



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

**Australian Agricultural and Resource Economics Society
Annual Conference, Queensland, January 22-24 1997**

Contributed Paper

The Market for Ideas and Information in Commerce and Government: Aspects of Public Choice

by
R.W.M. Johnson
(Wellington)

Introduction

This paper is concerned with the influence of ideas on policy making in government principally; but the approach has wider applications in any organisation where decision making is hierarchical and reliant on alternative advice and support. Which is which will be clear as the paper proceeds. The public choice paradigm is useful because it focuses on the various actors in the policy forming process and explains why some actions are taken and others are not. Agency theory is useful because it explains how hierarchical organisations get the results they want. The upper echelons of decision making can be also likened to the market process, where there is competition between different suppliers of information, information gathering has a cost, and information, once collected, has public good attributes that make it difficult to privatize.

It is useful to start from a discussion of economics as a science: why is economics important to the policy process and is economic advice absolute or subject to fashions? Here the writings of Popper and Kuhn give some clues as to the nature of economic analysis and resulting advice and its acceptability. Second we explore the economic properties of ideas and information to ascertain whether market principles can be applied. Next, we look at public choice questions such as policy (provider) capture, political preferences (rent-seeking), 'Yes Minister' attitudes (obedience), and structural questions such as the flexibility of constitutions. We conclude with some observations on agricultural economics policy making in the framework set out.

Economics as a Policy Tool

The philosopher Thomas Kuhn stresses the power of ideas in his discussion of science paradigms (Kuhn 1970). The science paradigm is the common set of working rules that members of a scientific community share. These working rules are learnt in student days; they form the basis of examples which are set out in textbooks and they form a body of tacit knowledge. It as a consequence of the sharing of a paradigm that members of a science community learn to see things in the same way (Stent 1976, p.3).

The practitioners within the paradigm are what Kuhn calls normal scientists. They seek to solve puzzles which the paradigm has set. These puzzles, like jigsaws and crosswords are believed to have answers and the paradigm provides the promise of solving them. Normal science is about mopping up the puzzles within the paradigm and not challenging the paradigm itself.

Kuhn then introduces the idea of a crisis. This is a period when there is a debate over the nature of the paradigm. As normal science proceeds, either a discovery occurs or a puzzle is found to be not practicable and as a result the profession becomes aware that nature has somehow violated the paradigm. The crisis may have dramatic effects on those who share the paradigm for they have been taught that the puzzle can be solved, but try as they might, they cannot solve it. In turn, the

crisis leads to professional insecurity; despite their unease, the scientists remain dogged for to reject the paradigm is to cease to be a scientist.*

The scientists do not see these counter instances as falsifications of their theories; they pay more and more attention to them, possibly offering, half-heartedly, alternative solutions to them. Eventually, however, a new paradigm emerges. It may have been in existence before the crisis, or if subsequent to a discovery, developed after the crisis. In either case, it is the crisis which 'simultaneously loosens the stereotypes, and provides the incremental data necessary for a fundamental paradigm shift' (ibid, p.89)(quoted by Stent 1976). It is typical that the new paradigm is provided by outsiders or young men. For old scientists it is a matter of conversion. For them, after accepting the new paradigm, the world has become different!. Young scientists choose on the basis of persuasion. For them there is no obvious difficulty, and no conversion (Stent 1976, p.5).

Now Stent's contributions to this analysis lie in the application of Kuhn's ideas on the philosophy of science to economics and agricultural economics in particular (Stent 1976, 1995). '...the dominant paradigm [in Australian agricultural economics] has been that form of microeconomics best described as positive and emanating from the Chicago school..... much emphasis is placed on the deductive tools of mathematical analysis.....prices have become central to economic analysis..... 54 articles in AJAE accept entirely uncritically the assumptions of neoclassical economics that producers are profit maximisers and that provided the efficiency criteria of welfare economics are achieved, social welfare will be maximised' (1976, pp.6-11). Thus agricultural economists are very like normal scientists in the Kuhnian sense and are comfortable in the neo-classical paradigm. They are constantly trying to solve puzzles in agriculture [by regression analysis, LP and duality theory] that are circumscribed by the dominant paradigm!**

More recently, Stent quotes the results of a Canadian survey which found that, of 70 articles on production economics published in the main agricultural economics journals (including our two), very few questioned the premises of the standard neo-classical theory of production. 'They show a distinct lack of seriousness among agricultural economists in following the falsification doctrine'. 'The researchers never intended to test the theory, but merely use it for some less ambitious purpose' (1995, pp.5-6). Since most of us have observed this characteristic of the profession I will move on to more serious matters.

Fox and Kivanda (the Canadian authors) asserted that agricultural economists want to be falsificationists but do not practise what they preach. 'If we accept a Popperian view of methodology, then we must be more circumspect in our role as advisors and explainers' (ibid, p.9).

