The Public Choice Revolution and New Zealand Farm Policy

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1. Introduction

Agriculture is inherently risky because of unfavourable weather and unpredictable market conditions. Moreover, this uncertainty frequently is taken to mean that agricultural markets do not work properly and, therefore, that government should intervene. Indeed, this conclusion receives support from the economic theory of "market failure" which uses the idealized but unattainable perfectly competitive market (in the absence of uncertainty) as a norm in assessing the performance of real world markets.

The market failure approach to policy formation, reflecting the "genie view" of the political process, has strongly influenced development of agricultural policy in New Zealand. However, government constrained by information and incentive problems is not like Aladdin's marvellous genie who always successfully obeyed commands (Heyne 1991, p.561). Moreover, there is an emerging consensus that New Zealand agricultural marketing regulations, ostensibly instituted to correct market failure, are counterproductive - harming both the farm sector, and along with it, the nation (ACIL 1992).

How can one reconcile this paradox in which actual results of government intervention perennially fall far short of expectations? Public choice theory provides an answer - "government failure" or "government intervention failure." There is government failure when a government program is instituted to correct market failure which does not exist; government failure may also occur because of implementation problems even when there appears to be "market failure" (Wolf 1979).

In conventional economic analysis, economic principles are used to better understand the interactions among individual decision makers operating in business firms and households. Public choice theory *extends* the application of economic principles to analyze actions of individuals in the political process (Gwartney and Wagner 1988). It explicitly recognizes that self-interest motivations can usefully be applied in explaining government policy, and uses insights from neoclassical economic theory in showing that decisions in the political process frequently yield results that are inconsistent with the "public interest". Public choice theory also emphasizes that real world markets should be contrasted with real world political processes and that government failure is analogous to market failure (Tullock 1991).

In the following analysis, the public choice approach is first explained and contrasted with that of conventional economic analysis. The implications of public choice theory for reform of public policy then are briefly described. Public choice theory is used in the latter part of the paper both to analyze recent deregulation initiatives in New Zealand agriculture and to explore the implications for further changes in farm policy.

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2. Public Choice vs Conventional Economic Analysis

There are two ways to coordinate economic activity in a modern economy - central direction and the decentralized market process. A major policy problem in agriculture, as in other areas, is to determine which activities should be coordinated through markets and which through the political process. It is necessary to understand the nature of markets and political processes to make this decision intelligently.

Economic analysis, whether of markets or political processes, presumes that the individual acts on the basis of perceived costs and benefits to increase his or her own interest, regardless of whether that interest is mainly selfish or largely altruistic. Adam Smith, the father of modern economics, spelled out the implications of the "propensity in human nature to truck, barter, and exchange one thing for another" (Smith 1937, p.13). Public choice theory assumes that self interest is no less important in motivating voters, politicians, and bureaucrats in the political process. Indeed, there is abundant evidence that individuals entering the political arena are not miraculously transformed into "economic eunuchs" acting to maximize social efficiency without regard to their own self interests.

It is important, however, not to overstate the role that pure selfishness (or maximization of wealth) plays - either in market or collective choice behaviour. If one assumes "egoistic rationality", that individuals are motivated solely by net-wealth maximization, public-choice theory predicts that individuals will not vote nor invest time to become well informed about politics because the costs are substantial but the rewards from doing so are insignificant. In such examples, critics have shown that predictions of public-choice theory are not consistent with the evidence (Quiggin 1987). The "rational ignorance" hypothesis and implied "information failure," for example, assumes that the individual decision maker is influenced *only* by expected changes in net wealth. Individual decision makers, however, are influenced by numerous factors - both pecuniary and non-pecuniary (Martin 1990). Public choice theory in the approach suggested here merely assumes that net wealth maximization is one of the major factors that are important and relevant in influencing choice (Buchanan 1989, pp.31-32).

This more limited and realistic view of "economic man" has important implications for economic analysis. If it is acknowledged that other factors influence choice, such as being a good citizen, the individual may rationally expend the resources to become a well-informed voter. Then, public choice theory no longer is inconsistent with the fact that people vote or invest resources to acquire political data, but it becomes much more difficult to empirically test the implications of the theory (Buchanan 1989, p.30).

