



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.*

Petit, M.: Research on the Political Economy of Agricultural Policies Conceptual and Methodical Issues. In: Hanf, C.-H., Scheper, W.: Neuer Forschungskonzepte und -methoden in den Wirtschafts- und Sozialwissenschaften des Landbaues. Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V., Band 25, Münster-Hiltrup: Landwirtschaftsverlag (1989), S. 3-15.

RESEARCH ON THE POLITICAL ECONOMY OF AGRICULTURAL POLICIES CONCEPTUAL AND METHODOLOGICAL ISSUES

von

M. PETIT, Dijon

It is now well accepted that it is proper for economists to investigate the determinants of economic policies, i.e., to attempt answering the question: why are policies what they are? This is also true in the field of agricultural policies. But, even though this author suggested the need for an "analytical political economy", in order to clarify the distinction between our two roles as "analysts" and as "moralists", as far back as in 1973 (see VALDES, 1974), this need has not been accepted until only recently. In 1984 at the Conference of the European Association of Agricultural Economists held in the same city of Kiel where we are today, a very lively debate took place, in particular between Konrad Hagedorn and Secondo Tarditti. The former criticized the latter for presenting a paper recommending agricultural policy leading to the economic optimum, without paying any attention to the political process which could bring about this optimum economic policy. Hagedorn justly pointed out that the implicit optimum political model of economists, as presented in that case by Tarditti, was that of a dictatorship. In that perspective, the economist places himself in the position of the adviser to an enlightened policy maker. At best therefore, the implicit political models is that of the enlightened dictator of the 18th century philosophers. It is now clearly accepted that if we want to influence policies, we need first to understand why agricultural policies are what they are; and, for this purpose, attention must be paid to the process bringing about agricultural policy decisions. The purposes of this paper are:

- (1) to review recent advances in what may be called the new political economy literature, which aims at understanding why policies are what they are, particularly to review its theoretical foundations, and
- (2) to present the current debates about the best methods to be used in political economy investigations regarding agricultural policies. The debate today may not yet be fully explicit but the practices of the researchers are diverse enough that one should pose explicitly the question of which research strategy seems the most appropriate to understand better the determinants of agricultural policies. As befits a profession such as ours, with its long tradition of applied scientific work, the ultimate objective is to lead to better-educated actions. We want to understand better the determinants of agricultural policies in order to interpret the current situation, to assess the forces at play which brought it about, to predict how they may evolve in the future and thereby, we hope, to throw light on the decisions of all participants in the policy-making process.

I. THEORETICAL FOUNDATIONS

1. The precursor of the new political economy was probably Downs. His main contribution (DOWNS, 1957) is that public policies must be interpreted as the result of the behavior of policy makers seeking, not the maximum of an hypothetical social utility function, but their own individual welfare: perhaps maximizing the probability of being reelected or more generally maximizing their political support. Down's approach was fruitful inasmuch as it permitted the application of economic calculus to interpret policy makers' behavior. That turned out to be a more fruitful approach than those based on the hypothesis that policies are

designed to maximize public welfare, i.e., the usual implicit assumption of economists giving advice to policy makers on the basis of what they view as the economic optimum.

2. Down's major idea was integrated by Stigler and his followers in what has become known as the Theory of Regulation (STIGLER, 1970 and 1971; PELTZMAN, 1976). The main characteristics of this theory is that regulations benefit primarily the regulated and not the public at large, contrarily to what they are allegedly supposed to do. For instance, in trying to protect the public against quacks, public authorities regulate the standards of the medical profession. This is administered by the profession itself which, as a result, restricts the entry into the "industry", ensuring thus the existence of monopoly rents which increase the income of the physicians. The theory of regulation proposes an explanation of this general phenomenon. Following on an idea by Downs, the cost of information is taken into account as well as the cost of mobilizing a group to put pressure on public authorities. The regulated are usually better informed about the issues concerning their profession than the public at large. It is worthwhile for them to be informed, whereas the cost of getting informed and of mobilization for the general public on the same issues is much higher than the anticipated benefits. Hence an asymmetric situation develops, permitting the capture of the benefits of the regulation by the regulated. This interpretation by Stigler and his followers was couched in terms which are very much related to US specific institutional arrangements.

3. The first merit of the rent-seeking-theory, as suggested by Krueger (KRUEGER, 1974), and then developed by others (see BUCHANAN, TOLLISON and TULLOCK, 1980) is to show that activities aimed at influencing governments or at taking advantage of government regulations are widespread and certainly not restricted to the United States. In her lead article, Krueger estimated the amount of social losses caused by import tariffs and license arrangements in India and Turkey. Making the heroic assumption that rent-seeking activities themselves are competitive, i.e., that anybody can effectively apply for import licenses, she claimed the value of the resources devoted to the search for import license must be equal to the value of the rent which those import license permit. She concluded that such activities consumed large amounts of resources, the order of magnitude being several percentage points of GDP.