* Katouzian (1980, p.118) cites the case where the [prominent] authorship of a paper with unusual ideas was omitted on submission to a journal and the paper was rejected. On the mistake being rectified, the paper was accepted with profound apologies. Another case is where an established author proposes an idea which threatens the existing paradigm, it may be published and even countered by rational arguments put forward by the 'invisible college'. Even when the invisible college loses the case, 'the scientific community' continues to stick to the ruling paradigm as if nothing had happened.

**Pasour (1993b, p.64) says that agricultural economics historically has been characterised by three elements - the set of interrelated problems analysed, the reliance on economic theory in the analysis of these problems, and a heavy empirical emphasis. He pleads for a more institutionalist approach and less attention to the 'line fence' or farm management approach [where the discipline should be restricted to those things that could be acted upon by the individual farmer within his own fence line].

Popper believed that true science can only be achieved by eliminating false theories by rejecting them when they are shown, by empirical testing, to be false (the demarcation principle). This is done by constantly maintaining a critical approach to all (scientific) theory. Popper wrote 'Conscious of our fallibility we are only interested in criticising [theories] and testing them, hoping to find out where we are mistaken, of learning from our mistakes, and, if we are lucky, of proceeding to better theories' (quoted by Stent 1995).

Stent comments that it may be that, in rigorous Popperian terms, agricultural economics [and economics in general] cannot be termed scientific. He says that Kuhn's concept of normal science might be more appropriate for the profession. Agricultural economists would then not need to question the bounds of the paradigm within which they operate. The professional task would simply be to fill in the missing pieces of the jigsaw (ibid p.6). But the reviewer of Stent's article (P.Munz) takes a sterner line '...given a certain paradigm, both economics and psychology can be pursued as normal science. The question is whether any economic or psychological paradigm can be called scientific? Probably not by Popperian standards. If not, where does this leave normal economic science? If the paradigm is dicey, the normal science pursued under it is also dicey.' After this blast, Stent observes that if the profession were to adopt it, it would lead to a far humbler and more tentative approach to policy matters than is currently the case (ibid, p.6).

Further discussion of these matters can be found in a recent article by John Mullen (Mullen 1996). Mullen is concerned with why different disciplines come up with different answers to policy questions. Agricultural science is an area where logical positivism still has strong appeal (ibid, p.220-221). Positivism was developed in the biological and physical sciences from a viewpoint that value free knowledge can only be obtained from observation or experience. Logical positivism uses logic to develop theory from past observation. Following Popper, agricultural science is thus characterised by the formulation of testable hypotheses from existing theory and the use of controlled experimentation to test for falsification*. If the hypotheses are falsified then theory should be adjusted in a logical manner to account for this knowledge and new testable hypotheses should be formulated and tested (ibid, p.218)

Mullen concludes that agricultural scientists have been much less introspective about methodology than economists. This might explain why scientists question the rigour of the eclectic approaches of economists and more fundamentally, the value judgements embodied in the assumptions behind economic models. This perception of lack of rigour is exacerbated when economists make inappropriate assumptions about biological systems! Second, a reliance on positivist approaches is likely to be inadequate when dealing with policy issues or research evaluation issues where trade-offs are required between multiple objectives. As noted by Randall (1993, p.48), agricultural economists are disturbed by the inconsistencies between the orthodox methodology of economics that enshrined scientific objectivity and the pragmatic ideology of the land grant college that emphasised science in 'the service of human-kind' (ibid p.221).**

*Strictly speaking, economic deduction regards hypotheses as conjectures, guesses or hunches, whereas the logical positivist believes that they arise directly from sense-experience; hypotheses should be subjected to tests aimed at their *refutation*, whereas the logical positivist would aim at *verification* (Katouzian 1974, p. 281).

** Beside Randall (1993), Just and Rauser (1993) provide a very interesting analysis of the rise and fall of the land grant system in the US. As I understand their argument, the system was very [contd]

Mullen remarks on the closer scrutiny that public science in countries like America, New Zealand and the UK now receives (ibid, p.222). However, in Australia this reassessment by economists of the role of public institutions in rural research has in general not been accepted by agricultural scientists and producer organisations as evidenced by submissions to the Industry Commission. Nor has it had much impact on science policy although there is some evidence that this narrower view of the role of the public sector may become influential in guiding how public institutions respond to reduced public funding.

The economic approach to public services is shaped by views of market failure and provider capture. This has now been accepted as one of the new paradigms of economic thinking. Mullen observes that the role of government in the economy as a whole has been completely reviewed. Believers in the paradigm have responded to external influences such as community desires for lower taxation driven by perceptions of government failure. In areas such as banking, telecommunications and transport, the paradigm has been acceptable widely enough to large sections of the community that governments have withdrawn from these areas in favour of the private sector.

However, in Australia, there has been less success in persuading the science community that government should change the nature of its involvement in providing research services particularly to the agricultural sector (ibid, p 223).

