

# Ag econ angst crisis revisited

Robin Johnson, George E. Rossmiller and Frances Sandiford-Rossmiller\*

The present paper was inspired by and is a response to the Rola-Rubzen, Hardaker and Dillon paper 'Agricultural economists and world poverty: progress and prospects' (Rola-Rubzen *et al.* 2001). It is agreed that the position of agricultural economists in foreign aid and poverty programs has declined over recent decades. Such a feeling of guilt and remorse expressed by the above authors does indeed create considerable 'angst'. A major reason for this state of affairs lies in 'the flavour of the month' approach of the development agencies. These include women in development, gender-based farming systems research, household nutrition and food security, people participation, and targeting the poorest of the poor. These fads have driven disciplinary considerations to the wall and the more widely-defined objectives have reduced the drive for economic efficiency. We argue there is still a place for better designed and delivered assistance programs within the wider framework of assistance that has become fashionable. Greater application of institutional principles in both the political processes associated with assistance and the implementation agencies would improve the outcomes of many projects. Particular attention would need to be given to the interface between the development agencies and recipient governments. The present paper picks up on the market failure aspects of agriculture's rather poor contribution to development, and develops a wider perspective in terms of the new institutional economics and a continuing role for the agricultural economist.

## 1. Introduction

The article '*Agricultural economists and world poverty: progress and prospects*', asks 'why have agricultural economists been sidelined in development work?', and suggests that one reason is the move in economics generally towards 'rational' or 'neo-liberal' economics. 'Because our profession seems to have been doing less microeconomic work, it has become more difficult to distinguish us from general economists who have increasingly been getting a bad

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\* R. Johnson is a former civil servant in the Ministry of Agriculture, Wellington, New Zealand. G.E. Rossmiller is a former staff member of and Frances Sandiford-Rossmiller is a former consultant to the Food and Agriculture Organization (FAO) of the United Nations, Rome, Italy.

press .... It seems clear to us that the main reason why economists, including agricultural economists, are being increasingly marginalised in important policy debates is the widespread perception that the pro-market stance of most economists is people- and environment-unfriendly'. The authors go on to suggest 'that it is this disaffection with economics and economists that has led to the burgeoning of fads and fancies in development economics' (Rola-Rubzen *et al.* 2001, pp. 59–60). These observations raise serious issues for the profession. The argument that a 'disaffection with economists has led to a burgeoning of fads and fancies' is not the only reason for the development issues raised. It is plausible to ask whether there is a general failure of development policies and economists are being made the scapegoat?

The above observations may overstate the case, but they do reflect some trends that are bad for the employment of the agricultural economics profession. We argue that the contribution of economists is as valid as ever. There is a continuing need for objective positive analysis that sees things as they really are.

The present authors are agricultural economists formerly involved in advising or administering development assistance programs and projects. We see our response as a continuation of the debate about the role of agricultural economists in development. We set out below our views on the decline of agricultural economics as a discipline and a suggested fresh view of the aid and development process based on the new institutional economics (NIE). Most aid is delivered through services provided by government departments. There is considerable scope for improvement in the effectiveness and efficiency of such services, involving choice of alternative institutions, processes and rules that together deliver the benefits of a policy to a target group or to all of society. We offer a commentary on some of the reforms that have taken place in this area.

## 2. Choice of issues

Development agencies have been and still are guilty of the charge of indulging in a 'flavour of the month' approach to development assistance to the extent that issues and topics – women in development; gender-based farming systems research; household nutrition and food security; sustainable this, that or the other; good governance; people's participation in rural development; stakeholder ownership of projects and programs; assisting the poorest of the poor; and privatization of services – have long since driven disciplinary considerations to the wall. There are many reasons for this behaviour, among which are: the need to keep the attention and

interest of donors;<sup>1</sup> the repeated failure of development assistance to deliver quickly (or even at all) on its promises; fundamental changes in higher education in developed countries that have led to the reduction of rigorous disciplinary training in favour of consumer-driven courses within a “pick and choose” modular system;<sup>2</sup> major shifts in thinking about the proper role of government and the civil service in a modern democracy; and the huge increase in the number and size of non-government organisations (NGO), several of which have become involved in long-term development assistance rather than short-term relief and rehabilitation, necessitating their adoption of a ‘project cycle’ approach with all the planning, evaluation and bureaucracy that implies.

