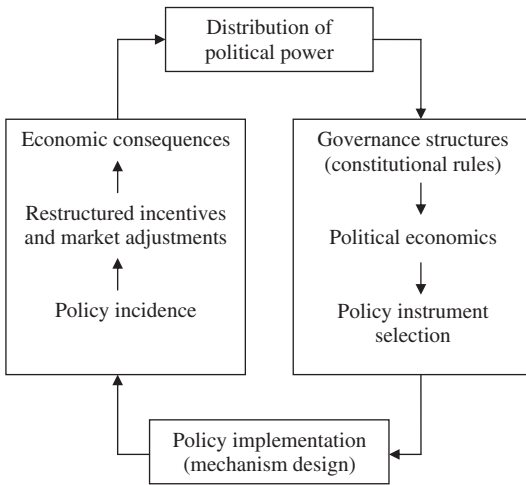


Figure 1. The policymaking process and economic consequences

on these “rules” can be evaluated in terms of their implications for the distribution of political power and the degree to which the public interest is effectively pursued. Constitutional settings determine the boundaries of the trade-off between public and special interests. The relationship between the underlying constitution and the “preference weights” emerging in the governance structure quantifies that some solutions to the “power coefficient” problem are implicit or explicit in any public action that might be taken.

Constitutions are a subclass of institutional structures that are interpreted here as rules by which rules are made. A prescriptive analysis of constitutional rules will require an assessment of (i) the relative merits of who has access to this decision-making process, (ii) what constitutes an admissible coalition (e.g., majority rule, unanimity), (iii) whether any agents or interests are essential, (iv) what, if any, default options exist, and (v) what proposals are feasible or admissible.

A country’s political constitution thus prescribes government organization and intragovernment distribution of policymaking authority, whether in the form of a written explicit charter or implicitly formulated and accepted. To be sure, governance structures are determined by instrumental considerations as well as ideological views with respect to the desired regimes and the distribution of political power.

Policymaking authorities are usually distributed across the entire governmental structure. When a policymaking authority is fully

vested in a single structural element, only one policymaking center exists. In contrast, when several structures are vested with policymaking authority with respect to the same set of policies, a polycentric configuration of policymaking centers emerges. A polycentric configuration often arises when distinct structural elements decide on different components of a particular policy—its financial burden, its design, its implementation. It may also arise when disparate structural elements are constitutionally charged with the responsibility of producing a mutually agreed upon policy. The balance of power among the legislative, executive, and judicial branches of the United States government was in fact designed to raise the transaction costs that would be incurred by any attempts of special interests to seek public-sector rents (Madison 1898).

The governance structure is specified in terms of the rules of agenda setting and decision making and how these affect the distribution of power. Agenda setters may not be restricted to politicians or interest groups—those involved in the policy preparation may also have important influence on the policy agenda. For example, bureaucracies may oppose policy reforms, as they see them as threatening to their own status, incomes, or whatever elements are in their utility functions. They may advocate policies if they perceive their effects as positive (Prendergast 2007).¹

In summary, the constitutional structure within a political economy will determine the collective choice rule employed in that economy. Different choice rules imply different expected utilities of the policy centers and associated decision costs. These decision or bargaining costs are the smallest when the assigned decision authority in the economy is the smallest.

However, not all decisions are necessarily made by the same collective choice rule; the constitution may assign different rules according to the perceived importance of the assigned decision. The benefit from critically important and risky decisions will generally be associated with assignment rules that involve access to more agents in the decision-making process.

Democracy and Autocracy

The performance measures that enter the center’s policy objective function, whether

¹ See Chapter 18 in Rausser, Swinnen, and Zusman (2010) for more details.

composed of a single or many participants, are to some degree determined by constitutional choice. For example, consider the implications of the length of the center's planning horizon; generally, a shorter planning horizon entails efficiency losses. Accordingly, an important prescriptive issue is the constitutional choice of the length of time that a policymaker is allowed to serve an organization.

