

LOBBYING, UNCERTAINTY AND RESOURCE ALLOCATION: THE CASE OF AGRICULTURAL HOUSEHOLDS

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Para petani akan memperoleh faedah daripada 'melobi' apabila mereka dapat mempengaruhi polisi kerajaan yang menguntungkan diri mereka. Artikel ini akan membentuk satu model 'melobi' dan akan cuba menerangkan implikasinya. Kita tunjukkan bahawa walaupun melobi boleh merugikan pendapatan, ia mungkin rasional dalam jangka masa pendek; kerja-kerja 'melobi' adalah mahal dan tidak produktif dalam jangka masa panjang. Petani yang rasional, yang bertindak dalam keadaan tidak pasti akan cuba melobi hanya sekali dan tidak akan melobi berturut-turut. Dengan menggunakan teoritis analisis yang digubal, kita akan mengkaji secara ringkas proses transformasi pertanian di Malaysia.

Farmers would find it productive to engage in lobbying when they can influence government policy in their favour. This paper constructs a model of lobbying and seeks to investigate some of its implications. We show that although lobbying leads to a loss of income it may be rational to lobby in the short term; lobbying would be costly and unproductive in the long term. The rational farmer, acting under uncertainty, would prefer to make one attempt at lobbying rather than to lobby repeatedly. Using the theoretical analysis is developed, we briefly examine the process of agricultural transformation in Malaysia.

INTRODUCTION

The purpose of this paper is to look at lobbying behaviour among agricultural households. Lobbying constitutes an important aspect of the development process and as part of the larger phenomenon of rent seeking behaviour, it needs to be examined in its proper agricultural context. Although the importance of rent seeking is established in the area of international trade, its usefulness in analysing rationality in agricultural households seem to have received little attention.

This paper begins by examining some of the general characteristics of lobbying in agricultural context. An attempt is made at clarifying the underlying assumptions that are necessary for the analysis. On this basis, we then proceed to develop the mechanics of household behaviour when the option to lobby is available. Primarily, households

can participate in the production of agricultural output or they can participate in lobbying. The third section will examine the impact of lobbying on farmers' incomes.

The apparently irrational act of participating in an income decreasing activity such as lobbying is justified by an expected increase in returns at a later date. The uncertainty which surrounds the expectations of agricultural households and the utility that can be derived from possible courses of action is taken up in the fourth section. In this section it is suggested that lobbying is an attempt at searching for a higher return, and the disutility of lobbying is the cost of carrying out this search.

The fifth section looks at the implications of lobbying on industrial sector. The element of time is introduced so as to account for the entrance of lobbyists and their impact on profitability. This is followed by a brief reading of agricultural policies in Malaysia from a 'lobbying' framework. The purpose of this section is only to suggest the applicability of such a construct. Finally some concluding remarks are made.

ASSUMPTIONS

We shall develop our investigation for a set of circumstances where the two principal actors are the government and the farmers. The latter term is used broadly to include all participants in the agricultural sector, that is, those engaged in production, consumption and distribution. Since no restrictions are required regarding the institutional structure no attempt is made to differentiate between participants within the agricultural sector on the basis of production relations; it is not necessary to distinguish between landowners and tenants, for example.

We assume that those in the agricultural sector do not enjoy a level of well-being comparable to those in other sectors. More importantly, it is expected that the farmers in our model are aware of their disadvantaged position. This implies that households are able to view themselves as a collectivity and to make comparisons with reference to income differences in order to arrive at an awareness of their disadvantaged position. We are now able to have some farmers who, dissatisfied with their relatively low incomes, would rather engage in a directly unproductive activity such as lobbying with the government for more development, rather than be involved in the production or distribution of agricultural commodities.

Farmers being aware that they can influence the policy making process to their favour, choose to use the resources that are available to them for rent seeking purposes. Resources which could be completely used to directly and immediately raise output would be diverted, under conditions of rent seeking, to make transfer payments, offer bribes, or engage in political activities so as to attract governmental attention towards the needs of the disadvantaged groups. These attempts at rent seeking are based on the expectation that there is a good probability of achieving a successful outcome and that future returns, once the desired outcome is achieved, will at least compensate for the present allocation of resources that have been directed towards lobbying activities.