The adoption of a more realistic view of "economic man" in economic analysis, however, does not drain public choice theory of all empirical content (Hyde 1991). We may still predict that more persons will vote if the costs of voting are reduced, that persons are more likely to become informed about the choice alternatives if the costs of information acquisition are reduced, and so on (Buchanan 1989, p.30). It is important to acknowledge that individuals in the political arena are not motivated solely by net wealth maximization - and the consequent limitations of public choice analysis, both theoretical and empirical. The acknowledgement of these limits provides a defense of the theory against critics (e.g., Quiggin 1987) who properly decry an approach which assumes that individuals are motivated solely by a narrowly-defined concept of self interest.

3. The Political Process - Implementation Problems

Decisions on the part of participants in the political process are influenced by information and incentive problems. In a classic article published almost 50 years ago, Nobel Laureate F.A. Hayek (1948) demonstrated that there is no substitute for decentralized market prices in the coordination of economic activity. That is, in the absence of market prices, there is no known way to determine the pattern of production that most fully accommodates consumer desires. The implication is that a participant in the political process does not have and cannot obtain the information necessary to determine whether any particular governmental policy is in the "public interest."

The focus of public choice theory, however, is not on information problems that are inherent in the political process. Instead, the emphasis is on incentive problems, also endemic in the political process. Even if political decision makers were omniscient and knew how to further public welfare they are unlikely to take the actions necessary to do so because of incentive problems.

3.1 Incentive Problems

Incentive problems plague the political process because of the separation of power and responsibility. A decision maker in the political arena doesn't bear the consequences - at least not to the same extent as the "residual claimant" in the market who receives the profits or bears the losses that result from actions taken. One problem in holding public decision makers accountable is that there is no "bottom line", or other performance indicator, in a government enterprise that is *comparable* to the profit and loss signals of the market system.

It should also be acknowledged that the interests of employees and residual claimants in the private sector do not necessarily coincide because of transactions costs (Williamson 1985). In privately-owned firms, problems arise in administering, directing, negotiating, and monitoring labour employed in teams. And in large corporations there is a problem of defining suitable performance indicators for some operational units because of the separation of ownership and control. Despite these inherent principal-agent problems, however, the evidence overwhelmingly supports the thesis that, on average and over the long run, individuals responding to and constrained by market forces make better decisions than those in government agencies involved in market activities.

This finding can be extended to quasi-government and statutory agencies, including marketing boards for dairy, meat, wool, and fruits in New Zealand agriculture. Here too, there is a separation of authority and accountability in the sense that these boards do not produce the performance indicators necessary to determine investment returns (ACIL 1992). When such information is lacking, results are likely to be unsatisfactory. Other reasons why political decision makers in a democratic system may not be fully responsive to the electorate are now considered.

3.2 Short-Run Focus

Before the development of public choice theory, public policy analysts typically assumed that government must intervene in market decisions to ensure that the long-run interests of society were provided for. However, now it is generally conceded that the importance placed on re-election by elected representatives gives a short-run bias to the political process (Tufte 1978; Heyne 1991). Elected politicians in a democratic society tend to prefer programs that yield benefits to their constituents in the near term and in which costs are deferred - at least until after the next election. Thus the problem of myopia in politics also is a reflection of lack of accountability - in this case accountability through time.

3.3 The Bureaucracy

The bureaucracy problem can be traced to the fact that there is no known way to hold decision makers in the public sector as accountable for their actions as those in the private sector who are constrained by profit and loss considerations. In the private arena where one's own funds are at risk, for example, the decision maker has a strong incentive to shut down a failing enterprise. In the government sector, in contrast, there is an incentive to increase the scope of the activity, regardless of its effectiveness. The all-too-frequent result is consistent with

Friedman's observation (1993, p.14): "if a private venture fails, it's closed down. If a government venture fails, it's expanded."