In this reconstruction, I am putting the emphasis on the role and acceptance of ideas among professionals whose job is giving policy advice. I am using the economics discipline as a kind of surrogate for the greater bundle of ideas which necessarily enter the policy decision making process. It is probably advisable to dwell on the part with which one is familiar. I want to establish that economics is not a pure science in the Popperian sense, but that it does more readily conform with Kuhn's normal science. The employment of paradigms in economic thinking is probably commoner than generally thought and accepted. That is, ideas in economics can be fashionable or unfashionable within the profession. They are subject to quite rigorous testing in practice and we modify our theories and models accordingly. It can be observed that some economic paradigms (say on the appropriate role of government) become more widely accepted in the decision-making community as well; that is, ideas embraced by such leaders as Thatcher become very influential indeed. We can also observe a lag in the process of acceptance. Decision makers (in government and the private sector) are often influenced by their own experience and education. They tend to run with a relatively simple proposition that commands the majority they need for continuance. As Keynes observed 'practical men, who believe themselves to be quite exempt from economic influences, are usually slaves of some defunct economic scribbler'.*

The information market

I am confining the discussion to the use of ideas and information in decision making. We are

**[contd]successful in initially meeting the needs of farmers, but as the farm sector has decreased in economic importance and agricultural economists have become more sophisticated (mathematical?), the initial synergy has been lost; as a result *funding* the land grant universities has declined seriously. As Pasour (1993b, p.66) points out, the high level of funding created a *dependence* on the land grant system for professional agricultural economists, which in turn, *may* have restricted their freedom of enquiry to pursue [better] social science.

* How else does one explain the rise of environmentalism? Even the AARES has changed its name!

concentrating on the assembly of policy advice to decision makers and how economics plays a part in the process. We want to discuss whether this process has particular economic attributes that aids our understanding of the process. It might be useful to see ideas as serendipitous (an unexpected discovery) and information as fact gathering and processing. In common they will both be part of a report writing and/or verbal process of persuasion to get things changed.

In different circumstances information might be a public or a private good. Without some control over the supply, information is non-rival in consumption (consumption by one does not reduce availability to others), and it is public for all to use (free riders cannot be excluded). These properties could typically lead to underinvestment in information gathering if the benefits cannot be fully captured. Private information is common enough in the form of trade information, patented information, and commercial and government confidential information collected. We would expect a closer match between costs and benefits of gathering such information.

In agriculture, research and extension are about different forms of information. Both have public good characteristics and the provision of both is dominated by public funding. In the case of general research, a large proportion of national income (typically 1-2% of GDP) is devoted to exploring the boundaries of knowledge and its application to mankind. In the case of agricultural research, the level of public funding is higher than for non-agricultural research. Extension is the transmission of information toward the particular end of improving agricultural productivity-it used to be largely public funded but is much reduced in recent years.*

The price of information is related to the cost of obtaining it and the control over its disposition. All information gathering has a cost and those who purchase it would be expected to pay what it cost to gather. Gathering information needs to be seen as an investment and makers of such investment will have regard to the payoffs that can be achieved by gathering it.** But if control cannot be exerted over its sale, then the typical pattern of under-investment occurs. Hence there are a lot of devices in society for protecting the supply of information to prevent public consumption and preserve it as a private good. It could be said there is a degree of monopolistic control over information where conditions permit and the property rights can be protected. In this case monopolistic pricing would apply. Discovery of information might be a quite expensive process.

The ultimate investment in information is investment in human capital. Here the individual clearly

* Just and Rauser (1993, p.70) call the land grant-university system [in the US] one of the most successful innovations in the history of education. The system has supplied products with public good characteristics (new crop varieties, improved breeding stock, improved management practices) which have been easily reproducible and have not lent themselves to private market development and appropriation. Only parts of the successful US system were copied into Australia and New Zealand but the pressure for change [and the challenge to the public good argument] is the same for well-known reasons (Mullen 1996).

**Rosenberg (1993, p.23) illustrates the process very well: 'the individual who first acquires it, and makes use of it to financial advantage, may then sell the information, but without thereby losing the use of it. The buyer may in turn sell the information, and sell it to many others at a far lower unit price or even total revenue than it cost the original discoverer to acquire it or the first purchaser to do so. But if the best market price is less than the cost of production, everyone will wait around hoping to purchase new information instead of seeking it!'

invests in a good which can be transformed into future income. Such education was thought to be a public good in former times but fiscal austerity has successfully but partially privatised the funding of this kind of investment in recent years.

In any commercial exchange involving information, optimality assumes that the parties have equal access to the information to make informed agreements. If there is asymmetry in the supply then the optimum is not achieved. If the transaction costs of reaching toward equality are unequal the same applies. The principle applies to agency relationships i.e. as between a principal and an agent (an actor and his agent). Adverse selection describes the case where the principal does not have sufficient information about an agent before agreement is reached. Moral hazard is the case where the agent's behaviour after agreement cannot be monitored or anticipated. Agency theory is more pervasive than sometimes thought as Jensen and Meckling (1976) point out,

The problem of inducing an agent to behave as if he [or she] were maximising the principal's welfare is quite general. It exists in all organisation and in all cooperative efforts-at every level of management in firms, in universities, in mutual companies, in cooperatives, in governmental authorities and bureaus, and in relationships normally classified as agency relationships such as are common in the performing arts and the market for real estate.

