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*The Food Chain, Markets, and Prices: Implications for  
Research and Policy*

President Johnson's exhortation that agricultural economics should have a problem-solving focus and Vice President Renbourg's probing quest for policy and research implications provide a challenging assignment. Within the theme 'The Food Chain, Markets, and Prices', there have been many interesting papers presented at this conference, spanning from methodological and conceptual contributions to specific empirical analyses. Obviously, it is impossible to glean and identify every research contribution and policy implication from such a wide array in the short time available.

My observations reflect the personal biases of an academic agricultural economist who has been influenced by brief forays into several agricultural policy formulation processes in Canada, a number of short-term assignments in Third World countries, and almost a decade of academic administration! Clearly, others would bring different perspectives to this assignment.

The thrust of my paper is to identify continuing research needs in the area of food chain, markets, and prices that should be addressed by our profession. The remainder of my paper considers the following: (1) some general observations on why policy-makers do not always listen to agricultural economists, (2) the notion of growing interdependence, (3) market imperfections and distortions, and (4) continuing and emerging research needs in the food chain, markets, and prices.

WHY POLICY-MAKERS DO NOT ALWAYS LISTEN TO  
AGRICULTURAL ECONOMISTS

One of the recurring observations made in various papers and discussions at this conference was that policy-makers often ignored the well reasoned analysis and obvious policy advice offered by agricultural economists. There exists an apparent clash in the 'concepts of rationality' between agricultural economists and politicians. Perhaps we are overly critical of ourselves, given some of the following rather basic observations.

We must remember that more than just economic considerations enter into dealing with most policy problems. Politicians need to be re-elected on a fairly regular basis (at least in most countries). These politicians are prodded and influenced by various other 'stakeholders' (besides

agricultural economists). These include farmers, consumers, agribusinesses, other special interest groups and bureaucrats.

As potential contributors to the agricultural policy-making process, we need to recognise that the scenario faced by politicians gives rise to a *hierarchy* of often conflicting goals. At the top of the hierarchy we tend to find *political* goals. These may include survival as a nation, political stability and food security. Political goals would typically be followed by *general economic* goals such as price stability, reasonably full employment, and positive terms of international trade. Eventually, *agricultural* goals enter the picture with objectives of stability and adequacy of farm incomes, food self-sufficiency, farm price stability and orderly structural adjustments.

Clearly, this hierarchy and listing is incomplete and debatable. As agricultural economists we need to understand the existence of this hierarchy of conflicting goals (in some form) in every country, and the objective of policy-makers (politicians) to arrive at balances and compromises. Policy-making is the 'art of the possible'. 'Economic optimality of rationality' is only one dimension of this art.

#### THE NOTION OF GROWING INTERDEPENDENCE

Much has been said at this Conference about the growing interdependency within our turbulent world. McCalla and Josling in their paper entitled 'Agriculture in an Interdependent and Uncertain World: Implications for Markets and Prices' present a simple but useful framework for viewing and evaluating the degree to which a country's agriculture is integrated into the domestic and international economies. Domestically, the degree of integration can range from a traditional subsistence agriculture quite isolated from the rest of the economy, through a transitional agricultural sector, to a mature agricultural sector fully integrated into the domestic economy. Internationally, the agricultural sector can range from an autarchic (fixed relations) state quite independent of the rest of the world to an agricultural sector that is fully integrated into the world economy and completely exposed to the fluctuations and instability in the world economy.

This framework leads to some interesting policy implications for the food chain, markets, and prices. First, not all countries suffer the same fate from world economic instability. Clearly, a country whose agriculture is highly integrated into the domestic and international economies is affected more in economic instability than a country whose agriculture is isolated from domestic and international economic vagaries. Second, a country's range of options for the support of its agriculture is dependent upon the degree of integration both domestically and internationally. Third, the desirability of economic integration, trade liberalisation, and resulting stability in commodity markets is conceptually appealing. Yet, the reality is that there is a growing tendency towards protectionism, further destabilisation of world

commodity markets, and even more uncertainty for exporters and importers.

These implications suggest a very crucial policy and research question for agricultural economists: what is the optimal degree of economic integration of a country's agriculture, both domestically and internationally? Is the ideal of a mature agriculture fully integrated into the domestic and international economies necessarily the most appropriate one?

