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Section Summary

The question this section grappled with is why do governments intervene in the ways they do to affect agricultural incentives? No one seemed to question that this is an important and relevant area for economic research. Everyone agreed, though, that political markets are probably more complex than the markets economists traditionally analyse. There is therefore a need for analysts to adopt a variety of approaches, including quantative studies, historical case studies and joint ventures with positive political scientists. Indeed, such a variety of approaches was reflected in the papers presented in this session, as well as in those included in the poster sessions at the conference.

What have we learnt from this session? Perhaps one of its most important contributions has been to offer a variety of frameworks which in their different ways have proved useful for organising our thoughts. One is a political market framework in which interest groups are perceived as demanders of policies and the government as the supplier. With this framework one can then put one's mind to work to think of the factors affecting the marginal benefit to interest groups from lobbying for a policy and the marginal political cost to the government of the policy. These benefits and costs depend not only on the distributional effects of the policy in question, and on the voting power of different groups, but also on the costs to those groups of getting together, becoming informed and lobbying. As well, there are numerous social factors that determine the climate of public opinion and thereby the political cost of a policy.

Another partial equilibrium framework, offered by Rausser and de Gorter, encourages us to distinguish sectoral policies which enhance national income from those which reduce it (PERTs and PESTs). That framework is especially helpful not just for explaining the simultaneous occurrence of PEST- and PERT-type policies but also for trying to understand why governments choose the policy instruments they do. While a particular instrument may be 2nd or nth best from the viewpoint of *productive* efficiency, it may well be first best in terms of *political* efficiency. This point brings out nicely the close interconnection we need to recognise between commodity markets and political markets.

The discussion highlighted that these and related approaches are able to explain reasonably well the patterns of policies across countries and their trends over time. But how well can they explain shocks to these trends? In the political supply/demand framework a reform might be thought of as due to a major shift in the government's supply curve, but the pertinent question is: what caused it? Masayoshi Honma mentioned that to understand Japan's recent liberalisation of beef import policy, the supply curve shock was due not to a change in domestic political pressure but to greatly intensified commercial diplomatic pressure from abroad. Then Grant Scobie reminded us of the dramatic recent economic reforms in New Zealand. To explain such events perhaps we need to take up Alex McCalla's outrageous suggestion that in addition to developing theoretical models of the polity, and testing them with our best econometric techniques, we might find it helpful to simply go and ask policy makers why they changed tack. In the case of New Zealand's recent reforms, that country's Minister for Overseas Trade actually volunteered such information at a recent seminar in London. I tell the story to hearten those of you who despair that economists have no influence on policy. His explanation for his own conversion to becoming a born-again free trader was that he found the free-trade argument compelling when he read the Cairncross Report to the Commonwealth Secretariat in the early 1980s. This is a specific example of the more general point that through providing information on the costs and consequences of policies, economists *are* able to influence political markets through changing the climate of public opinion and even occasionally a policy maker's opinion.

Where do we go to from here? I have no doubt that Anne Kreuger is right in saying more case studies of actual policy histories in different settings will help shed light on the dark, if not completely black, boxes in our reduced-form frameworks. In particular, studying the causes of actual policy reforms, such as those discussed in the papers in Volume II, Section I, will illuminate the conditions that are conducive to an improvement in the policy regime.

The next big step requires going beyond our partial equilibrium frameworks of political markets and their interaction with economic markets. We know from Lerner's Symmetry Theorem that agriculture can be assisted either directly, or indirectly through reducing assistance to other tradable sectors. What determines the allocation of lobbying effort by farm groups between these two alternative forms of assistance, and how does their lobbying effort interact with the lobbying efforts of industrial and other interest groups? Some work has been done in specifying reaction functions, but a great deal more is required before we will fully understand how this general equilibrium solution in political markets is determined.

The applications considered in the papers in this session are of course only a very small subset of all the possible applications to agricultural policy. Let me conclude by mentioning just one other area which was not included in this section but is mentioned by Ammar Siamwalla in the Multilateral Trade Section. It has to do with strategic trade policy. To what extent was the escalation of protection to US agriculture through the 1985 Food Security Act a move to position the US into what might be perceived as a stronger bargaining position for the Uruguay Round? Given the domestic political pressures in both agriculture and other sectors of the US and EC economies, what sorts of policy outcomes are possible? With our models of world trade we are able to work out the effects of such policies, but what policies are likely to generate a political equilibrium given that one large economy's policies are not independent of the policy choice of other large economies. The context in which Ammar Siamwalla raised this issue was in seeking to understand the optimal stance of developing countries in the Uruguay Round, given both their domestic political pressures and those of the industrial countries. This extension of the political economy of national policies to include international actions and reactions promises, in my view, to be an extremely fertile area for further research.

The paper writers and discussion openers deserve our thanks for stimulating our thinking in this relatively new area of economic research. May I also take this opportunity to thank the rapporteurs for their contribution in summarizing the discussion (Olof Bolin, Haluk Kasnakoglu, Laurent Martens and Yoni Sampaio).

Rapporteurs for the above sessions of the conference were:

LAURENT MARTENS
YONI SAMPAIO
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Participants in the discussions included:
K. Wadekin, J. Wells, I. Soliman, N. Traoné, D. Hedley, J. Abbot, G. Chipandye, E. Tollens, G. Rausser, D. McClatchy, D. Paarlberg, M. Petit, K. Sain, A. Siamwalla, N. Ballenger, A. Braverman, H. Breimer, G. Escobar, D. Freshwater, R. Lopez and E. Segar.