In the short run lobbying would be unproductive. This is because an increase in agricultural output which would enter a farmer's utility function would not increase due to lobbying. In fact, because of lobbying there might be a decrease in output, thus adversely affecting the farmer's immediate welfare. When lobbying achieves its objective and the farmer is therefore able to enjoy a privileged status, the farmer's level of well-being would increase, either because it is able to produce more output or because the nature of its utility function has, in its view, improved. In this sense it can be said that lobbying is indirectly productive.

Individual farmers or groups of farmers justify lobbying because a successful outcome would ensure special benefits in the form of subsidies, provision of infrastructural facilities, technology, assistance via support schemes or perhaps through incentives. It can therefore be argued that we then have a distortion free initial situation which faces attempts at being converted into a distorted final situation which would bring more profits to individual participants. The welfare consequences to such a society are not likely to be positive; not only would the production possibility curve shrink but there would also be a divergence between private cost and social cost. In the short term period lobbying would result in the agricultural sector earning a lower income.

THE BASIC MODEL

There is a fixed amount of labour that is available at any particular time in the society we are presently considering. The labour that is available can be employed either in the production of agricultural output or put to use for lobbying. The total supply of labour, L , is:

$$(1) L=A+R$$

where A is the quantity of labour that is involved in agricultural production and R represents labour that is directed towards lobbying. R includes workers now engaged in political activities or other movements aimed at pressuring the government to provide the agricultural sector with more favourable policies. We would have, quite obviously,

$$(2) L = A$$

if there were no lobbying.

Agricultural output is assumed to depend on labour utilised, other factors remaining constant. Output is produced for two purposes: for own consumption and for exchange. Presumably, farmers will produce sufficient output in order to meet their consumption needs. This will imply that if a minimum quantity of output needs to be produced, then a corresponding level of labour will be reserved to meet this condition. It is the production of marketable surplus which will be affected by the presence of lobbying: since beyond a minimum number of workers who will be committed to production for consumption, the rest have a choice between being engaged in agricultural activities or lobbying. The marketable surplus, X, is therefore determined by A and R:

$$(3) \quad X = f(A,R)$$

$$\partial X / \partial A > 0 \quad \partial X / \partial R < 0$$

$$\partial^2 X / \partial A^2 < 0 \quad \partial^2 X / \partial R^2 > 0$$

As A increases, it is expected that the production of output for exchange would increase. The influence that A has on agricultural output would reflect diminishing marginal returns. On the other hand, as more labour is diverted to lobbying, this withdrawal from direct agricultural activity will lead to a reduction in output produced. Increasing involvement in lobbying would draw the more skilled workers away from agricultural production, resulting in sharper decreases in marketable output.

Profits made from the production of marketable output (assuming all that is produced is demanded) will take the form of income earned by household farms. Income will then be

$$(4) \quad Y = pX - C(w)$$

where Y is income earned due to profits made, p is the price of output sold, and C is the cost of production which is a function of wages, w , paid to labour engaged in agricultural production. Taking the total differential of income we would get

$$(5) \quad dY = Xdp + p dX - C_w dw$$

Taking the total differential of (3) we get

$$(6) \quad dX = f_A dA + f_R dR$$

The total change in income will then be

$$(7) \quad dY = Xdp + p f_A dA + p f_R dR - C_w dw$$

where the second and third terms indicate the value of loss in marketable output. With a shift of labour to lobbying both these terms will be negative; the second term will capture the loss of agricultural labour to lobbying and, the third, the gain to lobbying labour. The extent of loss in income, given the price of agricultural output, will depend on the number of workers who take to lobbying. While wages paid to labour engaged in direct production is a necessary cost, the number who participate in lobbying will influence this cost. It should be noted that the fewer the workers available for the production of agricultural output, the higher the wages they can command. We see that a society where a high proportion of its labour force is actively involved in lobbying would have to pay for probable future returns in terms of a present decline in income.

LOBBYING AND UNCERTAINTY

Lobbying involves a cost to farmers which includes, first, the direct cost of withdrawing from agricultural production and, then, the subsequent cost of a decline in income. There could be one of two reasons why such potentially immiserizing behaviour is undertaken: a) the decision-makers are rational and take to lobbying because it is an investment which will yield returns or, b) the decision makers have lost all hope,

and lobbying is a symptom of their irrational turn of mind. We shall assume that the earlier is the case and proceed on that basis.

