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SECTORAL POLICY REFORM AND MACRO-ECONOMIC ADJUSTMENT FOR SUSTAINABLE AGRICULTURAL DEVELOPMENT: DISCUSSION.

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Economists, policy makers, and even politicians all subscribe today, to the urgent need for rigorous economic reforms in developing countries to remedy the serious imbalances in their domestic and foreign sectors. There is no consensus, however, on the components and order of reform programs. The paper by Valdes provides a realistic framework for analyzing the influences of trade and pricing policies and macro-economic adjustments on output, income, and growth in agriculture. His paper summarizes exhaustively the strong evidence for the negative impacts of government interventions in the agricultural and non-agricultural tradables' and home-goods' markets on the performance of the farm sector. Measures of protection in 18 country case studies, have shown the bias built in the structure of incentives against agricultural tradables and in favour of the urban based manufacturing and homegoods sectors and consumers. The case for a new agricultural development strategy is well establised, and the important lessons learned from the past are synthesized in a set of useful guidelines for broad-based sectoral policy and macro reforms for sustainable economic growth. My remarks emphasize some important issues raised by the Valdes' paper and expand the discussion in areas that remain grey.

A comperhensive list of measures, ranging from lower levels and variation in indirect taxation to exchange rate alignment and financial liberalization, is proposed by the World Bank and the IMF for economic recovery in developing countries. As pointed out earlier, the current challenge to economic research and policy-making is the question of what combination of the prescribed micro- and macro-economic adjustment measures to choose and in what sequence to apply them. I find myself in full agreement, however, with Valdes' guidelines suggesting movement towards the use of neutral(equal) tax and exchange rate regimes as the basis for promoting efficient inter-sectoral allocation of resources. Accordingly, policy reform programmes should begin with removing relative price distortions caused by the use of differential tarriff/tax and exchange rates. Replacing quantitative restrictions with tarriffs on trade is also an important step towards a more effective role for the price mechanism and reaction to market signals.

While unification is crucial and relatively easier to adopt, determination of optimal tax levels and a realistic rate of exchange, depend on several structural features of the economic system in question. Elasticities of demand for exports and imports as well as domestic supply responsiveness to economic incentives are imprtant factors to consider. The small country assumption for example, is critical for an effective devaluation of overvalued currencies. An elastic supply structure of agricultural exportables is also essential for exchange rate adjustments to have positive impacts on the trade balance.

Most studies including the Valdes' paper focus on measuring the effect of intervention policies on the structure of incentives within the economy. On the other hand, less data is available on the degree of responsiveness of supply and demand for agricultural tradables to changes in relative prices. Proper estimation of elasticity parameters is therefore needed in order to verify key assumptions behind various measures of structural adjustment and new and old strategies of agricultural development. The trade-off between dynamic specifications and the Lucas critique on parameter stability is important to evaluate, as discussed by Valdes.

Another issue to consider in determining optimal taxation relates to the significant impact on macro-econmomic equilibrium. While structural adjustment calls for reduced indirect taxation, taxes on trade is the main source of government income in developing countries. Lower tax revenues may therefore worsen the budget deficit and induce monetary expansion in absence of alternative financing sources, placing negative inflationary pressures on the real exchange and interest rates. One way out of this apparent conflict between structural adjustment and stabilization policies, is through increased reliance on direct(income) taxes and open market operations(borrowing from the private sector) to finance the budget deficit. While these are effective measures of monetary control in developed economies, they are rarely used in developing countries where capital markets are non-existent and tax collection institutions are inefficient. Liberalization of the highly controlled domestic credit and interest rates together with substantial improvements in the institutional efficiency of tax collection are therefore necessary for balanced economic growth in developing countries.

Moreover, a high emphasis was placed in most studies on analyzing the influences of intervention policies and economic reform on commodity markets. Whereas this takes care of demand for factor services, the implications of changing economic incentives for suppliers of primary factor resources have not been equally investigated. Factor immobility reduces output response to changes in relative commodity prices, and limits the efficiency of intersectoral re-allocation of resources. Like food prices, however, factor markets are less easier to liberalize compared to exportables, for instance. Nevertheless, inflexible land, labor, and capital markets reduce the capacity of the economy to adjust to changing economic conditions. More data and research are needed to evaluate the relative importance of removing distortions in factor markets.

Several aspects relate to liberalizing factor markets in developing countries. The order of liberalization and the distributional impacts of such reforms are two important issues. Our knoweledge in these areas is rather defficient, as pointed out by Valdes. A lot more remains to be done in assessing the distribution of costs and benefits from structural adjustment and stabilization programes. We need to provide answers to questions such as: a) what happens to the functional and regional distribution of income and poverty? b) who are the big losers, small-holder farmers and landless farm workers, or the urban poor?

According to table 1 of the Valdes' paper, the indirect effects of non-agricultural policies on the incentive bias against agriculture are much higher than the influences of direct trade and price policies. This indicates the relative importance of macro-economic reforms. However, whether macro-economic adjustment and liberalization of factor markets should precede, follow or go hand in hand with sectoral commodity trade and price reforms, remain unresolved research questions challenging economic policy analysis. Reform packages that would resolve conflicts such as between higher rates of interest to agriculture under decontrolled domestic credit and macro-economic equilibrium, and capital flight under controled domestic interest rates and flexible foreign exchange regimes, are needed for a balanced growth.

I will discuss the second paper by Bouanani and Tyner(BT) within this extended framework of Valdes. The BT paper provided good analysis of the economic conditions and the policy environment in Morocco before and after reforms were introduced. Time may not be opportune for a comperhensive assessment of the policy reforms impact due to the recency as well as the partial application of adjustment measures. Country experiences, however, provide the only laboratory for economic policy simulation experiments. A small table summarizing data on key indicators of protection and economic incentives such as the real exchange rate for the important sectors and commodities in Morocco before and after the policy change, would have made this paper very illuminating. Such information is necessary for evaluating the relative importance of the various components of the reform programme, especialy if combined with data on resulting changes in the volume and composition of commodity trade and factor allocation. Usefull lessons about the relative importance and timing of the different measures of economic adjustment could be learned from an episodical comparison of policy changes and effects in Morocco.