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Kenneth R. Farrell on The Embargo Study

There Are Useful Lessons

Readers of the ERS report on embargoes and surplus disposal are likely to experience a profound sense of déjà vu. The topics are familiar; the conclusions are conventional, at least to agricultural economists.

None, except the most unforgiving, partisan advocates, are likely to disagree with the authors' conclusion that "embargoes did not cause the farm crisis of the 1980's and an aggressive export subsidy program to reduce surplus commodity stocks would not have prevented it."

Nor is there likely to be surprise in the conclusions that the trade and economic effects of unilateral embargoes and surplus disposal subsidies are highly circumstantial; that such effects are of generally limited duration and magnitude in competitive markets for fungible commodities.

Three Questions

Setting aside the question as to why a reexamination of the embargo issue could possibly have served any useful policy purpose at this particular time and the fact that the study carried a high price tag (about \$500,000 in earmarked, appropriated funds), three questions warrant discussion:

First, what lessons can be drawn from the analysis concerning possible future use of embargo and subsidy policy instruments?

An obvious, although not always heeded lesson, is that global interdependence severely circumscribes feasible trade-oriented domestic policy options. Unilateral embargoes and subsidies are likely to invite countervailing actions by both sellers and buyers in the affected markets, the result being rearrangement of trade flow patterns but limited net trade effects.

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Further, as the 1980 USSR embargo illustrated, political agreements among nations tend to be short-lived in the face of economic opportunity created by policy actions designed for unilateral benefit. Subsidies targeted to particular markets in which demand is price elastic and in which competitors do not respond with countervailing action might prove more beneficial. But it would seem that there are few such market opportunities existing in the 1980's. The ERS report is thorough and credible both conceptually and empirically regarding these principles.

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Second, are policymakers likely to heed such lessons from economists? Probably no more so than in the past despite the ERS tome. Whatever the economic lesson, embargoes and subsidies are likely to continue to be undertaken for political reasons, domestic and global, and with short term perspectives and objectives. That does not detract from the value of economic analysis; it merely illustrates that public policymaking is, in essence, a political process.

A third question is whether the study design suggests an institutional model

applicable more generally to economic research and policy analysis. There were five important features of the project: (1) the policy issues were comparatively narrowly focused, (2) the study design was multi-institutional, (3) it was conducted in accord with a strict deadline for completion, (4) it was richly funded by standards of economic research. Finally, the project had strong, well-focused leadership.

Lessons on Design and Conduct

Clearly, there are some lessons to be drawn from the design and conduct of the study. If economists are to be effective in the public policy process they must be prepared to focus on policy issues as they are defined in the process and to do so in a timely, communicative way. In that regard the ERS study warrants a passing grade.

Policy analysis, like policy formulation, is integrative in character. Thus there is frequently the need to draw together knowledge from a variety of sources and institutions and to use partial analysis in bringing that knowledge to bear in an analytical way on the policy issue at hand. Here, too, the ERS effort was successful.

The Test

Although there are useful lessons to be drawn from the ERS effort, the test is whether such a model can become operational on a continuing basis. Surely, we should not become dependent on Congressional mandates and short term infusions of capital for policy analysis.

We need integrative, policy-centered institutions capable of effective anticipatory analysis and communication on a continuing basis. The profession has had some success in that regard—the NC 117, International Trade Policy Research Consortium, and more recently, the National Center for Food and Agricultural Policy at RFF. The ERS study reaffirms the continuing need for such institutions. 