1. Introduction

In the less developed countries public policy is often employed to shift relative prices against agriculture and in favor of industry and manufacturing.\(^1\) Several explanations have been advanced to account for this bias. These explanations differ in character.

One approach views the state as an agency for the maximization of social welfare; this is classically the view of the literature in development economics. Most commonly, economic growth is seen as a primary objective for poor societies. Based on empirical evidence and theoretical analysis, this approach argues that growth necessarily entails a shift of resources out of agriculture and into 'more productive' sectors of the economy. The selection of policies to induce this shift via the manipulation of relative prices is seen as an appropriate choice, given the societies' objectives. There are numerous critics of this approach. But they often fail to challenge the basic assumption concerning the social welfare maximizing basis for the selection of public policies. Rather, they dissent because of their disagreement over the choice of social objectives, arguing that the pursuit of growth entails too great a sacrifice of other values.\(^2\)

Other explanations do challenge this premise. Some can be classed as 'sectoral models.' These are based on the crude division of developing societies into aggregate sectors. These sectors are variously labeled as 'urban' or 'rural' or 'modern' or 'traditional'; sometimes intermediate sectors, labeled 'informal' or 'transitional,' are included as well. The implication of this approach is that the policy bias in the developing areas represents the political domination of the 'advanced' sector and its use of the instruments of the state to induce the transfer of resources from the more 'backward' sectors of the society.\(^3\)

* The authors wish to thank Nathaniel Beck, Randall Calvert, Roger Noll, Gary Miller, Richard McKelvey and Kenneth McCue for their comments. Any remaining errors are of course our own. This research was funded by the National Science Foundation (grant SOC-77-08573).
A last group of explanations can be termed ‘class’ or ‘elite’ based theories. Contributors who adhere to this approach also view public policy in the developing areas as being determined by particular interests. But they disagree with the sectoral approach insofar as they see the element of redistribution as entailing a shift not so much between sectors as between income groupings. Some look at this process in international terms and emphasize the dominance of international capitalists; others confine their attention to the local economies and contend that local directors, managers, and state bureaucrats are relatively autonomous agents and effect this redistribution so as to enhance their own consumption possibilities. Variants which speak of a labor aristocracy include workers in the modern firms within the privileged group; others do not. But what distinguishes this approach is the common assumption that public policy in developing areas does not reflect a disinterested commitment to ‘development.’ Rather, it reflects the use of the state to enhance the special interests of the privileged few who derive their income from modern industrial and manufacturing firms.

This paper develops an alternative explanation for the policy bias against agriculture which prevails in many of the developing countries. In the model advanced in this paper, particular interests drive public policy. Economic interests seek to shift relative prices to their advantage. They do so by manipulating the state. Their ability to manipulate relative prices through public channels is determined by their ability to gain public support, i.e., to form coalitions and gain backing from others in support of their demands. Within this framework, we try to deduce who would be the ‘winners’ and who would be the ‘losers’ and we try to do so in a way that enables us to characterize the group that would prevail in the use of the state to set relative prices to its advantage.

Within the relevant literature, this paper thus concurs with the sectoral and class approaches in their disavowal of the assumption that policy choices in the developing areas represent normative commitments to what is socially best. But the paper also dissents from these approaches. Both the class and sectoral models assume the existence of social aggregates. By contrast, the model advanced in this paper attempts to account for the formation of political collectivities. In this sense, our approach is more fundamental.

The model is based upon the assumption that the actors are both producers and consumers. Price rises achieved by one industrial group therefore have negative effects on the members of the group itself (insofar as producers of a good are also consumers of it); they also have negative effects on other groups. Consequently, ceteris paribus, any group seeking to maximize its real incomes by forming a coalition to secure a price rise has an incentive to exclude from that coalition industries whose goods comprise a high share of that group’s purchases and to seek instead an alliance with