These principles apply in the political market as well as will be discussed further below.

I have framed this discussion so as to stay free of the public choice implications of information markets and investment. I have concentrated on information as a public and private good and how supply affects the nature of economic exchange. Transaction costs arise in monitoring agents and seeking information. Differences in information supply and/or access favour those with the greatest access and lead to sub-optimal solutions. Public good properties of information lead to under provision. The case for government intervention follows this reasoning.

Information is used here in a general sense to mean any piece of knowledge that is worth collecting, researching or investing in. Ideas are a more elusive concept that involve serendipity and systems of thinking and inspiration. Persuasion and presentation are necessary to transform good ideas into useful information. Understanding the background and history of events are useful. But understanding why some systems of thought [or paradigms] are more important than others or are more dominant than others is a little understood phenomenon. Normal science describes the behaviour of people who believe in a particular paradigm and crises help explain why accepted paradigms sometimes change; but what explains the movement to deregulation and withdrawal of government from economic exchange? Apparently, some ideas have their time and others do not. Satisfactory answers to these questions need to be sought.

Public Choice

In this section I want to talk about the use of ideas and information in policy making in government. In this role, information has power implications as well as transaction cost and asymmetry problems. Again I use economics as the main source of ideas about advisors in government though the principles probably apply to other disciplines.

Political markets: Public choice has focussed attention on the relative power of different groups in reaching decisions. Groups are assumed to be motivated by self-interest - that is, politicians in relation to getting re-elected, bureaucrats in relation to survival and self-protection, and pressure groups in rent-seeking. Using the tools of economics, the meeting place where these influences are resolved can be called a political market (Johnson D B 1961, p.11). The political market can be seen as the collective expression of individual and group preferences through an aggregate decision

making process, the government polity. Votes determine the provision and allocation of resources through the political process. The political market is where policies are sorted out. Potentially it involves all the groups in society and the collective decisions that are ultimately reached reflect the respective power bases of the participants.

If economists can define the conditions to be met in order to have an efficient private market it follows that they should be able to define an efficient political market. If the respective groups represented in the political market can negotiate and then agree on a preferred position or policy then it is considered that they will have used least-cost ways of reaching that decision and each group would have given away the least it could afford. The groups would need equal access to information. Therefore in the sense that no one could be made better off the decision is the most efficient one that could be reached.

The consequences of this supposition are that there is no point in legislators and analysts positing public interest policies, as the private interest process is actually more efficient in reaching the agreed goals. There would be little or no scope for economic reform, or for public policy research, in this outcome (Pasour 1993a). If there is no superior available alternative to a current government programme, how can public policy be improved? Proponents of this view argue that economists have little role in suggesting improved methods in the public sector and should devote their energies to the positive analysis of the laws of operation of the policy process (Quiggin 1987, Martin 1989).

This view of the political process involves the assumption that the various decision makers have equal access to all the necessary information to make informed agreements. It also implicitly has the assumption that an exchange of information takes place and there is capacity to analyse information in an unbiased way (R Jefferys pers com). As Stigler (1982) put it, 'if we look at any important economic policy of the state, we shall find that it takes account of *whatever established knowledge economists possess*'. It then follows that if economists' views were available when the decision was taken and the private interest view prevailed, then policy economists have made little contribution to public policy, except making the necessary information available!

A major criticism of this approach is that it assumes extraordinary knowledge and foresight on the part of the various groups involved (Pasour 1993a, p. 10). He believes that imperfections are part of the political process as in private markets and that rent-seeking and government failure are more typical. Another view is that political processes, such as simple majority voting, are not all that efficient in aggregating preferences across individuals, and that the effects on social welfare of some kinds of assistance are so complex that the economic losses generated by such policies could scarcely be optimum in any sense (Martin 1989, p. 3).

Policy capture: In the Westminster system, public policy advice is offered to decision makers but does not dictate the decision. Of course many decisions cannot be rationalised in the light of the information offered on its own. Public policy advice is an information collecting, information exchange and analysis role which happens to be dominated by economists. Final decision making is withheld from them but those with control of the information function and the advisory functions are bound to have a major say in framing policy, given the detail that is ultimately required in preparation.

My conclusion is that the holders of information have a very powerful role in the political process. Information can be withheld, falsified, presented in a certain light and so on. It is balanced, of course, by alternative sources of information available, and not a little prejudice and pre-conceptions (as Keynes pointed out). Private groups in the political process also are very good in

withholding information and manipulating it to meet their objectives. Marketing boards are not above this kind of behaviour. Skees (1994, p.46) suggests the short-term focus of policy making in the US leads to the use of naive criteria or use of subsidised information supplied by rent-seekers. This increases the power of those with the most to gain from individual policy decisions and who are positioned to focus attention on selected bits of information.

