

IAMO

Leibniz Institute of Agricultural Development  
in Transition Economies

***LEIBNIZ INSTITUTE OF AGRICULTURAL DEVELOPMENT  
IN TRANSITION ECONOMIES***

IAMO-VIAPI Workshop | 25 October 2017

*Leibniz*  
Leibniz  
Association



Фотография: Markus Scholz

Основан в 1994 г.

Около 110  
сотрудников

Около 20  
национальностей

Бюджет:  
примерно 5 млн €

Member of



ИАМО в качестве ведущего научно-инновационного центра:

- проводит научные исследования агропродовольственного сектора в международном масштабе с учетом вопроса развития сельских местностей
- способствует обмену мнениями между лидерами из академических кругов, политики и бизнеса
- осуществляет поддержку молодых ученых



Область его исследований охватывает **расширяющийся ЕС**, регионы с переходной экономикой **Центральной, Восточной и Юго-Восточной Европы**, а также **Центральной и Восточной Азии**.

IAMO состоит из трех научных отделов:

- Отдел общих условий развития аграрного сектора и анализа аграрной политики
- Отдел аграрных рынков, маркетинга и мировой торговли сельскохозяйственной продукцией
- Отдел структурного развития сельскохозяйственных организаций и сельских территорий,

а также:

- Отдел администрации и центральных служб/технической поддержки

## Основные сферы исследований:

- Меры политики и институты
- Использование природных ресурсов
- Уровень жизни в сельской местности
- Организация сельскохозяйственного производства
- Координация производственно-сбытовых цепочек



