Agricultural Policy in the 21st Century: Motivation and Effectiveness

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Food and Agriculture Are in the News Again

- Rapid price increases in 2007 and 2008 for primary agricultural products have raised questions in consumers’ minds about the price of food in stores and markets.
- Concerns about adequate food supplies for a growing world population are once again making headlines.
- Groups are seeking out alternative sources of food – organic, local, urban agriculture.
- Academics are calling for improved agricultural productivity and greater efficiency in the use of available land and water.
Renewed Interest in Agricultural Policy

- Growing public interest in food has generated a number of reports and proposals directed specifically at agricultural policy in Canada.
- Among the reports are calls for:
  - Strategic initiatives designed to unleash the full potential of Canada’s agri-food sector
  - Suggestions to reform supply management
  - The development of a shared vision for Canada’s food system
  - The establishment of a food strategy that addresses the health of Canadians
  - The creation of a national food policy that would generate a healthy, ecological, and just food system
The purpose of this paper is to provide a framework for thinking about agricultural policy.

Examine four questions:
- Why should governments intervene?
- Why do governments intervene?
- Is policy effective?
- How does policy change?

Although the paper will not specifically analyze any particular policy in detail, it will provide some ideas of how such analysis could proceed and the types of questions that could be asked.
Markets and Market Failures

- First theorem of welfare economics: The largest economic surplus — the largest pie — is created if the market is left to operate without government involvement.

- The conditions for markets to work properly include:
  - The market is competitive (i.e., no player or players have sufficient economic clout to affect prices or output)
  - Information is widely shared among all participants
  - All the participants experience the full benefits and costs of their actions (there are no externalities)
  - There are no important public goods

- If one or more of these conditions does not hold, then a market failure is said to exist.
Market Failures and Policy Responses
Examples of Policies Designed to Address Market Failures

- Encourage people to leave agriculture where the return to labour was low
- Encourage the development of co-operatives to provide farmers with countervailing power in the market
- Establish regulations – e.g., access to producer cars – that give farmers better alternatives and more bargaining power
- Undertake public R&D as a response to underinvestment in a public good
- Provide extension services to encourage technological adoption
- Establish and maintain grades and standards to create consumer confidence
- Develop environmental initiatives (e.g., PFRA) to address externalities
Governments Don’t Always Get it Right
Lobbying and Government Failure

- When decisions enter the policy arena, there is a separation of spending and taxing – those that receive the benefits of the program do not incur the costs.
- For those that finance a program, there is an incentive to underspend (or to lobby for this outcome).
- For those that receive the benefits, there is an incentive to request (often through lobbying) more funds than are required.
- The result is that the final policy decisions are not made on the basis of maximizing the size of the economic pie.
How Is Policy Determined?
Policy Subspaces and Policy Actors

- Policy is determined as a consequence of the ability of different groups to understand the problem, to organize, to raise funds and to get their case before the decision makers.

- A particular policy outcome can be thought of an equilibrium reached by policy actors – e.g., interest groups, politicians and civil servants – that operate in what is typically described as a policy subsystem.

- A policy subsystem is the space in which a specific issue is debated, discussed and ultimately decided upon.
Policy Subspaces at Work
Examples of Policies Affected by Lobbying

- Lack of R&D spending when the rate of return is so high
  - If government is operating with a fixed budget, then those funding agricultural R&D are the other departments in the government that would like to have access to the money
  - Since “funders” are few in number, have the ability to understand the repercussions of any spending increase, and can easily be organized, they are effective in lobbying

- Existence and persistence of supply management
  - Consumers pay the cost of supply management. They are numerous, are hard to organize, and typically lack information on the impact of the policy (or have differences in opinion as to the impact)
  - Farmers are well organized, typically have similar views on the benefits and can launch well-developed lobbying efforts
Lobbying is clearly important, but public servants and politicians have their own beliefs about what makes for good public policy, beliefs that are influenced in part by economic efficiency criteria.

Domestic policy is often constrained by international concerns (e.g., trade policy).

Policies chosen have to fit into what Hall calls the existing policy paradigm – the set of ideas that structure the way people think about the world.

Policies also have to fit with the larger political and economic structure (what has been called the variety of capitalism) governing the country in question.
Influences on Policy Outcomes
Cheating and Misrepresentation

- The actual outcomes of policy often differ substantially from the designed goals because those affected by the policy act opportunistically to take advantage of the policy in some way.
- For instance, when faced with a quota, farmers may cheat and produce more than they are entitled to produce, thus affecting the returns that they and the rest of the farmers obtain.
- Or, farmers may not fully comply with environmental regulations, thus creating more adverse impacts than what was planned.
Influences on Policy Outcomes

“Wicked Problems”

- Policy effectiveness depends on whether the policy problems belong to the category of so-called “wicked problems.”
  Wicked problems involve:
  - A lack of boundaries around the problem – e.g., a solution to the problem creates a new problem somewhere else
  - A lack of agreement among the people affected by the problem as to what constitutes a good or a bad outcome. This may be because different people are differentially affected, or it may be that there is a lack of shared values
  - Complex interactions and feedbacks among social, economic, political and biophysical elements, so that even if there are solutions to the problem, they may be virtually impossible to determine or to implement
Wicked Problems and the Policy Subsystem
Or Why Wicked Problems Often End Up on the Desk of Policy Makers

