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World Food and Agricultural Policy Situation

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❖ *The following are notes used by T. Kelley White for presentation to the 'Ford Foundation' of the Food and agricultural policy workshop of Tunis.*

A topic so broad which looks easy, but in reality is so broad as to be almost impossible to treat. How does one characterize world food and agriculture policy by:

- objectives or changes in objective;
- tools/instruments employed;
- success or failure in achieving objectives;
- forces affecting or changing the demands to which policies are attempting to respond;
- the number and type of challenging new research problem created for agriculture economists.

Should I talk about food and agriculture policy as one integrated, interrelated, set; or are the two sufficiently distinct to treat separately?

- Historically I suppose that in some countries' policies affecting food and agriculture have been driven more by food (consumer) concerns and in others by agriculture (producer) concerns.
- I would argue that it has been a source of bad policy (analysis) to think about the one with the exclusion of the other.

Even if answers are given to the above, could one say that policy is getting better or worse? Clearly it depends on one's perspective (headlines from recent issues of *Herald Tribune*).

- Balladur asks US to join in cracking new markets; he urges West to resist trade Onslaught from Low-wage countries. "*Growing competition weakens free trade*" would have preferred to see "*Growing free trade strengthens competition*"?
- "*Food exporters warn G-7 not to ignore them*". Cairns group reminds G-7 getting together to break impasse on trade negotiation that major industrialized nations spent a record US \$ 354B to subsidize their farms but last year 91% by EEC, US and Japan.

The thing that most impresses me about food and agriculture policy is the change that has occurred in the forces and issues driving policy and the degree to which these at first seem different.

Since this is a meeting of a network of policy researchers/advisors, I presume we are searching for direction (what are important questions) and solutions.

So let me just talk about what seems to be problems/issues of most importance; I will clearly be biased by my perspective from FAO and the kinds of requests we get from member countries (namely the developing ones). I will not try to be specific to the North Africa region since someone else is going to do that later in the programme.

I – Stabilization/Structural Adjustment

By far, the most pressing matter is how a government should modify its policies and role with respect to food and agriculture given the necessity to undertake stabilization and structural adjustment.

It is not primarily a food and agriculture problem that brings about necessity for stabilization and adjustment and often agriculture not adequately considered in negotiation of programs (in some cases the Ministry of Agriculture is not even involved).

The importance of agriculture and nature and pervasiveness of government in food and agriculture in developing countries mean that stabilization has had major impacts; and important food and agriculture policy and institutional changes are required.

The large numbers of countries facing unsustainable internal and external imbalances and the almost universal (voluntary or otherwise) move away from direct government control and provision of primarily private goods and services has led to a historic liberalization (or at least beginning to move toward liberalization) of food and agriculture markets (internal and opening to external competition).

Jury seems still out on whether the approaches being taken will succeed in stabilizing and returning economies to growth path:

- Few cases of full implementation.
- Political pressures and pressure from vested interest have caused many partial retreats, reversals and slowed process.
- Depressed world economy reduces benefit from outward orientation.
- Maybe none have been in force long enough to see full effect.
- Initial expectations of time for recovery are now viewed as totally unrealistic.

What have been some of the more important food and agriculture problems in adjustment that raise policy issues (may offer opportunities for research).

- How do you ameliorate the negative effects on most vulnerable groups (consumers and producers) without blocking incentives for necessary change in countries with limited human, institutional and financial resources for targeting?
- How to get efficient separation of public and private goods components of services formally provided by state or parastatal organizations so that supply of public goods component is not lost through privatization?
- How to transform state monopoly markets into private, competitive markets?
- With requirement for government austerity, how to get necessary investment in research, extension and infrastructure to facilitate efficient market activity and supply response?

Probably the important question is not whether structural adjustment will work, but rather: which approaches to specific problems? In what combination and under what circumstances they have worked? Which approaches have not worked?

This may be the (a) role for your network.

II – Transition from Centrally Controlled to Market Economics

The collapse of the Soviet Union and its empire may be an even more important event in shaping food and agriculture policy globally than was the series of shocks that brought about the need for stabilization and structural adjustment programmes in the non-communist countries.

There are many similarities between the processes of stabilization and structural adjustment and transition. Some might argue that they are the same except that countries in transition are usually thought of as having cast off communism and also undergoing a transition to some form of democratic government. But, Vietnam and China are both undertaking very significant structural adjustment and policy reform while maintaining the communist form of government; and many countries not having been part of the Soviet block are undertaking structural adjustment and struggling with political reform at the same time.

There do seem to be some important differences even though they are more a matter of degree. In general, the countries in transition: had a size structure of farms and up- and downstream infrastructure that does not easily lend itself to restructuring into individually owned and operated private, competitive firms.