As a result of these changes (or because of them), there has been a movement away from a hard disciplinary approach to development analysis and delivery toward softer options, suggested by disciplines such as development anthropology and backed by various NGO. There is much less emphasis on smallholders as productive units and the identification of ‘masterfarmers’, who could offer leadership roles and set an example of what could be achieved (the early insights of T.W. Schultz (1964) have been forgotten). This has led to village improvement schemes where better social services are instituted almost independently of the economic base.<sup>3</sup> The

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<sup>1</sup> G.E. Rossmiller can add from his own experience the gyrations in program emphasis by the USA Agency for International Development (USAID). The USAID has never been made a permanent fixture of the USA Government and thus relies on periodic renewals of its mandate by the USA Congress. This makes it super responsive to Congressional whims as it is always in the process of preparing justification testimony to Congress for its renewal. Having gone through a period, with the emphasis on agricultural sector development led primarily by the central government of the recipient country, Congress, in the early 1970s, became enamoured with the concept (or at least the slogan) of ‘the poorest of the poor’. It decreed that all future agricultural development projects would be justified on the basis of helping the poorest of the poor. Responding with over-enthusiastic zeal, USAID interpreted Congressional intent to mean that projects were to seek out the most remote rural areas of the country, and to then find the poorest natives among the inhabitants and to then hold their hands. Without links to the central government policy process many such projects were vulnerable to being wiped out (inadvertently or on purpose) by the stroke of a policy maker’s pen. Nevertheless, funding for agricultural sector development projects ran out without renewal and for several years the poorest of the poor were emphasised in the headlines, if not the hearts of the USA aid agency.

<sup>2</sup> A cursory glance at modern curricula shows that as with the donors, so with the universities – themes and issues are often treated as if they were technical disciplines in their own right.

<sup>3</sup> This raises the issue of urban migration which, in African societies at least, is more likely to be regarded as a ‘harm’ than a ‘good’. Some policy measures are obviously related to stemming this flow rather than encouraging it.

linear model of development stemming from increased agricultural productivity (alone) has apparently been rejected. This suggests to us that agricultural productivity by itself is just not enough to generate growth processes that satisfy decision makers and aid donors at the local level in many cases. However, it should not be forgotten that there have been some 'good' results in numerous areas as discussed by Rola-Rubzen *et al.* (2001).

Clearly, this thematic approach has had serious consequences for some scientists and social scientists involved in development work, teaching, research and consultancy, as well as inside the agencies. For agricultural economists, it has coincided with a considerable decline in the demand for their services which, in our experience, may be permanent. To a large extent, this is only to be expected: after all, the size and hence the economic importance of the agricultural sector declines relatively and eventually absolutely with economic development. Then too, the quantity and form of government support to agriculture has changed with a consequent decline in the need for the sort of analysis that has kept so many agricultural economists occupied for so long. The gulf between agricultural economists who are actually involved in the policy process and those who are based in academic institutions has widened and deepened over the years. Experience has shown that the development process is difficult to launch in many societies. This challenges the statement that '[a]gricultural economists seem to have largely convinced each other that we know what to do to get agriculture moving and poverty reduced'.

Senior agricultural economists in government advisory roles and consultant agricultural development economists have real concerns about whether the profession has answers to the very real problems of agricultural development, the rural economy and world poverty! A perusal of the development journals supports this. In view of this, there is also a need to take a careful and critical look at the tool kit of a trained agricultural economist. Have the syllabi in our universities responded to present day needs in terms of sociology, anthropology and economics? What should it contain if agricultural economics is to be able to make a useful contribution to the development debate, let alone in terms of practical development assistance? It is questions such as these that need to be addressed, and in a spirit of humility we suggest that agricultural economists have no 'right' to be consulted; they need to earn the privilege, recognising that economic criteria, whilst important, are very far from being the sole or even necessarily the dominant determinant in any sectoral policy choice.

### 3. What economics has to offer

Present day agricultural economics evolved out of a merger of farm management on the one hand and general economics on the other. The farm

management branch of the profession has itself evolved from farm management budgeting into farming systems analysis, presently with an emphasis on gender-based studies and/or environmental sustainability. Part of the strength of farm management economists has been their close working relationships with agronomists and other agricultural scientists, including social scientists, resulting in a keen understanding of the physical, technical, biological and social processes with which they must deal in doing their farm management work. Carruthers and Kydd (1997) make the point in the following way:

As new development concerns came in, agricultural economists had to develop expertise in identifying and understanding decision-making of poorer farmers, women farmers, and environmentally threatened farmers. This was useful because agricultural economists bring to the analysis (a) a detailed knowledge of production systems and their interaction with household resources and objectives (b) a strong empirical research tradition based on getting as much statistically valid inference as possible out of a difficult subject for survey and (c) its testing, using statistical and operations research techniques. The agricultural economist's approach is in strong contrast to the main methods of a new breed of development anthropologists and some sociologists – who tend to be more prepared to make assertions about rural circumstances/problems which are difficult to validate within any clear epistemology.