Agency theory: The relationship between advisors and Ministers is illuminated by the agency theories referred to earlier. If Ministers are principals and the advisors are agents, the advisory process is likely to be characterised by some conflict of opinion and possible waywardness (if not actual shirking) on the part of advisors. The public and many Ministers have a very thwarted view of the activities of senior bureaucrats (aided by TV programmes). The management of such a principal-agent relationship is complicated by incomplete information, asymmetrical information, and considerable uncertainty. Agents have access to information that principals do not (and vice versa) and have an incentive to exploit this situation to their advantage; the behaviour of agents is often difficult for principals to observe; and there are frequently uncertainties surrounding the way an agent's actions are translated into the outcomes sought by the principal (Boston *et al* 1996, p.19). Resolution of these problems has been addressed through better specified contracts between the principal and agent though it seems to me that the asymmetry problem cannot be resolved in this way alone. The relative amount of time Ministers have to devote to a topic compared with officials is so different that the imbalance cannot be reversed (Lowi 1972). Officials have to pre-digest issues and serve up a set of alternatives that can be dealt with quickly and which conform to the *pre-conceptions* of the decision makers. I tend to see it as a permanent feature of the political process that can only be attenuated by rules of good conduct and clear demarcation between the roles of each party.

Positive v normative economics: More scrupulous attention to the hidden assumptions of economics has led to the rise of positive economics (Blaug 1992, p.129). Positive economics is about what is, the analysis of facts, the *deductions* from the basic premises. Normative economics is about what ought, values shared, alternative course of action. Attention to the role of positive economics in policy making reduces the economist to a technocratic role. Blaug describes the separation/divorce of normative and positive economics as a clarifying and *therapeutic methodological convention* due to the influence of Lionel Robbins and one that economists might use as an ideal to aim at rather than a description of what actually takes place.*

The economist as technocrat: The passive view of economists as advisors is that they have a role in analysing the alternatives that face decision makers but that they should not impose their own values on them. The case is usually made in terms of the distinction between ends and means, between instruments and objectives as in the Robbins definition of economics as the science that studies the allocation of scarce means among given but competing ends (ibid, p.128). Governments should define their objective function in terms of multiple ends or goals of economic activity, and economists should delineate the 'possibility function', and the costs and benefits of alternative allocations of scarce means/resources. If the means-ends distinction is rigidly maintained, economic advice to governments can be value free - i.e. the economist is a technocratic policy advisor.

* Katouzian (1980, p.143) puts a rather different point of view. Explicitly descriptive statements may be value impregnated even though they are objectively correct. Explicitly normative statements need not necessarily make moral judgements whether or not they are acceptable. In the preparation of policy advice, there is ample scope for scientific analysis and policy prescriptions can be as positive and value free as the practitioner can make them.

There are problems with this approach, according to Blaug (ibid, p.129). The notion is that the economist displays the menu of alternative possibilities, and then *the* decision maker chooses from that menu in the light of his preference function. But economic advice is typically sought, not just to elucidate the possibility function, but also the preference function. The decision maker seeks advice on both ends and means. Blaug asks how is the economist supposed to discover the decision maker's preference function from among the objectives without imposing his own?

Asking a politician will produce a blank stare!! Politicians are committed to maximising electoral support which is best secured by blurring objectives not by revealing them. Nor can the economist *deduce* the politician's preference function by studying his past behaviour; he may be inconsistent between one decision and another; he may have altered his preference function over time as a result of learning-by-doing; besides, circumstances themselves are changing and this itself makes inference difficult. Furthermore, the concept of a single decision maker is, in any case, a convenient fiction; typically decision making in respect of public policy is carried out by teams, whose members may well disagree about ends, *depending on which member of the team has the upper hand at any moment of time*. If the economist cannot discover the preference functions that underlies policy decisions, neither can he evaluate past decisions nor improve future ones! For a discussion of the evaluation of political preference functions in agricultural economics see my paper 'Modelling Government Processes and Policies in Agriculture: a Review' (1995, pp 388-389 particularly).

Disjointed incrementalism: Blaug says that any decision maker starts with on-going activities and gradually begins to define his objectives *in the light of his experience* with policies. Decision makers do not try to get what they want, rather they learn to want by appraising what they get! Means and ends are indissolubly related, and evaluation of past decisions, or technical advice about future decisions, 'searches in vain for a social preference function that is not there'. Thus decision making is disjointed as it is repeatedly attacked in bits and pieces, it is incremental because it considers only a limited range of policies that differ only incrementally from existing ones; disjointed incrementalism does not merely adjust means to ends but explores the ends while applying the means, in effect choosing means and ends simultaneously! (Braybrooke and Lindblom 1963). Most policy advisors will recognise the truth of these observations.

