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The Role of Institutions in Policy Making¹

by

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Introduction

In recent years a number of new agricultural economics papers have emerged that focus on the *implementation* of policy rather than on *policy formation*. The papers use a comparative institutional approach to the delivery of agricultural policy in different countries and appear to have originated in the Food and Agriculture Organisation (FAO) of the United Nations (Sandiford and Rossmiller 1996). Case studies and commentaries have appeared in various FAO publications and seminars, and most recently a symposium on the subject was presented at the 1998 conference of the Agricultural Economics Society at Reading University, England (Johnson 1996, Williams 1997, Haebig *et al* 1998).

The emphasis in this series of papers is on the implementation of policy proposals as enacted in the legislature and asks whether the intention of the legislators is being met in the delivery process and whether such processes meet wider economic criteria such as the meeting of set targets (effectiveness), avoiding unwanted effects (equity and income distribution considerations), and delivering at least cost (efficiency). The originating authors suggest using a structure/conduct/performance approach to individual policy programmes to bring out the contrast between the original intentions and actual management of the programme. Structure is used to identify what was originally set out in any legislation including design of policy instruments; conduct is used to identify how the legislative programme was interpreted and managed in practice; and performance is used to assess how well the policy system met the original objectives of the programme in terms of delivering the scheduled benefits to the targeted recipients. The authors suggest that this latter task will be made easier by examining four criteria of performance: effectiveness, efficiency, enforceability and equity (Sandiford and Rossmiller 1996, pp. 7-12).

The review of policy programmes within government is an ongoing process. Both political and bureaucratic players are concerned with the impacts of their programmes for both selfish and national interest reasons. Such reviews may not be made public but could be assumed to include many of the features of the FAO proposals.³ Sandiford and Rossmiller draw on advisory work experience on policy development in

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³ The Industry Commission in Australia (Industry Commission 1991) and the National Centre for Food and Agricultural Policy in Washington, USA (NCFAP 1994), are organisations which conduct public reviews of policy issues. The work of James Q. Wilson in the United States follows a similar course but focuses more on regulatory activity and organizational culture than the delivery of policy outcomes (Wilson 1980, 1989). The work of Horn (1995) belongs to the Wilson school.

developing countries where there appears to be a large gap between intention and execution especially from the donor's viewpoint.

This initiative can be seen as one of learning from domestic and international experience and making better policy as a result. The authors state that they are trying to develop a framework for structured thinking about policy implementation that will assist them to do their policy work better (ibid., p.1)⁴. The wider implication is that others can learn from the experience as well and that more specific frameworks of evaluation and examples can be produced that would help not only advisors in the international organisations but many practitioners within policy shops in both developed and less developed countries.

Previous policy delivery approaches

Implementing public policy is the job of the bureaucrats or other agencies appointed for the purpose. There is a vast literature on how bureaucracy works. But the more specific analytical structures that concern policy delivery systems (PDSs) are those explaining conflicts between the interests of the politicians and the bureaucrats, and between them and the interest groups or constituents as Horn (1995) calls them. In the public choice literature, this is called the "political market" (Johnson D. B. 1991), where differences in views and interests are resolved by some form of mutual bargaining and agreement.

Public choice economics focuses on the respective roles of the legislators, administrators and constituents. It is the roles and motivation of these three main actors that are important. Decisions are assumed to be made by individuals who act as if largely self-interested and rational in the pursuit of this interest (Horn 1995, p.7). Completed legislative programmes, which create the PDSs, are seen as the result of negotiation between the actors as they pursue their different interests. These decisions determine the structure of each policy proposal and the way it will be administered. Such structures and administrative systems may or may not influence how they will be executed in practice (the conduct paradigm).