Basically, we shall accept the framework whereby farmers wish to maximize their income. These farmers observe that subsidies, access to superior technology and inputs at lower prices, soft loans, licenses and other such resources are available, but that their availability is limited. Farmers seek to influence the political process in order to obtain these resources. Lobbying may necessitate the formation of pressure groups, protest movements, or participation in political parties which promise benefits to disadvantaged farmers. These activities are part of a strategy to gain a higher reward. The less perseverant may make only one attempt at seeking extra benefits, while the more perseverant would repeat their attempts.

We assume that farmers derive a certain utility or disutility depending on whether a payment is involved (as would be the case when there is a loss in opportunity cost due to lobbying) or whether a reward expected and possible is M^* . The likelihood of receiving M^* is ∂ , and $1 - \partial$ is the likelihood of receiving a positive reward M which is less than M^* .

In our society, information on costs, returns and the likelihood of farmers receiving M^* or M is readily available. With this information, farmers can then choose which one of two alternatives they want to take and calculate the resultant utility. The first alternative carries the condition that after one attempt at lobbying farmers must be content with whatever reward they receive as a consequence of their attempts. The utility so derived would be

$$(8) \quad U_1 = U(-B) + \partial U(M^*) + (1-\partial)U(M)$$

where $B > 0$ and $M^* > M > 0$.

Should farmers be dissatisfied with the first alternative, they can opt for the second alternative where, after incurring the costs of lobbying they would cease lobbying if they obtain M^* , the maximum return expected. Otherwise, they can repeat their attempt, but on the second round they would have to be satisfied with whatever return they receive. The utility associated with the second alternative is

$$(9) \quad U_2 = U(-B) + (1 - \partial)U(M) + \partial U_1$$

Preference between the first alternative or the second one will depend on whether their expected utilities are equal or not. That is:

$$(10) \quad U_1 = U_2$$

which on simplification gives

$$(11) \quad U(M^*) = U_1$$

The rational farmer would choose the first alternative rather than the second, which probably involves repeated lobbying, because

$$(12) \quad (1-\alpha)[U(M^*) - U(M)] > U(-B)$$

In order to examine the relationship between the two options with respect to the cost of lobbying we differentiate the utility functions accordingly:

$$(13) \quad \begin{aligned} \partial U_1 / \partial B &= -U'(-B) \\ \partial U / \partial B &= -(1 + \alpha) U'(-B) \end{aligned}$$

This implies that as lobbying costs increase the associated disutility increases, and more so for the second alternative rather than the first.

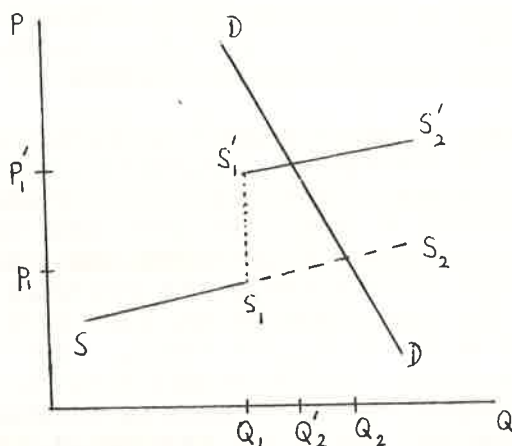
IMPLICATIONS

The preceding arguments demonstrate that lobbying would have four definite consequences: 1) wages earned by individual workers are likely to increase with the shortage of labour, given the participation in lobbying activities, 2) the unit of production, which may be the household farm, would enjoy lower profits since labour costs would have increased, 3) the agricultural sector, viewed as a whole, would be less efficient in the short run in so far as the costs of lobbying would have to be borne with no corresponding increase in agricultural output, and, 4) there will be fluctuations in production resulting from the uncertainty that is associated with lobbying. These factors, besides bringing about a decrease in the supply of agricultural output, would discourage new lobbyists from participating in such activities in the short run (i.e. in what may be referred to as period 1).

