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Economic Theology and the Consumer Interest

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Economic rationality is the religion of Australian agricultural economists. We do enjoy minor denominational differences but we have a common creed and catechism. According to this religion, the pursuit of potential Pareto improvements is a moral imperative: to fail to decry government intervention in markets at every turn is a mortal sin; to advocate any regulation is a basis for excommunication. As with every religion, some followers are more devout than others. Some worship in private. Some evangelise. But most of the preaching is to the converted. Against this background, what follows may be heresy, but I suspect I was damned anyway.

The connection between economics as a science and economics as a religion is tenuous.¹ The science of economics may help us to predict the consequences of deregulating a commodity market but it has little to offer about the desirability of regulatory changes other than in a "first-best" world in which full compensation is to be paid. The reality of agricultural policy is that full compensation is never paid and that regulatory changes are analysed and take place in the context of an "nth-best" world in which full compensation might not be possible.

How, then, do we justify the economist as an advocate of partial movements towards free trade in terms of the science of economics? A weak justification can be made as follows. There is a market failure in the political process because the interests of consumers (or some other group such as taxpayers) are diffuse and not adequately represented in policy decisions. By advocating the "public interest" (*i.e.* potential Pareto improvements) the economist acts as a foil for the "forces of darkness", hoping to correct this market failure. In this way the economist is a *de facto* consumer lobbyist, representing the consumer interest in policy.

In Australia, as in most places, it is true that there is no effective consumer lobby. For the protection of their interests consumers rely mainly on the forces of competition and the benign intervention of government. Consumers

are interested in the prices they pay for products. These prices depend upon the efficiency of production and prices of other inputs used in the production and marketing chain beyond the farm gate, as well as on the prices received by farmers for commodities. Consumers are also interested in the other (non-price) characteristics of products. Indeed, the organised consumer lobbies—such as they are—seem to be more concerned with non-price characteristics of products (such as product safety, packaging and labelling) than in the product prices that economists tend to equate with consumer interests.²

As both scientists and evangelists, Australian agricultural economists have had a great deal to say about farm or wholesale prices of commodities; they have said relatively little about the other factors affecting retail food costs (more than two-thirds of which are incurred in processing and marketing beyond the farm gate) and almost nothing about the non-price factors. This makes a certain amount of sense in relation to commodities that are produced mainly for export in unprocessed form (such as wool and wheat). It makes less sense in relation to goods consumed mainly domestically.

In markets for most raw agricultural commodities, the Australian consumer interest has been well protected both relative to overseas markets for farm products and relative to markets for other goods (especially manufactures) in

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¹The connection between religious and economic evangelism is closer: both require recourse more to faith than objective argument and facts.

²In his address to the 1987 Annual General Meeting, the Chairman of the Victorian Egg Marketing Board pointed out that the Public Bodies Review Committee Inquiry into egg marketing arrangements had received no submissions from the retail community or consumers. He took this as evidence that consumer interests were being well served. Most analysts would reach a different conclusion.

Australia. For most Australian farm products, effective rates of protection are low or negative, and production is highly efficient.³ Consumers benefit from low product prices and these benefits are enhanced by government sponsored R&D.

Governments are actively involved in regulating the non-price characteristics of food products (for example, through the application of grading, packaging, labelling and health standards). Some of these regulations clearly serve some interest other than those of the consumer, while masquerading as consumer protection, but as a profession we have had little to say about most of these matters. Perhaps more serious is the general deficiency of our knowledge about the economics of the food industry beyond the farm gate. Compared to the farming industry (which we have studied in intimate detail) we have very little data, institutional knowledge, or understanding of the economic processes involved in the industry beyond the farm gate that stores, transports, processes, manufactures, markets and distributes food products.⁴

To make these ideas more concrete, let us consider the egg and market milk industries—the nemesis of many a crusading economist—in a little detail. These two industries have received considerable attention from Australian agricultural economists. Both are highly regulated. Both involve major transfers from consumers to producers. I estimate that the national consumer transfers to farmers range from 20 to 40 cents per dozen (\$40-80 million per year) for eggs and 10 to 20 cents per litre (\$150-300 million per year) for market milk. Both of these industries involve waste in the sense that consumer losses are greater than producer gains. In the case of eggs half of the consumer transfer may be wasted in inefficiency; the wastage rate may be less in the market milk sector.

Agricultural economists (myself included) have cast forth many stones, pointing out the magnitudes of these effects and decrying them. Many have taken the additional step of actively promoting the idea that these markets should be considerably — if not completely — deregulated. There is nothing wrong with adopting this missionary position so long as we don't pretend it is free from value judgements. Personally, I find the idea of unregulated markets aesthetically pleasing and many of the activities of marketing boards morally reprehensible. These are good enough reasons. But in addition, it is fairly easy to make the value judgement that a subsidy to one comparatively wealthy sector is

undesirable when it is funded by an inefficient tax whose incidence is heaviest on the poor.

In both the egg and market milk industries there is considerable regulatory action beyond the farm gate.⁵ In the case of eggs, it has been suggested that the consumer cost of regulations beyond the farm level may be at least as great as the costs of the farming regulations. But this is pure conjecture. The former has never been measured; the latter has been measured *ad nauseam*.

In other industries in which the farming component is unprotected and efficient, there also may be problems beyond the farm gate which have been neglected. Examples which spring to mind are the highly regulated and unionised meat processing industry, the highly concentrated broiler industry, and the increasingly concentrated food retailing sector. A further area which ought to be of concern to consumers is the rising tide of neomercantilism. The "holy rollers" and "jojobas witnesses" preaching the doctrine of "export at any cost" rarely count the costs of their export subsidies that are borne by consumers.

There are significant questions of consumer interests, beyond the traditional industry marketing arrangements, to which Australian agricultural economists—as scientists, consumer lobbyists or evangelists—should devote more attention. Preaching to the converted is comfortable, and we must keep a vigilant watch for "backsliders". But there are vast congregations of heathens beyond the farm gate. The gospel is the same but the sermon may be different.

³Significant exceptions are eggs, market milk, manufactured milk, tobacco, and several horticultural products, but these collectively account for only a small fraction of total output.

⁴Recent exceptions (such as Geoff Hogbin's work on red meat trading hours and the Royal Commission's work on grain transport, storage, and handling) prove this rule.

⁵For instance, in Victoria there are regulatory barriers to entry so that at present only the Victorian Egg Marketing Board and one other firm are allowed to grade eggs on behalf of other producers and in 1985 some 331 different prices and margins were fixed for milk. There are many such interventions which have received little, if any, serious attention from economists.