Blaug on economics as a science: Public decision making never achieves more than a third best solution, because the time required to collect adequate information to secure an improvement in fine tuning is the ultimate scarce resource. But value-free technical advice to governments can only be an ideal type which does not accord with reality. Blaug suggests that such a model of the advisory function contributes to systematic self-deception among economists. Positive paretian welfare economics is not free of value judgements nor does it rest on innocuous value judgements that allegedly command universal assent. *Economic advice must ultimately rest on the falsifiable hypotheses of positive economics, on the demonstration that the empirical relationships between economic variables are this and not that*. When economists enter the area of normative economics their skills are relatively undeveloped because of their long standing denial of the value aspects of economic beliefs. 'The scope of positive economics is smaller and that of normative economics larger than is frequently made out' (ibid, p.131).

'The mutual interplay of facts and values is precisely the fuel that fires scientific work, no less in the social than in the physical sciences. Scientific progress comes only when we strive to maximise the role of facts and minimise the role of values. If economics is to progress, economists must give absolute priority to the task of producing and testing falsifiable economic theories. In the final analysis, it is only the mechanism of hypotheses testing that can be relied on to weed out political and social prejudices at a rate faster than the one at which

they are being continually recreated by new circumstances. The Mecca of economics is not, as Marshall thought, biology, or any other branch of science. The Mecca of economics is the method of science itself (ibid, p.134).

Comparative constitutions In an earlier paper, I noted that the Westminster system has attributes that constrain the relationship between advisors and decision makers (Johnson 1994, p.4). The system developed working rules for the respective roles of the bureaucracy and Ministers, based on the so-called impartiality of the advice given, and the right of elected representatives to make decisions on behalf of the citizenry. As discussed earlier, closer definition of the respective roles of principals and agents (as this is what they are) has resulted in widespread bureaucratic reform in countries based on the English parliamentary model. In New Zealand, this is manifested in tighter contractual relationships between Ministers and CEOs, and between CEOs and departments. This has been accompanied by tighter implementation of financial systems and goal setting and reduced resources to do the job. But not surprisingly, in the New Zealand case, the new systems have not altered the advisory role of the bureaucracy, alternative sources of information have not been developed, and the possible threat from enhanced ministerial bureaux has not materialised.

Japanese and US experience in this area is instructive. In Japan, a bureaucratic elite dominates the system (as in France) and is relatively impervious to outside pressure including the lesser Ministries. In the US, planning capabilities are less inward looking and more responsive to particular outside groups

According to Boyd (1995, p.238), Japanese planning capabilities are substantial, and are active in large policy communities that include very functionally oriented peak business associations as well as dedicated technocrats. There is little openness to transnational elites. Linguistic and attitudinal factors associated with the national culture limit interactions with foreigners, although exhaustive efforts are made to obtain information about other states and markets. Policy planning is an intensive in-house activity, principally within the policy communities dominated by the Ministry of Finance and the Ministry of International Trade and Industry. Extensive cross-functional information-sharing generates much innovative material, which develops with emphasis on working level autonomy, but with apparent technocratic reluctance to use inputs from independent policy research institutes.

In foreign trade, the two big departments are strongly neo-mercantilist. The Foreign Ministry's participation in on the larger issues of external economic relations appears to be relatively weak, because of the very large aggregations of interests identified with the Ministries of Finance and International Trade and Industry. The strengthening of Japan's large-scale involvement in the world economy ensures increases in bargaining strength that can cause less consideration for the goodwill of trading partners and undue optimism about accommodating shifts in their policies. This is possible because of the long social distances across which Japanese decision makers relate to other governments and because, as relatively closed systems, the major Japanese policy communities generate solidarity partly with emphasis on successes gained in contests for world market shares (ibid, p.238).

In the US, planning capabilities are less inward looking and more open to advocacy by transnational elite networks, but are affected by divided government and by the pluralism responsible for a conflictive and reactive policy style, oriented toward short-term options (ibid, p.238). Planning is directed from the higher levels of the administration by political appointees with extraneous career interests, and this limits autonomous working-level engagement with fundamental policy issues. Working-level planners, moreover, experience intensive conflicts because they are attracted to operational responsibilities that will advance *their* interests. As

members of the permanent bureaucracy they cannot move into the political levels with higher management functions unless they are assisted by patronage, and in these levels they risk displacement by the next administration.

Planning tends to be concerned mainly with strategies for policies favoured by the executive, which can be based on *subjective preferences* formed in restricted high level exchanges, with very active vote-maximising concerns. The common executive style is to avoid the informal accountability of intensive collective decision-making while controlling separately the various branches of the administration, in line with displays of resourceful engagement with all politically prominent issues. Media treatment of current events influences choices of these issues, in conjunction with proliferating demands in the fragmented national system of interest representation. Streams of advisory papers from numerous policy research institutes contribute to thinking at the working levels, but generally have little influence on the emergence of politically salient topics that attract executive attention*. Working level attitudes to policy issues, while guided by higher level directives authorising planning directives, have to reckon with possible idiosyncratic shifts in the objectives of those endeavours. Executive preferences tend to change, especially in response to opportunities and problems posed by the strong pluralism of the American system (ibid, p.239).