Part of the problem of bureaucracy stems from the fact that the decision maker in a government agency, regardless of personal motivation, *cannot* divine the "public interest" because of limits on information and the conflicting interests of others (Hayek 1948). Despite the efforts of public administrators to set criteria and evaluation mechanisms, this lack of information leads even the most selfless bureaucrat to focus on other feasible lower level goals - such as maintaining jobs, or agency growth, or maximizing the budget (Niskanen 1971, p.39).

An important strategy to follow in maintaining one's position is to avoid or minimize risky activities. If a risky venture proves to be successful, a decision maker reaps but a small part of the payoff. However, if the gamble fails and the error is detected, the resulting bad publicity may cause loss of job. Thus, the expected cost of risk-taking activity for the decision maker in government is likely to exceed the expected benefit (Friedman 1981, pp.14-15). The implications for innovation and economic progress, which hinge on risk taking, are manifest.

Agency growth is important because salary, perquisites, public reputation, and patronage all increase as budget increases. Thus bureaucrats have incentives to seek to maintain and to increase budgets. One strategy to achieve this goal is to ensure that allotted agency funds are spent before the end of the budget period. This sends a signal to the politicians that more funds are needed for the coming year. The problem is compounded by the fact that any unilateral restraint in spending by one government agency is unlikely to reduce overall spending. This attitude that the government budget is a common pool resource also militates against economizing behaviour.

What can the creative decision maker in government do to help justify an *increase* in budget, or to maintain it in the face of efforts to reduce agency spending? First, a government bureau can increase demand for it's services through news releases which both publicize agency activities and stress their contribution to society. Second, a government agency can increase "claims" for services provided through its pricing policy - by charging a price lower than the cost of providing the service. It can also increase the attractiveness of its services by injecting more "private" elements into public programs so that the benefits to individual users are more appropriable. Finally, an agency's jurisdiction may be extended to justify increased appropriations.

3.4 Rent Seeking

Government financial assistance frequently is sought by various groups, both agricultural and non-agricultural. These programs, to the extent that they are effective, increase the incomes of affected groups at the expense of the public at large. The loss to society exceeds the amount of income transferred because such programs inevitably hamper economic coordination and distort resource use.

The concept "rent seeking", a key concept in public choice analysis, is used to describe the resource-wasting activities that occur as individuals and groups seek income transfers through the aegis of the state. Large amounts of time and money are spent on lobbying activities, campaign contributions, and so on, by farmers and other groups in attempts to attain and maintain preferential legislation. These resources are wasted from a societal standpoint because they are used to restrict competition, which reduces the economic pie, rather than to produce additional goods and services. The effect of a sustained increase in rent-seeking activity over time is to gradually "strangle" an economy (Olson 1971).

How can a small group in a democratic system obtain or maintain a government program which benefits it at the expense of the general public? Public choice theory suggests that one important reason lies in a difference in the nature of the costs and benefits experienced by the small group versus those by society. Benefits are highly concentrated on the favoured group while the costs are widely diffused among taxpayers generally. Thus, each member of the small group has more of an incentive to expend resources to maintain the program than does the individual taxpayer to end it.

4. Public Choice Theory and Institutional Reform

What are the implications of public choice theory for effecting improvements in public policy? In its boldest form, public choice considers decision makers in the political process to be egoistic utility maximizers, holding that all government activities can be usefully formulated in interest group terms (Tollison 1991). In this strong form, public choice theory considers the state to be a mechanism used by rational economic agents to obtain income transfers. Moreover this redistribution is considered to be efficient in the sense that democratic institutions are highly responsive to the interests of the political constituencies that they represent. Hence, it is argued, government programs that survive are considered to be relatively efficient in the sense that they are better than available alternatives (Stigler 1982). The resulting implication that public policy cannot be improved, however, is belied by the evidence (Pasour 1993).

The challenge in improving public policy is to develop an institutional framework that will induce actors in the political process to serve the general welfare, just as Adam Smith's "invisible hand" induces market participants to do so. In achieving institutional reform, a necessary prerequisite is wider public recognition of the harmful effects of organized groups seeking to benefit at the expense of the public through state action. However, there is a "you first" problem with the education approach (Anderson and Hill 1980, p.93). Even if each group is fully aware of the harmful long-run effects of rent-seeking activities, a single group has an incentive to encourage other groups to forego such actions while continuing its own government transfer-seeking efforts. Therefore, no group is likely to forego attempts to achieve preferential but socially harmful legislation in the absence of a general agreement that all groups will simultaneously do so.

