

Explaining agricultural policies in the EU and the US: political-economic approaches, lessons and challenges

Roel Jongeneel and Huib Silvis
Agricultural Economics Research Institute,
LEI-Wageningen UR
The Hague, The Netherlands

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Extended abstract

The role of the government in the economy is a heavily debated issue. Continuously governments are struggling to find the right position, a process which also includes regular re-positioning (or policy reforms). Two main rationales for social and economic policy interference by governments often mentioned are issues of market failure (efficiency) and income distribution concerns (equity). Likewise the economy as a whole, even more so agriculture is a sector characterized by heavy policy interference, both over commodities and over time. Also there updates and revisions happen time and again. Notable example are the new Farm Bill in the US which has to be finalized this year and the upcoming Health-check of the Common Agricultural Policy (CAP) in the EU in 2008. However, even though also in agriculture policy interference rather than non-interference is a rule, there is a lot of variation over commodities, regions and time. The paper tries to discover certain patterns and regularities in agricultural policy interference. As such it tries to come up with a framework improving our understanding of policy formation and policy reform. Therewith it relies on the three other papers presented (see contributions of Koning, Meester and De La Torre Ugarte) in the ASSA conference session on agriculture, from which it tries to draw some political economy lessons.

The paper is organized as follows. Section 2 starts with a review of the reasons given to justify policy interference. Section 3 provides a brief overview of the evolution of agricultural policies, which a special focus on the EU and the US. Section 4 discusses political economic frameworks (public choice, rent-seeking and Petit-model) and their explanatory power. Section 5 applies the political economic framework to the EU and US cases. Section 6 provides an assessment of the reviewed political economic frameworks. Finally Section 7 closes with some concluding remarks and tentative efforts to 'predict' likely future agricultural policy developments.

The discussed arguments for policy interference discussed in Section 2 of the paper are: food availability, food security, food safety, farm income, economic growth, economic development, the need for adapting agricultural structures, income redistribution, correction of market power imbalances, preservation of viable rural communities, conservation of the environment, animal welfare, and safe and healthy production (proper management of plant and animal diseases). It is argued that these needs for management can help to understand the origin of policy interference, but are not sufficient to fully capture the actual policy formation and the policy evolution over time. Then other factors like rent-seeking and internal sector dynamics have to be included as explanatory factors.

Subsequently, the paper provides a brief overview of the agricultural policy evolution over time, with a particular focus on the EU and the US policies (Section 3). (Further details about this can be found in the other papers presented in the same ASSA session on agriculture). The historical perspective provides insight in the policy reforms over time and the main influencing factors. Moreover, it emphasizes that economic policies are viewed as outcomes of a dynamic process: the chronology of events is important to understand the policy evolution.

After discussing the 'need for management' and the brief overview of the agricultural policy evolution for some key-players, a number of political economy approaches are

discussed (Section 4). It starts with an overview of the policy decision and implementation process decomposing the process into the legislative, executive and judicial branches in the government system. Because it is through the interaction of these branches of government and bureaucracy that public policies are proposed, developed, adopted and carried out, it is useful to explicitly distinguish them.

It is shown that the public choice literature has contributed to a better understanding of the policy process, although it never can provide a full explanation of the policy dynamics. In particular, it lacks a clear discriminatory power with respect to the determination of the direction of policy evolution. In that sense it is a procedural rather than a content-oriented approach to policy formation.

Separately, but related to the public choice literature, is the rent-seeking model. This approach is separately discussed and provides insights to better understand the policy inertia and sluggish policy adjustment.

Subsequently the political economy approach as developed by Michel Petit is discussed. He takes into account insights gained from the public choice and rent-seeking literature, but places this within a broader perspective, which also includes other driving factors. Essentially, his political economic model is a two-layered driver-forces framework. Petit suggests two broad hypotheses about the determinants of agricultural policies. In the short run the policy formation process is driven by conflicts of interests regulated by political institutions. This short-run process is most closely linked with the interest group theory approach, discussed previously under the heading of the public choice framework. In the long run, what he calls general economic forces play a critical role. On the whole, economic forces thus play an important role in the determination of agricultural policies. The influence of economic variables is exerted through the mediation of the political process. It is precisely this latter element which provides the justification for a political economy approach.

