

**How Well Have We Done and Where Should We Go from Here?:
Perspectives from around the World**

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As this session is sub-titled "Perspectives from around the World", I thought I should begin my remarks with reference to the title of a paper given by Ted Sieper at the annual conference of the Australian Agricultural Economics Society in 1979.¹ The title was "Rationalising Rustic Regulation" and at that time there was a substantial amount of rustic regulation in Australia. What Sieper showed was that government intervention in Australian agriculture was better explained by income redistribution rather than by the correction of market failures. My understanding is that this explanation was a novel one at the time to the profession in Australia and highlights the importance of the so-called non-economic objectives of agricultural policy. Over the following 20 years, commodity policy disappeared commodity-by-commodity and instrument-by-instrument until, by the year 2000, even the dairy sector had been totally deregulated and there was almost no commodity policy remaining. Whether Sieper's analysis and the conclusions drawn from it was the cause of the subsequent deregulation is difficult to establish, just as it is in assessing how well the IATRC has done.

While the reforms of agricultural policies have been less dramatic in other OECD countries than it was in Australia, New Zealand excepted, I believe that we have performed quite well in changing the mind-set of politicians and policy makers towards agricultural policies and their consequences for domestic welfare and international trade in agricultural products. I also believe that we have achieved this success through the careful application of economic theories, such as the targeting principle from the theory of distortions. The application of this principle has helped to clarify the link between the

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¹ The paper was later published as Sieper, E. (1982) *Rationalising Rustic Regulation*, The Centre for Independent Studies, Sydney.

objectives of agricultural policy and the best choice of instrument to achieve each and it has led to the acceptance of decoupled income payments as the best way of pursuing the farm income objective instead of the use of input and output subsidies that create by-product distortions.

To justify this claim of success, consider the sentiment in the Doha Declaration: "We recall the long-term objective referred to in the Agreement [on Agriculture] to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets."² It is unlikely that this statement could have been written by trade negotiators pre-1980. I interpret this outcome as a fundamental shift in the position adopted by policy makers on matters to do with agricultural policies and their effects on international trade. The difficulty faced by the negotiators has been translating words into agreed outcomes.

Because agriculture has been such a significant stumbling block in both the Uruguay and Doha Rounds negotiations, there would be a substantial pay-off to research that was successful in designing a better way of achieving the goal set in the Doha Declaration. Somehow, we have to wean trade negotiators off the idea that negotiation is about the exchange of concessions. This will be challenging but I hope that we can do better than proposals such as that of "critical mass".

As well as the persuasive use of economic theory to effect change in policy instruments, we now have numbers with which to illustrate the effects of different policy instruments and to bolster what to trade negotiators could be rather unconvincing policy recommendations based on abstract reasoning. These have come from two sources: the first is the GTAP, and other CGE, models; and the second is the measures of assistance and distortion calculated by the OECD and more recently the World Bank through its project on agricultural distortions.

It may seem ironic that, having persuaded governments that less intervention is to be preferred to more, where market failures do not exist, we now may have to propose

² WTO (2001) Ministerial Declaration, WT/MIN(01)/DEC/1 20 November, paragraph 13, http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm, accessed on 10 December 2010.

more intervention because of the increasing prevalence of market failures. There are four categories of market failures that have become very much more prominent in recent times and each occurs in open economies having, therefore, a trade dimension. These categories of failures are imperfect information, imperfect competition, uncertainty, and negative externalities and they identify for me some of the issues that are part of “where do we go from here”.

An example of the first market failure is in the area of food safety, its associated credence characteristics, and the constraints imposed on the use of trade policy by the SPS and TBT Agreements in correcting the failure. The uncertainty of the science in some instances, the interpretation of probabilities, the lack of cost benefit analysis and the lack of option value, leave scope for research that could help design better trade rules for food safety and for quarantine policy.

The second market failure is the presence of imperfect competition at various points along the value chain from domestic food production and imports through the vertical linkages to the ultimate consumer. Imperfect competition affects not only price transmission from domestic and external sources but, through that transmission, the effects of policy intervention.

The third market failure is the vulnerability of the poor in poor countries to price volatility where risk markets are missing. The events of the past three years have brought us round full circle to the events of the early- to mid-1970s when commodity prices were highly volatile and governments responded then, as now, in selfish ways. I believe that we need to revisit the stochastic analysis that was developed in the late 1970s/early 1980s because the present is likely to be much closer to the future than was the decade and a half after 1990 when markets were relatively stable. Another reason for revisiting this analysis is the increasing importance of the emerging and large economies such as China and India. How these countries choose to balance efficiency, equity, poverty, trade liberalisation, food security and in the case of India, political economy, with populations of the poor running into the hundreds of millions, is important not only for international markets but also for the outcome of negotiations in the WTO. Perhaps for too long our analyses have been deterministic and have underplayed the role that stochastic analysis might play in analysing issues such as the SSM, the stance taken by the G-33, and in

providing recommendations that in other ways might achieve the objectives of these countries.

The fourth market failure arises in the context of carbon taxes that might be imposed in some countries but not in others as part of climate-change policy, giving rise to the debate about border tax adjustments in the form of carbon tariffs. This is likely to be a challenging topic for analysis.

The analysis of each of these failures is amenable to the application of economic theories that already exist but the policy recommendations will need to be internationally coordinated to achieve full success. This will be challenging, given the track record in engaging successfully in multilateral negotiations on agriculture, on climate change and the lack of coherence between the WTO and the MEAs.

The final topic, and one that does not fit coherently into the structure of my previous comments but which is important, is what can we do about the proliferation of RTAs and the international discrimination to which they give rise? If, as I have claimed earlier, we have been relatively successful in changing mind-sets on agricultural policy in the domestic context, perhaps we should attempt the next challenge and help to discourage the continued enthusiastic rush into the spaghetti/noodle bowl, if for no other reason than the mistreatment of agricultural products in these agreements.

With such a research agenda, the IATRC has a potentially very productive future.

To the IATRC, happy birthday!