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Section Summary

The performance of agriculture has been traditionally related to sector specific policies, but more recently there has been an increasing awareness of the effect of economy-wide policies on the rural sector. The sessions on 'Macroeconomic Linkages and Agriculture' aimed at analysing the effects of fiscal and monetary policies on the performance of agriculture.

Richard Snape provided a conceptual framework for the analysis which identifies two central mechanisms by which trade and macropolicies affect sectoral output: the real exchange rate and the real rate of interest. Changes in the real exchange rate and the real interest rate have differential effects on agriculture and other sectors to the extent that they differ in the degree of tradability and capital intensity.

The real rate of exchange, defined as the relative price between an index of the price of traded goods and an index of the price of home goods, depends on various policies and events. Snape pointed out the effect of demand shifts, productivity growth, exportable resource booms, trade barriers, monetary expansion with a fixed nominal exchange rate, and capital inflows.

The behaviour of the real interest rate depends crucially on the propensity to save and the degree of capital mobility. When an economy is near full employment, a fiscal expansion will normally induce an increase in the real rate of interest. But this effect will be dampened if capital inflows supply additional resources to meet the additional expenditure. In the latter case, the main effect will be an appreciation of the real exchange rate.

Carlos Rodriguez commented on some specific aspects of the framework presented by Snape. He emphasized that when trade policies change over time, it is useful to distinguish, at least, between two different rates of exchange: one for importables and the other for exportables.

Four papers examined specific regional experiences. Edward Schuh, who in the early 1970s called attention to the effect of macroeconomic policies on agriculture, described how the interaction observed between shifts in exchange rate regimes and macroeconomic policies affected the performance of the American rural sector in the post-war period. He also outlined the effect of US policies on other countries. While Schuh's analysis emphasized the rate of exchange as the main channel for macro linkages and agriculture, Stephan Kyle, commenting on Schuh's paper, emphasized that macro policy influences would also exist in a closed economy.

Romeo Bautista's paper examined agricultural incentives and macroeconomic linkages in Asia. He emphasized the distortions induced by high protection for the industrial sectors and policy-induced distortions in factor and product markets. These distortions led to an effective resource transfer out of the agricultural sector. As in the other papers, the correct alignment of the real exchange rate is shown to be crucial for 'getting prices right' and encouraging not only the production of exports, but also efficient export substitution in agriculture as well as in the rest of the economy.

Jorge Garcia Garcia surveyed the Latin American experience and concluded that in most countries of the region, the performance of agriculture has been determined to a large extent by policies having general impacts rather than by policies specific to the sector. In general, the policies reduced agricultural incentives and produced a significant resource transfer to the nonagricultural sectors due to the fact that agriculture is highly responsive to economic incentives. These policies not only affected agricultural production, but they also contributed to poverty in the rural sector. By causing poverty these policies have generated significant processes of migration from the rural to the urban sectors, thereby contributing in part to aggravating the problem of urban unemployment.

The African experience was discussed by Ademola Oyejide. African countries represent very important case studies because the region's agricultural performance declined sharply from the 1960s through the early 1980s. The empirical evidence surveyed by Oyejide provides strong support for the hypothesis that unfavourable macroeconomic environments have contributed to a negative impact on the production incentives of various specific policies or they have neutralized positive effects. In spite of the different methodology, approach and country coverage of the studies examined, support for this viewpoint is clear. Consistent with these findings, policy reforms are focusing not only on sector specific policies, such as raising producer price levels, abolishing parastatal crop authorities, and reducing marketing margins; they are also addressing macroeconomic policies, including the establishment of market-determined exchange rates, tariff reforms, trade liberalization and reductions in fiscal deficits. Preliminary assessments indicate that these reforms are aleady eliciting substantial response from the agricultural sector.

The remaining two papers focused on more specific, substantive, and methodological issues. Lovell Jarvis and Maria del Rosario Medero looked at the use of the exchange rate to try to stabilize the domestic price of beef. Beef price fluctuations disrupted the Uruguayan economy in several ways: they have affected income distribution, increased the rate of inflation, caused export instability, and disrupted ranching, meat packing operations and the transport industry. The authors argued that in the 1970s, pressure from domestic farmers and international agencies to reduce the beef export tax, which was widely recognized to have a depressing effect on livestock prices, caused the government to rely on the exchange rate for stabilization purposes. This, in the authors' opinion, compounded the damaging distortion.

In his comments, Claudio Sapelli pointed out the difficulties in distinguishing to what extent actions in the area of export taxes led to the use of the real exchange rate as an instrument to help stabilize beef prices or vice versa. He suggested that an aggregate measure of government interventions should be used rather than focusing separately on each type of intervention. The authors emphasized that their disaggregation helped examine not only the effects on income distribution, but also the effects of the stabilization scheme on other aspects such as exports and fiscal revenues. Responding to comments from the floor on the lack of consideration of other types of government intervention such as fixing prices and imposing quantitative restrictions, they argued that in Uruguay during the period under investigation, the exchange rate and export taxes explained most of the discrepancies between domestic and foreign prices.

The paper by Maureen Kilkenny and Sherman Robinson was entitled 'Modelling the Removal of Production Incentive Distortions in the US Agricultural Sector'. Using a computable general equilibrium (CGE) model as a simulation laboratory, they showed that the use of *ad valorem* equivalents of quantitative restrictions to assess the economy-wide impact of removal of US agricultural support programmes by 1991 produces misleading results. The errors are especially important in assessing the budgetary impact of quantitative restrictions.

Glen Jenkins suggested that the results of GCE experiments should be reported in terms of a frequency distribution of the multiple results that are usually generated by changes in the parameter specifications of the model and pointed out that considering the rates of marginal taxation in agriculture and nonagriculture could modify the welfare conclusions made by the authors. Nevertheless, the main methodological point concerning the limitations of the commonly used *ad valorem* equivalents in assessing the effects of policy changes was not disputed.

In summary, the seven papers presented in the three sessions on 'Macroeconomic Linkages and Agriculture' showed that this is a lively area of research on a very relevant subject. However, as Edward Schuh clearly stated in the final paragraph of his paper, 'We need to remind ourselves, however, that we are barely scratching the surface of a world that needs a great deal more research'.

Rapporteurs for the above sessions of the Conference were:

H. S. KEHAL
EUGENIA MUCHNIK
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Participants in the discussions included: K. Anderson, A. Biondolillo, M. Carriguiry, N. Lustig, J. Wells, J. Nash, L. Girado, K. Korayem and S. Kyle.