Rent-seeking is an activity which, instead of mobilizing resources to produce more goods and services useful to society, mobilizes them to capture an institutional rent created by government intervention. Thus, these resources are not productive for society even though it maybe perfectly logical from the individual's standpoint to engage in such an activity. The foregone production of goods and services, due to the fact that resources have been wasted, are deadweight losses. Bhagwati coined the expression "directly unproductive profit-seeking" activities (DUP) to convey the same idea and avoid the ambiguities of the concept of rent (BHAGWATI, 1982).

The nature of the social losses can perhaps be illustrated on an example, that of robbery. When a robber steals something from its legal owner, the amount of resources stolen can be interpreted in economic terms as a transfer. One cannot conclude that there is a loss of social welfare, unless one is willing to say that the utility of the good stolen is lower for the robber than for the legal owner. But resources are used by the robbers to ply their trade. Tools and resources are also allocated by owners to protect their property. They include such things as locks, insurance policies. Society at large also expands resources to suppress robbery (police, prisons, judicial system, etc.). All these resources are social deadweight losses.

One can certainly question Krueger's hypothesis that rent-seeking is a competitive business. Entry into rent-seeking is probably not free; not everybody can effectively apply for an import license in a given country. But it remains that such behavior, i.e., using resources to capture rent, is probably a very important aspect of the relationship between governments and economic agents and it is clear that economic agents are willing to pay, in one form or another, policy makers and bureaucrats that create the rents which can be derived from government rules and regulations.

Applied to agricultural policies in developed countries, the theories of regulation and of rent-seeking provide interesting insights. Indeed agricultural policies benefit farmers who get organized in order to influence public institutions. The benefits which the farmers derive from these policies can be viewed as rent created by public authorities. There is no doubt that much of the agricultural policy debate involves farm organizations attempting to influence public authorities to maintain those rents or to increase them. This example illustrates also the relevance of collective actions in the policy process.

4. In this perspective the work of Olson on collective action appears particularly relevant (OLSON, 1965). Olson has identified a major obstacle which must be overcome for a group with common interest to get organized and be effective in a collective action. The group faces the problem of the "free-rider", that is, each individual has an interest in the group acting together but in himself not paying for it, i.e., he's riding free. For instance, all riders benefit from the existence of public transportation but if you can avoid to pay for it, so much the better. A classical example of this problem is that faced by agricultural marketing cooperatives. In order to increase prices, producers must often control supply. The cost of collective action is the amount produced which each individual farmer must withhold from the market. The free-rider benefits from the higher price resulting from market supply control behavior of other producers but does not pay the price: he sells all his production at a higher price. One can understand that the incentive for free riding may indeed be very high. Of course this is the source of a major difficulty for collective action since every individual producer has the same incentive to ride freely; and if everybody does that, there is no collective action at all.

Organizations have invented, as Olson has analyzed, many ways to overcome this difficulty. Some authors argue that all these ways directly or indirectly rely on government intervention (see SALMON, 1985). If this view is accepted, it will then be difficult to make a clear-cut distinction between economic agents such as farm cooperatives and public authorities, as we will try to do below. It remains that Olson's theory of collective action throws light on the behavior of collective agents trying to influence public authorities. They are one form of rent-seekers.

5. In order to render account of the interaction among all the actors seeking their own individual welfare, be they politicians or other policy makers, as suggested by Downs, or private agents seeking rents, many economists studying the determinants of policies use the concept of the political market. (See for instance HAYAMI, 1988 or RAUSSER, 1982). On that market, policy makers are assumed to supply policies, interventions, regulations, etc. in response to the demand of economic agents seeking institutional rents. Because those demands are contradictory, policy makers are faced with political benefits and costs when they decide on a given policy. The equilibrium on the political market will be reached when the marginal political benefits of a given regulation for the policy maker deciding it will be equal to the marginal political costs of this regulation. As time passes and as the economic situation evolves, those costs and benefits will change leading to changes in policies. This concept of the political market can thus be used to interpret variations in policies through time and space. Yet it suffers from a major limitation: the political costs and benefits do not constitute a rigorously well-defined magnitude. Thus, it is not surprising that most authors use the concept of political market more as an analogy than as a real theoretical construct. This leads us to a general criticism of the interpretation of policies given by the authors which we just reviewed.

It is striking indeed to observe that when discussing actual policies all these authors become very critical of government intervention. One is led to the simplistic conclusion that all government interventions are bad. This in particular seems to be the conclusion of Olson's more recent book (OLSON, 1984).

Probably this is due to an undue reliance on the static interpretation of policies derived from the models which have just been described. An existing situation with government intervention is compared to a purely abstract situation in which there would not be government intervention but everything else would be the same. Such a comparison is not valid because it does not throw any useful light on the concrete situations faced by economic agents and policy makers. What is usually at stake is a contemplated policy change. The reference situation must then be the existing situation, with its own dynamics: Even if the contemplated policy will not change, the existing situation will evolve. One must then take into account the sequence of policies and past events which have brought about the existing situation and one must compare the evolution of the economy and of the society under different policy scenarios. Thus stated this position leads us to stress the relevance of dynamic interpretations. This has been particularly well illustrated by Allison in his famous study of the Cuban missile crisis (ALLISON, 1971).