Leibniz Institute of Agricultural Development  
in Transition Economies

# *Emergence and incidences of agricultural policies*

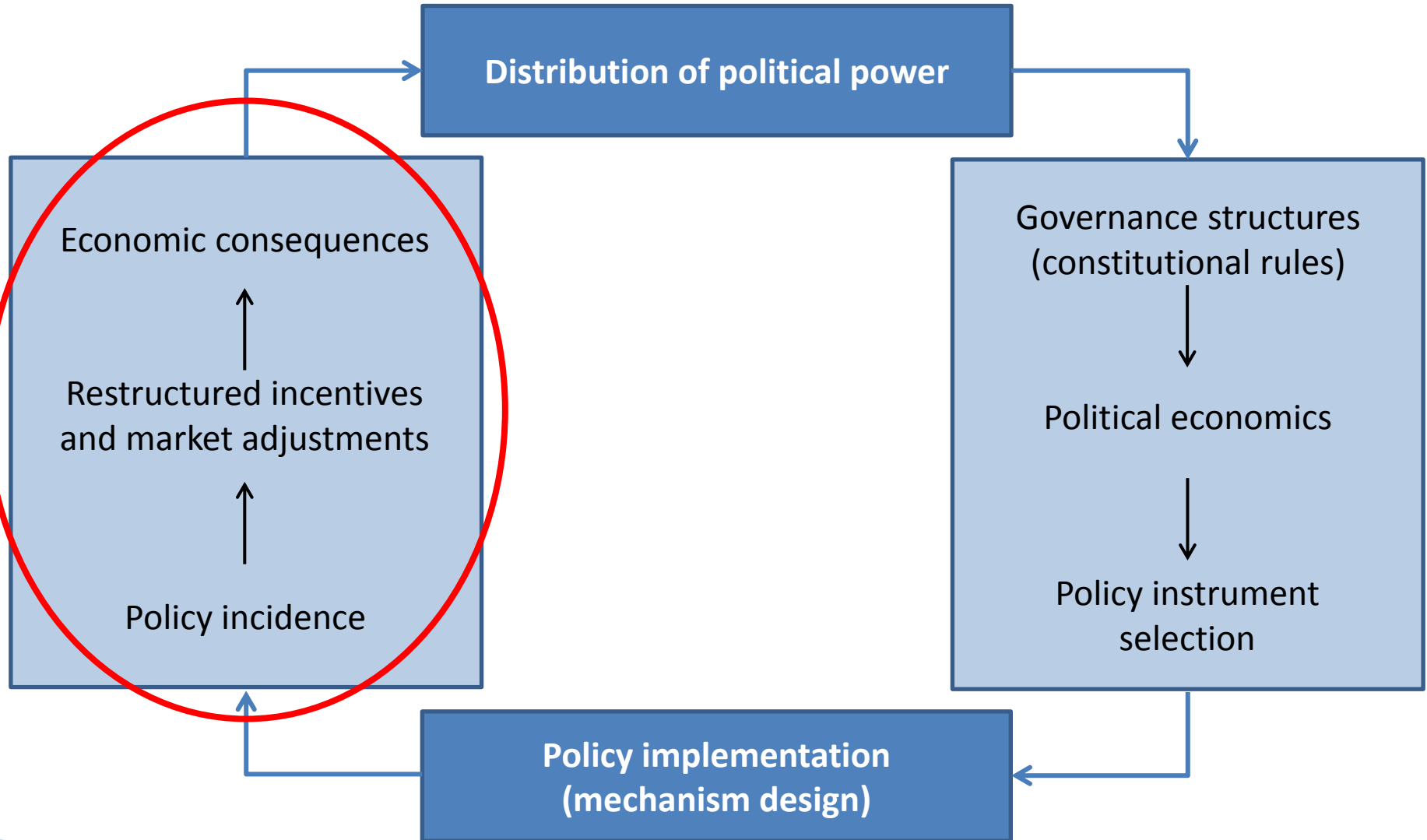
*Thomas Herzfeld*

IAMO-VIAPI Workshop | 25 October 2017

- A comprehensive analysis of agricultural policies needs to look at its effects as well as at its determinants of existence.
- Two perspectives in policy analysis
- Example of EU's dairy quota policy
- Outlook on research in FEDAGRIPOL project



# Policy-making process and economic consequences



- Established literature strand in agricultural economics (e.g. Griliches, 1958; Nerlove 1958)
- Objectives (exemplary)
  - Identification of winners and losers
  - Quantification of welfare changes
  - Social ordering of alternative policy options
  - Quantification of economic consequences (e.g. growth, trade)
  - Equity considerations

- Broad array of methods
  - Microeconometric analyses
  - Partial equilibrium models
  - General equilibrium models
- Generally, evidence of substantial welfare losses due to protection and subsidies for agricultural sector

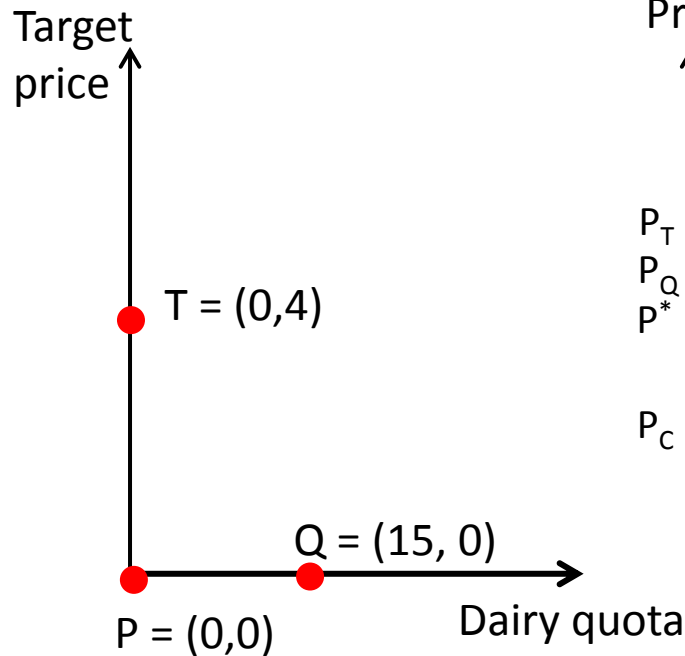
- Relaxation of assumption of homogenous agricultural sector
  - Naturally favoured versus disadvantaged areas
  - Small versus large agricultural producers
- Inclusion of non-monetary costs and benefits of agricultural production
  - Evaluation of environmental and climate policies
  - Provision of public goods by agricultural sector

