

# Macro and Political Stability Essential Condition for Successful Agricultural Transformation<sup>1</sup>

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## Summary

Maintenance of macro and political stability over decades is essential for sustaining an environment where private incentives to invest in higher productivity and profitable agriculture can flourish and bear fruit. It is necessary, but not sufficient. Most countries experience periods of instability either due to price inflation, in terms of trade shocks, and/or political stresses. Those countries that maintain macro and political stability over decades, despite these shocks, are those that are resilient and succeed. They bounce back and are stronger after such stresses. Their stability and resilience are anchored in their economic management, institutional makeup and caliber of their leadership. The maintenance of stability—macro and political—is becoming more challenging in view of the diverse structural factors that threaten to increase the levels and volatility of basic food prices, especially in economies still saddled with low productivity agricultures and extensive poverty.

## Introduction

A common feature of successful agricultural transformation is the maintenance of macro and political stability for a long time, defined in this brief as a period of approximately three decades. In fact, it is one of the five conditions necessary for successful agricultural transformation. In this framework of stability, the central and local governments are able to enforce peace and order. This long period is necessary for government investment in public goods and services; and private investments of myriads of agricultural producers to bear fruit in terms

of sustained agricultural productivity growth and the transformation that results therefrom.

This policy brief explains what this stability condition means; why it is important for agricultural transformation; what challenges governments must address and what they can do to regain stability when suddenly faced with high and volatile food prices; and concludes with key lessons for policymakers and development practitioners, in particular those in agriculture and rural development.

## What it Means

Lay persons intuitively understand what this condition means: no hyperinflation, no wars. When this stability

1. Tsakok, Isabelle. 2011 *Success in Agricultural Transformation: What it Means and What Makes it Happen*. (Cambridge University Press). The full discussion of this condition is set out in this book.

holds, it means that it is a good situation in that the very legitimacy of the government is not being challenged, at least in terms of basic institutions. Currently, as of 2018, countries such as Afghanistan, Syria, and Somalia, are widely recognized as failed states, that is states in which such stability does not exist. Unfortunately, there are many more such states as Collier clearly shows in his *Bottom Billion* (2007).<sup>2</sup> Historians characterize failed and failing states as states that are not capable of providing the basic public goods of security and justice in return for taxation. Hobbes' *Leviathan* (1651) reminds us that in a state of nature (without any civil government), life is "poor, nasty, brutish and short."

The disintegration of the body politic results from deep-seated structural weaknesses. Collier identifies the resource trap and poor governance as key causes among others.<sup>3</sup> A striking current example is Venezuela, an oil-and-mineral resource rich nation. Severe food shortages have unleashed a hyperinflation estimated at over 4000 percent! (Bloomberg, 2017)<sup>4</sup> since OPEC oil prices collapsed in 2014. Zimbabwe is another example of an economy that went into a tailspin of hyperinflation when Mugabe's government forcefully expropriated land under the Fast Track Land Reform Program. The economic crisis peaked when official year-on-year inflation reached 231 million percent in July 2008 which resulted in the de facto abandonment of the domestic currency, the Zimbabwe Dollar (ZWD) (World Bank, March 2013: 2).<sup>5</sup> Another well-known example of chronic instability is Haiti, the first country to successfully wrestle its independence from French slave owners (1804), has remained the poorest country in the western hemisphere – GNI/cap at USD 810 (FY 2015).<sup>6</sup> Inequality remains high in the country with a Gini coefficient for income of 0.6,<sup>7</sup> and with extensive

poverty affecting 60 percent of the population (World Bank Group, 2015:3).<sup>8</sup> Extreme poverty remains primarily a rural phenomenon. Over the 1971-2013 period, GDP/capita has fallen by 0.7 percent per year on average (Antoine et al, Feb 2017:3).<sup>9</sup> As it barely started to recover from the devastating earthquake of January 2010, it was struck by Hurricane Matthew on October 4, 2016 which caused damages equivalent to roughly a third of its GDP. Haiti seems to be caught in a veritable low-level equilibrium trap, unable to rise, disaster after disaster, and amid continual political conflict (World Bank Group, 2002: 3).<sup>10</sup>

These dramatic cases of state incompetence, even of collapse, emphasize a key requirement of all successful agricultural transformation: the existence of a functioning government capable of balancing the diverse (and often conflicting) interests and demands of the people. The condition of macro and political stability maintained for decades is indeed a major achievement, which is often not fully appreciated except when it does not exist.