Reviewing the relevance of various decision models, Allison stressed the importance of the sequence of decisions brought about by a given situation and the multitude of the choices faced then by various actors. These choices themselves result from the sequence of past events. The process of implementation of a decision is also extremely important. It is sequential in nature and restricts the margin of maneuver of the various actors. Starting from a completely different perspective, Bardhan recently came to a very similar conclusion (BARDHAN, 1988). Studying the determinants of institutions in economic development, he stresses the usefulness of taking into account transaction costs. Because many markets transactions are not free but entail costs, institutions are created in order to reduce transaction costs. This is a very fruitful hypothesis to understand the relevance of such institution as share-cropping, for instance. But he points out the limitation of such an approach. In this framework, institutions should change when they do not fulfill their role anymore, i.e., when the situation is "ripe". Yet Bardhan points out that many institutions that were created at one time continue to survive today even though they seem inappropriate. The transaction cost approach is, as he says, "murky on the process through which new institution and property rights emerge". He says that this is analogous to a detective who would identify the murderer in a criminal case by identifying only the person who benefits from the crime. In judicial terms, this is not sufficient. The detective must also indicate how the murder was committed and prove it. Similarly the process of institutional change is viewed as essential to understanding how institutions are determined. Similarly also, the process of policy making must be taken into account and interpreted if we want to feel confident that we have well identified the determinants of policies.

Bardhan suggests useful ideas in this perspective: "As we all know from experience, dysfunctional institutions often persist for a very long period ... A self-reinforcing mechanism for the persistence of socially sub-optimal institutions may be in operation when path-dependent processes are important as is now recognized in the literature of the history of technological innovations. A path chosen by some initial adopters to suit their interest may lock-in the whole system for a long time to come denying later more appropriate technologies or institutions a footing. This lock-in happens dynamically as sequential decisions "groove" out an advantage that the system finds it hard to escape from. The process is non-ergodic; there are multiple outcomes, and historical "small events" early on may well decide the larger course of structural change."

He also criticizes the concept of a market for institutions in which the demand for institutional innovations would face a supply depending on political entrepreneurs undertaking the necessary collective action. Bardhan points out that that distinction between supply and demand in that case may be somewhat artificial. This is very close to the criticism of the political market presented above.

II. THE METHODOLOGICAL DEBATE

In spite of solid theoretical foundations, the field of political economy of agricultural policies is characterized by a great diversity of research practices. Therefore, there is an implicit debate on the most appropriate methodologies to assess why government policies are what they are. In the second part of this paper, we want to review these methodological issues. We will do so by presenting the investigators' practices as responses to conflicting pressures: the urge to quantify and the need to describe.

1. The Urge to Quantify

Quantification is very often viewed as a superior form of knowledge in our profession. It permits a sharper specification of the hypotheses and a more rigorous test of these hypotheses,

two essential steps in the scientific approach. Here, we will review a few quantitative approaches used by political economy investigators, illustrating the issues at stake on the examples of works by specific authors.

a. Reaction Functions

For our purpose, it will be useful to review a recent paper by Von Witzke on the determinants of the US wheat support price level (VON WITZKE, 1988). The author hypothesized that policy makers maximize a utility function (W_t), which depends upon the level of farm income (Y_t) and the level of budget expenditure (B_t). W_t is assumed to increase with farm income and to decrease with budget expenditure

$$W_t = f(Y_t, \beta_t).$$

Both income and budget expenditures are viewed as dependent upon the price level (P_t) which is fixed by the government

$$\begin{aligned} Y_t &= g(P_t) \\ \beta_t &= h(P_t). \end{aligned}$$

P_t is an instrumental variable. Assuming a fairly standard Nerlovian expectation model regarding prices one can demonstrate that the maximum of W_t is obtained for the price level

$$P_t = \beta_0 + \beta_1 P_{t-1} + \beta_2 Y_t + \beta_3 \beta_t + \mu_t.$$

This equation can be called a reaction function and can be estimated directly. The author has estimated such function on the basis of US national data for the period 1963/64 to 1983/84. He found that indeed the price support level was linked to farm income and budget expenditure and that the coefficients had the expected signs. In addition, he was able to point out the effect of a presidential election year by introducing an additional dummy variable in his reaction function. He found that, other things being equal, the price support level for wheat is smaller during a presidential election year, and he provided an interpretation

of this phenomenon, suggesting that during that period, it is difficult for special interest groups to argue their case effectively at the time when other more important issues are being discussed.