# Situation on European dairy market end of 1970s

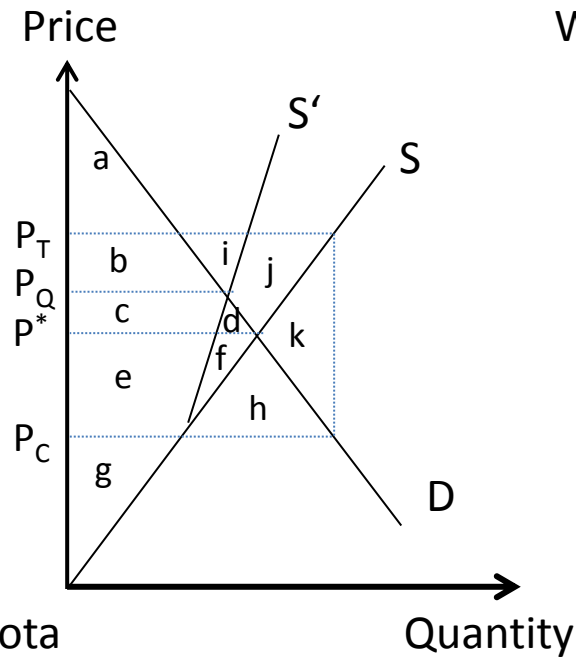
- Relatively high producer price sustained by public intervention system and high tariffs
- Oversupply of milk and dairy products on European market (‘milk lakes’ and ‘butter mountains’)
- Costly intervention storage and export subsidies
- Subsidies for consumption (e.g. school milk program)
- Unsuccessful early ‘non-marketing’ programs (1969, 1973, 1977-1981)