- The state farms and cooperatives are not only integrated up- and downstream services with agricultural production but also served as a level of government administration (for at least some purposes). This makes even more difficult the sorting out of public and private goods components of the complex set of functions to be provided by some combination of public and private sector institutions, most of which have to be established or involved.
- Almost none of the institutions necessary for the functionship of a competitive market existed (e.g. transferable property rights, contract law).
- While population is relatively educated – very few educated in many professions necessary for market (market economics, management within a market system, law).
- USSR had created a system of regional specialization and trade which was largely abandoned with the break-up thus depriving republics and EE countries of natural trading partners and making the trade decline worse than was necessary.
- Technology that had been adopted and embodied in machinery, equipment and facilities are not easily adapted to decentralized, privately owned/operated units.
- Have had extreme difficulty in getting liberalized prices passed through to farmers.

In both the stabilization and structural adjustment and countries in transition, there is the recurring debate about speed and sequencing of reforms. To some extent this is a non-debate because:

- some things can be done quickly (liberalize prices);
- some take time (developing or reforming institutions, or building infrastructure);
- political realities have to be taken into account;
- some things have to be done quickly to stop a rush toward disaster (e.g. stop hyper-inflation).

Also, in both cases at the heart of the policy debate is the appropriate role for the public and private sectors.

III – Environment, Natural Resources Management and Sustainability

As the industry (sector) which is the principal user of natural resources (land and water in most countries) food and agriculture is a contributor to resource/environmental degradation, and suffers from degradation, it:

- has a vital interest in sustainable use of natural resources and environment;
- is affected by policies adopted to protect environment and supported by environmental interest;
- agriculture and food policy are major determinants of sustainability;
- agriculture and food policy are of acute interest to non agriculture and food interests who are increasingly influencing agriculture and food policy.

Agenda 21 of the UNCED identified policy as the most important tool for making agriculture environmentally friendly and sustainable.

While agriculture (and thus food) may be importantly affected by environmental policy, I will leave that aspect of policy aside except to note that unnecessarily restrictive environmental policies may be avoided by adopting agriculture and food policies that are, and are recognized as being, environment friendly.

Agenda 21 identifies as a key step in actions recommended to Government (for making agriculture and rural development sustainable) that agricultural and rural development policy be reviewed with respect to its impact on the environment, natural resources base and sustainability.

As we begin to get requests to help governments do this, you ask: What do you look for? What is different about agriculture policy that is environmentally friendly and conducive to sustainable agricultural production and rural development?

This sounds simple until you really think about what you tell governments to look for. Do they never deliberately design policies to destroy the environment or to lead to unsustainable development?

We have obtained the services of Dr G. E. Schuh, colleague of Dr Roe, to help us think through what is different and develop a conceptual framework for agriculture policy consistent with concern for environment and sustainable development. While we have not completed the framework, some of the main elements are:

- Get macro prices right.
- Open economy; opportunity to import sustainability (this is an important area not fully developed conceptually in GATT negotiation).
- Use market to extent possible, “internalize” externalities (especially important for developing countries that are short of capacity to manage through direct control and regulation; save this capacity for things market can’t do).
- Getting both internal and external prices right is important in that if you don’t get efficient resource allocation, you have less resources to use for “social goods” and investment, especially in human capital.
- Intergenerational transfer consideration is a key conceptual difference:
- What is being transferred?
- Not the resource base intact.
- Productive capacity to provide a given level of welfare.
- For fixed population or expected future population; makes big difference.
- Sustainability, technology and investment are central to concept of sustainable development.
- Focus must be on people and sustainability of welfare of people, not on the environment.
- The above requires that the conceptual framework integrate the farm firm and farm household in order to capture importance of human capital development.
- One of the main constraints to operationalizing the conceptual framework is our lack of knowledge of behavioral relationships linking economic and biophysical systems (in other words can we specify “resource degradation functions” and “environmental damage and mitigation funds” so they can be incorporated into production functions?).

The above framework approaches the issue with the objective of finding a way of making agriculture and food production environmentally sustainable.

On the other hand there are some environmental groups who are more likely to put environment first (in the name of future people) and who consider any economic activity which reduces the resource base or changes environment “bad” and who attempt to get policies enacted to prevent what they consider damaging activities; this can be potentially very restrictive to food, agriculture and development.

Remembering that policy is a product of politics and generally not made by benevolent dictators solely on advice of economists; one of the most important relatively new effects having a major impact on agricultural and development policy may well be the entry of environmentalist as an interested and powerful force in the policies of making food and agricultural policy.

There is no doubt in my mind that agricultural policy will continue to get greener and, in spite of official pronouncements to the contrary, in many cases there will be necessary trade-offs between production and the environment (development and environment) especially in the short run.

There will be continuing debate over the relative effectiveness of economic incentives vs. regulation as means of achieving desired behavioral changes.

In addition to economic efficiency arguments for using markets when possible, in developing countries, the shortage of administrative capacity argues for use of market incentives.

IV – Food Security, Nutrition, Wholesomeness, Naturalness

This is something of a mixed bag of issues.

- Some newer than others.

- Some are mainly issues of the rich.
- Some are very different problems in wealthy populations and in poor populations.

But together they are increasingly important considerations in agricultural policy and policy designed specifically in responses to these concerns is more obviously “food policy” than most of what I have talked about.

Only a few comments to hopefully stimulate discussions on whether food policy is/should be integrated with agriculture policy.