The agricultural economics profession has broadened extensively from its farm management beginnings to the point where a relatively small proportion of agricultural economists work in the farm management arena. But when doing problem solving work, whether as consultants, civil servants or professors, agricultural economists of necessity carry on the tradition of operating in a multidisciplinary arena.

Rola-Rubzen *et al.* (2001) argue that agricultural economists have been sidelined because they are doing less microeconomic work and are thus indistinguishable from general economists (who are getting, and perhaps deserving, increasingly bad press). If by microeconomics they mean analysis of the firm (farm), many of us in the profession have never worked at that level anyway. A large number of agricultural economists have spent their careers working in the agricultural policy arena, others in agricultural trade including policy, in sector analysis, in marketing and a host of other work on problems and issues beyond the farm gate. If, however, they mean by microeconomics all things that economists do, except the analysis of broad national and international economic aggregates (national income, consumption, saving, government spending, taxes, transfers, balance of payments), i.e. the field of analysis commonly known as macroeconomics,

they are totally misjudging what agricultural economists do. Agricultural economists, especially those dealing with policy of any description, must understand enough about macroeconomics to recognize the effects of the macroeconomy on the real sectors such as agriculture (as well as the effects of the real sectors on the macroeconomy), but they do not do macroeconomics *per se*. Thus they are hardly in a position to be maligned along with the macroeconomists, who for the most part were the authors of the stabilisation and liberalisation policy response to the macroeconomic crises in many countries during the 1980s and 1990s.

We feel that Rola-Rubzen *et al.* (2001) are over reacting to the earlier harsh and unbending market-orientated solutions imposed as conditionalities by the World Bank and International Monetary Fund when they argue for agricultural economists to pay more attention to market failure and missing markets rather than always opting for the market solution. We agree, but with caution. To stray too far from market orientation is to fall into the same trap as the non-economist, do-gooders that the authors criticise earlier. As the authors say, we need to acknowledge the concerns and viewpoints of other disciplines. But we do not have to accept their solutions. It is indeed a professional failure if we cannot communicate the importance of market orientation without being free-market bigots.

The rigor of the economics discipline still has an important role to play. The stark reality of economic analysis often shows that there is no such thing as a free lunch. Often there is not a Pareto better solution, and even if there is, the compensation principle is seldom invoked. With any change from the status quo there are losers as well as winners and policy is all about changing the status quo! Widespread disaffection with economics and economists might have exacerbated the burgeoning of fads and fancies in (not only) development economics. But disaffection itself has been brought about by the misconceptions and often total lack of understanding of economic principles by people allowed into the development process by a mistaken egalitarian notion that all stakeholders and any NGO, no matter its self-interest and agenda, should be heard equally.

The very people that decry the sad state of agricultural development affairs are the ones that have imposed limits and conditions on the margin of manoeuvre of all development professionals, not least being agricultural economists. The World Bank and many national donors have demanded that NGO, any NGO, be granted equal partnerships in the development game. Moreover, all stakeholders must be given equal voice in the process. Then when the NGO and the stakeholders insist on too many non-technical criteria to be used in selecting and managing projects, the voices of the agricultural economist and other disciplinary specialists are often drowned out.

#### 4. An institutional approach

In the policy arena, agricultural economists have some new and powerful tools. Institutions and organisations are vital components of policy formulation, policy implementation and evaluation. The new institutional economics stresses that (a) institutions matter, and (b) they are susceptible to analysis, particularly through the use of public choice concepts and transaction cost economics.

The traditional approach to economic policy is to regard the outcome of the free market in general equilibrium as 'optimal'. When market failures, imperfections or externalities occur, it is said to be the job of government to intervene with policies and programs to correct matters and set the economy back on its 'optimal path'. But many economists have themselves been strongly critical of government policy interventions that are based on an economists' theoretically ideal reference point that bears no relationship to the actual economic environment that exists, and that is unattainable in the real world anyway.