The transaction cost approach to public administration focuses more on the design of legislation (Horn 1995). Legislators and their constituencies are seen as engaged in a form of exchange. Legislators want electoral support and constituents want the private benefits - or to reduce the private costs - of legislation. The amount of net electoral support legislators receive from promoting a piece of legislation depends on the flow of benefits and costs that private interests expect it to generate over time. The implementation features of the legislation bear on this calculus because private

⁴ There is nothing new in this. Tinbergen (1956) prescribes the following procedures for an ideal analytical process: (1) the policy maker should pursue an agreed-upon set of values; (2) the aims of the policy should be clearly formulated in advance of choosing among alternative policies; (3) the policy maker should attempt a comprehensive overview of policy problems and of alternative policies; (4) coordination of policy should be made an explicit function of the policy maker; and (5) economists as policy analysts should be comprehensive in considering economic variables and values. For a critique of this approach see Braybrooke and Lindblom (1963, pp.38-39).

interests are sufficiently forward looking to anticipate how *decisions on implementation* will affect the flow of benefits and costs. That is why there are often heated disputes over decisions on matters like the scope of delegated authority, the form of organisation charged with implementation, and the procedures administrative agents must adopt. These factors affect "who" ultimately "gets what" out of the legislation. Because the long term impact of legislation is capitalised into its present "value" to supporters and opponents alike, the enacting coalition must be concerned about this long term impact, even if it has a short political life (Horn 1995, p.13). The design of legislation may thus reflect the interests of the different groups taking part in the political process and this may well have little regard for equity and efficiency considerations and other components of the national interest.

A distributional view of the impact of economic legislation is given by **political preference functions** or economic models of the political decision-making process. These models attempt to measure the benefits to producers and consumers and costs to taxpayers of given legislative programmes in terms of producer and consumer surpluses generated against some base period or situation (Swinnen and van der Zee 1993). The so-called "weights" derived in the analysis measure for each group the percentage change in welfare brought about by the government intervention from the base case. Most agricultural support measures, for example, favour producers at the expense of taxpayers or consumers. This is a "distribution" approach to implementation of policy, and, where dead-weight losses are measured, provides some measure of fiscal efficiency.

It is important to note that the changes in welfare of different groups may not be explicit at the time of the legislative enactment. This would depend on the complexity of the proposed programme, back-up support for the legislature from the bureaucracy, and the degree of compromise implicit in a legislative measure from interest group pressure. One prominent Australian economist believes that the effects on social welfare (including other sectors than agriculture) of the policy of protecting Australian manufacturing industry were so complex that the huge economic losses generated by these policies could scarcely have been *planned* (Martin 1989, p.3). This reasoning also casts doubt on Horn's hypothesis that the long term implications of legislation are *fully* appreciated by the interest groups when they seek modifications in the enactment phase.

Political scientists see economic decision making in Government as an **incremental process** where legislators and bureaucrats learn by experience and re-jig previous legislation or introduce fresh legislation which encompasses several previous enactments (Braybrooke and Lindblom 1963, Blaug 1992). Newly-elected politicians start with on-going activities and gradually begin to define objectives in the light of experience with policies. They do not have a well-defined political preference function that economic observers can identify and specify, but move from crisis to crisis defining their objectives as they proceed. These reasons make it difficult to specify the *ex ante* distribution implications of a given measure, though after a period of time the *ex post* implications can and have been studied in the literature (Swinnen and van der Zee *op cit*) if only at a very aggregate level.

The above review therefore suggests that better policy could result from greater public study of policy programmes in an *ex post* framework. The question of *ex ante* analytical constructs is still a requirement for policy advisors within departments, but if lessons are to be learned from previous experience, then an *ex post* framework is required that is reasonably universal and which can be adapted to the job in hand by international advisors and by in-house advisors in the various economic ministries around the world. Where Governments already have procedures in place, it is important to ask the right questions in such evaluations.

This paper concentrates on the institutional aspects of public policy. By institutional arrangements is meant the political institutions that operate in a country, including the structure of the parliamentary system, the role of the bureaucracy, and any conventions regarding operational rules within the government system and commerce. The paper employs the transaction cost model of public administration to specify the issues likely to be encountered. It asks how do specific policy proposals come into being, and what forces shape them? What continuity can be expected from the proposals and what built-in provisions are available to carry this out. What are the appropriate instruments for executing a given policy, and what are the appropriate bodies for administering them? The paper recognises that governmental institutions vary from country to country depending on the origins of their constitutional and legal frameworks. It finds that there is considerable universality across countries in the formation and administration of economic policy. Two case studies of policy evaluation are discussed.