There are, of course, tradeoffs. As an insurance mechanism against policymakers who pursue their self-interest instead of the public interest, constitutional rules must exist for selecting another set of agents to represent the center. In the constitutional choice framework of Aghion, Alesina, and Trebbi (2004), the focus is on the degree of "insulation" of policymakers. With asymmetric information with respect to the politician's type, the degree of insulation determines the level of *ex post* control on a leader, once appointed.

For example, a constitutional democratic process explicitly specifies the rules and opportunities for removing agents who fail to pursue the public interest. This perspective argues for a shorter time period between appointments and elections and thus a shorter rather than a longer planning horizon. This has direct implications for the specification of the performance measure in the policymaking center's objective function and presumes that the collective will of voting citizens can determine what the public interest is.² An alternative is, of course, authoritarianism, which, although able to sustain good economic policies by turning a deaf ear to protest, can repress demand for reforms that serve the public interest.

Democratic Governance Structures and Electoral Systems

A newer class of theories tends to incorporate more constitutional details, including the comparison of electoral rules, different rules for choosing and ousting the executive, and different rules for designing and making legislative decisions. While this literature is still developing, interesting results have been generated for at least two major categories: (i) the comparative politics of democratic regimes (e.g., Persson and Tabellini 2000, 2003) and (ii) the

comparative politics of electoral rules (Lizzeri and Persico 2001).

For example, Persson and Tabellini (2000) analyze the economic effects of presidential regimes with dispersed political power and parliamentary regimes with more concentrated political power. Presidential governments are associated with a smaller public sector, fewer rents enjoyed by politicians, and less redistribution, but lower investment in public goods than with parliamentary government. Austen-Smith (2000) shows that national income is lower and voluntary unemployment higher in proportional representation systems than under two-party majority rule because of differences in the pivotal voter between the two systems. Under proportional representation, the pivotal voter is the voter with average employee income amongst only those types who choose to be employees *ex post*. In contrast, under two-party majority rule the pivot is the voter with median income in the electorate at large, irrespective of that voter's (equilibrium) choice of occupation.³

Implications for Food Policy and Empirical Results

In this section, we provide a brief sketch of the empirical results and testable hypotheses that have emerged in the recent literature on the role of governance structures in the implementation of public policy. Our focus is largely on food and agriculture public policy. We draw a distinction between three types of policy instruments. First, in accordance with the seminal work of Tinbergen (1956), quantitative policy instruments presume that economic structure is given, with specified property rights. In the agricultural and food policy arena, quantitative policies have been further decomposed into national public good policies (particularly agricultural research and development) and redistributive policies, including the joint determination hypothesis (Rausser 1982, 1992). In contrast to quantitative policies, structural policies seek to alter the economic structure itself; that is, to modify the various institutions (laws, property rights, modes of organization, commonly accepted contractual

² Note that for democratic constitutional rules to operate effectively, other principles are still required; human and civil rights should allow citizens to assemble and speak out against and/or in support of those agents representing the "center."

³ Another element is the allocation of authority between one level of government and another. Questions of (de)centralization of power involve a tradeoff between greater efficiency of public goods provision and the cost of policy uniformity.

arrangements, etc.). Structural policies at their core fundamentally affect transition costs.

Autocracy Versus Democracy and Food Policy

There are several model predictions regarding the impact of political regimes (“autocracies” vs. “democracies”) on public policies. Models based on the median voter theorem predict that democracies tend to redistribute from the rich to the poor (e.g., Alesina and Rodrik 1994; Acemoglu and Robinson 2006) because wealth distribution is more unequal than vote distribution. McGuire and Olson (1996) argue that autocracies tend to tax more and spend less on public goods than democracies. The autocrat sets the tax rate to maximize resources for his private rents.

