



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.*

PRESIDENTIAL ADDRESS

DOUGLAS D. HEDLEY*

Considerations on the Making of Public Policy for Agriculture

INTRODUCTION

In this 24th Presidential Address of the International Association of Agricultural Economists, I want to explore the changing nature of policy formulation and application for agriculture and the agri-food systems. The systems have been under significant strain in recent years owing to increased economic globalization, changing political and economic forces, technological advances, environmental and food safety concerns, and numerous other pressures. Hence policy formulation and its application have been changing dramatically over the past decade, with more and faster changes facing all of us in the future. Policy systems around the world are the clients of our profession, and many of our members are involved both in the continuing research and analysis to support them, and in policy formulation and application itself.

Previous Presidential Addresses to the IAAE have expanded explicitly or implicitly the scope of policy formulation and application within the horizon of agricultural economics. Glenn Johnson in 1985 at Malaga, Spain, explored the increasing scope of the agricultural economics profession. To him, our profession was not defined centrally by disciplinary research in economics applied to agriculture, but by the synthesis of disciplinary and applied normative work in economics as well as the products of related disciplines such as history, law, sociology, psychology and political science for problem solving.

Robert Thompson, in his Presidential Address at our last Conference, in Sacramento, reviewed the critical issues and dilemmas of each region of the world and related these to the policy formulation and application decisions faced increasingly by governments and international institutions. The implicit message was that policy formulation and application at all levels played a key role in the well-being of agricultural and rural citizens around the world. Keith Campbell, in the 1982 Elmhirst Lecture, pushed out the frontiers of our profession to include the environmental disciplines and their application to agriculture. John Longworth, as President for the 1991 Tokyo meeting, explored the

*Douglas Hedley, Assistant Deputy Minister, Farm Financial Programmes Branch, Agriculture and Agri-food Canada, Ottawa, Canada. The views expressed are not necessarily those of Agriculture and Agri-food Canada.

perimeters of our profession in dealing with the emerging life sciences revolution and its potential contributions to improving the lot of mankind on a global basis.

With the changing nature of policy formulation, I argue that the scope of our profession continues to widen to include and interface with new and emerging disciplines which contribute to problem solving throughout the entire food chain, and for governments. I will present these arguments within four areas, horizontality, complexity, globalization and institutions, and citizen engagement.¹

HORIZONTALITY

For at least four decades after the Second World War, policy formulation for the agri-food chain remained largely independent of policies and programmes carried out for the rest of the national economies (Hedley, 2000). Agricultural policy was established largely within countries, with little consideration given to programmes in other countries. International implications of policy decisions were largely residual to domestic policy-choices (Bonnen and Schweikhardt, 1998). In addition, agricultural policy was synonymous with rural policy in most countries. Agricultural policy, virtually alone, bore the responsibility for rural development, without any wider consideration of instruments needed for effective rural development. I cannot argue that writers in agricultural economics did not study or understand the sectoral linkages between farming and the rest of the economy. I can argue that policies for agriculture were largely established by governments and other institutions substantially independently of those set for other economic sectors and other countries, and equally independently of most social policies of the period, including those focused on or affecting rural areas.

Several events have combined to sharply erode the independence of domestic agricultural policy formulation and application. For example, the start of the Uruguay Round of trade negotiations in 1986, and its eventual results in 1994, linked domestic agricultural policy to trade policy for the sector for the first time. This connection, for both developed and developing countries, is now so concrete that the two strands cannot be separated. Environmental concerns about water, air and soils are influencing current and emerging farming practices and forcing policy attention to pesticide use, tillage and fertilizer application. Climate change is also calling into question many aspects of today's farming practices. Even though overall food safety for consumers appears to be improving, increased media attention to outbreaks, and some significant incidents in recent years, have meant that food safety concerns continue to rise, questioning both foodstuffs themselves and the inputs and processes used in their production.