The same approach has been used by several authors (see for instance VON WITZKE (1986), RIETHMULLER and ROE (1986), GARDNER (1986), ABBOTT (1979), SARRIS and FREEBAIRN (1983)). It has proven useful because it provides a way to test the influence of economic variables on policy decisions. But the obvious limitation of this approach is that it ignores the policy process.

b. Econometric Approaches

This limitation has been pointed out in a review of econometric work written by RAUSSER, LICHTENBERG and LATTIMORE (1982). In the conclusion of their review, these authors distinguished two types of econometric approaches: the estimation of what they called "criterion functions", describing the criteria which are pursued by policy makers, and secondly, policy instrument behavioral equations, which relate policy instruments to general economic variables as illustrated by Witzke's price equation presented above. Both sets of equation may be estimated; but of course they must be specified in advance. The review concludes that the problem with criterion functions is that the approach neglects the exertion of power, therefore does not include the study of the bargaining game underlying government behavior and incorporating multiple objectives and uncertainty. In addition, the criterion function requires a great amount of "a priori structure." The same review concludes that the problem with behavioral equations is that they are based on weak conceptual constructions. Yet one would hope that the rigorous empirical tests permitted by econometric techniques should be tests of specifically testable hypotheses derived from a solid conceptual construction. Again, we are led to the conclusion that econometric work can be very useful (the authors reviewed many references). But it has suffered from the static limitations described in the first part of this paper.

c. Use of Global Indicators of Agricultural Support

International comparisons can be very useful in the study of the determinants of agricultural policies. In spite of numerous geographic and historical differences, one can observe that many agricultural policy problems are similar in many diverse countries. Global indicator of agricultural support can be very useful for such comparisons, if one wants to quantify. Thus, the nominal rate of protection has been used by Anderson, Hayami and several colleagues in various works. [See for instance ANDERSON (1983), ANDERSON and HAYAMI (1986), HONMA and HAYAMI (1986), HAYAMI (1988), ANDERSON and TYERS (1988)]. They have shown that the nominal rate of protection benefiting agriculture is negative for many developing countries and highly positive in developed countries. More interestingly perhaps, they have also shown that when a country shifts from the developing to the developed country category, its nominal rate of protection of agriculture becomes positive. This was the case of Japan at the end of the 19th century and of Korea and Taiwan more recently. These results are extremely important and interesting; they demonstrate the fruitfulness of the use of such global indicators. The authors have suggested an explanation of this general phenomenon. Using the concept of the political market, they see the change in protection arising from major shifts in supply and in the demand for protection. When a country becomes highly developed the share of agricultural goods in the total food bill declines. Changes in the price of agricultural product have a limited impact on the welfare of consumers. This explains why the cost of political protection of agriculture will decline with development. Therefore, the supply of political protection by policy makers will shift to the right. Similarly, the demand will shift to the right because the cost for farmers to get organized as their number declines diminishes whereas their incentives to organize as they see that their lot deteriorates compared to that of other workers in society benefiting from fast economic growth. The equilibrium level of protection increases. This is clearly also an interesting interpretation but it suffers from the limitations of the concept of the political market discussed in the first part of this paper.

Another use of global indicators may be illustrated by the work of Krueger, Schiff and Valdes. (See KRUEGER, 1988). Comparing the political economy of agriculture and food policies in many developing countries, they focused on what they call the "total protection rate" for individual commodities, taking account of all price distortions in the economy. The main merit of this set of studies, not yet fully published, seems to be the distinction between direct and indirect measures affecting incentives to agriculture. The authors showed that in many developing countries, direct measures, i.e. direct agricultural policies, are often in favor of agriculture particularly for import competing commodities. But the impact of indirect

measures, resulting both from exchange rate manipulations and from industrial policies, is to strongly discriminate against agriculture. The political economy implication of this result is that farmers in their organizations have some leverage on sectoral policies affecting them directly but that their weight in the policy game affecting macro-economic policies and other sectors is much less important. Although not really surprising, this result is very interesting and it illustrates once more the fruitfulness of the approach. But again this approach does not tell us anything about the process through which policy changes are brought about and, as such, it does not really permit complete studies of the determinants of agricultural policies.

2. The Need to Describe

This need arises when one attempts to take into account the influence of the policy making process on policies. Hypotheses regarding that process are very general. In the absence of a model of the process which would be both general and detailed, case studies describing particular instances of policy making seem to be called for. But a general framework, made up of clear concepts and hypotheses, is needed to draw general inferences from such case studies. The first part of this section is devoted to the presentation of the framework developed by this author and other colleagues for this purpose.

a. Towards a General Framework

Policies are viewed as "resultantes" of an interaction process among policy actors involved in the policy debate. Thus one must identify policy actors and interpret their individual behavior before one discusses the interaction among these actors.

Identification and Individual Behavior of Policy Actors

Clearly many individuals are involved in any policy debate. One could conceivably view the outcome of any debate as the result of an interaction among all these individuals. For the sake of clarification, and at the cost of some simplification, it is probably preferable to identify collective actors interacting among themselves. A collective actor is then a set of individuals, whose actions are coordinated because they belong to the same organization, i.e. their role is to contribute, in a pre-specific manner, to the objectives pursued by the organization which they belong to. This leads to two consequences of importance for our purpose here: first, policy actors will be identified by the objectives which they pursue; secondly, the decomposition of an organization into several policy actors is always conceptually feasible; whether or not it should be done and how far that decomposition should be pushed will depend on the specific purpose of the analysis being conducted.