- Problems that are important to citizens, but are highly complex, cannot typically be provided privately.
- Externalities imply a lack of boundaries – the participants do not experience the full benefits/costs of their actions, while some of the benefits/costs are experienced by others. Thus, the creation of a solution for one group creates problems for another. Externalities also imply a number of stakeholders that will typically not agree on the problem or its solution.
- Public goods imply a lack of boundaries, since the benefits/costs cannot be segmented and allocated to different groups. Different people also value public goods in different ways.
Wicked Problems at Work
Examples from Agricultural Policy

- Classic example is water allocation between upstream & downstream users. Ensuring sufficient access for upstream users creates problems for downstream users (and vice-versa). Downstream users may see a problem (e.g., pollutants) that upstream users do not. Add to this complex hydraulics and a large degree of uncertainty in the physical system dynamics.

- One reason R&D may be underfunded is that farmers with a low valuation of R&D benefits resist efforts to have the R&D outcomes imposed on them. The relatively high level of support among farmers that is required to make changes to producer check-off levies is perhaps indicative of how groups deal with this wicked problem.
The Policy Process

- Policy formation is a constant process whereby policies are reaffirmed, modified, replaced or done away with altogether as the case may be.
- While economists typically view the policy process as frictionless, it is far from being so.
- Instead, policy is typically locked in for long periods of time, albeit with often important changes within a given policy structure.
- When change does occur it is often abrupt and associated with major external shock – i.e., “punctuated equilibrium.”
Policies create positive feedback loops that result in path dependency and the reproduction of policy.

Since the policy actors that are typically in the policy subspace benefit from the policy, they have little incentive to change.

One reason for the CWB’s longevity was that its structure created an economic environment that was beneficial to agricultural co-ops, who in turn supported the CWB.

Quotas in supply management create predictability for everyone in the system (farmers, input suppliers, banks), who in turn have an incentive to support the system.
If There is Lock-in, How Does Policy Change?

- Since those that benefit do not have any incentive to see a major change, it is necessary to look to those that do not benefit from the policy.
- Jones and Baumgartner (see also Thelen) argue that policy change occurs as a result of activities by those groups that are disadvantaged by the policy.
- To alter the equilibrium of interests, these disadvantaged groups need to change the image of the policy that prevails outside the policy subsystem in question.
- Alternatively, they can find new policy venues that are more receptive to the new image than the existing policy venues.
Shifting Attention Involves Politics

- For new policy proposals to be successful, they have to shift the attention of people inside and outside the various policy subsystems.
- Only those issues that somehow get prioritized will receive attention, and only issues that receive attention can invoke a policy change.
- A critical factor that determines the attention paid to issues is politics.
- As Stone argues, political discourse and rhetoric serve to create different valuations and/or interpretations of the activities and the policies under discussion, and thus are critical to policy change.
Policy Change in Canadian Agriculture
Supply Management versus BMRs

- Supply management is more likely to see change than BRMs.
- Significant effort is being exerted to change supply management’s image in policy circles outside of agriculture (via editorials and reports), as well as to create new venues in which this policy is evaluated (Canada’s participation in the Trans Pacific Partnership).
- Little or no attempt is being made to change the image of BRMs. While the government may attempt to limit the increases in spending on this program, pursuing this angle is not fundamentally altering the way in which BRMs are perceived.
Policy Change in Canadian Agriculture
The New Agriculture – Organic, Local, Urban

- Clear that players in the “new agriculture” are trying very hard to change the image of agriculture and to appeal to a new group of individuals and interests
- And they have had some success – opinion polls, new books, news articles
- While attention is being paid to these issues, none appear to have reached the level at which policy makers believe there is any significant role for policy
- One reason for this lack of interest might be that all three issues share the characteristic that there is a wide range of views about efficacy and impact
- Also, no apparent market failures have yet been identified
Much to the delight of economists – the agricultural policy of the future will be influenced by concerns for efficiency. But – much to economists’ chagrin – this will not be the only factor influencing policy.

Policy will be strongly affected by lobbying, with the final policy outcome determined by a bargain or compromise between those seeking greater efficiency and those seeking to benefit themselves or their group.

Agricultural policy will not always be effective. Indeed, at times agricultural policy may make problems worse. Although government may wish to stay clear of the so-called “wicked problems,” the nature of policy makes this very difficult.
Agricultural policy will be relatively stable, at least in terms of its broad outlines. Underlying this broad stability, however, will be considerable small-scale change as program and policy details shift in response to the concerns of people both inside and outside the groups affected by the policy. These shifts, however, will generally be consistent with and complementary to the broad outlines of the policy.
A Summary of the Main Points

- When policy changes in a major way, which it almost always will, the shift will be abrupt – a punctuation. These abrupt changes come as attention is eventually paid to areas and/or issues that are increasingly understood to be ineffective and not working.

- Policy change occurs because of the efforts of those disadvantage by the policy and who are outside the policy process.
While there is considerable room for economic analysis in the processes described above, the role of economics is a supporting one. Economic analysis can shine a light on inefficiencies and quantify some of the cost and benefits of a policy. As such, economics adds to the weight of evidence that eventually leads to a shift in attention and ultimately to policy change.

The real driver for policy change is politics – the ability to change the discourse around a policy issue in such a way that different evaluations and interpretations of the policy and its impact are created.
Thank You