Empirical studies by Banerji and Ghanem (1997) and Milner and Kubota (2005) empirically show that authoritarian regimes do have higher trade protection and greater labor market distortions.⁴

Early studies on the impact of political institutions on agricultural policy find mixed and often weak evidence on the effect of democracy on agricultural protection (Beghin and Kherallah 1994; Olper 2001).⁵ Important empirical constraints are the cross-section data, and while it is intuitive that the greater insulation of decision makers implies that they can follow their private preferences to a greater extent, this in itself has little predictive power, since there is no direct relationship to be expected between the preferences of rulers and the nature of political regimes on issues such as protectionism. One implication, however, is that there should be more variation in policy choices under dictatorial regimes than under democracy, *ceteris paribus*, if dictatorial leaders are less constrained in setting policies. This hypothesis, in fact, is consistent with Olper’s (2007). This may also be why early studies that focused on only the simple relations between agricultural policy and political regimes in cross-section studies have found limited impact.

Studies using long-run historical data allow more careful measurement of the impact

of shifts from one set of political institutions to another. Swinnen, Banerjee, and de Gorter (2001) show how changes in electoral rules which disproportionately benefited people involved in agriculture (e.g., by extending voting rights to small farmers and tenants in the early twentieth century) induced an increase in agricultural protection. Other electoral changes did not affect agricultural protection, as they increased voting rights both of those in favor and of those against protection. Using the Anderson (2010) data, Olper, Falkowski and Swinnen (2009) find a significant positive effect (5% to 10%) of a democratic transition on agricultural protection.

Empirical observations also confirm an interaction among political regimes, ideology, and economic development (Dutt and Mitra 2010). Interestingly, as in democracies, agricultural policies of left-wing, Communist autocracies shift from taxing to subsidizing agriculture with economic development (Rozelle and Swinnen 2009). Overall, these results support the notion that political institutions do matter in affecting the adoption of agricultural policies but that the average effect may be more limited and complex than often thought.

Finally, the part of the empirical literature which has attempted to quantify effects has focused almost uniquely on explaining tax and price distortions. Only one econometric study, by Swinnen et al. (2000), has incorporated distortionary transfers and public good policies, discovering that political institutions affect both farm subsidies and public agricultural research expenditure. In particular, political freedoms have a U-shaped impact on public research and development (R&D) expenditures in agriculture.

Forms of Democracy and Food Policy

What are the implications of the comparative politics of democratic regimes for the political economy of agricultural distortions? If these distortions take mainly the form of local public goods, or redistributive policy instruments, via special subsidies to agriculture, for example, then we should observe relatively more distortions in presidential systems than in parliamentary systems for developed countries and vice versa for developing countries whose rural population represents a material proportion of the total population. The theory also predicts that the public good component of support to

⁴ Empirical studies on the impact of democratic versus autocratic institutions on overall growth performance yield small effects or inconclusive results. Furthermore, the direction of causation is hard to establish.

⁵ Important precursors of this kind of analyses can be found in the works of Bates (1983, 1989) and Lindert (1991).

agriculture is likely to be stronger in parliamentary systems (Rausser and Roland 2010).

In developed countries, if we assume that these distortions take mainly the form of local public goods or redistributive policy instruments, then one should observe, everything else equal, relatively more distortions under the majoritarian electoral rule than under the proportional electoral rule. One is more likely to find agricultural voters as pivotal voters under the majoritarian rule rather than under the proportional system. Indeed, one is less likely to find a farmer whose income is median in a developed country. However, it is much more plausible that a farmer may be median in a rural district if that district is pivotal to the elections. Moreover, in all countries, we expect to see a larger number of parties, more coalition governments, and higher government expenditures under proportional electoral rule compared with majoritarian electoral rule (Persson, Roland, and Tabellini 2007). Unfortunately, in terms of the political economy of agricultural policy, there are no clear testable hypotheses, since there are no specific predictions in the model as to the type or composition of public expenditures. However, one could argue that a higher party fragmentation under proportional electoral rule might lead to a higher frequency of parties in government representing rural interests.

The only study which has tested these effects is by Olper and Raimondi (2010). They find that agriculture is significantly more protected under proportional electoral rule than under a majoritarian one. However, contrasting presidential versus parliamentary systems, they do not find a significant difference.