More systematically Figure 1 (see below) describes the main structure of Petit's (1985) model. The short run influencing factors are given in the lower part of the figure and denoted by the economic interests of the various stakeholders (Ec.Int). These conflicting interests are organized in various ways as to influence the decision-making process, whereas the conflicts are regulated through political institutions. In the long run the general long term economic forces affect the interests at stake and their relative weights. Thus these too play a critical role in determining the policy process, but their influence is exerted through the mediation of the political process. In that sense policy decisions are never based on rational economic terms alone. The middle area of Figure 1 represents the political debate that takes place among the involved actors. These actors are mainly government agencies and interest groups and include organizations as well as individuals.

Petit emphasizes the role the sequential nature of the policy making process, as well as the important role uncertainty plays in the actor's behavior. The policy formation process is understood as the outcome of a dialectical relationship between economic interests and the organization of these interests to influence policies. Petit clearly links the economic evolution of agriculture with the place it has in the general economy. This linkage could and should be further explored. Within Petit's framework policy decisions (D_t) come out of a black box, called 'political

bargaining', a process which takes place between many organizations. They typically are the result of compromise, conflicts and confusion among bargaining players. Although this process does not exclude some form of rationality, this rationality is likely to differ from the typical economic rationality.

As Figure 1 shows Petit explicitly takes into account the role of institutions, as well as induced institutional innovations. As such his model for example allows to include institutional arrangements on trade (GATT-WTO trade negotiations and panel) and the EU enlargement from 15 to 27 member states.

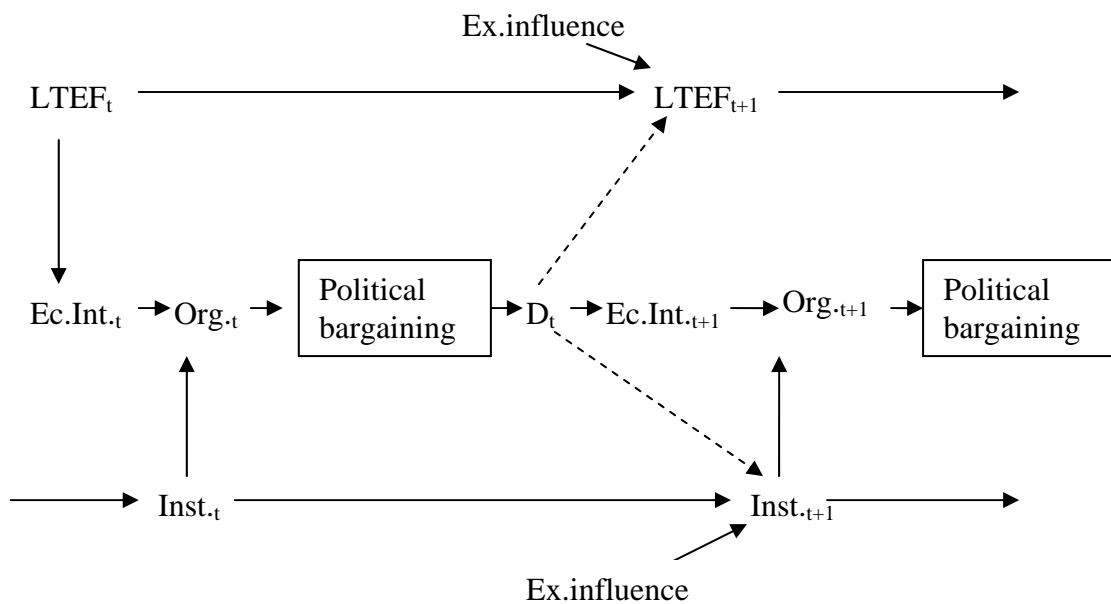


Figure 1 Recursive representation of the dynamic policymaking process according to Petit-model

Also more recent updates of the Petit-model are discussed in the paper (e.g. Petit 2003a and 2003b). In his more recent work Petit takes into account the challenges posed to agriculture by the globalization process. The (extended) model is applied to the two cases of the EU and US policies.

In the evaluative section of the paper the political economy contributions to a better understanding of the evolution of agricultural policies are assessed (Section 5). It is concluded that the public choice theories provide a partial, but rather limited explanation. The rent-seeking approach is assessed to be rather powerful in understanding the role of vested interests, and their fight to preserve their privileges. As such this theory explain the sluggish adjustment of agricultural policies over time. As regards the Petit-framework, it is concluded that this framework is very helpful in getting a better understanding of the overall-evolution of agricultural policies. Some comments are made and improvements proposed. For example, it is argued that

interaction between the agricultural sector and other parts of the economy might need a more explicit treatment and consideration.

Finally, in the concluding section (Section 6) some tentative efforts are made to link the political economy explanations to the new challenges confronting agriculture. Based on this some inferences are made on likely future agricultural policy developments.

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