AGRICULTURAL POLICY FORMATION: 
THE DIFFERING FUNCTIONS OF 
INDEPENDENT ANALYSTS AND ADVISERS

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Agricultural policy has been analysed systematically in Australia but the process 
of policy formation is not well understood. Distributional dimensions of policy 
issues influence decisions and policy analysts might improve their performance 
by better identification of these dimensions without neglecting basic efficiency 
criteria. These propositions and the functions of policy advisers are considered in 
this paper.

Preamble

I am conscious that my nomination and election to the Presidency of 
the Society must have been prompted by some interest in involving an 
economist employed away from the mainstream of agricultural 
economics research and teaching in Australia. As an economist working 
closer to commercial and public policy decision points, my day-to-day 
activities comprise relatively little direct involvement in agricultural 
economics research of the independent sort undertaken by agricultural 
economists in universities and, to a large extent, institutions such as the 
BAE and State Departments of Agriculture. My current professional 
status might be reasonably classified as ‘policy adviser’, though I would 
claim strong roots in agricultural policy analysis.

It would be fatuous of me to speculate whether the collective wisdom 
of the Society has been engaging in a little evangelising with the purpose 
of enticing back souls, such as mine, thought to be straying from the 
paradigm. Whatever validity such speculations might have, I would like 
to believe that one motive for my election was some desire to achieve a 
degree of ‘balance’ in the composition of the Society’s membership; and 
that the Society will achieve its objectives best if it attracts a wide 
representation of professional agricultural economists. Members might 
also have a more specific interest in the views and experiences of public-
policy advisers. They might reasonably expect that an improved 
understanding of public-policy decision processes could enhance the ac-
cceptability of more normative policy research undertaken by indepen-
dent analysts employed in universities and institutions such as the BAE.

Agricultural economists have not paid much attention to the processes 
of policy formation but have, instead, concentrated on analysis of its

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93

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content. Those who have been privy to the inner cabinets and workings of policy formation have often not chosen, or had the opportunity, to
detail their experiences, nor to comment on the usefulness or otherwise
of independent analyses of policies to policy makers.

I propose to use the opportunity that this Presidential address provides
to consider the process of agricultural policy formation and the influence
that independent analysts and policy advisers have in this process. I do
not propose to discuss specific agricultural policies or the particular in-
titutions which have shaped these policies, though this would have been
worthwhile. Instead, I begin by exploring briefly the interest that
agricultural economists have shown in understanding the process of
public policy formation in Australian agriculture. I then move on to
identify the two main bodies of theory and empirical investigation pro-
teed to explain market intervention and to discuss their implications for
agricultural economists engaged in policy work. Following some observ-
ations on the decision framework of policy makers, I make some
judgments about the proper functions of independent analysts and ad-
visers in the process of formulating public policy. Finally, I make some
remarks about how comfortable and how useful policy advisers find
membership of this Society.

The Interest of Agricultural Economists in Agricultural Policy
Formation

A 'grab-sample' of Presidential addresses to this Society provides a
rough indication of the profession's interest in positivist studies of
public-policy decision processes. Parish (1969, p. 7) suggested that it
would be an advance if normative studies of the economic performance
of marketing boards and similar authorities were to be supplemented by
positive studies which sought to explain why they perform the way they
do.

Dillon (1972) assessed the performance of agricultural economists in
policy research as barely adequate because of an overly normative ori-
tentation. To improve the acceptability of research results, Dillon concluded
(p. 75)

... all we would have to do is make sure we offer not the ideal nor-
mative solutions to problems but solutions more in line with politi-
cians' and farmers' preferences, yet at least marginally better from a
national view than their untutored choices would have been.

In a sense, this statement is a truism, but it does express the view that if
agricultural economists were a little more pragmatic it would be relatively
easy for them to increase their influence on policy decisions.