Achievement of macro and political stability over a long period does not however mean the country has never been buffeted by periods of high inflation and political instability. In fact, almost all countries are vulnerable to such periodic instability. For example, starting from the 1973-1974 oil price crisis and commodity price hikes, Canada, Australia and New Zealand, all high-income, industrialized economies,<sup>11</sup> and known stable western democracies, experienced high annual inflation rates of 5-10 percent in the 1970s and 1980s (Tsakok, 2011: 195, 201, 207).<sup>12</sup> This inflationary episode hit many other industrialized economies. As a matter of fact, the oil price hikes were a response to the food price crises of 1972-

2. Collier, Paul. 2007. *The Bottom Billion: Why the Poorest Countries are Failing and What Can be Done About it*. (Oxford University Press). Collier identifies some 58 failed states (at the time of his writing of course). Collier refuses to identify them for fear of stigmatizing them. However, his depiction of a bottom billion is very telling: thus "picture this as a billion people stuck in a train that is slowly rolling backward downhill". (p 10)

3. Collier also discusses the conflict trap (e.g., civil war, coups) and being landlocked with bad neighbors (... 38 percent of the people living in the bottom-billion societies are in countries that are landlocked --... it is an overwhelmingly African problem (p54)).

4. Bloomberg. Dec 19, 2017 "Venezuela is living a hyperinflation nightmare" by Noah Smith. (Accessed Feb 23, 2018) <https://www.bloomberg.com/view/articles/2017-12-19/venezuela-is-living-a-hyperinflation-nightmare>

5. World Bank Group. March 6, 2013. Interim Strategy Note: Supporting Economic Recovery for Inclusive Growth for the Republic of Zimbabwe for the period FY 2013-15. Report # 74226-ZW

6. World Development Indicators, 2017. Atlas Method.

7. The 10 % richest Haitians receive 47.3 % of the Haiti's income; the poorest 10

%, less than 0.9 %. (Wikipedia: Poverty in Haiti; December 2014)

8. World Bank Group. Aug 27, 2015. Country partnership Framework for the Republic of Haiti FY 2016-19. Report # 98132-HT

9. Antoine, Kassia, Raju Jan Singh, Konstantin M. Wacker. Feb 2017 "Growth (but not only) is Good for the Poor: Some Cross-Country Evidence to Promote Growth and Shared Prosperity. World Bank Policy Research Working Paper Series. WPS # 7975.

<http://documents.worldbank.org/curated/en/225341487259094529/pdf/WPS7975.pdf>

10. World Bank Group. Feb 12, 2002. Haiti: Country Assistance Evaluation. Report # 23637

11. World Development Indicators 2017: (GNI/Cap; USD Atlas Method; FY 2015) –Canada: 47,250; Australia: 60,000; New Zealand: 40,000.

12. Tsakok (2011) also analyze some 25 countries in terms of the existence or non-existence of conditions for successful agricultural transformation. These countries are (in the order they appear in the book): England; Japan; the United States; Ireland; Portugal; the Republic of Korea; Taiwan, China; India; the People's Republic of China; Indonesia; Malaysia; Tunisia; Brazil, Chile; Canada; Australia; New Zealand; Ireland; Portugal; Argentina; Ghana; Egypt; the Philippines; Mexico; and Morocco.

73, initially triggered by sharply reduced rice harvests in southeast Asia. The bad weather spread throughout the world hurting wheat and corn (maize) harvests of 1972. Coarse grain production fell by 16 mmt, rice production by 14 mmt, and wheat by 8 mmt. (Timmer, 2009, Food Policy).<sup>13 14</sup> This was not the last time global food and fuel price crises amplified each other, as the 2007-08 crises clearly showed. Maintenance of stability over the long run means that these countries were resilient to such shocks and succeeded in regaining growth with stability.

## Why it is important

Modern economic growth requires efficient public and private investments in the short and longer runs. At a minimum, investments require a stable framework for decision makers to be able to realistically assess their risks despite the inevitable uncertainties of the future.

The case of Argentina clearly shows the importance of stability—macro, price and political—in promoting sustained and broad-based economic growth. Argentina is not a failed state but its socio-economic achievements are far below what it can achieve. It is a well-endowed country, with vast natural resources of energy and an agriculture with rich, fertile lands. However, it has suffered from chronic and prolonged episodes of instability since the 1950s when Peron came to power twice (1946, and 1951) and was exiled in 1955 through a military coup. Argentina entered a long period dominated by Peronism, recurrent hyperinflation, political turmoil, fiscal deficits and mounting foreign debts. Annual growth from 1945-75 was one percent; and from 1975 to 2005, zero percent! (Sturzenegger and Salazni, 2007: 3-4)<sup>15</sup> After its 2002 crisis, the economy did rebound but, again, since the global financial crisis of 2008, growth has slowed and inflationary pressures are mounting. The concern is that, as in the past, high growth phases alternate with crises (World Bank Group, 2014: Box # 7).<sup>16</sup>

Timmer has pointed out that there are “virtuous” circles of causality among all three –economic growth, poverty reduction, and stability, and specifically, “Greater stability of the food economy contributes to faster

economic growth by reducing signal extraction problems, lengthening the investment horizon, and reducing political instability... Greater equity also stimulates investment in human capital, especially in rural areas, thus speeding up economic growth” (Timmer, 2015: 54).<sup>17</sup>

## What governments can do to maintain or regain stability even when faced with high and volatile basic food prices

Stability can be undermined not only by violent conflict but by crises in basic food supplies as recent experience amply shows. To regain stability and/or maintain it in the face of food crises requires advance preparation on several fronts, and not just at the macro level.