These issues are not new to agricultural economists. However, the participants involved in forging policy for agriculture and food have dramatically widened over the past several years to include governmental and institutional mandates as well as interest groups far beyond agriculture. Nonetheless, the

traditional organizational structure within governments and institutions has had agriculture departments or ministries as the basic unit for leadership in agricultural policies. Furthermore, administrative structures within governments, including Cabinet appointments and their related responsibilities, have resulted in the expectation that agricultural departments and ministries provide the leadership in policy formulation and decision making. Increasingly, these traditional policy decision mechanisms have declining legitimacy in providing policies for agriculture, and are seen as too narrowly based in their competency for the formulation of policies which affect so heavily other crucial areas of government. As a result, many governments are experimenting with horizontal decision mechanisms for policy in responding to issues that cut across the current, traditional organizations for policy decisions. Several committees and joint committees of the United States Congress, for example, now regularly address issues central to agricultural policy. In Canada, new horizontal structures, overlaid on traditional vertical organizations, are dealing with rural policy, biotechnology, climate change, clean air and water, and aboriginal affairs.

The traditional interest groups in agriculture are being joined by new and different interest groups that are demanding that their views be heard on agricultural policy. As a consequence of globalization, international interest groups are joining the regional and national interest groups in policy debate, both nationally and internationally.

For many decades, agricultural policy has been the cornerstone for the delivery of rural policies in developed and developing countries. Price and income supports, input subsidies and infrastructure for farming were the common instruments of rural policy. This policy model treated several other instruments of rural policy as independent of agricultural and rural policies. These include rural health services, education, access to non-farm business services and infrastructure, for example. Increasingly in the last decade or so, we have found that, from a policy perspective, agricultural policy as a platform for rural development cannot provide the range of tools to develop rural areas fully.

As negotiations in the World Trade Organization (WTO) increasingly restrict the levels of support that can be legitimately offered to farming through price and income support, newer, more horizontal approaches will need to be found to develop rural areas, and offer equivalent business opportunity and quality of life to that found in urban areas. Ministries of health, education, public works, industry and commerce, as well as agriculture, will need to work together to design balanced policies for rural areas. Rural development policy cannot remain the exclusive domain of agriculture. Without this wider approach to rural policies, we can expect to see novel and creative ways to support incomes in agriculture in the belief that such instruments are the only means of assuring a growing and prosperous agrarian/rural landscape. Multifunctionality has dominated much of the discussion of rural development in the past several years. However, so long as the implementation of the concept uses agricultural policy as its principal springboard, the full development of rural areas across all of its integral policy components remains suspect.

Indeed, progress in the WTO in limiting domestic support is unlikely to proceed rapidly unless, at the same time, separable rural policies can be addressed directly.

Horizontality in policy formulation and application is to be found in at least three dimensions: across mandates within governments and institutions, across countries and international institutions themselves, and across interest groups both national and international. Governments and their domestic and international institutions are increasingly looking for new and different ways to deal with the horizontal imperative for policy decisions. To a considerable degree, the continuing organizational integrity and legitimacy of agricultural ministries themselves as central policy players will need to be addressed. For international institutions, agriculture may not be necessarily the central organizational construct for addressing and resolving the array of policy issues in the future.

COMPLEXITY

The expanding universe of issues and players in policy formulation for agriculture and food is sharply increasing the complexity of policy making. But many other events and processes are also adding further problems.

The WTO Agreement of 1994, yielding a slow but sure integration of agriculture into disciplined trading relationships among countries, has dramatically added to the complexity in policy making. Combining the provisions for market access, domestic support and export subsidies with non-tariff trade barriers (NTBs) and sanitary and phytosanitary (SPS) regulations, along with the general provisions of the WTO, the opportunity set for policy choice has far more restraints and activities to consider than ever before. Jones and Bureau (2000) have argued that, throughout the Uruguay Round negotiations, there was wide acceptance of, and support for, the intellectually comfortable notion that reducing trade barriers yielded increases in economic welfare for all parties. However, this conclusion, they argue, can no longer hold as widely as before, and more careful consideration on a case-by-case basis, particularly with respect to food safety and quality, is needed before determining whether trade liberalization uniformly results in increased welfare. This view suggests that substantially more work will be needed in greater detail than ever before to inform policy processes and decisions to ensure that continuing progress in trade negotiations can take place. Our many standard tools of analysis on trade issues, which served so well throughout the last trade round, do not seem to have the technical capacity to incorporate the immense detail of the issues emerging in this round of negotiations.