Farmers intending to enter into the production of agricultural output would, for instance, be discouraged by the need to participate in taking

a chance with lobbying. If SX need be spent in order to produce n units of output, a farmer would find it inefficient if he has to spend $\$(X+1)$ in order to produce the same n units of output, which he would have to do in the presence of lobbying. It is not difficult to see why increased wages and lower profits would, similarly, discourage the production of agricultural output.

When agricultural output is at a low level the incentive to lobby would be absent. (see figure below). Low output would generate low profits, which in turn would not support the costs of lobbying. Secondly, when the output reaches a certain minimum, the scale of production would make it attractive to engage in lobbying.



Beyond the minimum level of agricultural output, Q_1 , there would be lobbying. The presence of lobbying would result in a shrinking in the supply of agricultural output. The decrease in supply is indicated by the curve $S_1 S_2$. $S_1 S_2$ indicates what supply would be in the absence of lobbying, all other conditions remaining constant. Given a certain set of demand conditions captured by DD , the price-output combination under lobbying would be P_2, Q_1 as compared with P_1, Q_2 if there were no lobbying. Lobbying results in a decreased output which is available at a higher price level. The difficulty with this outcome is the impact it would have on the industrial sector, assuming we have a dual economy where the industrial sector depends on the agricultural sector. If the output from the agricultural sector enters into the production of industrial output, and, similarly, if agricultural prices affect prices and wages in the industrial sector, lobbying would adversely affect the industrial sector if

the terms of trade between agriculture and industry are unfavourable to the latter (Mitra, 1979).

Once the threshold output level Q_1 is reached, it can be expected that lobbying would occur, and that the growth of industrial sector would be slower given the higher domestic input prices it would face. The presence of lobbying would also discourage investment in agriculture. Those in possession of family farms and who use family labour would not be deterred. However, those who plan to purchase land with the intention of producing purely for the market using employed labour would be deterred. New entrants would be discouraged from entering into agricultural production due to the adverse consequences that lobbying generates in period 1. Existing farms since they have to allocate some of the resources in order to lobby would not be able to increase their investment (eg. mechanization, irrigation systems) to the extent they would have in the absence of lobbying.

The outcomes to lobbying in period 1 would influence what happens subsequently. A predominance of successful outcomes to lobbying would see an increase in lobbying in period 2; if lobbying has been largely unsuccessful in period 1, then there would be a decrease in lobbying in the next period. Should farmers achieve successful results as a consequence of lobbying in period 1, they would then be able to capture rent. The higher profits that they obtain would relay the signal that it is worth the while to engage in lobbying. In the medium term, i.e. in period 2, since farmers have previously been able to more than cover the cost of lobbying, new entrants would be encouraged to invest in agricultural production and to take advantage of lobbying. With an inflow of lobbyists, the cost of lobbying would increase, giving rise to a higher production cost structure. Thus in period 3 the increased cost of production would wipe out the rent captured. The higher costs would be transferred to the industrial sector: the basket of goods purchased by industry from the agricultural sector would rise and the wages that would have to be paid to labour in the industrial sector would also increase since their cost of living would have increased. In the long term lobbying would therefore be an unproductive activity.

THE MALAYSIAN CONTEXT

The process of agricultural transformation in Malaysia can be fruitfully analysed using lobbying as a theoretical backdrop. The movement of the agricultural sector must therefore be viewed from the colonial period

when the British 'allocated' agricultural activities on an ethnic basis, confining, for instance, the Malays to the padi farms and the Indians to the plantation sector. With the departure of the British after Independence, and by the 60's, there was an emerging Malay middle class which wanted to occupy the economic role which the British had dominated, and which it appeared would be usurped by Chinese capital (Jomo, 1985). This ambition along with growing inequality culminated in the May 1969 race riots. The National Economic Policy (NEP) which was introduced in 1970 was an outcome of these events.