There is a similar problem with the "civics-book" approach of effecting improvements in the political process through the election and appointment of "better people" (Gwartney and Wagner 1988). The importance of moral-ethical standards of conduct on the part of persons in positions of decision-making authority in the political process should not be minimized (Buchanan 1989, p.35; Martin 1990, p.192). However, if people are to act differently, they must perceive it to be in their interest to do so. Thus, improvement of the political process through the selection of "better people" for political positions seems doubtful in the absence of fundamental changes in the incentive structure under which they operate.

Public choice theory stresses that success in coping with rent seeking, special interest legislation, and bureaucratic inefficiency and waste hinges much more on the ability to develop, institute, and maintain sound rules and procedures than on the characteristics of individuals occupying positions of political power. A new subfield of public choice theory, "constitutional economics", emphasizes the importance of the institutional framework and explicitly directs attention to the choice *among* institutional constraints (Buchanan 1991, p.5).

Constitutional economics focuses on the question: How can a democratic society create a government which necessarily possesses a monopoly on the use of force without simultaneously creating situations, which lead to the abuse of that power? (Gwartney and Wagner 1988). Thus, this variant of public choice theory emphasizes the threat inherent in the ordinary mechanisms of majoritarian democratic politics (Buchanan 1991, p.245).

Any approach which assumes that political decision makers are motivated solely by wealth maximization offers a pessimistic forecast for efforts to restrain rent seeking through institutional reform.

There is a "public-choice trap" because the egoistic political operative cannot expect to benefit from efforts devoted to the development of a new constitutional order - a pure public good. The potential benefits from institutional reform occur in the future, are uncertain, and widely dispersed while the costs are immediate and concentrated.

However, there is abundant evidence that ideas have consequences and that the public choice trap can be overcome. That is, a change in public attitudes can bring about political reform, although the education process may involve a significant time lag (Hayek 1991). Recent deregulation events in New Zealand, the United States, and other places are consistent with the thesis that the course of history is not predetermined by the forces of narrowly-defined self interest. The implication is that political economists potentially can make important contributions to the public policy process, both in achieving the consensus required to bring about institutional change and in the analysis of various reforms (Pasour 1993).

In the following analysis, public choice theory is shown to be a useful tool in the analysis of New Zealand agricultural policies. It is used both in explaining recent deregulation initiatives and in understanding why agricultural marketing regulations are maintained, despite their huge social cost. It is further argued that a comparative institutions approach, implicit in public choice theory, can play an important role in increasing public understanding necessary to reduce further the power of marketing boards and other regulations that favour sectional interests at the expense of the public at large.

5. The Changing Face of New Zealand Agriculture

The recent evolution of farm policy in New Zealand has occurred in the context of wider economic reform. In 1984, the Labour Government embarked on a wide ranging economic liberalisation programme to substantially reduce and simplify the range of Government interventions in the economy, with the aim of increasing efficiency as a foundation for sustainable economic growth (Wallace 1990). The reform process involved a re-evaluation of the role of the government in the economy, and in this context, agriculture was considered as any other industry. Thus, Government's traditional role in the agricultural sector (promoting development via incentives) could no longer be taken for granted. A case for Government involvement had to be articulated that both identified the rationale for involvement and defined clearly the mechanism for Government to achieve its goals.

The economic deregulation initiatives affecting the New Zealand economy came about principally because of economic necessity. However, economic pressure alone does not explain the paradigm shift which provided the basis for the reform. It would appear that two other factors were particularly important. Firstly, it appears that by the 1980s officials trained in neo-classical economics became the dominant players within the central governments core departments such as Treasury and Commerce. This is similar to what occurred in Australia as documented by its critics such as Pusey (1991). This development of influence was constrained by many factors and depended on the "ability to persuade wide sections of public opinion" (Cox 1992, p.39), but the resulting increased level of skills in policy analysis was significant given that historically government agencies frequently saw themselves as representing a particular constituency. Secondly, there was the consensus that the country's recent experience with pervasive economic regulation was a failure that imposed significant restraints on individual choice (James 1991).