Transaction cost models

These models focus on how governments are and should be organised. They deploy the rationality hypothesis and a theory of transaction costs to explain how government organisations work. They posit that effective public administration requires that transaction costs be minimised in determining and pursuing society's goals (Zeckhauser 1995). Legislators are regarded as self-seeking in their use of legislation to increase their net political support (Horn 1995, p.13). Their opportunities are limited by a number of 'transaction costs'. These are the time and effort it takes to reach agreement on legislative refinements and any time and effort that affected private interests have to subsequently devote to participating in implementation and administration; political uncertainty that the legislation will last; uncertainty that the legislation will be administered as intended; and, uncertainty about the distribution of private benefits and costs.

The legislators who are most likely to remain in power are those who are most successful in overcoming these transaction problems, such as those who are best able to reassure their supporters that the benefits of legislation will not be lost to administrators in the implementation, or undone by subsequent legislatures (Horn 1995, p.14). In this context, Horn draws on agency theory in his discussion of *implementation* of legislation. As he sees it:

- i. the enacting coalition and its constituents must rely on administrative agents to implement their arrangements - it must delegate to get things done;

- ii. these agents do not necessarily share the objectives of the enacting coalition and its constituents; and
- iii. it is very difficult to monitor these agents and create a system of *ex post* rewards and sanctions that will ensure that they act to protect the interests represented at enactment.

These problems create agency costs - that is the costs incurred to induce administrators to implement faithfully what was intended in the legislature, and the losses legislators and constituents sustain by being unable to do so perfectly. They include the costs associated with selecting administrators and monitoring their compliance, the costs of using *ex post* corrective devices [rewards, sanctions, and legislative direction], and the cost of any residual non-compliance that produces a *difference between the policy enacted and what is implemented* (ibid, p.19). There are a number of administrative mechanisms that legislators can draw on that minimise these costs: contracting out versus in-house delivery, tax-funded bureaux [departments], non-profit tax-financed regulatory agencies [as in the US], and revenue-earning state-owned enterprises [as in the British system]. Each has its advantages and disadvantages (ibid, pp.9, 40, 170).

Private interests have a definite interest in *implementation* (ibid, p.13).

Legislators and their constituencies [Horn's term for private interests] are seen as engaged in a form of exchange. Legislators want electoral support and constituents want private benefits - or reduced private costs - of legislation. The amount of net electoral support legislators receive from promoting a piece of legislation depends on the flow of benefits and costs that private interests expect it to generate over time. The implementation features of the legislation bear on this calculus because private interests are sufficiently forward looking to anticipate how *decisions on implementation* will affect the flow of benefits and costs. That is why there are often heated disputes over decisions on matters like the scope of delegated authority, the form of organisation charged with implementation, and the *procedures* administrative agents must adopt. These factors affect "who" ultimately "gets what" out of the legislation.

Thus the design of legislation reflects the interests of the different groups taking part in the political process and this may well have little regard for equity and efficiency considerations. Most important is what Horn calls the 'commitment' problem. The flow of benefits to legislators is often much more immediate than the flow of benefits to constituents (ibid, p.16). Constituents run the risk that the present or subsequent legislative coalitions might undermine the benefits of given legislation. This is a problem for legislators because forward-looking constituents will assess the durability of future legislative benefits and costs and reflect that assessment in the degree of electoral support they are willing to offer. Thus legislators cannot guarantee constituents *durable* benefits but they can make binding arrangements that might tie down future legislators⁵. Constituents respond by seeking guarantees that these bindings will be entered into at the design stage, if, and when, they are consulted.

⁵ Peter Bushnell (New Zealand Treasury) has pointed out to me that bureaucrats have a vested interest too in the commitment problem. Policy advice is often larded with little reminders that certain steps taken will change the direction of future fiscal

Choice of administrative instruments

The transaction cost model suggests, other things being equal, that the national interest would be best served by governments choosing the most efficient instruments available to accomplish any given policy objective (Trebilcock 1995, p.25). The argument is that, whatever the policy objective, it ought to be achieved at the lowest social cost: nobody gains by needlessly dissipating resources. A set of political axioms governing policy and instrument choice behaviour includes:

- i. choosing policies that confine the benefits to marginal voters [those whose votes count] and confining the costs to infra-marginal voters [those who are strongly committed to the governing party];
- ii. choosing policies that provide benefits in concentrated form and impose costs in dispersed forms;
- iii. choosing policies that will secure the co-operation of the bureaucracy;
- iv. choosing policy instruments that minimise real costs over time when they fall on a small group; and
- v. choosing policy instruments that bring benefits within the current electoral cycle.