The period since 2006 has already witnessed two episodes of high and volatile food –wheat and rice –prices: 2007-08; and 2009-10. Whether these are an indication of a longer term trend is still being debated. (FAO et al, June 2011: 9-10)<sup>18</sup> What is not being debated, however, is that volatility has increased since 2006, and the poor have suffered the brunt of the impact before stability and supply could be restored.

The same set of main factors, which triggered the high and volatile price episodes are likely to persist. These are (i) increasing population and income growth, so that food demand is expected to increase by 70-100 percent by 2050; (ii) competition for resources from the production of food and feed crops to produce instead bio-fuels; (iii) increasing correlation between oil and agricultural commodity prices; (iv) low stocks relative to use levels; (iv) climatic shocks which are expected to become more frequent and more severe as climate change unfolds; and

17. Timmer, C. Peter. 2015. Food Security and Scarcity: Why Ending Hunger is So Hard. Center for Global Development and the University of Pennsylvania Press

18. FAO, IFAD, IMF, OECD, UNCTAD, World Bank, WTO, IFPRI, UN HLTF. June 02, 2011. Price Volatility in Food and Agricultural Markets: Policy Responses. This joint report was written at the request of the G 20 summit of Nov 2010 to develop policy options to better mitigate and manage the risks of high price volatility, without distorting market behavior and ultimately protecting the vulnerable and poor. (Accessed June 11, 2018)

<https://openknowledge.worldbank.org/bitstream/handle/10986/27379/643900WP0Price00Box0361535B0PUBLIC0.pdf?sequence=1&isAllowed=y>

13. Timmer, C. Peter. September 2009. “Reflections from Food Crises Past”, in Food Policy. Elsevier, Ltd.

14. mmt: million metric tons

15. Sturzenegger, Adolfo C., and Mariana Salazni. Dec 2007. “Distortions in Agricultural Incentives in Argentina” Working Paper # 11. World Bank.

16. World Bank Group. Aug 7, 2014. Country Partnership Strategy for the Argentine Republic for the period FY 15-18. Report # 81461-AR

(v) increasing shift in production patterns for food and feed grains towards regions where yields are less stable and therefore supply more variable. A depreciating dollar can also be an important factor, since most goods are likely to be mainly denominated in US dollars.

What these mean is that governments and the global community must develop mechanisms that impact on the agro-value chain from supply through processing and marketing; and on the demand for basic food. Indeed, a short and long-term approach is needed. Governments and the world community must not again largely react in an ad hoc and inevitably, uncoordinated fashion again. A holistic approach is required. Some key considerations include:

### At an international level:

- Contribute through funds, expertise, capacity building, and data to the world community developing a global market information system that can generate timely, consistent, reliable agricultural market data, and analysis. Such information accessible to all stakeholders would give insight on fast evolving markets, including country response to natural shocks. Developing such a global system, an Agricultural Market Information System (AMIS) would be a test of global leadership and commitment to prevent a major global problem hurting in particular the poor and vulnerable (FAO et al, June 2011: 18-20).

### At country macro and trade level:

- Develop a system to collect and generate timely and reliable market information of the country's basic food grains supply, (including stocks), and demand—from domestic and foreign sources—that can inform both government and private sector;
- Develop a fiscal policy that enables governments to engage in counter cyclical spending. This often includes having a fiscal surplus ready for use when needed.

### On the supply side:

- A major task of governments, in particular those with low productivity agricultures, is to improve and sustain the productivity and resilience of their agricultures in the face of tighter resources and climate change.

The benefit of increased productivity is greatly reduced by extensive food loss—at a global level, it is estimated that one third of all food produced for human consumption is lost or wasted. In low income countries, most of the waste is due to deficiencies in harvesting techniques; in heating and cooling facilities; and in infrastructure all along the agro-value chain, etc. (FAO, 2011: Executive summary)<sup>19</sup>

- To increase the preparedness and resilience of farmers to climatic shocks, develop well-functioning early warning systems, including assisting farmers on best coping strategies.
- Review and if necessary reform the trade component of its food security policy so as not to amplify world price fluctuations, as happened in the 2007-08 global food crisis. Effectively, many countries used a variable levy system, that is they lowered tariff barriers when imported food prices were high, thus increasing global demand when supply was tight thus exacerbating the price rises. Exporting countries restricted or banned their food exports, thus exacerbating the reduced supply. These decisions, while understandable because governments' first concern is to benefit their domestic consumers, are counterproductive at a global level. This reality emphasizes the key importance of the world community coming together to determine more effective rules of engagement.
- Consider whether it will be cost effective for the country or a group of countries in the region to build an emergency food reserve.