To identify policy actors by their objectives leads one to an investigation of why these objectives are what they are. The adaptive behavior paradigm (DAY, 1976; PETIT, 1981) is very useful in this respect. It suggests that an actor's objectives are closely interrelated with his situation, i.e. with his constraints and action possibilities. For an organization, many of these constraints can be subsumed under the heading of its institutional setting: how was it established? to do what? with which resources? under which procedure? For the answer to these questions, lessons can be derived from organization sociology, as illustrated by Allison's organizational model (see ALLISON, 1971). Similarly, insights can be gained from such analyses concerning the role and limited margins of maneuver of organizations' leaders. Each one has a role in deciding what his organization should do and, more importantly yet, in implementing the strategy decided by the governing body of the organization. The leader acts also as a spokesman for his organization. Thus leaders have influence; but one should not forget that their margin of maneuver is limited; and this facilitates the task of the outside analyst.

The behavior of an organization is usually quite predictable. As explained by Allison, an organization can only perform specific tasks according to standard procedures. In addition, a leader cannot usually do whatever he pleases, lest he runs the risk of losing his position as

leader. Thus, for instance, a farm organization leader does not have the freedom of neglecting the impact of a possible policy change on farmers' incomes. Similarly, in most countries, the first role of any Minister of Agriculture is to maximize the political support (or to minimize the opposition) of farmers to the government which he belongs to. His situation dictates the objectives which he pursues in the policy process. The same is true for other policy actors. Numerous examples could be given to illustrate this point; one more will suffice here: in all countries the Director of the Budget must worry about keeping some form of balance between Budget receipts and outlays. As a result, in agricultural policy debates, the Budget Director and his administration are always in favor of limiting Budget expenditures. They do not always win, even never do it completely, because other actors, carrying some weight, have other priorities; but knowing that priority is useful to predict the behavior of the Budget Director.

With this background on the behavior of all policy actors, it is useful to distinguish between two categories of actors: those which pursue specific, narrow interests, often of an economic nature, and those which are part of public authorities. Clearly, as all distinctions, this one has its limitations. The main difficulty is that it seems to ignore the well-known existence of clusters of power (OGDEN, 1972) reflecting a close interdependence between collective actors and public authorities (SALMON, 1985). Many individuals often move back and forth between private pressure groups and government agencies interested in the same issues. This leads to a set of close interactions defining a very autonomous cluster of power, which may not respond much to the coordination pressures exerted by public authorities at higher levels.

Yet, the distinction is useful. Private organizations have their own by-laws and procedures. Their objectives are defined by their compositions, the purposes for which they were established and their history. They often pursue specific economic interests, but their objectives may be broader than economic, as when a consumer organization worries about the healthiness of a food. Sometimes the objectives of a private organization are not even primarily economical, as is the case with nature protection associations complaining about the excessive use of fertilizers by farmers. But it remains that a private organization pursues specific and identifiable objectives, which can be inferred from an analysis of the organization itself. In addition, a private organization cannot directly decide or implement a public policy. To influence public policies, it has to exert pressure on one or several government agencies.

By contrast, government agencies are, as their name indicates, parts of the broader set of public authorities constituting the government. Their objectives are dictated by the function which they perform within, and often for that set. Any single agency seldom has the power to decide alone or even to implement a public policy. It is part of the state apparatus, which has the monopoly of public action. Thus government agencies differ from private policy actors both in the way their objectives are determined and in their action possibilities. But, as illustrated above, each government agency has its own agenda, procedures and limitations. Thus it has autonomous objectives and can be identified as a specific actor.

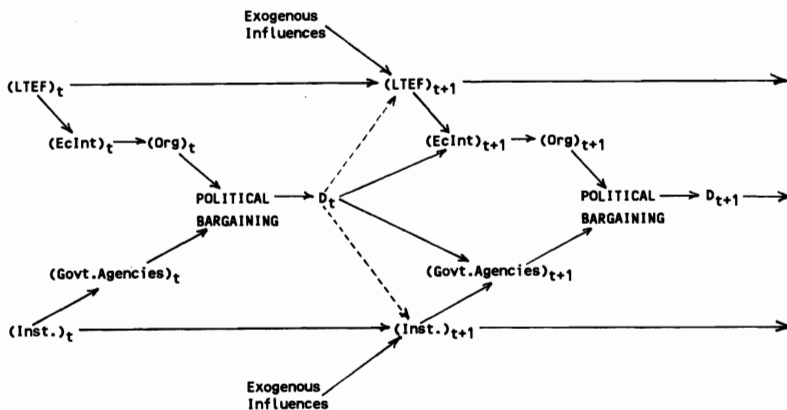
Interaction Among Actors Involved in Agricultural Policy Making

1) In the short run, policies result from a process of interaction among policy actors, which is mainly of a political nature. Power relationships are essential in determining the outcome of the process. Thus for instance in agricultural policy matters, farm organizations are usually much more powerful than consumer organizations. The political process critically depends upon the political institutions; and pressure groups organize themselves in order to exert as much influence as possible. If institutions change, significant readjustments may be required. Political scientists have long studied the process of political interaction and their work provides very useful insights. Yet it is very difficult to suggest precise and general hypotheses rendering account of the interaction process among policy actors in the short run.