As domestic policy solutions are found within this more complex opportunity set, there is also a growing requirement for documentation by every member nation to meet its obligations under the WTO. Domestic and international interest groups are demanding far more detailed information and analyses than ever before. This growth in complexity in policy formulation and presentation holds significant consequences for nations and for our profession. The human capital requirements within governments and nations to meet domestic

and international obligations are such that the capacity of developed nations and the larger developing nations is substantially stretched. It is increasingly difficult to reach common understanding in interpretation and application of regulations associated with economic integration. For the smaller nations in the developing world this complexity can often outstrip their ability to cope, let alone fully exploit the opportunities that appear within domestic and international arrangements.

As the complexity of regulations and agreements affecting agriculture deepens we must give increasing attention to the development of human capital within nations, as well as the provisioning of this capacity within international institutions themselves. Greater complexity can so obscure the fairness or transparency sought in policy arrangements that the agreements, as well as the relevant institutions, can be called into question. Without the promotion of understanding through capacity building there is great risk to the institutions and to the acceptance of continuing the economic integration in agriculture and food systems around the world.

GLOBALIZATION AND INSTITUTIONS

The General Agreement of Tariffs and Trade (GATT), and its evolution into the WTO, have been premised on the notion that lowering transaction costs in trade can lead to an improvement in economic well-being for all concerned. While agriculture came late in joining other sectors in lowering trade barriers, substantial progress has been made, with there being expectations of further reducing traditional barriers in the current round. Tariffs and quantitative restrictions on trade were seen as the largest transaction costs limiting trade, and hence were the primary focus for nearly all efforts in the previous rounds. With notable exceptions, the transaction costs in trade represented by tariffs are a small component today. Several transaction costs remain, including currency risk, legal limitations on cross-border contracts, transportation arrangements and costs. Even here, groups of nations are tackling some or all of these and related issues.

These arrangements allow firms increasingly to optimize their operations across a number of countries, rather than concentrating only on national markets. In the process a much wider array of public policy issues is being brought to bear on domestic policy. Environmental policies, labour standards, biodiversity, human rights, climate change, food safety and quality, and other issues are now being thrust into the debate on trade liberalization and economic integration. In addition to the Bretton Woods institutions, many others have grown up around the relations between nations which can affect trade. There is a cacophony of acronyms signifying organizations claiming a role in trade relations and policy among nations, each of which can have quite different objectives. This adds complexity and increases the necessity for horizontal competency in policy making in an almost geometrical proportion. The declining coherence in objectives puts institutions at risk. Unfortunately, it has to be stressed that agricultural and rural interests are not necessarily central compo-

nents in the debate. I think there is considerable opportunity for agricultural interests and our profession to help bring coherence to diverging objectives.

As the traditional trade barriers of tariffs and quantitative restrictions on product trade in agriculture come down, and firms optimize across nations as if they were in a single market, the direct transaction costs of trade have less and less bearing on the growth of trade. The comparative investment climate between countries will have far more to do with economic growth and expansion than the transaction costs in trade. These investment climates include corporate and personal income tax levels, social programmes ranging from health care to personal security, justice and jurisprudence in contract law, and public infrastructure investment. Production of raw agricultural products, tied to an immobile land resource, will continue where the land exists. However, the industry based on transformation of raw materials into consumer-ready products is increasingly footloose and responds rapidly, at the margin, to changing investment climates.

For economies with both a large agricultural base and a large consumer market, the USA and the European Union for example, concern for the investment climate is probably substantially lower than it is for smaller nations with a significant farm base and a small domestic market. There are very few studies which explore these issues for agriculture in either the developed or developing country literature. One does find a steadily growing literature on the investment climate for an economy as a whole, although there is little tailoring of these studies to the agricultural industries. For example, elasticities of investment in relation to taxes paid have been estimated for an entire country, but not for agricultural industries. Some are surprisingly large (Wasylenko, 1997; Bartik, 1994). A further difficulty in measuring the investment climate is that there is a very wide range of variables involved, with no clear relationships among them. They remain non-additive and non-relative.