Musgrave (1976), in a retrospective review of policy work undertaken
by Australian agricultural economists, identified the neo-classical,
efficiency-oriented approach to policy analysis in which resource allo-
cation and growth loomed large, but distributional consequences of policy
were generally neglected. He argued that policy work had affected public
decision makers in a significant way, but that our 'efficiency blinkers', as
he termed it, had reduced our effectiveness.

Despite Musgrave's prescription for influencing policy more effective-
ly, and his optimism, it remains a common lament of independent anal-
ysts that policy makers pay little attention to the advice and exhorta-
tions of economists. As observed by Edwards and Watson (1978, p. 231), 'there is not much evidence from popular discussion that the results of agricultural economists' insights and empirical knowledge are appreciated by farmers and politicians or provide a substantial input to policy-making'. They cite the common responses to the beef industry problems of the time and conclude that such responses fail to '... reflect much appreciation of economists' approaches to agricultural policy'.

Given this concern amongst agricultural economists that research and comment on policy issues should be more effective, and that some proposals have been made as to how this might be achieved, we can question the extent to which the profession has responded by:

(a) engaging in positivistic research into the functioning of institutions (including government) forming and implementing policy; and
(b) attempting to analyse policy issues and present recommendations which are more cognisant of the functioning of the institutions forming policy so as to be more effective in influencing policy decisions.

Positivistic Research into Policy Formation

If we take Campbell's (1982, p. 1) point that policy is expressed in statutes, in administrative regulations pertaining to those statutes and in executive actions reflecting the interpretation of the intent of legislation, we have a clear view of what is meant by policy. As to the formation of policy, we should consider, first, the main two bodies of theory which have been proposed to explain the pattern of government intervention in the market:

(a) the 'public interest' theory which holds that intervention is supplied to correct inefficient or inequitable market practices for the well-being of the general public; and
(b) the 'capture' or 'interest group' theory which holds that intervention is supplied in response to the demands of effective, private interest, lobby groups attempting to maximise the well-being of their members.

Statements by governments and other policy-making bodies, rationalising the introduction or continuation of particular policies, have rarely been expressed in economic terms. Rather, they have appealed to the public interest or the interests of sectors worthy of sympathetic treatment. Some analysts, such as Harris et al. (1974), have attempted to rationalise various areas of intervention as being in the public interest, but agricultural economists have rarely identified instances where intervention has been in the public interest. While criticism of the content of policy has been strong, explanations as to how and why decisions have been taken have not generally been sought.

Let me qualify my statement that agricultural economists have rarely identified intervention policies which are in the public interest. A notable exception has been support for the provision of assistance, on the grounds of equity, to farmers whose incomes have fallen below accepted welfare standards. Quite correctly, economists have generally failed to find justification for adjustment policy measures on efficiency grounds
and have been careful to recommend welfare measures which minimise resource misallocation.

Policy formation, to the extent that it has been considered by agricultural economists, has largely been seen as a political process responding to self-interested pressure groups (Mauldon 1975, p. 70). Sieper (1982), in a path-breaking study, has rationalised agricultural policy for some of Australia's rural commodities to be the result of pecuniary self-interest of private interest groups. Much of the evidence is circumstantial, and, although parts of his exposition are stated brilliantly, Sieper does not provide a general theory capable of explaining the lack of intervention in major rural industries.

Another recent statement of the view that policy is heavily influenced, if not determined, by the actions of private interest groups is that by Campbell (1982). Some reiteration of the points made in that paper is worthwhile. Campbell drew attention to (p. 4) '... factors underlying changes in the Australian power structure in recent years which have affected the ability of farmers to mould policy in accordance with their desires'. He is impressed by the continuing ability of the nation's farming community to display its political muscle. He talks about the powerful influence of the National Country Party on policy but agrees, along with others, that farmers must in due course lose out in the numbers game. The unification of farmer organisations into the National Farmers' Federation (NFF) in 1979 is seen as a response to shore up the declining influence of the farmer lobby in policy formation. Friction within the NFF is seen to result from difficulties in reconciling the self-interests of different farm commodity groups. He identifies the emergence of a whole range of new urbanised, so-called 'pressure groups', with various causes including animal welfare, environmental protection and aboriginal land rights. He judges that (p. 9) 'Australian farmers and organisations have scarcely begun to realise the potential threat of these urban-based groups... Even less have they devised strategies for coping with these discordant voices in the public policy arena'.