2) But more can be said in general for the interaction process in the long run. This has to do with the interrelationship between economic and political phenomena in determining agricultural policies. Simple observation and various econometric studies have shown (as reported in the previous section of this paper) that in the long run economic forces have an important impact on the evolution of policies. For instance, agricultural policy makers in developed countries could not have opposed the rise in the general price of labor, relative to other prices in the economy. Agricultural policies had to accommodate that powerful long term trend. In the same fashion, the CAP must adjust because domestic agricultural supply in Europe has for decades been growing much faster than domestic demand (2 to 3% per annum versus 1% or less).

The link with the short run political process of interaction results from the simple fact that economic changes affect the distribution of interests among policy actors at any point in time. Thus the economic stakes of the policy debate are determined by economic phenomena. In the long run, the evolution of the interests at play can be so great that it has a critical influence on the outcome of the policy debate, which means on economic policies. In that sense, economic constraints shape the feasible domain of policy choices.

Figure 1



3) A recursive model can be very useful to capture the essential features of a dynamic process. At this stage of our knowledge however, it is not possible to precisely specify a fully recursive model; much uncertainty remains, in particular, about the duration of various adjustment periods. Yet, the following schematic presentation can be useful to convey the essentially dialectical relationship between economic and political phenomena in the determination of economic policies.

Policy decisions at time t , D_t , are the resultants of political bargaining, the interaction process among policy actors. Some of these are organizations $(Org)_t$, defending specific economic interests $(Ec. Int)_t$. Others are government agencies $(Gov Ag)_t$, which heavily depend on the set of existing institutions $(Inst)_t$. Long term Economic Forces at period t $(LTEF)_t$ influence $(Ec.Int)_t$. These economic forces are mainly exogenous variables in our analysis. Thus $(LTEF)_{t+1}$ result from $(LTEF)_t$ and from some exogenous influence. A dotted line linking D_t

to $(LTEF)_{t+1}$ indicates that policy decisions have an influence on long term economic forces but that this influence is limited. By contrast, D_t have a direct influence on the future distribution of economic interests. This is expressed by the solid line linking D_t to $(Ec Int)_{t+1}$ and to $(EC Int)_{t+n}$ through the sequence D_{t+1}, \dots, D_{t+n} . Institutions are also assumed to be largely exogenous to the agricultural policy making process.

Thus developed, the model can be operated as follows: Let us assume that, at some time t , a consensus emerges among policy actors on the nature of what is politically feasible. This will set the terms of the policy debate in a pluralistic society. Within this feasible domain, various organized interests act to put pressure on other groups and on government officials in order to obtain as favorable to them a policy outcome as possible. They encounter the opposition of other actors defending other interests. Alliances and coalitions are formed as integral parts of the political regulation process. Any policy decision can be viewed as the outcome of this interaction process, i.e. as a "resultante".

Afterwards, at time $t+1$, the earlier consensus on the feasible policy domain may be destroyed. This may be because economic circumstances have changed or because some groups' perceptions of the situation have been transformed. A new policy debate may ensue, producing a new outcome, i.e. a new policy, which does not respect some constraint C which had hitherto been recognized as such.

As some later date, say at time, $t+n$, the consequences of the new policy unfold. These consequences may be drastic enough that they are rejected by the vast majority of policy actors. In this case a new consensus emerges recognizing C as a constraint, this recognition appearing thus truly as a political resultante, i.e. a political choice. It will henceforth shape the feasible policy domain.

Validation of the Framework: Application to the European Community

The general approach just presented can be applied to the case of the European Community, with the complication that two levels of interaction are involved: the Community level proper and the national level. At the latter, the schematic presentation given above can be used to interpret how national positions, to be defended in Brussels, are elaborated. At the Community level, procedures are sufficiently formalized that hypotheses about the interaction process can be further specified. Previous research has shown that such hypotheses could be relevant and that they can explain various features of Community decisions and decision process (PETIT, 1985; PETIT et al., 1987). The rest of this section is devoted to a brief discussion of these specific hypotheses and of their most important consequences. Hopefully the reader will then be convinced that the general approach suggested by our framework can be fruitful.

In Community affairs, the final decision is formally taken by the Council of Ministers which is made up of representatives of the national governments of each member country. For instance, when it discusses agricultural policy, the Council is the gathering of the twelve national Ministers of Agriculture. Sometimes the meeting can be broader and the Ministers of Agriculture are joined by their colleagues for Finance and for Foreign Affairs. But in all cases, the European Council of Ministers of the Community is made up of representatives of national governments. Formally, the Council decides by a vote. A qualified majority is required if the vote is taken on a proposal presented by the Commission.