# Example of EU dairy market policy

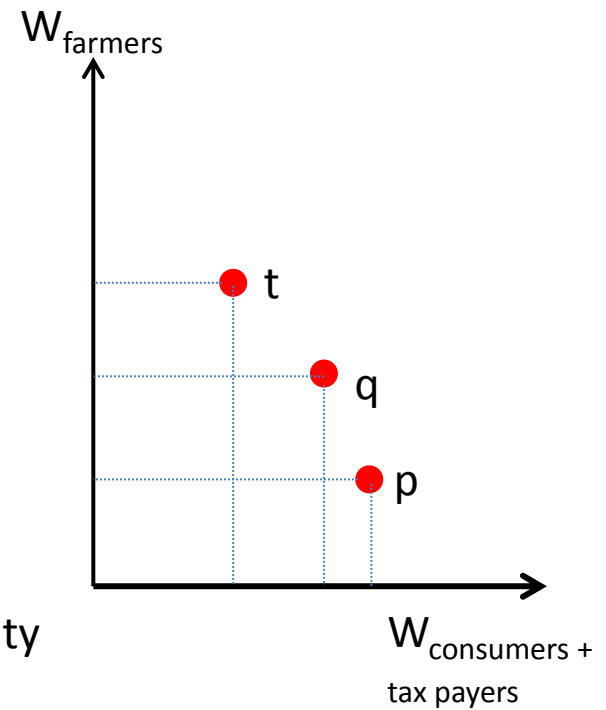
Policy instrument  
space



Price quantity space



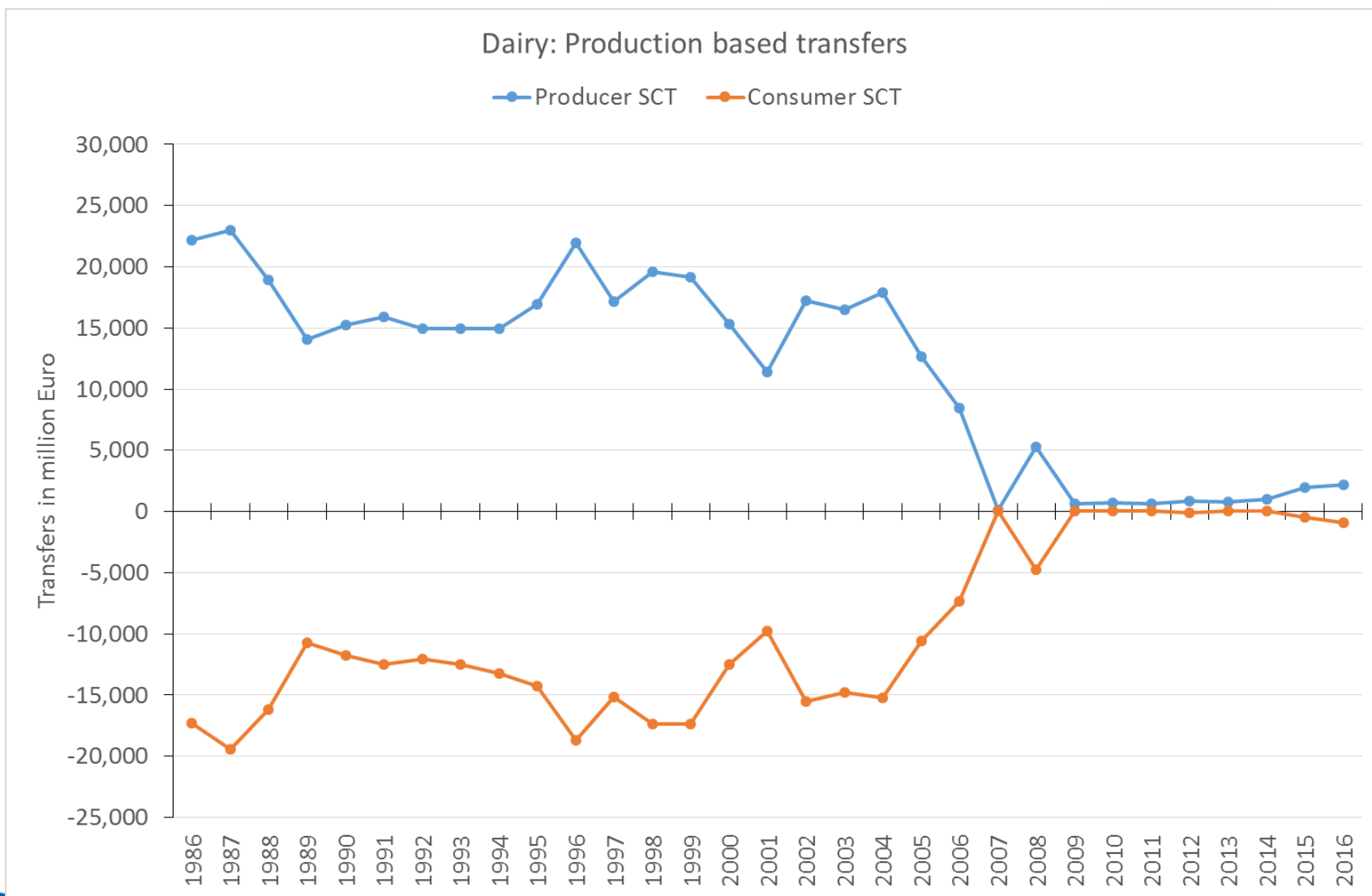
Welfare outcome  
space



Source: Own presentation borrowing from Bullock and Salhofer (2003); p. 227

- Introduction of dairy quota for deliveries to dairies and on-farm direct sales in 1984
- Monetary fine in case of excess delivery (superlevy)
- Initially rigid restrictions on quota transfer between farmers within member states
- Subsidies for consumption (e.g. school milk program)