It is said that these axioms 'explain' the widely expressed perception of a mis-match between policy instruments and *ideal* policy objectives (Trebilcock, *op cit*). Such mismatching is unlikely to be the random product of mistakes, ignorance or stupidity on the part of collective decision makers, but in many cases is likely to reflect systematic incentive structures that the community has built into political institutions such as one man-one vote and regular cycles of elections!(*ibid*, p.27).

Evaluation of policy structures and instruments

Evaluation needs to focus on the transaction cost implementation model with respect to:

- a. aims of the enacting legislation (structure),
- b. consultation at the enactment phase of the legislation (design),
- c. choice of instruments (efficiency),
- d. behaviour of the delivery agents (conduct), and
- d. performance in terms of the original aims.

Two case studies in the recent literature demonstrate fairly close application of the principles discussed so far. They are a study of the EU milk support policy (Williams 1997), and a study of the deregulation of the New Zealand wheat industry (Nixon 1993).

With regard to the **aims** of EU milk policy, Williams (1997, p.107) states :

The performance criteria are here being used endogenously: the focus of attention is a judgement of how effective and efficient the policy and its delivery system is in fulfilling its *stated aims*. Many discussions of the CAP [especially those emanating from the UK] usually implicitly adopt a

commitments [like tying NZ old age pensions to the cost of living rather than the standard of living!].

marginalist approach in which judgement is passed on the system in relation to what the writer *believes* would be the outcome of a free-market situation. Such discussions frequently dismiss *the aims* of the policy without discussion and never consider the policy delivery system. Nevertheless, the policy exists to fulfil the requirements of Article 39 of the Treaty, which remains in the original form and as such is part of "the economic constitution" of the 15 member states. Moreover, the narrower aims of the policy legislation, particularly as stated in the articles of 804/68, remain the law of the EU. The EU has an agreement with the contracting parties of the GATT: this may require fundamental modifications to the milk policy but not to the Treaty, as Article 39 is not currently on the agenda of the Inter-Governmental Conference for the revision of the Maastricht Treaty. Therefore the analysis of milk policy... considers the policy in relation to its aims and does not question the aims themselves. (italics in original)

Consultation at enactment stage: The milk policy is determined by the European Commission in Brussels; the interests of the different original members of the Union had to be taken into account in drafting Article 39. The producer interests are very powerful in France and Germany in particular, and the enactment owes a lot to them though Williams does not specifically say so in his study, but states (ibid p.20):

Around the central process of Community decision making through its principal constitutions there is considerable opportunity, particularly in agriculture and the dairy sector, for the activities of pressure groups and "industry experts" [usually the representatives and employees of powerful organisations in the industry]. Farmers' unions are represented in Brussels through the activities of COPA [Committee of Agricultural Producer's organisations in the EC] and co-operative marketing organisations are represented through COGECA [the general Committee for Agricultural Co-operatives in the EC]. The dairy trade also has a European organisation, [EDA - formerly ASSILEC] the European Dairy Association, with representatives in Brussels. Each of these bodies is able to obtain representation on the Commission's Milk Advisory Committee, and through this channel farmers and industry marketing organisations can exercise influence on proposals to be made to the Council as well as on the implementation of policy by the Commission.

Choice of instruments: The author does not discuss alternative instruments that might have achieved the CAP's' aims. The problems met in formulating the common policy for milk are referred to as follows (ibid, p.31):

It took the original Six members of the Community eleven years to achieve a common policy for milk and the other major commodities of cereals and beef. In the milk sector each member state had differing levels of protection for milk producers and different methods of achieving it. In Germany and the Netherlands the liquid milk market and the manufacturing or industrial milk market were separated with elaborate methods of pooling prices between the two to obtain the producer price. In order to establish free trade within their borders the Six had to harmonise support prices and intervention measures, eliminating border taxes and controls between themselves in transitional steps,

and establish a common level of tariffs on imports of dairy products from third countries in matching steps. Export refunds had to be established and harmonised *pari passu*. The transitional system introduced a mechanism with a set of intra-Community levies on trade to be gradually eliminated in a series of steps as external tariffs and internal intervention measures were harmonised. Agreement in this process was achieved by the gradual alignment of the level of protection afforded by measures in the highest-price country.