But, for complex historical and political reasons, decisions have often been governed by a "de facto" unanimity requirement; and this has had important consequence for the decision process. No Minister can be completely defeated, humiliated by the outcome of a Council meeting. Each one has to be able to point out positive results to his countrymen, particularly to the farmers of his country for a Minister of Agriculture, when he comes home from Brussels. This largely explains that Community decisions are taken by "packages", balancing concessions and satisfactions for each member country. The unanimity requirement also

explains the difficulty of changing policies. There is a tremendous bias in favor of the status quo. But policies do change; decisions get taken. Thus there must be some force to overcome this bias for the status quo. This is probably the political cost of not taking a decision, which leads to a sense of a crisis, where the credibility and sometimes even the survival of the European Community is threatened. Indeed it often appears that Europe is only moving from one crisis to another. But if one steps back, the historical momentum is obvious: European integration has been progressing, the Community has been enlarged geographically and more and more topics are covered by common rules or common undertakings.

The important role of the cost of no decision is also reflected in a small feature of Community decision making; decisions, particularly those related to agricultural prices, are always taken in the wee hours of the morning. This may appear trivial, but it is sufficiently permanent to be revealing. A concession made by a Minister after long nights of negotiations may be acceptable at home if it appears that this concession was necessary to avert a major crisis. The same concession made at a more normal working hour would not have this appearance.

In a final package of decisions, one may distinguish "core" issues from those which are at the "periphery". The former are those around which the negotiation, which led to the package, has revolved. These issues are usually important for a several countries, they cannot be too numerous, otherwise the negotiation is too complicated. The final package includes additional issues, usually less important or of importance only to one or two countries, which complement the package, permitting a better balance of advantages and concessions. The individual skills of a negotiator play an important role in determining whether or not a peripheric issue is added to the core issues in the final package. He has to convince his colleagues that he will veto the package and bear the political cost of the absence of decision if the issue is not added. The distribution of the political cost of a failure is however somewhat subtle. If the failure is attributed to a disagreement on a minor point, the blame may be placed as much on those who refused to grant a concession as on those who made this issue critical.

Generally speaking, these hypotheses about the interaction process among policy actors at the Community level explain several specific features of Community decision making. They are consistent with the general model presented in the previous section. For instance, they allow for the influence of long term economic forces on the evolution of the CAP. It must however be recognized that there remains much uncertainty in the process of political interaction. Accordingly, it is always very difficult to predict what the outcome of a specific negotiation will be.

b. How Many Case Studies?

The need to describe the political process has led us to argue that case studies were required. Some of the earlier discussions in the previous section will hopefully convince the reader that case studies have been useful. In addition, the work

by Hayami on the Japanese situation, although it is couched in the framework of political markets, can be viewed as another case study demonstrating the usefulness of such studies. Interestingly, several of his conclusions are very similar to the ones which have been reached on studies of the European Community. Farm organizations are on the defensive, they are able to preserve the status quo or to prevent its rapid erosion but they are not in a position to increase the level of protection for agriculture. In Japan, as in the European Community, outside pressures play an important role in the evolution of agricultural policies. But in Europe, the internal budget pressure has been more influential than external forces. It is true that Europe which has become a net exporter of agricultural product faces more severe agricultural budget problems than Japan which is largely an importer. In Europe, pressures from the outside have not been extremely effective unless they have found allies within the Community itself. These allies are groups whose interests are threatened by a contemplated policy change. For instance, the proposal to establish a consumption tax on oils and vegetables other than butter, made by the Commission in 1983 and in 1988, was opposed by

the United States but effectively blocked by several governments sensitive to powerful European interests, particularly oil refiners and margarine manufacturers, which would have been hurt by that proposal. Thus, in both Japan and the European Community dynamic forces are at play which put great pressures on existing policies. At the same time, powerful farm organizations have been able, so far at least, to prevent a drastic change in these policies; and thus the status quo has essentially been maintained.

These considerations should be sufficient to illustrate the fruitfulness of an approach relying heavily on case studies, provided that these are conducted or interpreted within a general framework of policy making determination. However, one must question the wisdom of continuing case studies for ever. A time must come when hypotheses inferred from case studies will be sufficiently specific to lend themselves to precise quantification, so that a rigorous test of these hypotheses is possible. At this stage, it is not clear that such a time has come. Pursuing with case studies seems to be the logical conclusion of the argument presented so far. But the question should remain open.

III. CONCLUSION

This review of issues involved in the political economy of agricultural policies has shown that there has been a welcome shift in the professional attitude towards this area of research. Clearly, more and more agricultural economists are convinced that it is legitimate to investigate why agricultural policies are what they are. This shift in professional attitude has been permitted by significant advances on the theoretical front. Although many of the new neoclassical political economy developments are couched in too static a perspective, leading to the conclusion that all government intervention is bad, it remains that several concepts and hypotheses have been developed in the last fifteen or twenty years and these have proven very fruitful. Future research should be based on these solid theoretical foundations. Many implicit debates remain on the methods to be used; and the most important question dividing investigators probably relies on the proper use of quantitative investigation. There is no doubt that both qualitative and quantitative methods are needed. Thus they are complementary. But the practices of the researchers show that they differ on the answer to the dilemma between the urge to quantify and the need to describe. Clearly this author emphasizes the latter. This leads to advocating case studies. But it must be recognized that general rules and hypotheses should be sought and that case studies per se will not permit to produce knowledge of a general enough character. In spite of this debate there is no doubt that the field has been a very productive one and it should continue to be cultivated. Much remains to be done and this justifies further research in this area.