### On the demand side:

- To protect the poor and vulnerable from the added distress which basic food price surges inflict on them, well-functioning safety nets must already be in operation among the afflicted peoples when the price crisis hits. If not, governments should plan ahead for such an eventuality for building effective safety nets is time consuming and costly. Such a system does double duty: it helps the country maintain its macro, price and political stability while assisting the poor not fall deeper into poverty, and resort to ways

19. FAO. 2011. Global Food Losses and Food Waste: Extent, Causes and Prevention. By Jenny Gustavson, Christel Cedenberg, Ulf Sonensson, (Swedish Institute for Food and Biotechnology); and Robert van Otterdijk, Alexandre Meybeck (FAO). (Accessed June 11, 2018)  
<http://www.fao.org/docrep/014/mb060e/mb060e00.pdf>

that deplete further their meager assets; e.g., their children's education, distress sale of small livestock.

- The experience of Ethiopia in developing the Productive Safety Net Program (PNSP) to replace its purely emergency relief system in 2005 is instructive. Droughts are chronic in Ethiopia. Poverty is still extensive in Ethiopia despite years of high growth throughout the 1990s and early 2000s. There has been significant progress. Extreme poverty (USD 1.25/day) incidence declined significantly from 56 percent in 2000 to 31 percent in 2011. (WBG, Jan 2015: 2).<sup>20</sup> The Government of Ethiopia found that the time lags involved in the short-term relief approach—to appeal for food aid, to mobilize the logistics for the food transfers, etc.—undermined the effectiveness of its aid, not only in terms of price stability but also humanitarian assistance. It decided to adopt a multi-year approach, which would achieve short-term stability and humanitarian objectives; and also longer term development objectives of building assets; physical infrastructure and human capital of the poor. (World Bank, 2004 and 2018).<sup>21</sup>

## Conclusion

For policy makers and development practitioners, five key lessons follow:

- While there is much heterogeneity in historical experiences of agricultural and economy-wide transformation, there are also robust patterns. A strong pattern is the existence of stability at the macro and political level. Why that is so, is itself a major source of debate. Timmer, referring mainly to Asian experiences, argues that “political stability and with it the foundation of modern economic growth, grew out of the provision of food security that connected poor households with improved opportunities” (Timmer, 2013).<sup>22</sup>

- Promoting successful agricultural transformation should not be viewed as a sectoral responsibility, only for the Ministry of Agriculture and Rural Development. Rather a holistic, economy-wide approach is called for since such stability, maintained over decades, is essential for successful agricultural transformation.
- Instability hurts the poor the most as they are highly vulnerable to shocks. The maintenance of stability over a long period should be valued as a major contributor to the poverty reduction impact of growth.
- Maintenance of stability over a long period is demanding in terms of government leadership, and institutional caliber to navigate the inevitable ups and downs of markets. Long term stability requires building resilience to periodic shocks. Under a scenario of climate change, with greater frequency of severe weather events predicted, e.g., droughts, floods, fires, etc., long term stability requires that governments invest in agricultural research and extension to better protect and promote its basic food supplies and develop insurance mechanisms for the myriads of smallholders who may be adversely affected.
- Prices since 2006 have been more volatile. Whether the years ahead will bring more episodes of high and volatile food prices threatening the stability – macro and political—of countries where basic food still accounts for a large share of consumers' income, is still debated. In any case, if individual countries and the world as a global community are not to repeat the painful episodes of 2007-08, 2009-10—structural reforms are required on several fronts. The confluence of several structural factors including those discussed above is making the achievement of stability even more challenging.

20. World Bank Group. Jan 2015. Ethiopia Poverty Assessment 2014.

21. World Bank. Nov 3, 2004. Project Appraisal Document for a Proposed Credit to the Federal Republic of Ethiopia for a Productive Safety Net Project in Support of the first Phase of the Productive Safety Net Program, Report # 29767-ET. March 18, 2018. Implementation and Status Report. Ethiopia Rural Productive Safety Net Project (P 163438)

22. Timmer, C. Peter. “Reflections on the role of agriculture in structural transformation: A macro-micro perspective”. in Ellen Hillbom and Patrick Svenson, eds. Agricultural Transformation in a Global History Perspective, (2013), Routledge (London and New York), pp. 311-326.

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