# Commodity specific transfers for dairy in EU

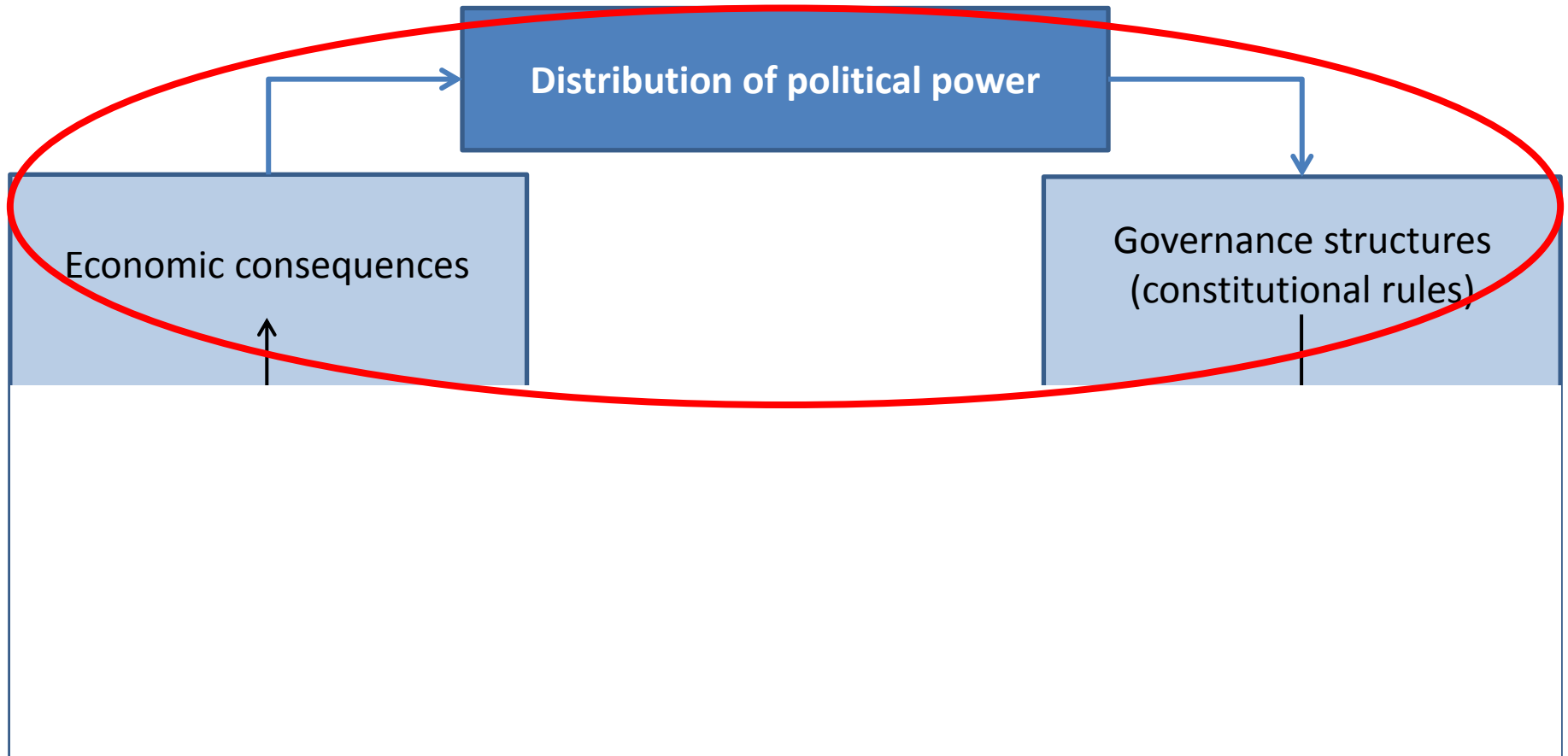




- Cost burden for consumers/ taxpayers
- Negative effects on structural change („fossilisation“) (Burrell, 1989; Huettel and Jongeneel, 2011):
  - Entry barriers (quota costs) for growing farmers and new entrants
  - Keeping less-efficient farms in business
- Negative effects on trade partners
- Strong persistence of instrument (abolished spring 2015)