Wholesomeness, naturalness and, to some extent, nutrition (nutritional content) from policy viewpoint, have been mainly issues of the rich and have to do with grades, standards, labelling, etc.

- One potentially important impact for wholesomeness concerns and policy to regulate additives, residues, and means of production is pressure to have domestic standard (in some cases process based standard applies to imports).
- Concern that harmonized phyto-sanitary standards under GATT, lowers everyone to lowest common denominator.
- Potential use of such standards as non-tariff barrier.

Food security not a new influence:

- Not only concern of developing countries ... latest budget proposal for USDA allocates \$ 28B of \$ 71B to food stamps.
- Seems less used as argument for food self-sufficiency and thus protection of food crop from competition (at least among developing countries).
- Over time has been redefined, especially since Dr Sen’s broadening of definition (read paragraph 26 on page 14 of ICN).
- We urge inclusion of food security considerations in agricultural policy:
- Concept has become so encompassing and applied at a very micro level as well as at national level.
- It is no longer so obvious whether food security considerations should be incorporated in agriculture and food policy or is it the other way around?

Nutrition has received new attention as a policy concern since the FAO/WHO sponsored ICN last December.

- Would appear to provide basis for food policy.
- In declaration, the conference “declared their determination to eliminate hunger and to reduce all forms of malnutrition”.
- Strategies and actions grouped under 8 themes were endorsed and countries are to incorporate as appropriate from these to prepare a National Plan of Action.
- Let me just read the 8 theme titles and, for a couple of them, some sub points to illustrate the inclusive, comprehensive nature (from ICN declaration and plan of action).
- There is some concern that by making food security and now nutrition (policy) so broad, we have made it difficult to either meaningfully incorporate these concerns into agriculture (or development) policy or maybe even to define food policy.
- By making these concepts “everything”, do we run a risk that we reduce them to “nothing”?

Trade (Uruguay round):

One cannot, I suppose, talk about agriculture (food policy) without mentioning the Uruguay round:

- The round has lasted so long everything has probably been said ; unilaterally committed to policy changes with effect equivalent to or larger than those currently being fought over in GATT.
- Even if true, there would be benefit from an agreement because of precedent established.
- What was new in this round was not that agriculture was considered but that it was explicitly recognized that domestic policies distort trade and thus that domestic agricultural policy is subject to negotiation in international fora.

- What may be one of the distinguishing characteristics of the last decade of agricultural policy is the degree to which developing countries have initiated reforms of domestic policy and adopted more open trade policy while the developed countries seem unable to agree to do the same.

Another change that potentially can have major influence on national food and agriculture policy is the move toward regional trading blocks:

- How creation of these blocks affects global trade and especially countries not included in a block depends on how each block interacts with rest of the world.
- At this point, everyone seems to expect the worst, so companies are attempting to establish a position inside, countries are attempting to establish special relations or prepare for entry, or form other blocks.

V – Concluding Comment on World Food and Agriculture Policy

If I had to characterize:

- Becoming more market-oriented, liberal and open but painful process.
- Due to pressure from new global problems and issues, the objectives of food and agriculture policy are expanding and constraints on pursuing old traditional objectives increasing.
- Economic advisors to policy-makers and policy-makers themselves are still better at defining the initial and end states than the transition process (most of the serious problems are problems of transition).
- I continue to be impressed that so often bad economics makes good politics and leads to bad policy.

The policy advisor and the policy-maker

Only claim to insight:

- living long time,
- worked in university, Government agency conduct policy analysis, in FAO attempting to help countries improve policy and increase policy analysis capacity.

Important to remember that policy has economic effects (among others) and economists can provide preview of what those effects are likely to be, but policy has multiple objectives (most important often not economic and policy making is a political process).

Thus, probably helpful to distinguish between economic analyst of policy and policy advisor (take into account much broader range of impacts).

An economist may well be a policy advisor, but if we are talking about institutions instead of individuals, the role is more likely to be economic analysis of policy.

Essential maintain objectivity and intellectual honesty; in spite of best you can do to those outside process and to other actors in process you will be suspect.

Most effective if can be included from beginning (not often the case) so you don't have to be negative about a position already taken ; nobody likes to be told he is wrong, especially after being committed internally or externally to a position.

It is important to be right to have credibility but in the case of an effective input to the process, it is even more important to have the best possible analysis (given the available time) to the decision maker before the decision is made; we used to say in ERS that nothing was more worthless than the perfect analysis after the decision was made.

This last point is why I think it is so important that ministries have an internal policy analysis unit ; very difficult for universities and other institutions to be responsive enough.

If internal unit also has a public information/education role, as did ERS, there is a built-in conflict between responsibility to publish best available information and responsibility as an inside participant in policy process, to respect need for confidentiality of on-going discussions.

In the long-run greatest contribution to improving policy may be an informed publi.; but this just increases the conflict.

If one looks around the world at the number of ministries with effective policy analysis units and at the disappointing result of many years of effort through development assistance to develop such units, one can conclude that the demand by policy makers for analytically based, objective analysis is limited.