The NEP was aimed at eradicating 'absolute' poverty and restructuring society. The latter objective was, in part, meant to create a Bumiputera (Malay) commercial and entrepreneurial class while the poverty eradication programmes were intended to provide the poor with greater access to productive assets and inputs, training, credit and marketing facilities. It was estimated that 49.3% of all households in Peninsula Malaysia in 1970 received incomes below the poverty line with the incidence of poverty being particularly high in the agricultural sector. At the macro level, the May 1969 riots were a benchmark in the lobbying for agricultural transformation, particularly since the import-substitution industrial strategy of the 60's generated little employment and did not significantly benefit land hungry rural households. The government reacted to the demands of these circumstances, violently articulated as they were through the riots, by enunciating the NEP and its associated programmes.

The effectiveness of the agricultural sector in lobbying for itself is best seen in terms of the advantages it has secured. Hart (1939) notes that by the early 1980s harvesting was extensively carried out in the Muda region using combines. Aside from subsidized mechanization, the Muda farmers received generous input subsidies, price support schemes and a reduction of import duties. During the Fifth Malaysia Plan period it has been estimated that more than RM500 million was spent on subsidies for fertilizers. Again, so as to ensure that padi producers receive a minimum standard of living, a Guaranteed Minimum Price is made available to them and this is reinforced by an output price support. As has been pointed out by Sivalingam (1993: 38) "farmers receive between 30 to 50 per cent higher for their produce than suggested by the Guaranteed Minimum Price."

The Federal Land Development Authority (FELDA), another instrument created by the government to improve the well-being of the farmers, was the outcome of lobbying. It has been observed (Sivalingam,

1993:64) that "The State was pressured after Independence by demands from the Malay peasantry for new land and a higher standard of living. Aware that smallholders could not afford to replant or set up processing centres and sensitive to the alleged exploitation of Malay farmers by Chinese middlemen, the Government set up FELDA." FELDA was rounded to market output produced by the smallholders, provide finance for the planting of high-yielding varieties, and to establish land development schemes for selected farmers who were landless or near-landless.

The government is not neutral in its selection of settlers for FELDA schemes. The Chinese and Indian poor are inadequately represented in the allocation of settler lots. Besides, the rural poor from certain states have a higher representation than others. The allocation for beneficiaries from Johor and Pahang far exceeds the incidence of rural poverty in those states, whereas allocations for farmers from Kedah and Perak fall short of the proportion of poor rural households prevalent in these two states. The selection process for settlers has been criticised (Syed Hussein Wafa, 1973; Lee, 1977) for being used as an instrument through which the government ensures that it enjoys the continued political support of the settlers.

It is significant that the government has not attempted any structural reforms in the agricultural sector. All of the government's efforts have been conducted within the constraints of the existing land ownership structure, no attempt being made to redistribute land or to bring about a structural change (Mehmet, 1988; Jomo, 1990). The land hungry and small farmers have not enjoyed the focus of state intervention in agriculture. The Green Revolution, input subsidies, and price support schemes have only exacerbated the inequalities between the better-advantaged farmers and the least-advantaged farmers (Jomo and Shari, 1986).

While the government needs to take cognisance of Malay lobbyists in general, and specifically, of Malay agricultural households, apparently the government feels less pressured by poor and landless farmers. The latter are unorganised as a group, except under the auspices of government cooperatives; and within the political arena it is the Malay middle class and the landed who make claims on behalf of the disadvantaged agricultural households. Lobbying and state intervention are thus interrelated in Malaysia. Although lobbying has a distortionary effect on the economy, the decision makers within the government have close social and political affinities with the lobbyists. In these

circumstances, neither would the government want to exclusively pursue economic rationalism nor would it want to see exuberant lobbying.

CONCLUSION

In this paper we have looked at some aspects of lobbying. We started by assuming that farmers are rational actors who as a consequence of their disadvantaged position would consider lobbying. The rational farmer, in the face of uncertain outcomes, would prefer to make one attempt at lobbying and accept the resultant outcome rather than aspire to repeatedly lobby. It may be rational to engage in lobbying in the short term, but the benefits of successful lobbying do not make lobbying a profitable activity in the long term. In fact, lobbying would be a costly and unproductive activity in the long term.

The usefulness of lobbying theory can be extended by taking into account the 'intensity' of lobbying. It would also be worthwhile to consider different attitudes towards risk-taking and to explicitly model for the role of the government in lobbying. These extensions will lead to a richer theoretical framework which can then be applied to gain more insight into the lobbying process in Malaysia.

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