Firms make decisions on investment location every day, though governments are not yet at the point in policy formulation of explicitly balancing all of the variables shaping the domestic investment climate. Again, I think there is great opportunity for our profession to explore the variety of forces influencing the investment climate in agricultural processing industries for developed and developing nations, with a substantial pay-off in the acceptance and legitimacy of continued progress in trade liberalization and economic integration.

CITIZEN ENGAGEMENT

In the early 2000 Newsletter of the IAAE, I tried to capture an overview of the complex processes of citizen engagement now demanded in policy formation and implementation:

The WTO Summit in Seattle epitomizes one of the great sea changes in policy formulation and institutional process of the past decade. The Summit, including the emotion, and public interest group reactions surrounding it, reflect a decade or more of change in the way in which policy, institutions, and process work together in today's world. Civil society is demanding, indeed insisting on, a seat at the table

in the debates and ultimately the decisions about the economic, social and institutional issues that affect their lives.

This process of change is certainly not complete. While civil society increasingly wants to be part of debate and decision, it is well-organized interest groups, local, national and international, who have taken on most of this task so far. Yet the interest groups themselves are transforming and multiplying, from group coherence based on a long-standing specific interest, to new and different groups which spring up around emerging views from society itself. The puzzle for governments and international institutions, which are themselves representatives of civil society and regularly are required to test their acceptability to represent civil society, is how to create inclusive structures for policy formulation. The potential solutions are all the more complex because the coherence and resonance within the interest groups are constantly changing, and rarely conform to the representational and democratic norms required of governments.

The implications for the agricultural economics profession around the world continue to change in response to this greater involvement of civil society. No longer can analysis be carried out with scholarly product as the only result. Analysis must also be prepared for civil society and with that, the task of communicating results from research and analysis on exceedingly complex topics must be undertaken. To fail in communicating with civil society, about the implications drawn from scholarly work in agricultural economics, our profession risks having decisions and directions based on incomplete information, not only by governments and international institutions, but also by the multitude of groups spawned by specific interests in society. The lack of coherent and balanced views within society is in itself a source for creating more interest groups.

Another implication is the continuing recognition that horizontal work across disciplines and professions is needed. Few decisions on behalf of society rely exclusively on economics or agricultural economics. Merging and gap filling between agricultural economics and other professions are a critical area for all of us.

In maintaining relevance within the profession, the responsibility goes far beyond that of informing each other. We must inform and be informed by a wide spectrum of sources, including other professions and disciplines, but also civil society itself.

Since Seattle we have had a number of other examples of the same phenomenon: in Montreal at the meeting on the Biodiversity Protocol, in Okinawa for the G-8 Summit, in Windsor, Canada, for the Organization of American States, in Calgary, Canada, at the Oil Summit. Democracies are struggling to balance the democratic norms of civil representation with the demands of a multiplicity of special and single interest groups. None of these groups bears the responsibility for representing all of societal beliefs and values as do elected governments. Similarly, none bears the responsibility for decisions ultimately taken. In addition, many groups rely on preventing decisions, rather than fostering a climate for decision. Finally, few, if any, represent the groups within society least favoured economically, or least inclined to political action, leaving many, possibly a majority, unheard either by democratic governments or through reporting in the media.

The essence of democracy requires that these voices be heard and included in policy decision processes, but inclusion can be particularly frustrating in policy processes and implementation. Governments are slowly coming to realize that a passive approach to engaging citizens through interest groups is not sufficient. 'Representation by media volume' alone does not serve either social or democratic purpose. More active approaches to reaching out to citizens are increasingly necessary for progress in policy decision making. Our profession has the capacity and opportunity to serve society by providing information and analysis for governments as well as people generally.

CONCLUSIONS

In summary, policy formation is increasingly complex and more horizontal in the range of mandates and competencies required than ever before. The complexity of decision processes established within governments and in the international arena is overpowering the human capacity of many nations, calling into question the viability and continued acceptability of the arrangements made. When only larger developed countries have the resources to participate fully in international organizations it is increasingly difficult to convince other nations that the benefits for everyone are being considered, let alone enhanced. Our institutions require more rapid evolution, not only to bring coherence to the widening set of related policy dilemmas, but also to demonstrate their fairness and transparency for all nations. Agricultural economists have a greater opportunity than ever before to serve the needs of governments, organizations and the general public in framing the debate on institutions and policies for agriculture and agri-food. This means a considerable shift in the output from our profession, from primarily academic literature to a wider, more accessible, set of materials available to the public. Making this shift is a critical element in the continuity and stability of institutions as well as for our specialism.