Conduct of delivery agents: The Williams paper is a *tour de force* in its discussion of the implementation of the milk policy in the different member countries of the EU.

There is a three tier system of implementation :

.....at the first level are the Community institutions that are involved in policy making and objective setting, as well as in the implementation process. At the second level are the institutions of national governments [15 of them] each having some flexibility, albeit limited, in operating the system. At the third level are the marketing agencies who are responsible for their own strategies in a competitive market, and are affected by the normal factors in a market Structure-Conduct-Performance relation of investment, economies of scale, product differentiation, advertising and brand loyalty, research and development, and consumer demand for dairy products.

The different attitudes of the bureaucracies in member states to quotas have given rise to much variation in milk prices (pp.77, 109):

...the amount of variation in the system throughout the Community is very considerable.At one extreme, the Republic of Ireland has generally had the lowest price with prices sometimes below 90 per cent of the Target Price i.e. below the intervention milk equivalent price. At the other, Italian producers have had prices estimated to be as high as 130 per cent of the Target Price...Ranges of this magnitude and variability could not reasonably have been said to have been the intention of the original designers of the policy who sought to eliminate variations that might occur through any arrangements that would protect local liquid milk prices. Explanations of price differences are complex and may relate to many structural differences between countries, the size of the processing/marketing organisations and economies of size, product differentiation, brand loyalty, and the management and ownership of marketing organisations.

Performance in terms of original aims: Williams finds that the *average* target prices achieved from 1989 to 1995 over the 8 member countries were very near to that aimed for but that there was marked variation between countries [as discussed above]. He notes average farm incomes have risen from 1978/79 to 1990/91 while the target price measured in ECUs moved very little. He attributes the positive structural changes which have taken place to the quota system and assistance for 'outgoers'. Most member states have succeeded in keeping to within one per cent of their national reference quantities in most years. There are also other comments on efficiency, enforceability and equity, which generally suggest that the original aims of the policy are being met.

Summary: this study presents a sympathetic and positive view of the EU milk policy which is broadly seen to be carrying out the aims originally enacted. By separating the

delivery of the policy aims from the aims themselves, the author brings a new focus to the conduct and performance of a given policy initiative. He concludes that to be effective, analysts should always start with the aims and objectives of given policies and recognise that when they have been absorbed into a hard-fought-for constitutional agreement [the Treaty] they will be very hard to change indeed.

The demise of the New Zealand [NZ] Wheat Board

Marketing boards are legislative instruments set up to control fluctuations in prices and production ostensibly in the interests of producers. The NZ Wheat Board was established in 1965, in a process of consolidation of previous market interventions with powers, not unlike those of EU milk policy, to balance production and imports of wheat, determine farmers' prices, determine milling and manufacturing margins, and to recommend the price of bread to Government. In the discussion that follows, the Government of NZ is taken as the principal, the Wheat Board is the agent responsible for administering the policy, and the constituents are the wheat producers, the private millers, the private manufacturers using flour, wholesalers and retailers selling products with flour ingredients, and consumers. The same questions are asked of the original sources.

Aims of the enacting legislation: The NZ Wheat Board was set up by Act of Parliament in 1965 to rationalise and co-ordinate wheat production and imports and regulate the prices and quantity of flour. The Board was required:

- i. to control the acquisition and marketing of wheat and flour generally;
- ii. to encourage wheat growing and the use of wheat grown, having regard to the best use of land available, the cost of imported wheat, conservation of overseas funds, and other relevant considerations;
- iii. to ensure that adequate supplies of wheat and flour were available; and
- iv. to promote and organise the orderly development and greater efficiency of the wheat and flour milling industries.

