

Book reviews

Agricultural and Resource Policy: Principles and Practice by David Godden. Published by Oxford University Press, Oxford, 1997, pp. 408 +15. ISBN: 0 19 554023 9.

Those involved in the teaching, study, design, application and evaluation of Australian agricultural and resource policy, and indeed those affected by such policy, have long been in need of a comprehensive text on the subject. To date they have had to be content with journal papers, chapters in books having a broader coverage than agricultural and resource policy and sundry other publications, including periodic reviews by government-appointed teams. Whilst the Godden book will not replace the need to consult such publications, it is a very great convenience to have so much of the subject matter between one pair of covers. Godden has done the Australian profession a great service in producing this book.

The book has four parts: policy analysis framework (three chapters); intrasectoral issues: input and product markets (five chapters); intrasectoral issues: structural change (three chapters); and intersectoral issues (three chapters). Each chapter ends with questions for discussion. The emphasis is on microeconomic policies, although macroeconomic policy matters are given attention in the final section. International trade policies are not covered, but the importance of exchange rates is clearly demonstrated. The treatment is largely non-mathematical, but extensive and very effective use is made of diagrams (82 in total!). There are also 22 ‘boxes’ used to give real-world meaning to various points and concepts.

The author intended that the book should be of value to economic practitioners (e.g., economic analysts in the private and public sectors, academics), participants in the policy process (e.g., politicians, government advisers) and citizens who have to exercise a vote in government elections. This intention has been met. One of the distinguishing features of the book is the considerable effort that has gone into demonstrating particular points with examples from contemporary policy debate (e.g., aboriginal land rights — in fact, a whole chapter on aborigines in the rural sector, ‘value adding’ dogma, food safety, national competition policy and good and services taxes). But old favourites, still important in terms of the lessons they provide for the future, also get a run (e.g., buffer stocking, price equalisation schemes and the welfare effects of price stabilisation).

It was not the author’s intention to produce an exhaustive evaluation of

all current policies. Rather, the emphasis is on conveying the principles of policy evaluation. In terms of commodity markets, wool, sugar and wheat are used as case studies. Land and water are the main resources used to demonstrate points. Much of the book is about the action that takes place beyond the farm gate.

There is uniformity in how most chapters are structured. They progress through policy issue, policy intention, area of the sector affected, policy orientation, policy mechanism, institutional structures, economic issues and analytical techniques. Students, in particular, will appreciate this ordering of material because by the time the reader arrives at the analytical techniques (traditionally the subject matter which students find most difficult), the justification for having to jump through some analytical hoops has been well established.

The most outstanding part of the book for this reviewer was the first part which deals with the policy analysis framework. The three chapters in this part cover economic efficiency foundations, economic analysis of the policy process and institutions of Australian agricultural and resource policy. By the end of the first two chapters the reader has obtained a sound knowledge of the economic principles governing *when* governments should intervene in markets drawing on economic efficiency and public choice concepts, as well as a sound understanding of the reasons *why* they intervene. As we all know, the two do not always — in fact, they rarely — coincide. Chapter 3 covering institutions will be particularly welcomed by teachers because it covers much of the material that is usually left to students to glean from ‘reading the press’ (the standard instruction given at the outset of courses on agricultural and resources policy).

David Godden obtained his PhD from the London School of Economics and Political Science. This no doubt has been an important influence on the choice of subject matter covered in the book as well as the manner in which it has been covered. It is understandable that Godden’s choices are probably somewhat different from those that many of us with a more ‘corn-beltish’ view of what agricultural and resource policy is all about might have made. The Australian profession will welcome Godden’s choices.

This text will surely find its way on to university reading lists for courses in agricultural and resource policy. But hopefully it will also be read by politicians and their advisers. I suspect that they will be able to identify very closely with what Godden has to say about the real world of policy-making and hopefully some of them will blush from his revelations of the effects of poor policy-making and implementation.

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Risk Management Strategies in Agriculture: State of the Art and Future Perspectives edited by R.B.M. Huirne, J.B. Hardaker and A.A. Dijkhuizen. Published by Agricultural University, Wageningen (Mansholt Studies 7, ISSN 1383-6803), 1997, pp. 319 + xiv, paperback. ISBN 90-6754-497-3. Price 98 Dutch Guilders (NLG) from Backhuys Publishers backhuys@euronet.nl

This is a difficult book to review. With 26 separate contributions, an appraisal of the individual papers would take too long, and in any case, the book comes with an excellent summary, by Hardaker, Huirne, Barry and King (given that no executive is ever likely to read it, however, I fail to see why it is called an Executive Summary). The alternative of using a review as platform for the reviewer's own opinions has also been forestalled. The book begins with a magisterial overview of the field and its development by Jock Anderson, and also includes a survey of the policy debate by Anderson and Peter Hazell.