- Government's choice of specific policy instrument or mix of instruments
- Determinants of policy choice and implementation
- Reaction opportunities of winners and losers of policy choice
- Stability of policies and triggers of reforms

# Policy-making process and economic consequences



- Policy implementation
  - Unintended versus intended consequences due to implementation
  - Role of asymmetric information, incentive compatibility and credibility of commitments
- Distribution of political power
  - Relaxation of assumption of no-feedback effects
  - Effect of actions by groups and agents on selection and implementation of policies
- Endogenous policy formation

- Objectives (examples)
  - Existence and reform processes of agricultural policies
  - Costs of organisation and stability of interest groups
- Political structure
  - Government: single or multi-layer
  - Producers
  - Consumers/ taxpayers
  - Importers and exporters

- Pressure for support from declining sectors relative to overall economy (de Gorter and Tsur, 1991)
- Imperfect information versus public awareness of costs of policy (Tullock, 1983)
- False attribution of deadweight costs between different policy instruments (Swinnen and de Gorter, 1998) (example of land prices in Germany)
- Commitment problems from the side of politicians as well as voters due to intertemporal nature of politics (de Gorter, 2008)

- Lack of visibility of transfers and costs of policy
- Organisation of dairy farmers and quota owners (protection of quota rent)
- Path dependency: the more benefits from policy embedded in sector's cost structure the higher resistance to change (Harvey, 2004)
- Inappropriate discounting of costs and benefits of reform (e.g. compensatory lump-sum transfer)