Consultation at the enactment phase of the legislation: There was a considerable history of intervention before 1965. A wheat purchase board had been created in 1933 with power to purchase all wheat and fix prices to the growers and millers, but not on imports. In 1936, a Wheat Committee was formed to take over sole responsibility for the buying and selling of all wheat, including imports. Price controls were introduced in 1939 for the wheat, flour and bread sectors. In 1962, a Commission of Enquiry was instituted and it recommended the consolidation of the existing arrangements, including price control, in a new enabling Act. A commission of enquiry approach suggests that interested pressure groups were fully consulted in the public process of consultation, though the sources are silent on the design aspects of the legislation itself [In practice, in the NZ parliamentary system, legislation is framed by the bureaucrats and interested parties have only limited access, but access nevertheless, at the Select Committee stage of a Bill.]

Choice of instruments: Two literature sources do not discuss alternative instruments that might have been available at the design stage (Sandrey and Reynolds 1990, Nixon 1993). Documentation of alternative instruments discussed at the time would be hidden in departmental archives. It is significant that both sources mostly document

needed changes to the legislation after the legislation was no longer fulfilling its aims. They do not analyse whether the original aims of the legislation were met in the intervening period.

Conduct of the delivery agents: The NZ Wheat Board administered the legislation from 1965 to 1987 and from 1980 had to meet an increasing number of regulatory changes introduced by the Government. The documents consulted rather indicate that the Board as the Government's agent was faithful to the objectives laid down for them but that external events overtook them (Sandrey and Reynolds 1991, p.127):

The key decision concerned the purchase price of wheat from farmers, a price set to recoup all Wheat Board costs, as this subsequently triggered other decisions such as the consumer price of flour. Each flour miller was paid the calculated cost of processing wheat into flour. These costs were independently calculated for each mill, leaving millers with limited commercial interest in the price of wheat. Indeed the only Board members who had a strong commercial interest in the price paid for wheat were the farmers. The Board maintained a pricing policy designed to encourage domestic production of wheat and, therefore, self-sufficiency.

Prices: The sources are not precise on the course of producer prices, import replacement prices and prices of alternative enterprise products during the Board's administration. It appears that Australian wheat could be landed in NZ more cheaply than equivalent NZ grown wheat in most years and that pastoral products [especially lamb production] were competing for the same land⁶. The Board was thus forced into large imports of Australian wheat [up to 100,000 tonnes in some years] to meet its adequacy commitments.

In the event, the Government removed price control on bread in 1980, introduced a producer price based on a three year average of landed Australian prices in 1981, abolished flour, bran and pollard price control in 1984, and eventually required that the Board cease trading in 1987.

Performance in terms of the original aims: The original aims were focused on producer welfare with the market system being driven by producer price negotiations with Government. One commentator stated (Ali 1993):

It was very much a supply driven system, emanating from the growers, whereas consumers were largely tamed by regulations.

The legislation was enacted in a period when intervention in markets was highly fashionable among politicians and bureaucrats. The interesting feature of the legislation is that a once-removed marketing agency was chosen to administer the policy, which, in other areas, was carried out in administrative departments. The Board consisted of representatives from Government [including the chairman], and industry representatives from producers, millers and bakers. The Board was handicapped by its charter with its emphasis on encouraging domestic wheat growing which the Board interpreted as promoting self-sufficiency (Nixon, p.23). Finally the Board had to negotiate a producer price with the farmers' interests that still required

⁶ Sandrey and Reynolds (1990, p.132) state that in 1974 and 1975, and in 1981, 1982 and 1984, NZ producers were receiving *less* than the equivalent Australian price though not in other years.

approval by Ministers. The conclusion must therefore be reached that it was the structure that was at fault and not the agency administering the policy. This is, of course, contrary to the views given in the documents and the popular view of events in the period concerned. But it does confirm the Williams view that policy delivery must be examined in its context, and not judged out of context!

Without regulation of prices and margins, there has been a reduction in the farmers' interest and an increase in the power of the millers and bakers. The position of the millers and bakers has been enhanced by amalgamation and take-overs and increased market power. The system is now driven by quality considerations in both grain and flour and by baking techniques. The price system is driven by international prices and competitive forces within the industry. The quality and diversity of products has increased considerably (Nixon 1993).

Concluding observations⁷

The major problem with an analysis of this sort is to encompass a wide enough set of institutional experience to make generalisation possible. This analysis is more of a framework for further work than a full testing of such a hypothesis.