Given the increased severity of governmental budget pressures in the 1980s (associated with increased debt), governmental institutions were competing among themselves for resources, and even survival. This financial squeeze resulted in the Government implicitly using a comparative institutions approach to evaluate alternative institutional arrangements.

At the same time that government eliminated subsidies to agriculture, it set about reducing the level of import protection for New Zealand manufacturing which historically had been very high. Despite the coalition of interests that had previously sustained the existing agricultural institutions and relations, change came about in part as a result of the agriculture sector being prepared to give up certain privileges knowing that it stood to gain from the reduction of other distortions in the economy. The gains included more efficient ports, more competitive transport, and reduced tariffs on imports. The deregulation process was aided by the GATT Uruguay round of discussions that exerted pressure for reduced agricultural protection. In addition to the external forces, domestic pressure was applied by consumers seeking lower prices and by firms wishing to participate in deregulated markets. As a result of this combination of domestic and international pressures, institutional controls over domestic production and marketing arrangements became unsustainable.

Once the process had started it became clear to most agents that more gains were to be made by supporting the reforms than by fighting them in an attempt to revert to the old economic order. For example, both business organisations (e.g., New Zealand Business Roundtable) and farm organisations (e.g., Federated Farmers) in large part supported the reforms. The focus of participants in the new economic order changed from extracting favours from government to extracting returns from the market place. This is not surprising given that heavily indebted government offers relatively little potential for extracting rents and the rents are only possible at the expense of significant taxes and other costs which inhibit the ability of firms to compete, both domestically and internationally.

The change in Government policy towards agriculture has significantly reduced public expenditures and Government's role in agriculture. Some of the significant changes that have occurred include:

- elimination of subsidies for agricultural inputs such as fertilizer and herbicides;
- elimination of government guaranteed prices for commodities;
- deregulation of the egg, town milk and wheat industries;
- elimination of subsidised credit to the agricultural producer (marketing) boards;
- full cost recovery charging for extension and inspection services; and
- the sale of Government owned commercial assets including the Rural Bank and numerous irrigation schemes.

These changes have not been insignificant given their impact on Government expenditures, farm incomes and farm asset values. The net effect is a notably lower level of protection of New Zealand agriculture relative to that in most other countries.

These changes can be interpreted as the elimination of rents that the agricultural sector formerly extracted from the tax payer. The traditional public choice view, based on Olson (1971), is that inefficient policies which conferred huge benefits on the few at the expense of larger but widely dispersed costs on the many were possible because the many did not have the incentive to protect their interests. Support for this thesis is weaker in the current era where technology may rapidly provide information on activities and costs. Programmes which result in a few visibly benefiting at the expense of the public at large may evoke widespread public criticism by those who are adversely effected. However, even when information is readily available, high transactions costs associated with information gathering and distribution work to maintain the status quo.

Thus, despite major changes in government services and expenditures associated with the deregulation of domestic markets, there remains significant interference in the marketing arrangements of New Zealand's agricultural exports. Producer controlled boards (e.g., Apple and Pear

Marketing Board, Dairy Board, Game Industry Board, Kiwifruit Marketing Board, Meat Producers Board, Wool Board) still dominate the marketing of most New Zealand agricultural products and constrain efficiency with their distorting pricing policies (ACIL 1992). Distortions remain, it is argued here, largely because of widespread misperceptions on the part of farmers and academics. Many farmers perceive that the producer boards are necessary to enable them to compete on the uneven fields of international competition. Furthermore, despite the virtues of competition which are impressed on undergraduate economics students in New Zealand universities, many academic economists and marketing experts argue in support of the producer boards basing their support on arguments derived from the elastic demand for farm products, the inelastic supply of farm products and the possibility of price discrimination in overseas markets. In this context, the ACIL (1992) report is notable in that it forcibly makes the case that current marketing arrangements are not in the best interest of either the farm sector or the country as a whole. Given the indirect effects of producer boards on government and consumers and the widespread uncertainty concerning their impacts on farmers, such debate is an essential first step in economic reform.