Furthermore, Campbell saw the original opposition of the farm organisations to the establishment of the IAC in 1974 as stemming from fears that the public inquiry process would possibly disrupt traditional channels for exercising influence. Current support from farmer organisations for the public inquiry process, including inquiries on specific issues such as the Australian financial system as well as general agricultural inquiries such as that conducted by Baldersone et al. (1983) is seen to stem from the realisation that (Campbell 1982, p. 13) '... agricultural policy in the traditional sector-oriented sense is no longer as important as it once was in the rural scene and that, as a result, farm pressure groups cannot be as effective as they once were'. In desperation, the NFF called for a general inquiry in the vain hope that it would provide guidance as to how to be politically effective in a situation where farmers' welfare is more dependent on fiscal policy, tariff policy, monetary policy etc., than on rural commodity or rural sector policy as such.

Here, then, we have a detailed view of rural policy formation which fits neatly into the private interest theory of regulation, although I cannot be sure that Campbell would argue that political clout is the only significant influence shaping rural policy. Indeed, early in his paper, he points out that a great deal of policy legislation is probably not initiated by
legislators but rather is thrust upon them because of the need to renew expiring statutes or update and modify others because of unrelated changes in circumstances.

Such positivistic analysis provides a ready explanation of Edwards and Watson's (1978) observation that little heed appears to have been taken of economists' advice. If this is indeed correct, then it presents a nasty problem, perhaps a crisis of purpose if we are completely honest, for many agricultural economists involved in policy analysis and policy advice.

Some rather uncomfortable questions include:

(a) Why do economists in universities continue undertaking policy analyses if policy is formed by the influence of different self-interested groups?

(b) Why are governments engaging in public inquiry processes (for example, with the IAC) and supporting public policy research institutions (such as the BAE) if policy decisions are simply, or even predominantly, the outcome of political pressure?

(c) Why are farmer organisations and statutory commodity authorities which have considerable discretion in formulating commodity policy, or at least in interpreting government intent from enabling legislation, increasing the number of staff economists undertaking research and preparing policy advice?

Some might suggest that agricultural economists have been exercising, successfully, a little bit of their own self-interest. The suggestion that public inquiries into policy and greater numbers of economic policy advisers are simply public relations exercises to assuage public opinion is unacceptable. The rejection by policy makers of economic advice is made all the more difficult by public disclosure of such advice.

A more reasonable conclusion is that rural-policy makers, both governmental and quasi-governmental, as well as private interest groups which undoubtedly influence policy, do have an interest in analysing the economic dimensions and implications of policies, and that, increasingly, agricultural policy is being influenced by rational economic argument. The reasons for this are difficult to gauge but they include: increasing economic literacy of the population/electorate as a whole; the changes to the public inquiry process since 1974; the realisation by rural interest groups that policies in the past have often been regressive or otherwise inequitable and the benefits illusionary or temporary; and, finally, an increasingly diverse economy and, therefore, a burgeoning number of private-interest groups forcing government to adopt a more formal system of dispensing largesse.

My view is that the failure of agricultural economists to have a greater influence on policy cannot be simply attributed to the actions of private-interest groups, and that the performance of agricultural economists in influencing policy can be improved. Part of the explanation for the failure of policy makers to consider closely, let alone accept, much of the advice prepared by independent analysts is the preoccupation by economists with allocative efficiency and a neglect of the other dimensions and particular features of the decision framework/environment of policy makers and policy-making groups.
Background factors, apart from the overt influence of private-interest groups which have an important bearing on policy making, probably vary but I wish to make some observations resulting from my experience within a statutory marketing authority.

