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F. C. Agu  
*Central Bank of Nigeria*

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**CITRIN, DANIEL: "AGRICULTURAL POLICIES IN JAPAN  
AND THEIR ECONOMIC CONSEQUENCES." *WORLD  
ECONOMIC AND FINANCIAL SURVEYS*, IMF STAFF  
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The 11-page paper reviews the main policies that have been applied to support Japanese agriculture, the costs as well as the benefits. The rice crop is accorded pre-eminence because of its importance in the country's agriculture.

In Section I, the author examines the post-war developments in Japanese agriculture. He notes that during the period 1955 to 1988, agriculture in Japan witnessed a sharp loss in comparative advantage as against rapid productivity growth in the manufacturing sector. Citrin attributes this to the low productivity of small-scale farming operations which were widespread in Japan but which hindered the realisation of economies of scale. Such productivity decline which led to a widening disparity between rural and urban family incomes, he opines, must have informed the nature of agricultural policy pursuits of the 1960s and 1970s. He contends, however, that the achievement of rural-urban income parity by mid 1980s was attributable more to off-farm earnings than to government agricultural subsidy programmes.

Section II reviews the two key objectives of Japanese agricultural policy up till mid 1980s, viz: the equalization of incomes and living standards of farm and non-farm workers and the achievement of food security. The author notes that the main thrust of these policy pursuits involved the provision of subsidies and price support schemes within the framework of sectoral policies designed to compensate for the adverse outcome of defective and/or distorted macroeconomic policy pursuits. Among them were quantitative trade restrictions of agricultural imports, with the intended objective of protecting the domestic farm sector; price support schemes such as guaranteed producer prices; subsidized production diversification programmes which included subsidized input supply, credit, interest rates, research and extension services and special programmes for rice production and marketing.

In Section III, the author assesses the overall effects of the policy pursuits using two measures: Nominal Rate of Protection (NRP) and Producer Subsidy Equivalent (PSE). He defines NRP as the percentage difference between the domestic and the international price. For Japan, this index was shown to have risen from 18% in 1955 to 102% in 1984. The Producer Subsidy Equivalent (PSE) was defined as the subsidy that would be necessary to compensate producers for removing government support under existing programmes. He confirms that this measure as calculated by OECD showed that for the period 1979-89, the Japanese agricultural sector received the

highest level of government support among major industrial countries with the direct cost for consumers and taxpayers rising to \$62 billion in 1987-89. He further cites results from one of recent studies on price support programmes which tends to suggest that support for agriculture has served to reduce significantly the real incomes of Japanese wage earners. He concludes the section by noting that support for agriculture acted as an implicit tax on other tradeable sectors of the economy, particularly export-oriented manufacturing, and that the removal of such support policies could result in a rise in output in non-food manufacturing and service industries sufficient enough to offset the large output declines in agriculture and food processing.

In the final section, the author concludes that the subsidies and price support measures in Japan only preserved an increasingly inefficient productive structure with the result that domestic prices were uncompetitively high when compared to the world market prices. He maintained that the achievement of rural-urban income parity and food security had been at a considerable cost to consumers and taxpayers. The author therefore calls for a full-fledged agricultural reform in Japan which should be pursued primarily with the objective of improving resource allocation and consumer welfare. His verdict is that agricultural liberalization measures should not be counted upon to result in a measurable change in Japan's aggregate current account balance.

Arising from the brief summary, one notes that the author makes an impressive attempt to analyze the impact of the various agricultural policy measures introduced in Japan since the early 1960s. In spite of such measures, the contribution of agriculture to the Japanese economy remained on the decline since the end of the Second World War. Furthermore, the sector witnessed a fall in comparative advantage compared to the manufacturing sector. All these tend to suggest that such policies lacked the desired effectiveness. The rural-urban income parity objective, for instance, was achieved not because of subsidy programs, but largely as a result of off-farm earnings. Also, the food security objective was hardly achieved due to poor buffer stock operations, and uncompetitive pricing.

The belief here is that subsidy programs, if they are to be effective, are better targeted on the very inefficient/disadvantaged/marginal producer and must therefore be selective in nature. A situation in which subsidies are applied across the board tend to lead to a masking of efficient producers by the inefficient ones resulting in inefficient resource allocation. It was probably in realisation of this that the Japanese government later reduced support prices of major agricultural products.

While agreeing that agricultural liberalization would make other sectors more competitive internationally, the author's conclusion that the net effect on Japan's external balance would be ambiguous is unjustifiable. Full-fledged structural reforms by way of trade liberalization and selective removal/reduction of subsidies will likely cause a shift of productive resources from agriculture to other more efficient sectors.

If such shift results in an overall improvement in efficiency (as will likely be the case), the increased competitive products from such sectors will likely attract increased export earnings over and above the increased expenditure on agricultural imports with a resultant positive net flow into the economy and consequently an improvement in the country's external balance, other things being equal.

F.C. AGU  
ECONOMIST  
RESEARCH DEPARTMENT