While the viewpoint of agricultural policy implementation has been adopted, the analysis should be robust enough to cover a wide range of economic policy experience. The test is whether transaction cost theory 'explains' what happens in different countries and parliamentary systems? The evidence reviewed and other literature suggests that policy making and implementation is a political process where information and expected effects on constituents are important considerations, and that these characteristics are fairly universal across countries and parliamentary systems.

The lesson to be learned is to evaluate past policies in their own context and ask the right questions. The institutional/structural design of a policy is therefore important. The relationship between the legislators and the constituents [to use Horn's terminology] has an effect on design and implementation. Bindings made on successors and on implementers may be introduced to improve the acceptance of the policy. Consultation will affect the choice of alternative policy instruments. It is in this sense that 'institutions' or 'structure' are most important in the evaluation of policy initiatives and programmes.

The main theoretical support for evaluation comes from transaction cost economics as applied to public administration. An effective evaluation should ask what are the policy attributes that bring the different actors together? What impediments have to be overcome? How do the actors work together to find solutions? How lasting is the legislative design? What public agency implications are there? Are monitoring processes set up and so on?

From the author's experience, the task of *ex post* policy evaluation is a job most civil service organisations should be engaged in but very often are not! Analysts would be

⁷ It should be made clear that this discussion is principally about government economic programmes as applied to agriculture. It needs to be tested whether the framework would be applicable across most government economic programmes.

considerably aided if they were provided with a set of key questions to ask. Civil service managers have their attention directed elsewhere. Judgements on the need for change in a policy programme may come from both the political clientele and/or the bureaucrats who manage it. The information balance is heavily weighted in favour of the bureaucrats, especially where they have monitoring systems in place. In forming policy proposals, the economist's contribution is diluted by other generalists and legal people who actually write the parliamentary bills. The bills themselves are then subject to political compromises which further confuse the original economic aims. The choice of instruments is extensively debated by bureaucrats but may be changed in the final decision making process after further political consultation. A pure economic approach is not possible, hence the the political preference function is not clearly expressed in economic terms.

In recent years, formal proposals for evaluation and review for policy programmes have been systematically introduced in New Zealand⁸. While introduced in the name of increased accountability, there is also increased concern for [private] compliance costs and distributive effects of policy change. There has also been a political interest in the permanency of policy change with the introduction of the Fiscal Responsibility Act and other longer term policy issues such as the funding of old age pensions⁹.

New Zealand developments might be compared with Australia in this respect. In 1973, the Industries Assistance Commission was established, on the recommendation of Sir John Crawford, to advise the Federal Government on assistance which should be given to, or withdrawn from, industries in Australia. Crawford identified the following reasons for establishing the Commission (Uhrig 1983, p.4):

- # to assist the Government to develop policies for improving the allocation of resources among industries in Australia;
- # to provide advice on those policies in an independent and disinterested manner; and
- # to facilitate public scrutiny of these policies.

The Commission was to report back on matters referred to it but could also initiate enquiries under certain circumstances. The Commission later became the Industries Commission and then the Productivity Commission. While the focus was on the need for industry assistance, there is an implication in the aims of the legislation that the implementation of the policy and the suitability of the instruments should be assessed¹⁰.

⁸ Formal review of policy is provided for by the Audit Office, Regulatory Impact Statements to Cabinet, and the Crown Company Monitoring and Advisory Unit. The Audit Office has a statutory requirement to provide reports on whether public sector organisations operate, and account for their performance, *in a manner consistent with Parliament's intentions*. See Annex 1 for details of these arrangements.

⁹ The Secretary of the Treasury was Dr M. Horn at the time.

¹⁰ Similar processes are carried out by the Australian National Audit Office. These are strong on administrative detail about implementation and alignment with professed objectives, but are not critical of policy *per se*. Since 1997, Regulation Impact Statements have been mandatory for all Commonwealth legislation that has the potential to affect business. "The costs and benefits of regulation are to be weighed up carefully to ensure that the putative [supposed] benefits are not outweighed by

Australia introduced Regulatory Impact Statements (RIS) earlier than in New Zealand. A RIS must be prepared for all new or amended regulations that directly or indirectly affect business, or restrict competition. A RIS should be prepared early in the policy development process, and should set out (among other things), the options (regulatory and/or non-regulatory) that may constitute viable means of achieving the desired objective[s], an assessment of the impacts (cost and benefits) on consumers, business, government and the community of each option, and a consultation statement (Productivity Commission 1998). According to the Productivity Commission report, compliance with RIS requirements for Bills introduced into Parliament in 1997-98 was mixed. An Impact Statement was tabled in most cases where required, and generally the level of analysis was adequate. However, the requirement to provide a RIS to the decision maker was complied with in only about a third of cases (ibid, p.33).