Government also has taken significant initiatives in the area of research. The result has been an unprecedented restructuring of the entire R&D system in New Zealand to separate the functions of policy advice, allocation of funds, and provision of research services. The abolition of the research agencies, such as the Department of Scientific and Industrial Research, and the replacement with the Foundation and Ministry of Research, Science and Technology, ten Crown Research Institutes and at least one industry-government joint venture has resulted in a more neutral science policy, greater contestability and more accountable institutions (Jacobsen 1991). The Institutes spend millions of dollars of taxpayer funds on agricultural research which is justified on the basis that it is basic research in the sense that the resulting benefits cannot be appropriated by the developer but flow to society generally. The argument is that such a "public good" would not be produced in sufficient quantity if left to the private sector. However, in the absence of market signals, there is no reliable method to determine either whether research of a particular type is warranted or what is the appropriate level of investment in such research. Furthermore, an examination of agricultural research and development work reveals that little of the Institutes' research is "basic" in this sense and much of it produces benefits which could be appropriated by the developer (Jacobsen 1991, pp.16-20). The implication is that investments in agricultural research are similar to other investments and, consequently, that privatisation of most agricultural research is feasible (as can be seen in the current privatisation of agricultural extension services and the recent privatisation of other parts of the public sector). In short, worthwhile agricultural research generally can and should be financed by the agricultural sector.

Despite the success of public sector reforms during the past decade, rent seeking persists in the area of "adverse event relief" assistance in times of natural disaster. In doing so, it both blunts the incentive for farmers to adequately hedge against risk and inhibits the development of private insurance markets. Similarly, rent seekers ferret out new ways to exploit the political process for private gain, such as agricultural subsidies that find their way in the back door as environmental policy. A case in point is the recent Task Force Green policy which subsidizes farm labour (New Zealand Employment Service 1993).

6. Public Choice and Future New Zealand Farm Policy

Despite the changes that have occurred, significant distortions continue to exist in the New Zealand agricultural sector. This is not surprising given that a similar situation exists in other sectors of the economy. There are numerous reasons why the reform process has run out of steam, not least being a change in conditions that led to deregulation in the first place. The reforms, largely initiated by

Government, were motivated in part by efforts to balance the budget. However, the distortions that remain have relatively little effect on Government expenditures, even though they significantly impact consumers and producers. In the reform process to date, losses have been concentrated and the gains thinly spread over the whole economy. Given the political costs, government has been reluctant to push further. This reluctance has been shored up by farmers who think the current marketing arrangements are in their best interest, by producer board executives and Government officials nurturing their positions, by lack of public awareness of the size of the costs of government intervention, by market failure arguments of diminished relevance put forward by economists, and by concerns about the possible effects of further changes on asset values - concerns that were heightened by the wealth effects associated with earlier changes. Future farm policy in New Zealand will continue to reflect the tension between further liberalisation and the pressures to maintain current anticompetitive policies, or even to re-regulate.

Despite the current lack of consensus to further expand the scope of competition in New Zealand agricultural policy, there are ample reasons for Government to rekindle its deregulatory zeal. The current restrictions still impose significant costs on the economy by increasing consumer prices, by protecting inefficient marketing channels, by giving producers inappropriate signals, by distorting investment decisions, and by transferring income from taxpayers to the agricultural sector.

There can be no doubt about the fact that the various marketing boards restrict competition and are antithetical to the operation of the entrepreneurial market process. However, there are important and unresolved questions both as to who bears the costs of the various producer boards and, consequently, the potential short-term and long-term effects of further deregulation. These boards, operating with quite different provisions, cannot increase the long-run profitability of agricultural production and marketing in New Zealand. Freedom of entry in agriculture means that production will continue to increase so long as rates of return from farming are higher than from investments of similar risk. Moreover, even if boards were able to effectively restrict production and temporarily raise prices, the short-run benefits would quickly be incorporated into higher prices of land and other specialized farm resources so that only current asset owners will benefit from this once-and-for-all gain in farm asset values. In short, benefits of higher product prices to later entrants into farming would be offset by higher production costs.