NOTES

¹Professor Bonnen, our Elmhirst Lecturer at these meetings, and I have struggled with these concepts individually, together and with other colleagues for a number of years. See Bonnen *et al.* (1997), Hedley (1998), Hedley (2000). From my perspective, I am no longer a researcher, but have been involved in policy processes for agriculture for many years, while Professor Bonnen continues to be a valued mentor and coach as well as a participant in these same policy processes during his career. I have approached the topics from the basis of experience in, and with, a number of policy institutions over several years. Professor Bonnen, also drawing on his experience in several institutions, has taken a more research-oriented approach than mine. Nonetheless, we draw similar conclusions, most often from quite different starting points. His reference to, and application of, Rodrik's trilemma, for example, neatly captures the continuing practical balancing act that policy processes face daily, more cogently than I have been able to express. Also our language differs in defining many of these difficult concepts. Professor Bonnen's reference to fragmentation of the structures of governance is his representation of the horizontality and complexity arguments I am making. Similarly, 'citizen engagement', a term used in the Canadian government and some Canadian academic circles, in this paper represents the continuing and changing interface between citizens and their governments and international institutions.

Professor Bonnen makes reference to the 'participatory politics' and the nature of debate about such issues as biotechnology.

BIBLIOGRAPHY

- Bartik, T.J. (1994), 'Jobs, Productivity and Local Economic Development: What Implications Does Economic Research Have for the Role of Government?', *National Tax Journal*, **47**, 847–62.
- Bonnen, J.T. and Schweikhardt, D.B. (1998), 'The Future of U.S. Agricultural Policy: Reflections on the Disappearance of the "Farm Problem"', *Review of Agricultural Economics*, **20**, 2–36.
- Bonnen, J.T., Hedley, D.D. and Schweikhardt, D.B. (1997), 'Agriculture and the Changing Nation-State: Implications for Policy and Political Economy', *American Journal of Agricultural Economics*, **79**, 1419–29.
- Campbell, K.O. (1983), 'Agricultural Economists and World Conservation Strategy', in A.H. Maunder and K. Ohkawa (eds), *Growth and Equity in Agricultural Development*, Aldershot: Gower, pp.9–19.
- Hedley, D.D. (1998), 'Global Challenges: Local Issues', The Simon Brandt Memorial Lecture, Swakopmund, Namibia, South African Association of Agricultural Economists, *AGRIFUTURA, Quarterly Newsletter* no. 10, December.
- Hedley, D.D. (2000), 'Values, Institutions and Governance: Global, National and Local', *Canadian Journal of Agricultural Economics*, **47**, 487–92.
- Johnson, Glenn L. (1986), 'Scope of Agricultural Economics', in A.H. Maunder and U. Renborg (eds), *Agriculture in a Turbulent World*, Aldershot: Gower.
- Jones, W. and Bureau, J.-C. (2000), 'Issues in Demand for Quality and Trade', paper presented at the IATRC Symposium on Consumer Demand for Quality and Global Agricultural Trade, Montreal, Canada, 26–7 June.
- Longworth, J. (1992), 'Human Capital Formation for Sustainable Agricultural Development', in G.H. Peters and Stanton, B. (eds), *Sustainable Agricultural Development: The Role of International Cooperation*, Aldershot: Dartmouth.
- Rodrik, D. (2000), 'How Far Will International Integration Go?', *Journal of Economic Perspectives*, **14**, 177–86.
- Thompson, R.L. (1999), 'Technology, Policy and Trade: The Keys to Food Security and Environmental Protection', in G.H. Peters and J. von Braun (eds), *Food Security, Diversification and Resource Management: Refocusing the Role of Agriculture?*, Aldershot: Ashgate.
- Wasylenko, M. (1997), 'Taxation and Economic Development: The State of the Economic Literature', *New England Economic Review*, March/April, 37–52.