Further observations on US pluralism In the light of recent publicity, it is interesting that the Secretary for State is appointed by the President, subject to the approval of Congress. The Secretary is under no obligation to Congress, but must administer the laws passed by Congress. Congress can consult the Secretary if it desires (J Sinner, pers.comm.). Legislation must be agreed by both the Congress and the Senate (sometimes collectively known as Congress). Public submissions are taken at House Committee hearings. Committee staff prepare reports and make recommendations. Departments can supply material to Committees and may attend hearings as a privilege but not as of right. Staff work to instructions from Congressmen and Senators. The 'mark up' process corresponds to our select committee stage and differences between the two houses are resolved. Negotiations on difficult Bills like the Farm Bill might take a long time (Runge 1997 forthcoming)

These arrangements are seen to be a broader system of governance than Westminster with greater public access. Congress is an effective conduit for ideas and public participation. Any member of Congress can be approached and any member can introduce a Bill, or an amendment to a Bill**. Party discipline is said to be weaker than under Westminster systems. Statutes are written by Congress, but regulations are written by the departments. Regulatory authorities are common. Authority stems from the legislature alone. Jim Sinner (pers.comm.) remarks that these latter arrangements allow interest groups to place pressure on either the Congressmen or the statutory authorities set up under legislation. Readers may recall that Stigler's analysis of *policy capture* was

* Castle (1993, p.87) notes that in his experience of state and federal policy, only infrequently has it been possible to apply particular research results directly to policy problems. Bureaucracies sometimes commission economic research for a particular problem but even then the results often turn out not to be directly applicable. Such commissioned research works best if the bureaucrat is an economist who attended the same graduate school as the researcher.

** One consequence of the introduction of mixed member proportional representation in New Zealand is a change from only Ministers having the power to introduce spending proposals or re-order spending priorities, to a system where any Member can introduce a proposal for more spending before Parliament or propose changes to the way the Government is spending money (Dominion 21/11/96). However, a veto is also provided to the elected government if a proposal has a more than minor impact on the Government's fiscal position.

drawn from the second area (Stigler 1982).

Policy coordination in Australia and New Zealand: Both countries follow a loosely structured interdepartmental clearance system before Ministers take papers to cabinet. Prior to 1984, New Zealand had a more formal system (the officials economic committee) which vetted all economic papers going forward. It became a causality of ministerial suspicion (of its power) soon after the change of government. In Canberra IDC's (interdepartmental committees) examine all big items and major issues that cross departmental boundaries (R.Reynolds, pers.com.). In both Queensland and Canberra, adequate consultation is a formal requirement.

In both countries, the bureaucracy is staffed to minimise the need to draw on outside research institutes and sources of policy advice (quite like Japan really). The research institutes look to the private sector for funding. ABARI used to be a stand-alone research bureau when founded by Crawford but has now been absorbed into the system. Some readers will know what effect this has had on outcomes and outputs.

Policy delivery and policy capture: Mullen's concerns related to philosophic differences between the scientists and economists in NSW Agriculture. These concerns related to *policy preparation*. In my presidential address I referred to problems working with the veterinarians (Johnson 1994). I also noted that changes in working arrangements at the Cabinet level (the abolition of officials' coordination committees) lead to different work loads among departments with the emergence of dominant and minor departments (*pace* the Japanese model!). This leads to a form of *policy capture*. In this sense, there is a lack of competition in the ideas market, and a diminution of opportunities for democratic solutions. One official has said to the author the trick is to combine good' policy advice with workable and beneficial results for politicians.

I have said the public and Ministers have a very thwarted view of bureaucracy. There is great suspicion that information is withheld, departments are self-seeking and self-perpetuating, and they thwart the will of the people (i.e. through their elected representatives). There are two answers to this: with the information and time imbalances involved there is very little that can be done about it (short of alternative sets of policy advisors), and secondly, what can be done is to modify and improve the rules of conduct at the critical points so that balanced and reasoned discourse can follow. Alternative constitutions provide for political appointments within the bureaucracy, and more open systems of access and debate for the public (as in the US).

The 1984 crisis in New Zealand: One criticism of the reforms in New Zealand post 1984 was that they represented an extreme form of *policy capture* (by the Treasury). As I have already indicated (p.4) the move in ruling political paradigms in the 1980s was widespread and not confined to single countries. Professor Auction reckoned New Zealand represented the more extreme version of the new managerialism (1990, pp.125-6). Now the former Treasury Secretary has published his views of these events (*Dominion*, 11/12/96).

Advisors had been preparing proposals for change for several years before the election. The basic outlines of the system were established immediately after the election in a few hours of urgent meetings between senior Ministers and key advisors. Following these meetings a programme for implementation was put in place over the next two years that changed the way in which every government agency was managed.....the 1984 election signalled a foreign exchange crisis that developed into a constitutional crisis, apparently creating the necessary preconditions.....there are many countries in crisis that have not succeeded in implementing or even attempting to introduce programs to make governments more effective.

Changes in the policy mix would normally be expected when the parties change after elections. In a way the governing paradigm is remodelled by the parties' promises and manifestoes issued before the election and then put into action after the election. Presumably, some form of crisis changed the views of a sufficient number of voters to make such a change. Under mixed member proportional representation, the pressure for change is teased out *after* the election by the successful coalition parties. This process creates a divergence between the promises made before the election and the compromises achieved after the election.