## MARKET IMPERFECTIONS AND DISTORTIONS

Underlying many of the papers and discussions at this conference is a lament that market imperfections and distortions are growing. Why is it that agricultural economists continue to be enamoured by the idealistic (and largely unattainable) concepts of purely competitive markets and free trade? The reality is that market imperfections and trade barriers are growing rather than decreasing. Perhaps we should devote more of our research efforts to understanding these imperfections better conceptually, and thus become more effective in conducting relevant policy analyses.

Increasing government intervention in domestic and international economies is happening in virtually every country. Administered pricing policies are more prevalent and government marketing institutions, including marketing boards, are often endowed with sweeping monopoly powers and mandates to restrict trade. These administered pricing policies and marketing institutions, coupled with a myriad of subsidy programmes have rendered the concept of 'natural comparative advantage' rather meaningless. The term 'competitive advantage' which encompasses these distortions seems to be more in vogue.

The role of multinational corporations is also significant. The paper by Dufour, Ghersi, and Saint-Louis entitled 'New Types of Multinational Firms in the Agribusiness Sector and the Implications of Their Emergence in the Least Industrialised World' presented the rather provocative hypothesis that changing structure and attitudes of multinational corporations may lead to their playing a greater future role in technology transfer and product marketing in Third World countries. This could include a greater willingness and flexibility to adapt to local conditions and to become partners in development with governments of Third World countries. The presence of some agribusiness economists, especially from multinational corporations, at this conference and on the programme, would have resulted in a more balanced perspective on the role of multinational corporations in the food chain.

Other marketing imperfections that are becoming increasingly obvious were mentioned in a number of papers. Inadequate marketing functions, especially in Third World countries, e.g., transport, storage and finance, have hindered market performance. Institutions and arrangements, such as GATT, World Bank and IMF, are not functioning as well as when they were established. The growth in counter trade, which is quite illogical

when measured against standard economic norms, came up in a number of papers and discussions.

## CONTINUING AND EMERGING RESEARCH NEEDS IN MARKETS, PRICES AND THE FOOD CHAIN

A number of fruitful research areas have already been identified. In this section I focus on some additional needs that are primarily empirical rather than methodological in scope. These needs are not listed in any particular order of importance.

### *Cost analysis for administered pricing policies*

Several papers addressed this issue, but it requires further empirical analysis in both developed and less developed countries, especially as political pressures for deficit reduction continue to grow.

### *Market structure, conduct, and performance under various political and economic conditions*

Although agricultural economists are doing some work in this area, the growing interventionist role of governments makes this a particularly critical research need.

### *Economic and social costs of 'induced' competitive advantage*

Again, the tendency of government policies, programmes, and institutions to distance natural comparative advantages both domestically and internationally raises the need to identify the costs associated with these distortions, especially in Third World countries.

### *Improving market performance in Third World countries*

Although somewhat mundane in comparison to previously identified research needs, improvements in transport, storage and grading are critical to the success of government policies relating to food security. The role of market information in improving market performance is also important.

### *Implications of multinational corporation and government co-operation in the pursuit of agricultural policy goals*

Traditionally, multinational corporations have been viewed with suspicion (often justifiably) in their performance of technology transfer and product marketing. The emerging partnership with governments raises many questions and implications that need to be researched more fully.

### *The effect of the world financial and institutional framework (GATT, World Bank and IMF) on agricultural markets and prices*

This framework successfully guided international economic relations

during the stable prosperity following the Second World War. The onset of instability, recession, and escalating foreign debts has raised questions about the effectiveness and relevance of GATT, the World Bank and the IMF as agents of stability and orderly economic growth. As policy analysts, we have a tendency to accept these international arrangements and institutions as 'given'. It is essential that research be done to evaluate the effect of these arrangements and institutions on agricultural markets, prices and the food chain, and recommend changes where appropriate.

### CONCLUSION

These remarks are some random reflections from one perspective, and may appear to be an indictment of agricultural economists. I do not wish to leave the impression that the papers and discussion were inadequate. Rather, I have tried to identify some continuing and emerging research needs in markets, prices and the food chain that we must address if we are to function as problem solvers and be listened to by policy-makers.