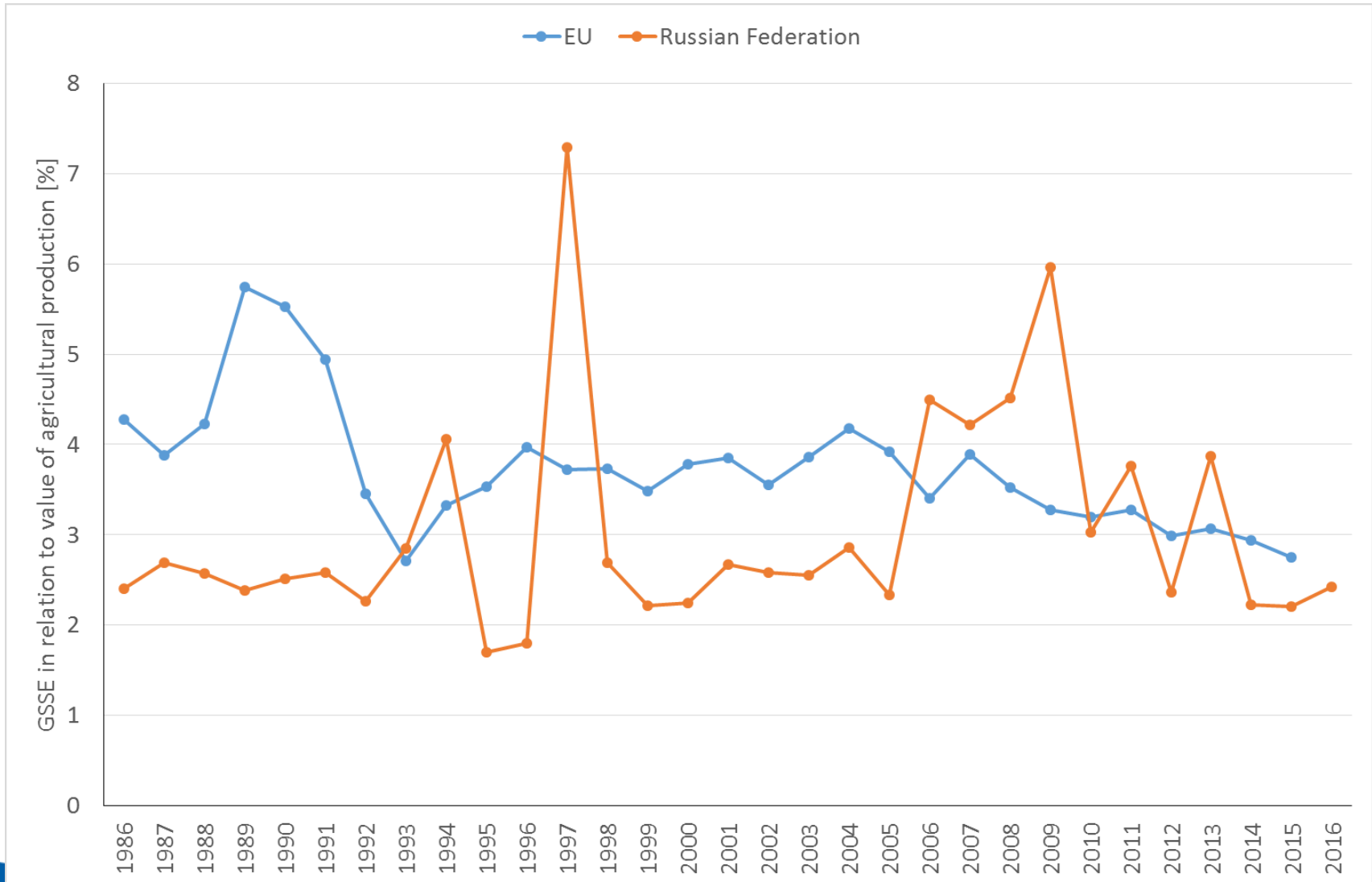
- Does a specific intervention decrease or increase social welfare? (G. Rausser, 1982, 1992)
- Potentially “predatory policies”: political-economic-rent seeking (PEST)
  - Transfer of wealth and income to special interests
  - Response to rent-seeking activities of lobby groups or individual actors



# Differentiated perspective on government's role (II)

- Potentially “productive policies”: political-economic resource transactions (PERT)
  - Correction of market failures
  - Provision of public goods
  - Increase of society's welfare and neutral distributional effects
- Challenges ahead with respect to external effects (e.g. nitrate in ground water, greenhouse gas emissions from agriculture) and heterogeneous consumer preferences

# PERT: Comparison of Russia and EU



- Limited understanding of political processes among economists so far
- Promising applications for political economic concepts in explaining existence and persistence of policies
- Awareness of role of ‚public economist‘ among agricultural economists

- Political economy of agricultural policy in federal systems (FEDAGRIPOL)
  - Financial support by Leibniz Association
  - Project duration: 2016-2019
- Objective: Agricultural policy formation and implementation in multi-layer political systems
- Regions of interest: European Union and Russian Federation



Photographs: Markus Scholz

We invite you to share your research at the

# IAMO FORUM 2018

Large-scale agriculture – between profit and societal value  
27 - 29 June 2018 | Halle (Saale), Germany

Submit your **extended abstract by February 25, 2018**, and a **session proposal by January 28, 2018!** More info: [www.iamo.de/forum/2018](http://www.iamo.de/forum/2018).

Join the conversation on Twitter: **#iamoForum18**.



Follow IAMO on Facebook:

[www.facebook.com/iamoLeibniz](http://www.facebook.com/iamoLeibniz)



Join IAMO on Twitter:

<https://twitter.com/iamoLeibniz>