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Why It's Difficult to Reform

Economists have been frustrated for a long time by the fact that agricultural policies distort market prices, thereby leading to inefficiencies in resource use. Such distortions are ubiquitous and are to be found in developed, developing, and centrally planned economies.

Despite extensive research, countless symposia, and much preaching on the subject by economists, agricultural policies remain at odds with economic theory. One can even argue that in many countries they have become further separated in recent years.

Different Perspectives

Are economists wrong in clinging to their theory or are politicians simply wrongheaded in ignoring them? I submit that neither is wrong; they just have different perspectives.

In most countries of the world, agriculture is viewed as a *public utility* to be regulated in the interest of society. This proposition is patently obvious for a centrally planned economy where the state has an iron grip over the direction of resource use. But it is also true for most developed and developing market economies as well.

Functions of Government

It is generally accepted throughout the world that governments should perform certain functions for the agricultural sector because the competitive nature of agriculture inhibits their performance by farmers themselves. Research and extension are perhaps the best examples. There are other functions in which government has a broad social mandate to intervene—food safety and protecting land and water resources. There is even a broad consensus that government should provide at least a minimum safety net to protect farmers against extremely low market prices. Nearly all countries feel some obligation to assure their people an adequate supply of food at reasonable prices, although the definition of what is reasonable varies greatly. These later policies take many forms ranging from artificially depressing food

prices in many developing countries, to supporting the farm price of rice in Japan at about eight times the current world price, to putting an embargo on soybean exports in the U.S. during the early 1970's to hold down food prices.

Once one accepts the proposition that there are legitimate roles for government to play in agriculture, only the degree of involvement is subject to debate. It is but a "small" step politically, although possibly a costly one, from pro-

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viding a safety net against extremely low prices to protecting farm income. Political forces in both democratic and totalitarian nations drive the process toward more rather than less government intervention whether it is to exploit agriculture and retard its development or to over support agriculture. Both approaches have high costs, but governments seem willing to bear them.

Agriculture As A Public Utility

If most nations treat agriculture as a public utility for social and political reasons, which I believe they do, economic efficiency does not carry much weight in the minds of policymakers. Some attention is paid to the cost of agricultural policies in extreme situations, but the notion that governments have a legitimate right to intervene is rarely challenged by society as a whole.

Furthermore, the public utility psychology results in agricultural policy be-

ing driven primarily by domestic considerations and undermines reliance on trade. This is particularly so in importing countries, but some major exporters such as the U.S. and the European Community are not immune from it either. After all, free trade reduces a country's ability to control its own political destiny—which, of course is precisely what it is supposed to do in the interest of efficient resource use.

Two Implications

Treating agriculture as a public utility has two sobering implications for those of us who believe in the efficacy of the role of markets and prices in allocating resources. One is that international negotiations over the terms of agricultural trade and certainly over national policies is unlikely to produce much of consequence. Second, reforming domestic agricultural policy to reduce distortions is not something the political process wants to do, whether in the U.S., the European Community, or elsewhere.

Reforms will occur under extreme pressure such as when budget or social costs become outrageous or when the IMF leans on developing countries. It is hard to imagine, however, the IMF working its will on the U.S., Japan or the European Community in agricultural policy or other economic policy areas for that matter. Events may change the nature of distortions, but distortions are part of the agricultural landscape.

If an agricultural policy observer awoke today from a 25-year coma, he or she would feel that they have missed little. The more things change the more they stay the same!

In democracies, people participate in choosing the rules by which they are governed. In totalitarian regimes, the rules are chosen by the ruling elite. Given the complex and conflicting issues that both types of government have to deal with, there is no compelling reason why economic efficiency alone should have pride of place in the decision process.

The history of efforts to achieve more economically rational agricultural policies around the world is full of failures. The future looks no more promising. **■**

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