Last Word

I find the model advanced by Blaug the most compelling. The idea of disjointed incrementalism describes the policy process most aptly. Politicians (decision-makers) work largely by trial and error. Experience is therefore a very desirable attribute for politicians. Blaug does not really address the issue of political inspiration or ideas. Certainly, fashions about less government have coincided with times and fashions of fiscal austerity. This does not have to be so as witness the continuing fiscal deficits in the USA. It seems a mix of views prevails around the western world on the degree of government intervention that is warranted. Second, all decision-making is constrained by incomplete information, asymmetrical information and uncertainty. I have suggested that rules of conduct are needed to balance these imbalances as they are inherent in the principal-agent relationship. The issues are partly addressed in the US Constitution where access to decision making is more open and alternative sources of advice are available. In Australia and New Zealand, the model of government employed tends to internalise all policy advice with relatively little outside consultation. Economists believe that are giving independent advice, but in reality, they are themselves constrained by the conventional economic and political paradigms of the day. They are more like Kahn's normal scientists and some degree removed from true scientists in the Popperian sense.

References

- Aucion, P. (1990), Administrative reform in public management: paradigms, principles, paradoxes and pendulums, *Governance* 3, 115-137.
- Blaug, M. (1992), *The Methodology of Economics: how economists explain*, second edition, Cambridge University Press.
- Boston, J., Martin J., Pallot, J. and Walsh, P. (1996), *Public Management. the New Zealand Model*, Oxford University Press, Auckland.
- Boyd, G. (1995), *Competitive and Cooperative Macromanagement. the challenges of structural interdependence*, Edward Elgar, Aldershot, UK.
- Braybrooke, D., and Lindblom, C.E. (1963), *A Strategy of Decision: policy evaluation as a social process*, New York, Free Press.
- Castle, E.M. (1994), On the communication gap in agricultural economics, *American journal of Agricultural Economics* 75, 84-91.
- Fox, G. and Kivanda, L. (1994), Popper or production? *Canadian Journal of Agricultural Economics* 42, 1-13.
- Jensen, M. and Meckling, W. (1976), Theory of the firm, managerial behaviour, agency costs and ownership structure, *Journal of Financial Economics* 3, 305-60.

- Johnson, R.W.M. (1994), The national interest, Westminster and public choice, *Australian Journal of Agricultural Economics* 38, 1-30
- Johnson, R.W.M. (1995), Modelling government policies and processes in agriculture: a review, *Review of Marketing and Agricultural Economics* 63, 383-393
- Just, R.E., and Raussler, G.C. (1993), The governance structure of agricultural science and agricultural economics: a call to arms, *American Journal of Agricultural Economics* 75, 69-83.
- Katouzian, M.A. (1974), Scientific method and positive economics, *Scottish Journal of Political Economy* 21, 279-287
- Katouzian, M.A. (1980), *Ideology and Method in Economics*, New York University Press.
- Kuhn, I. (1970), *The Structure of Scientific Revolutions*, University of Chicago Press.
- Lowe, I.J. (1972), Four systems of policy, politics and choice, *Public Administration Review* 30, 314-325.
- Martin, W. (1989), Australian agricultural policy 1983-88, Paper presented to 33rd annual conference of Australian Agricultural Economics Society, Christchurch
- Mullen, J. (1996), Why economists and scientists find cooperation costly, *Review of Marketing and Agricultural Economics* 64, 216-224
- Pasour, E.C. (1993a), Economics and the public policy process: what can economists do?, *New Zealand Economic Papers* 27, 1-17.
- Pasour, E.C. (1993b), The work agenda in agricultural economics: why a shift in emphasis is warranted, *American Journal of Agricultural Economics* 75, 60-68.
- Quiggin, J. (1987), Egoistic rationality and public choice; a critical review of theory and evidence, *Economic Record* 63, 10-21.
- Randall, A. (1993), Agricultural economists and methodology, *American Journal of Agricultural Economics* 75, 48-59.
- Rosenberg, A. (1993), Powers and limits of agricultural economics, *American Journal of Agricultural Economics* 75, 15-24.
- Runge, C.F. (1997, forthcoming), Agricultural policy reform in the United States: an unfinished agenda, *Australian Journal of Agricultural and Resource Economics*
- Skces, J.R. (1994), Relevance of policy analysis: need for design, implementation and packaging, *Journal of Agricultural and Applied Economics* 26(1), 43-52.
- Stent, W.R. (1976), Critique of the methodology of Australian agricultural economics, *Australian Journal of Agricultural Economics* 20, 1-18.
- Stent, W.R. (1996), Sir Karl Popper 1902-1994: falsification and agricultural economics, *Review of Marketing and Agricultural Economics* 63, 3-8.
- Stigler, G. (1982), *The Economist as Preacher and Other Essays*, University of Chicago Press.