I will, therefore, jump directly to the question of who should read the book and whether it is worth buying. The book is, as its title suggests, representative of the 'state of the art', not in the sense that all the contributions are at the frontier, but as a representative sample of high-quality current research in agricultural risk management. This may be seen, for example, in the range of models of choice under uncertainty used in the papers. The modal choice is the subjective expected utility (SEU) model. However, both older (expected value, mean-variance, MOTAD) and newer (rank-dependent EU) models are well represented. The range of topics covered is similarly comprehensive including risk measurement, elicitation of risk attitudes, decision analysis, risk management and the role of risk in agricultural policy. The book would therefore make valuable reading for any agricultural economist with an interest in risk.

Despite the 'sticker shock' of a landed price nearing \$A100 for a paperback, I believe the book is worth buying. Unlike many collective volumes arising from seminars, the book has been professionally edited and typeset, making it a pleasure to read. Also unlike many collective volumes, it contains no obvious 'duds'. The average standard of the papers is comparable to that of *AJARE* or its US counterpart. Purchase of this book might be compared to a two-year subscription to a journal devoted specifically to risk and agriculture, if such a journal existed. Viewed this way, the price is a bargain.

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Effects of Grain Marketing Systems on Grain Production: A Comparative Study of China and India by Zhang-Yue Zhou. Published by Food Products Press, New York, 1997, pp. xii and 277. ISBN 1-5602-2862-8.

The standing of a book of this sort must surely depend on the quality of the information presented. But what about the quality of the presentation? While relevant readers may disagree about the extent of the book's contribution to the stock of knowledge, it seems safe to offer the view that the study does nevertheless push out the empirical knowledge frontier on grain marketing systems. But the knowledge offered would have been less hard to get if the book did not read like an insufficiently adapted spin-off from an understandably ponderous PhD thesis.

Within the density of information presented on the current grain marketing systems in China and India, the author contrasts how these complicated systems have changed over time. The significance of the study seems to be in the fact that both China and India are low-income countries seeking to achieve the common objective of food security, but with different public policy approaches for the purpose. The contrasting institutional mechanisms examined highlight the potential for incompetent government intervention in marketing to negate the benefits of private initiatives in food production. This is perhaps the single most important message for intervention-prone policy-makers.

Readers who soldier on through the presentational clutter will find useful insights on the relative benefits of different policy starting points which paradoxically meet somewhere in-between decontrol and complete control. This ideological compromise lies in the policy arena of partial procurement, rationing, some degree of free market, and so on. Price support arrangements in both countries are shown to have an unsurprising capability to reduce risk, and thereby have an unsurprising positive effect on grain production.

Neither is it surprising to find that the forced procurement of grain by coercive public agencies tends to have a discouraging effect on grain production — with the implication that another method that provides channels is more efficient. However, buffer stock arrangements are shown to have an indirect favourable effect on grain production by dampening price output fluctuations and threatening those enemies of socialism who might otherwise have dabbled in the allegedly dubious business of speculation.

Generally, the study tells policy-makers what most economists might have initially told them in any case. Despite this, the study does nevertheless

provide useful additional empirical backing for policy prescriptions and research analyses.

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The Environmental Effects of Agricultural Land Diversion Schemes, by the Organisation for Economic Co-operation and Development, Paris, 1997, pp. 92. ISBN 92-64-15366-7.

This report is of a study carried out by the Joint Working Party of the Committee for Agriculture and the Environment Policy Committee (JWP). The main purpose of the study was stated as improving the understanding of the environmental impacts of agricultural land diversion schemes in OECD countries.

The work is part of a larger effort of the JWP to:

- (i) explore the links between agricultural policies and the environment; and
- (ii) identify the environmental effects of agricultural policy reforms.

The report consists basically of one long chapter on the environmental effects of agricultural land diversion schemes, consisting of seven sections covering the objectives of the study, a framework of analysis and the programs for Canada, the EU, Japan, Switzerland and the United States, plus a summary and conclusions.

In the section on the objectives of the study, land diversion schemes are defined as 'policy measures that require or pay farmers to take land out of agricultural production, or result in land use change'. As such, these schemes are directly linked to the management of farmland and hence agricultural production, input use and the environment. The schemes have been implemented with the aims of controlling supply and/or improving the environment, and have been modified over time to reflect the changing relative importance of these aims. The key point in policy analysis of one instrument per objective would appear to have been ignored with many of these schemes.

The analysis used is to compare the environmental situation before and after the implementation of the land diversion schemes, where possible separating the effects of the schemes from those of other factors, including other policies. There may be shortcomings in this approach when numerous factors have contributed to environmental changes. It would have been

useful to have had some comparison with other OECD countries that have not seen the need to resort to land diversion schemes for supply control or environmental reasons. The schemes are examined at three levels — eligibility criteria (or environmental targeting) and financial incentives; changes in input use and practices; and the environmental effects of the schemes. In addition, the effects of the schemes on commodity supplies; their budget impact; and their relationship to other environmental and agricultural policies are also examined.