ABBOTT, P.C. (1979): "Modelling International Grain Trade with Government Controlled Markets." *Am. J. Agr. Econ.* 61: 22-31.

ALLISON, G. T., (1971): "the Essence of Decision - Explaining the Cuban Missile Crisis." Boston: Little, Brown.

ANDERSON, K. (1983), "Growth of Agricultural Protection in East Asia," *Food Policy*, 8 (4): 327-36, November.

ANDERSON, K., Y. HAYAMI and Others (1986), *The Political Economy of Agricultural Protection: East Asia in International Perspective*, Sydney: Allen and Unwin.

ANDERSON, K. and R. TYERS (1988): *Global Effects of Liberalizing Trade in Agriculture*, Thames Essay, Aldershot: Gower for the Trade Policy Research Centre.

BARDHAN, P. (1988): "Alternative Approaches to the Theory of Institutions in Economic Development" in P. Bardhan (ed.), *The Economic Theory of Agrarian Institutions*, Oxford University Press, 1988.

BHAGWATI, J. N. (1982): "Directly Unproductive Profit-seeking (DUP) Activities", *Journal of Political Economy*, 90, 5, 988-1002.

BUCHANAN, J. M.; TOLLISON, R. D.; and TULLOCK, G., eds. (1980): *Toward a Theory of the Rent-Seeking Society*. College Station, Tex.: Texas A and M University Press.

- DAY, R.H. (1976): "Notes on Adaptive Economic Theory", *European Review of Agricultural Economics*, 3 (2/3) 235-264.
- DOWNS, A. (1957): "An Economic Theory of Democracy". New York: Harper and Row.
- GARDNER, B. (1986): "Causes of U.S. Farm Commodity Programs." *J. Pol. Econ.* 95, 290-310.
- HAYAMI, Y. (1988): *Japanese Agriculture Under Siege: The Political Economy of Agricultural Policies*, Basingstoke, McMillan, 1988, 145 p.
- HONMA, M. and Y. HAYAMI (1986): "The Structure of Agricultural Protection in Industrial Countries", *Journal of International Economics* 20: 115-29.
- KRUEGER, A. O. (1974): "The Political Economy of the Rent- Seeking Society." *American Economic Review* 64, 291-303.
- MOYER, H. C., *The Politics of Agricultural Reform in the United States and the European Community* (to be published).
- OGDEN, D. M. (1972): "Outdoor Recreation Policy and Politics". In *The Political Economy of Environmental Control*, pp. 98-103. Edited by Anthony Downs et al. Berkeley: Institute of Business and Economic Research, University of California.
- OLSON, M. (1965): *The Logic of Collective Action*. Cambridge, Mass.: Harvard University Press.
- OLSON, M. (1982): *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities*, New Haven, Yale University Press.
- PELTZMAN, S. (1976): "Toward a More General Theory of Regulation." *Journal of Law and Economics*, 19 (August), 211-240.
- PETIT, M. (1981): "Théorie de la décision et comportement adaptif des agriculteurs in Formation des agriculteurs et apprentissage de la décision, Dijon, ENSSAA, INPSA, INRA, INRAP, Janvier.
- PETIT, M. (1985).
- PETIT, M. et al. (1987).
- RAUSSER, G.(1982): "Political Economic Markets: PERTS and PESTS in Food and Agriculture", *American Journal of Agricultural Economics*, 64, 5, Dec.: 821-834.
- SALMON, P. (1985): "L'économie politique néo-classique: de la polémique à l'analyse? *Annales de la SEDEIS*, 48, Nov.
- SARRIS, A.H. and J. FREEBAIRN (1983): "Endogenous Price Policies and International Wheat Prices." *Am. J. Agr. Econ.* 65: 214- 224.
- STIGLER, G. (1970): "Director's Law of Public Income Redistribution." *Journal of Law and Economics* 13 (April): 1-10.
- STIGLER, G. (1971): "The Theory of Economic Regulations." *Bell Journal of Economics and Management Science* 2 (Spring): 3-21.
- RIETHMULLER, P., and T. ROE (1986): "Government Intervention in Commodity Markets: The Case of Japanese Rice and Wheat Policy." *J. Pol. Model.* 8: 327-349.
- VALDES, A. (1974): *Synoptic View, The Future of Agriculture: Technology, Policies and Adjustment*, Oxford Agricultural Economics Institute and International Association of Agricultural Economists (Proceedings of the 15th International Conference of Agricultural Economists), 422-427.
- VON WITZKE, H. (1986): "Endogenous Supranational Policy Decisions: The Common Agricultural Policy of the European Community." *Public Choice* 48 (1986): 157-174.
- VON WITZKE, H. (1988): "Determinants of the US Wheat Producer Support Price", paper presented at the 20th International Conference of Agricultural Economists, Buenos Aires, August 1988. (To be published)