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Agriculture reform and food crisis in Syria: Impacts on poverty and inequality

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ABSTRACT

The paper pursues a twofold objective. From a methodological viewpoint it shows how to carry out an impacts evaluation of exogenous shocks on poverty and inequality in a context characterised by out-of-equilibrium, poorly-adjusting markets, as it is the case in many developing countries, using a social accounting matrix framework. From an empirical viewpoint it provides an assessment of how the cereal price spikes of 2007–2008 and the global recession of 2008–2009 have impacted the welfare of Syrian households and how did they compound with the on-going agricultural sector liberalisation implemented by the Government of Syria since mid 1990s. This will contribute to shed some lights on the economic background behind the spreading of unrest across the country over the last couple of years or so.

The results show that liberalisation impacts are very different and largely affected by the adopted budget closure rules. While reforms aiming at reducing agricultural market distortions (such as production subsidies and price support for strategic crops) could generally have a positive effect on growth, poverty and inequality, the elimination of food security interventions (such as food stamp schemes) determines an adverse distributional impact against rural household and an increase of poverty. The recent macroeconomic shocks (food price crisis and the global recession) determined a generalised poverty increase and showed an income distribution bias against rural households.

Three fundamental policy implications can be drawn by this study. First, the liberalisation of agricultural sector shows a significant growth potential and is likely to determine positive effects on poverty through a generalised increase of incomes as well as public budget savings that could be used for pursuing other policy goals. Second, in the short-run there is a structural trade-off between equity improvements and poverty alleviation: the policy options that will more likely reduce absolute poverty show undesirable distributive biases (both on overall inequality and on rural households vis-à-vis urban households). Third, the reform should include a careful design of the use of budget savings, mainly to address equity goals that are likely to be generated, in the short-run, by liberalisation.

Introduction

Exogenous shocks, such as the recent food price spikes or the global recession, and policy reform, such as market liberalisation, have differentiated impacts on households' welfare according to the household level of poverty and livelihood strategy. Therefore, any study aiming at assessing those impacts must be able to capture the transmission mechanisms of those shocks to different income and livelihood groups. This is particularly relevant in middle-income countries that are already on their own way towards modernisation and economic diversification.

A suitable framework for this exercise is represented by the social accounting matrix (SAM), that is 'a comprehensive, flexible and disaggregated framework that elaborates and articulates the generation of income by activities of production and the distribution and redistribution of income between social and institutional groups' (Round, 2003: 162). A first, methodological objective of this paper is to propose an analytical framework to carry out a SAM-based assessment of exogenous shocks and policy impacts on poverty and inequality in a context featuring out-of-equilibrium poorly adjusting markets, as is the case in many developing countries.

Syria is a good example of such conditions. It is a lower-middle income country with a quite diversified economy (agriculture accounting for 22.9% of GDP, industry for 30.6% and services for 40.5% in 2009) (NAPC, 2007b; World Bank, 2011), a relatively unequal income distribution (the Gini index was 0.374 in 2004, but the bottom 20% of population accounted for only 7.2% of Syria total

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expenditure, while the richest 20% consumed more than 40%) and a poverty headcount ranging between 10% and 33% of total population (according to the extreme or standard national poverty line, respectively), but with significant differences across regions (El Laithy and Abu-Ismail, 2005).

Since mid 1990s Syria entered a process of economic reform aiming at transforming a centrally planned economy into a so-called 'social market economy', that is a market economy characterised by an active role by the Government. This process has accelerated over the last five years or so and also agriculture is on its way to liberalisation. This process of policy reform and structural transformation has been recently impaired by the political crisis caused by the unprecedented wave of protests spreading out across the country since early 2011 and eventually resulted in an open conflict between the Government of Syria and various opposition groups. However, before the onset of protests Syria had been hit by two major economic shocks, namely the 2007–2008 price crisis and the 2008–2009 global recession. Thus it would be interesting to assess how those shocks have impacted the welfare of Syrian households and how did they compound with the on-going policy reform process. This will contribute to shed some lights on the economic background behind the spreading of unrest across the country over the last two years or so.[1]

The paper is organised as follows. The following section puts the study in perspective, summarising the main findings of the literature on agricultural sector liberalisation and its outcomes in terms of poverty and inequality. Section 'The Syrian economy: Background and recent economic developments' provides some background information on the Syrian economy and its recent developments. Section 'Methodology' describes data sources, modelling approach and simulation strategy of the study. Simulation results are discussed in section 'Simulation results' . Finally, section 'Concluding remarks' summarises the main findings of the paper.