The section on Canada follows a fairly standard format for all the countries considered, with the headings of background; the program; environmental assessment; budgetary expenditures, economic effects and the relationship with other farm programmes; and concluding remarks. Some noteworthy aspects of the Canadian section are that their schemes started in the 1930s on an environmental basis, namely in response to severe drought. Although there are no quantitative indicators monitoring the environmental impact, it is thought the schemes have contributed to a lessening of the risk of water erosion by between 8 to 15 per cent. The schemes have resulted in net budget savings when their costs and the saved costs of agricultural subsidy programs are taken into account. There would also appear to be net benefits to farmers following the practices encouraged by the schemes which questions the need for subsidies. This raises the further questions of why these practices are not currently being voluntarily followed. Is there a market failure, is there a lack of information on the schemes, and can any such failures be addressed directly?

The EU section is by far the largest which says something about the breadth and complexities of their schemes. Given these aspects, it is not surprising that the schemes are costly ones, involving large administrative expenses that have caused the budgeted savings from their introduction not to be realised in the case of the 5 Year Set Aside scheme. Moreover, their effectiveness has to be questioned, given that non-food production is exempt from environmental management restrictions.

An interesting point made in the Japanese section that may explain the recent increase in land diversion schemes is that paddy diversion payments are classified as an environmental measure under the Uruguay Round and thus not subject to support reduction commitments. As with the EU, the Japanese schemes are high cost programs with administrative costs estimated at around 10 per cent. In terms of environmental effectiveness, there have until recently been no binding rules on environmental management. The new 1996 program has more environmental management objectives but the monitoring and assessment of environmental effects are still lagging.

The Swiss section stands out amongst the other large country sections. However, its inclusion is warranted by a number of interesting aspects of its

schemes. For example, no economic use of ground cover is allowed in its Green Fallow program, which raises the question of its sustainability. Its schemes are based on the principle that they should not affect farm income but no differences in payments are observable across areas or time.

The US schemes, like the Canadian ones, started on environmental grounds in the 1930s. The schemes have expanded to a point where there are now a large number of programs, which raises the issue of whether these could be consolidated in some way. The schemes are supposed to be targeted to specific objectives but invariably involve trade-offs. For example, there are limits to the schemes to prevent regional concentration and mitigate effects on agrofood industries and rural employment. An interesting development in the schemes is the introduction of a bidding process with benefit–cost ratios used to rank bids. This development has resulted in savings of the order of 25 per cent. Previously in some areas the payments exceeded the local rental price of farmland.

The summary and conclusions section begins by pointing out that all the schemes pursue the dual objectives of supply control and environmental conservation but differ in the length of the set-aside period, the type of land diverted, the rules on treatment of idle land, and the possibilities of alternate land use, reflecting the economic, environmental and policy situations. However, modification of the balance of the schemes consistently reflect the growing relative importance of the environmental considerations over those of supply control. The three key policy aspects influencing the environmental effects of the schemes are: which land is diverted; for how long; and what is done with the land. The length of diversion is a good indicator as to whether the scheme is aimed primarily towards supply control or the environment. The remainder of the summary and conclusions is made up of sections on short-term and long-term set-aside, achieving sustainability, supply effects, budgetary costs, and the changing role of set-aside. A key point concerning the short-term set-aside is that this may not target the most environmentally sensitive land and can actually increase the risk of environmental degradation. The long-term set-aside works best when the financial incentives are tied to the environmental benefits achieved. Sustainability will only be achieved if the changes induced are both environmentally and financially sustainable, such as grass-based or woodland uses, but such changes may increase the environmental pressures on remaining land. Similarly, the supply effects may be less than hoped because less productive land is diverted and the remaining land is used more intensively. All the schemes involve some financial incentives and although these vary significantly, the budgetary costs are very high and growing fast. Innovative approaches such as competitive bidding for setting land aside, and technological developments such as remote sensing to lower the administrative costs, offer some hope of

keeping the budgetary costs at a minimum. The summary and conclusion section finishes by pointing out that the schemes can only address some environmental issues, are not the best measure for others, sometimes can only be effective in conjunction with other measures, can have some negative externalities on remaining land and that environmental monitoring of the schemes is inadequate. Lower price support reducing the need for supply control may be more effective.

To summarise, the report appears to meet its purpose of improving the understanding of the environmental impacts of agricultural land diversion schemes in OECD countries, with much detailed analysis being presented on these schemes. However, the bulk of the analysis in the report appears based on responses from those being assessed (right down to the different spellings of program/mme) with only the last paragraph in the summary and conclusions highlighting the option of lowering the price support to achieve the same ends more appropriately. The report would have been more informative if it had also covered the approaches of a number of other OECD countries that do not highly subsidise their agriculture, analysing how much land has been diverted from agriculture, the environmental condition of land, the costs of these approaches, and so on.

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