Structural Policy Reforms

Studies on the political economy of property rights reforms generally put a strong emphasis on the interaction with governance issues, since land rights reforms were often associated with changes in the political regime (Binswanger, Deininger, and Feder 1995; Swinnen 2001). Important policy reforms may require the combination of both a change in political regimes and a “crisis” (Acemoglu and Robinson 2006). Crises may be needed to overcome the inherent status quo in the political-institutional equilibrium that exists in a society and to break the power of interest groups that are entrenched in the institutions that exist in society (Rausser, Swinnen, and Zusman 2010). Examples include reforms in

western Europe in the early twentieth century, when the combination of enhanced political rights for farmers and a dramatic rural crisis caused major changes in agricultural policies, including land reforms (Swinnen 2001, 2009), and in China in the 1970s, when the combination of widespread hunger in the countryside and the death of Mao Zedong allowed major reforms to emerge (Swinnen and Rozelle 2006)

In particular, the combination between regime change and events which cause strong demand at the grassroots level for policy change (such as an income crisis) appears to trigger important policy reforms in an authoritarian political system.

Impact of Bureaucracies on Policy Reform

Governance structures, through their assignment of power to bureaucracies, have significant implications for various food policies. An interesting empirical example is from the European Union, where the European Commission (EC), a body of non-elected administrators, has the formal right to propose policies. In the case of agricultural policy, the EU bureaucracy was historically considered an important stumbling block for reforms. However, in recent years the EC has played an important role as an advocate for agricultural policy reforms (Swinnen 2008).

Pokrivcak, Crombez, and Swinnen (2006) show that the power of the bureaucracy, i.e., the EC, depends on voting and amendment rules, on the number of policies involved in the decision making, and on external changes. Major policy changes are not possible unless external changes are sufficiently large (to overcome the “status quo bias”). However, when external changes are sufficiently large and decisions are by majority voting (instead of unanimity), the preferences of the agenda-setting bureaucracy may have a significant effect on the policy decision process.

In terms of structural policies, bureaucrats may affect policy reforms also because of their power in the policy implementation process. For example, in Soviet Eastern Europe and China, the bureaucracy played an important role in the reform process, sometimes as advocates of change, but more often opposing reforms. Different bureaucratic attitudes in reform implementation were referred to as the “grabbing hand” in Russia and the “helping hand” in China. Li (1998) argues that the economic reforms in China were sustained and broadened by reforms of the bureaucracy, including a massive mandatory

retirement program which effectively removed the old guard and moved up many younger and more pro-reform people in the bureaucracy. In contrast, in Soviet Eastern Europe, the existing bureaucracies actively undermined reform implementation.

Conclusion

While it is well known that structural characteristics of the economy affect trade and fiscal policies toward agriculture, until recently there has been much less information on how this process interacts with the governance structure and the nature of the political regimes. In general, the nature of the relationship between (changes in) governance structures and policy reform is complicated and nuanced. It depends not just on broad constitutional differences (autocracy vs. democracy) but also on more detailed rules, such as the nature of the electoral systems.

Furthermore, this relationship is conditional on several factors, such as ideology, inequality, and the level of development. New studies suggest that even in autocratic regimes, important structural changes in the economy appear to be correlated with changes in policy, and in a similar way as is observed generally, i.e., that subsidies to agriculture are positively correlated with economic development and have a negative correlation with exports. Changes in agricultural subsidization and taxation under Communist regimes, i.e., over the 1930–1980 period in the Soviet Bloc and over the past forty years in China, are consistent with these observations.

An issue which has not yet received much attention in the recent literature is that in many cases governance and policy reform affect one another in a dynamic and bidirectional fashion: economic reforms affect the governance structure as well. For example, in China the dramatic success of the early economic reforms contributed to the legitimacy and survival of the Communist Party and mitigated the pressures for further economic reforms. In the Soviet Union, the opposite occurred: the failure of timid reforms contributed to the decline in legitimacy of the Communist Party, and once changes were possible, opponents tried to implement reforms which were intended both to reform the economic system and to change the future political regime. Hence, future empirical work should try to incorporate these dynamic effects.

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