The basic ideology of the policy-making body, or the dominating personalities in such bodies, will influence the consideration that various policy issues will receive. Although ideological differences do not appear to have differentiated policy responses at state and Federal government levels, it is my impression that some commodity authorities, such as the Australian Wheat Board, are fundamentally more inclined toward market intervention than, say, the Australian Meat and Live-stock Corporation. This difference is probably the result of many factors, some historical and some commodity based, but, nevertheless, will be a reflection of the basic ideologies of the personalities attracted, through time, to the policy-making group.

Policy makers, particularly those operating within a group, are averse to conflict and will act to minimise the potential for conflict. They will avoid listing on the policy agenda issues which will clearly involve conflict and will place heavy consideration on the 'potential for conflict' dimension of policy options. In economic terms, this means that the distribitional aspects of policies are, in practice, extremely important. It is my impression that questions of who benefits relatively and by how much are at least as important as whether industry or national income will be increased and by how much.

Furthermore, the immediate distributional impact of any particular policy is the main consideration. Second-round and ultimate effects of policies are usually understood poorly. Hence, market responses to intervention are often not anticipated and the distributional consequences will, ultimately, not be as planned.

Policy decisions are taken concurrently and consecutively. The decision taken on one issue is often not independent of the decision taken on another. Interests which fail to benefit or are disadvantaged by one policy decision, may, as a direct result, be seen as deserving of more favourable treatment by another policy decision. This observation applies particularly to the plethora of less significant decisions taken by regulation and discretionary action within enabling legislation.

Except in periods of crisis, policy proposals which involve substantial change will generally be considered less favourable than those involving less change, *ceteris paribus*. Clearly there will be a trade-off between maintaining the *status quo* and achieving other objectives. This reluctance to adopt policies involving substantial change may simply be a fear by policy makers of being seen as radicals by generally conservative farmer groups. It might also be a fear that substantial change has a more uncertain outcome than marginal change; and that the distribitional consequences as well as the overall effect on industry earnings will be more problematical.

Given this reluctance to make radical change, departures from inherited policy positions will usually be gradual. Occasions when policies come up for renewal, (for example, the five-year wheat plans) or for reconsideration because of changes of circumstances, cannot realistically
be regarded by advisers as providing the opportunity to 'start from scratch'. Policy advisers who advocate a radical departure from the inherited policy will have to consider and explain carefully the administrative and distributional implications of the change if it is to gain any reasonable hearing.

Another explanation of the 'gradualist' approach of policy makers is the difficulty they and their electorates/clients have in becoming informed of the policies, or changes to policies, that are proposed or should be considered. The reluctance of policy makers to consider policies which are significant departures from existing policies or attitudes may reflect as much a shortage of time to consider all the ramifications as it does other factors, such as innate conservatism.

These, then, are some of the background influences which shape the responses of policy makers in forming policies independently of the actions of private-interest groups or of economic analysts and policy advisers. To the extent that these influences are kept in mind by analysts and advisers, they will be more effective in their role.

The Distributional Dimensions of Policy

Agricultural economists have, customarily, argued that maximising the size of the national cake (efficiency) should be the predominant, if not only, objective of agricultural policy. They have argued that questions of distribution of income and wealth are best handled quite independently of questions of resource allocation. The theory of welfare economics provides no basis for such a clear division between resource allocation and income distribution in the maximisation of social welfare. However, I do not wish to continue that line of argument here except to make a number of observations.

(a) All policy decisions result in an uneven distribution of benefits and losses amongst affected interests. Interest groups who perceive they are disadvantaged, or relatively less advantaged, by policy decisions are typically unwilling to take a long-term view that their position will improve faster the more efficiently the nation's resources are allocated to uses paying highest returns.