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Annex 1: Policy Review Procedures in the New Zealand Government System

1. Departmental: Until recently there were no formal requirements. Cabinet papers making new proposals or proposed adjustments to previous legislation required a background statement of previous enactments and cross-references. The reasons for change were expected to emerge from such a statement. Design of instruments should be addressed if relevant. Consultation was not mandatory [but see 2 below]. Background papers based on a form of structure/conduct/performance were optional but were not a requirement. Background papers could be contracted out. Ministers seldom involved in formal consultation, but Select Committees of the House of Representatives may call for submissions on legislative enactments.

2. Regulatory Impact Statements¹¹: As of July 1 1998, all policy proposals submitted to Cabinet which result in government bills or statutory regulations must be accompanied by a Regulatory Impact Statement, unless an exemption applies. The Statement should consistently examine potential impacts arising from government action and communicate the information to decision-makers. Completion will provide an assurance that new or amended regulatory proposals are subject to proper analysis and scrutiny as to their necessity, efficiency, and net impact on community welfare. The Statement should contain the following information:

- a. a statement of the nature and magnitude of the problem and the need for government action;
 - b. a statement of the public policy objective;
 - c. a statement of *feasible options* [regulatory and/or non regulatory] that may constitute viable means for achieving the desired objective(s);
 - d. a statement of the *net benefit* of the proposal, including the total regulatory costs [administrative, compliance, and economic costs] and benefits [including non-quantifiable benefits] of the proposal, and *other feasible options*; and
 - e. a statement of the *consultative programme* undertaken.
- [presumably the statement of net benefits could be followed up in an *ex post* sense at a later date and comparisons made].

3. The Audit Office¹²: The Audit Office exists as a constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government. The Audit Office, as an Office of Parliament, is independent of the executive branch of government. The Office's role is to assist Parliament to strengthen the effectiveness, efficiency, and accountability of the instruments of government. This role is discharged by providing reports on whether public sector organisations operate, and account for their performance, in a manner *consistent with Parliament's intentions*. The outcomes sought are that Parliament and the public will be confident that public sector organisations are: *delivering what they have been asked to*; have operated lawfully and honestly, and have not been wasteful; and have fairly reported their performance in their statements of account (italics added).

4. The Crown Company Monitoring and Advisory Unit: Crown companies are fully owned registered companies subject to the Companies Act 1993 but where the shareholding is still held by two Ministers of the Crown. The Crown Company Monitoring and Advisory Unit (CCMAU) was established in 1993 to ensure that the investment is performing to the best of its ability, to collect information on performance of the companies, and to provide advice to Ministers. CCMAU is an independent unit attached to the Treasury department. CCMAU's approach is to maximise the performance of the individual companies in which the Crown has an ownership interest.. To meet this objective from a company-level perspective, CCMAU (1998) focuses on:

- a. the formation, *structure*, investment and continued ownership of individual companies,
- b. business strategy and the associated *risks and opportunities*,
- c. ensuring the most qualified directors are recommended for appointments,

¹¹ From *A guide to preparing Regulatory Impact Statements*, Ministry of Commerce, Wellington, October 1998.

¹² From *Annual Report 1997-98*, The Audit Office, House of Representatives, B28.

- d. *performance*, in absolute terms, against benchmarked companies,
- e. the *impact* of government policy and regulation on *individual* companies or groups of companies, and
- f. innovation, *best practice* and continuity of essential services (italics added).

The Role of Institutions in Policy Making

Introduction

Previous policy delivery approaches

Transaction cost models

Choice of administrative instruments

Evaluation of policy structures and instruments

The strength of EU milk policy

The demise of the NZ Wheat Board

Concluding observations