Poverty and distributive impacts of agricultural sector liberalisation

Development strategies and agricultural liberalisation

Development strategies implemented after World War II have for a long time neglected the potential role of agriculture as an engine of growth. According to the then dominant structuralist view, agriculture was a low productivity sector, seen as a mere pool of resources (both human and financial) to be extracted at low cost for the development of non-agricultural sectors (Lewis, 1954). Not surprisingly import-substitution industrialisation became the dominant development strategy until early 1980s (Schiff and Valdés, 2002; Panagariya, 2005). As a result, policies in most developing countries were harming their farmers, either directly through taxes on agricultural exports or indirectly by way of manufacturing protection or overvalued exchange rates (Krueger et al., 1988). Furthermore, agriculture in developing countries was harmed also by competition in world markets from high-income countries pro-agricultural policies (Anderson, 2010).

As pointed out by Krueger et al. (1991) this bias against agriculture can be summarised in a few stylised facts. Until mid 1980s the poor countries have generally taxed, while rich countries subsidised, their agriculture, although this must be qualified recalling that almost all countries tended to protect their import-competing sectors and to tax their exporting sectors. The major reasons for agriculture taxation were to help the urban sector, mostly the politically influential upper and middle income groups rather than the urban poor, and/or industry, through the impacts on the wages of urban workers. Moreover, the international price instability forced developing countries into intervening with agricultural prices in order to stabilise their domestic markets, although the same objective could have reached with different, less costly instruments (e.g. stockpiling).

Looking at the historical evolution of interventions in agricultural markets, a common pattern emerges: countries have tended to gradually change from taxing to subsidising agriculture increasingly relative to other sectors in the course of their economic development. Hence at any point in time farmers in poorer countries tended to face depressed terms of trade relative to product prices in international markets, while the opposite was true for farmers in richer countries, with the exception of rich countries with an extreme comparative advantage in agriculture (e.g. Australia and New Zealand).

In short, during the first four decades after the World War II agricultural markets in developing economies have been targeted by a complex and intertwined set of policies, both sector and economy-wide, that heavily affected the efficiency and profitability of the farming sector as well as household's welfare. By and large, these interventions have reduced national and global economic welfare, inhibited economic growth, and increased inequality and poverty because most of poorest people in the world have been dependent directly or indirectly on farming for their livelihoods (World Bank, 2007).

The last two or three decades have been marked by a sharp change in favour of a 'free market, free trade, laissez-faire' policy environment that led to the globalisation of world markets and to more liberalisation-oriented policies at national level. As a result, the anti-agricultural bias has been gradually removed in most developing countries, while agricultural protectionism and export subsidies in developed economies has been sensibly reduced or re-oriented towards less distorting instruments (such as decoupled direct payments to farmers). According to Anderson et al. (2010) the rate of assistance to farmers relative to producers of non-farm tradables has fallen by one third in high-income countries since the late '80s (from 51% to 32%), while in developing countries this relative rate of assistance has risen from minus 41% in the early 1980s to 1% in 2000–2004. Nevertheless, distortions in agricultural markets are still relevant: the contribution of farm and food policies to the welfare cost of global distorting policies in developing countries alone is estimated at 83%, of which one third generated by the policies of developing countries themselves (Valenzuela et al., 2009). As emphasised by Anderson et al. (2010: 5) in a recent comprehensive World Bank research 'while it is true that recent studies indicate that agricultural policies are responsible for the majority of the global welfare costs of the remaining distortions to goods markets, removing these policies could affect national poverty levels either negatively or positively'.

Agricultural liberalisation impacts

Despite the received economic wisdom maintains that liberalisation by enhancing economic efficiency is also likely to reduce poverty, the wide differentiation of country-specific contexts as well as well as the variable success of agricultural reform experiments actually determined a mixed evidence record. For example, Gardner (1996) analysing seven agricultural policy reform case studies[2] found that in only four countries the real commodity price

[1] However, it should be emphasised that the protests were only partially related to economic reasons, such as the impact of global recession on the poor, but more basically to political reasons.

[2] The seven countries analysed by Gardner are five developing countries (Chile, Mexico, Madagascar, Ghana and Indonesia), one transition economy (Hungary) and one developed country (New Zealand). In assessing Gardner's results, it should be kept in mind that the case studies are all success stories, while failed or incomplete agricultural policy reforms generally outnumber the successes.