(b) The incidence and extent of benefits and losses from particular policies are usually poorly identified and measured. This paucity of information enables (perhaps causes) groups which are concerned that they will lose or fail to benefit from a particular policy to exaggerate the extent of any perceived disadvantage. Interest groups expecting to benefit will be in a position to either exaggerate or understate their advantages depending upon the context of the debate. All this tends to muddy the waters for policy makers, who, if they are to be objective in their decisions, require measurements of the distribution of benefits and costs.

(c) On many issues there will be alternative policy instruments achieving different degrees of resource misallocation in association with different distributional consequences. Policy makers are interested in the trade-off between resource misallocation and the distributional effects for alternative policy options.
The Functions of Independent Analysts

By and large, independent analysts have stuck to their emphasis on efficiency and have argued strongly for the correctness of this approach (McKinnon 1982). By most opinions they have been diligent and prodigious in both analyses and the offering of advice to policy makers.

The greatly increased numbers of agricultural economists now employed in advisory positions and the development of the public inquiry process, especially the IAC, is strong evidence that the message of analysts is being more widely disseminated. Nevertheless, economists continue to suffer a credibility problem in the popular communication of their advice. Resources are unlikely to be available to the independent analysts to expand the communication effort. Indeed it is questionable that analysts should have that function. (For a contrasting view, see Campbell 1982.)

There are several strong arguments that independent analysts, such as the IAC, should persist with their pursuit of 'ideal' policies; that is, policies designed to achieve the most efficient allocation of resources as conventionally measured. One is that the perseverance of independent analysts is resulting in better policy decisions. With increasing public scrutiny through the IAC inquiry process and increasing public accountability of statutory authorities through Senate Committees, policy makers are being influenced to adopt policies closer to the 'ideal'; that is, policies in the national interest.

Even if this view of policy formation is too optimistic, and sectoral implications always have some influence on policy, independent analysts will be relied upon by policy advisers, and perhaps policy makers themselves, to provide normative prescriptions to policy issues. Independent analysts may have insufficient information to take into account the various political, bureaucratic and administrative influences which inevitably shape individual policies but policy advisers, who do have this information, seek a point of reference for their more pragmatic approach in providing policy advice. Furthermore, policy advisers may look to independent analysts for more than just arguments and specifications for the 'ideal' policy.

They may appeal to the independent, impartial status of independent analysts for moral, intellectual and political support when advising policy makers. Finally, there is the argument that if analysts were to start mixing value judgments about equity with efficiency analysis, then their credibility as objective and impartial sources of advice would be seriously eroded.

Despite these arguments, a good case can be made that independent analysts could contribute to an improvement in policy making by identifying and examining policy options which might not optimise resource allocation (according to efficiency criteria) but which achieve other objectives policy makers might have. This analysis would be additional to, but still part of, the analysis yielding advice on the economically-ideal policy. Such analyses could identify and emphasise the interdependencies amongst economic relationships and measure explicitly the opportunity cost of attaining other objectives. To be most effective the analyst will require some prior indication of policy makers' competing objectives, but these can usually be anticipated to a considerable extent.
Policy analysts have not completely ignored distributional implications of agricultural policies in the past, but, generally, any distributional analysis has been subsidiary to efficiency analysis. The practice has usually been to point out regressive or otherwise inequitable distributional consequences to add further support to recommendations derived from efficiency criteria.

If policy makers have a clearer understanding of the distributional consequences of policy options, where interrelationships are more fully identified and the opportunity costs of achieving other objectives are measured, the prospects for better policy decisions will be generally improved. Even where policy continues to be influenced by private-interest groups then, if nothing else, better information on the distributional consequences of policies will allow private interests to be satisfied in the most efficient way.

*The Functions of Policy Advisers*

The number of agricultural economists employed by statutory commodity authorities and farmer organisations to advise on policy has increased significantly over the past decade. It is my impression that a greater number are also employed in senior positions close to Ministers. Over the same period the number employed in independent policy research and advisory organisations, such as the BAE and the IAC, has also increased. Why have policy-making organisations found it necessary to employ more economic advisers when a greater volume of independent advice has become available?