However, it should be emphasised that there is little opportunity for New Zealand producers to increase short-run profits by raising prices because New Zealand farm products are predominantly sold in international markets, where prices are determined largely by world-wide supply and demand conditions. Even the proportion sold domestically is sold into competitive markets. Therefore, the producer boards' restrictions appear to impede the operation of markets and reduce efficiency without the accompanying transitional gains that producers sometimes achieve through state-sanctioned and enforced collusion. This suggests the tentative conclusion that the abolition of marketing boards would have little effect on prices, either of farm products or total farm assets and, consequently, that producer support for marketing boards may be misplaced.

Regardless of the effects of the abolition of marketing boards on producers, however, increasing competition in the production and marketing of agricultural products in New Zealand would be broadly beneficial to the public at large.

Further reform of New Zealand agriculture is hindered by a number of factors. First, the fluctuating nature of agricultural production and prices fuels arguments for stabilization policies. Although stabilization is difficult to achieve (ACIL 1992) the prospect of stability encourages individuals to seek these interventions which easily become support policies. Second, remaining distortions elsewhere in the economy, such as tariffs on imported goods, still impose a tax on agriculture, creating a case for "compensation". Finally, reform is hindered by the lack of clearly identified beneficiaries who stand to make significant per capita gains. Although economists frequently concentrate on efficiency gains, a crucial issue in economic reform is who gets the benefits. Unless the potential beneficiaries are clear about their gains, and transaction costs of joint action are low, potential losers are likely to make more noise in the political process and thus sustain the status quo. Furthermore, the status quo is supported by a significant proportion of Government scientists and officials and producer board executives who stand to lose in any reorganisation.

What is the potential for future changes that will enhance the economic efficiency of New Zealand agriculture? Given that agriculture is a relatively small proportion of GDP and that rural populations are electorally less significant than urban populations, it is unlikely that agricultural reform will reappear on the Government's policy agenda unless the potential benefits are clearly visible to a substantial part of the electorate. It could well be that the rural community will come to understand the potential gains from deregulation and nurture support for reform. Alternatively, economic analysts and the wider population may in time realise the potential for further growth associated with deregulation and the inequity of the current system in which particular sectors of the economy gain through the regulatory process.

One way to gather rural support is to initiate changes in current marketing arrangements so as to separate essential regulatory tasks from commercial tasks and separate off-farm returns from nonfarm returns for commodities. Such steps could potentially provide immediate efficiency gains, help change the prevailing wisdom as to what is good for farmers, and provide a stepping stone for further liberalisation without excessive political costs for the governing party. Similarly in the area of research, it would be feasible for at least some of the recently corporatised Government agricultural research centres to be privatised, just as the government has succeeded in privatising numerous state owned enterprises.

7. Conclusions

Agriculture throughout the world has been hampered by protectionist policies. In New Zealand, there has been a dramatic move to deregulate agriculture. However, significant barriers to free participation in the production and marketing of farm products persist.

Public choice theory emphasizes the inherent problems in the political process and provides a lens through which to view agricultural policy reform in New Zealand. Politicians and government officials have been significantly influenced by public choice perspectives on the functioning of government and markets. Public choice stresses the importance of economic education in policy reform on the part of firms, voters, consumers, politicians and government officials, both in the evaluation of alternative institutional arrangements and in coping with obstacles to change. In the public policy process, information about winners, losers, and incentives associated with existing and alternative polices is crucially important. Such information, along with the fact that the changes were part of a broader package involving all sectors of the economy, was the key to success in recent deregulatory initiatives in New Zealand agriculture.

Recent experience suggests that sufficient public support to bring about further deregulation of New Zealand agriculture is unlikely to occur without additional analysis and education concerning the benefits of reform. However, given time, additional evidence about the costs of current regulations and programmes might lead to further steps towards a more rational farm policy.

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