Undoubtedly one of the functions of policy advisers has been to interpret independent analyses and advice. On the whole, however, organisations such as the BAE and the IAC have done a good job in communicating their advice in language intelligible to the interested layman. Criticism by policy makers of independent advice is more often that it is 'academic', 'politically naive' or 'unrealistic', rather than that it is unintelligible.

As well as interpreting the analysis and advice emanating from independent analysts, policy advisers have been employed to extend independent analyses and provide advice on matters neglected by independent analysts. Much of this work is on developing policies which independent analysts would consider inefficient and, therefore, undesirable.

There is the risk that advisers become mere 'hacks', providing advice and designing policies anticipated to satisfy policy makers' objectives without any effort to improve policy makers' perceptions or policy outcomes. Worse, they may adopt political values which influence their advice. On the other hand, advisers must accept that those who simply advocate policies designed to optimise resource allocation according to efficiency criteria will have fairly short careers. The very essence of policy debate and formulation is the trade-off between maximising national income and distributing gains and losses in an equitable manner.

I believe it to be a legitimate function of policy advisers to influence policy. This can be attempted, first, by pointing out the trade-off between maximising national income and achieving other policy objectives; second, by canvassing policy options which achieve policy makers' objec-
atives with least market distortion; and third, by pointing out the subsidiary distributional effects of alternative policies.

For various reasons, advisers find it necessary from time to time to advocate and develop policies selected from a constrained policy set. Policy makers may allocate too little time to advisers to allow an exposition of the merits of the economically 'ideal' policy. Advisers may simply see that the prospects for adoption of the ideal policy are too remote and look for the best within the feasible set. The best policy might be that judged most likely to lead, eventually, to the ideal within the current political/institutional framework. It might be that judged to be least distortive. Such judgments distinguish advisers from independent analysts in the process of policy formation.

**Summing Up**

Economic analysts of agricultural policy issues in Australia have been disappointed by the lack of acceptance by policy makers of their advice. Despite this, they have persisted with their efforts and continue to advise 'ideal' policies based on efficiency criteria with only limited concern about the effect of policies on the distribution of wealth and income. They have paid remarkably little attention to the process of policy formation.

If we accept the proposition that policy is the outcome of the demands of private-interest groups, it could be argued that the efforts of analysts are irrelevant to the process of policy formation. It provides an obvious explanation of 'insufficient' acceptance of advice from independent analysts. Analysts may, however, continue in the belief that, as a result of their efforts, one of the groups affected by policy, namely, the general public, will eventually become better informed and exert greater influence in forming policies. Again, too little attention has been paid to determining whether efforts are in the right direction or are having any degree of success.

Policy makers intervene with at least some regard for the public interest and any failure of analysts to influence policy causes even more concern. Possible explanations of ineffectiveness include:

(a) a failure to analyse issues and advise policies designed to achieve policy makers' objectives; and

(b) a failure to analyse and present advice in a form which allows policy makers to be informed adequately of the economic costs of trade-offs between public and private interests, or whatever other objectives policy makers may have.

Of these two possible explanations, only the second poses a challenge for agricultural economists. Good arguments can be made against analysts adopting, if they could know them, the objectives of policy makers and advising policies to achieve these objectives. Such an approach would become so positivistic as to virtually eliminate the normativism from policy analysis and advice. The best prospects for improving the effectiveness of independent analysts is for them to provide not only the specification and distributional implications of ideal policies, but also the economic costs and distributional implications of alternative policies.

Let me finish with some comments about the Society and the attraction it has for policy advisers. It would be unfortunate if agricultural
economists in advisory positions found the Society to be lacking in understanding of their function and the Journal failing to provide the analytical back-up they are looking for, or a place where they could reasonably expect to publish professional material. The past decade has seen agricultural economists with a particular interest in farm management form a separate professional group. While there is little likelihood of agricultural economists in advisory positions forming a separate professional group, many are not active in the Society. The Society could do well to make efforts to ensure that active membership is worth the effort.

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