In his 1937 article, Nobel Laureate Coase introduced the concept of 'transaction costs', a notion 'largely absent from economic theory' (Coase 1937). Transaction costs are the costs of information acquisition, negotiation and bargaining, contracting, and enforcement; all important factors in the policy process. The key issue from an institutional point of view is that once the analysis moves away from equilibrium states to actual decision making, the institutional environment makes a difference to the formulation and outcome of the political or commercial decision. Buchanan (1975, 1979), who pioneered the work on public choice, speaks even more directly to the policy process and 'what economists should do'. He argues that he has no quarrel with the maximising models of neoclassical economics as applied to individual and firm behaviour, but they are wholly inappropriate when applied to 'social organizations' where they do not belong because there is nothing to maximise. 'This is the bridge which economists should never have crossed, and which has created major intellectual confusion.' The Buchanan approach has a number of insights for agricultural policy formation and delivery in the development field (Williams 1997).

Rola-Rubzen *et al.* (2001) begin to address these issues in their discussion on institutional reform (pp. 49–50) and the related section on ineffective aid (pp. 52–53). In addition to market failure, there is also government failure. Government failure is characterised by such factors as targets not being reached, policies not being implemented and problems with agents. It seems to us that at least some of the explanation of the poor performance listed by the authors is explained by the poor execution of

aid policies framed with the best of intentions. This comes out in the authors' discussion of ineffective aid. They mention 'poor project selection and preparation, inappropriate technology and management imposed by donors, lack of government commitment and ineffective management and implementation in recipient countries' (p. 53)<sup>4</sup> Later, they talk of bad governance. Forms of bad governance include: 'inequitable land rights, ineffective fiscal and trade policies, corruption, crony capitalism, inefficient administrative systems, and weak checks and balances in public relations' (p. 54).

Perhaps the best recent practical summing up of a new institutional economics perspective on development, without the author ever billing it as such, is the book by William Easterly, *The Elusive Quest for Growth* (Easterly 2001). Throughout, the author argues that development economists have forgotten, or at least misplaced, the principle rule of economics – that government officials, aid donors, businessmen, private individuals, everyone in short, respond to incentives. This has led to a series of failed attempts to foster economic growth in the developing world. The author's own list of strategic flavours of the month since World War II include giving foreign aid, delivering machines, providing education, controlling population through family planning (dollars for condoms), issuing massive development loans, and finally forgiving those loans but with conditionalities attached – none of which has been successful.

He argues that for growth to happen, governments must get rid of bad policy and invest in purposeful knowledge creation and capital accumulation. Governments must also subsidise research and development directly and establish a favourable environment for entrepreneurship so that there is a constant flow of new technology being created and old technology being destroyed.

Governments must avoid generating poor incentives for growth, such as high inflation, high black market premiums, high budget deficits, strongly negative real interest rates, restrictions on free trade, excessive red tape and inadequate public services. Institutional reforms are needed in most developing (and many developed) countries to reduce corruption. These include the establishment of a meritocratic civil service and rules to ensure that government honours contracts and does not expropriate the private sector. Also necessary are policies that eliminate the strong incentives for corruption, many of which, such as black market premiums and strongly negative real interest rates, are also direct disincentives for growth.

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<sup>4</sup> Poor project selection and preparation has been identified by the World Bank itself (World Bank 1998b) as a major weakness. Its own study found that prior analytical work has a high payoff – 1 : 9 in cost terms.



It is only through institutional reform, with the recognition that all individuals respond to incentives, that real development through economic growth can occur.

Broadly speaking, the framing of development policy needs to have more regard for the practical situation that donors and governments will find on the ground. This involves the role of the particular institutional mix that is likely to be found and the policies proposed in response. Such policies involve the appropriate set of institutions and delivery mechanisms that together deliver the benefits of a policy to a target group, or to the whole of society. They require considerable study in their own right, particularly in the case of delivering aid to the poor in less-developed countries. In agricultural development in particular, there is a need for improvement in the effectiveness and efficiency of government services involving assistance to primary producers.

Therefore, an organisational view of the development process could and should be adopted. Policies and programs need to be thought through and administered from this point of view. The transactions cost approach of Coase and his followers indicates that legislators do have a choice of implementation institutions at the policy formation stage, and the impacts on different groups in society should be better understood. Once the implementation structure is decided, a number of government and quasi-government agencies become involved. The problem then becomes one of conduct rather than structure, as administrative details are unlikely to have been highly specified in the original enactment. In this area, bureaucracies have their own sets of rules, conventions and interests, which vary from country to country and institution to institution, but which will be the guiding force in determining the ongoing implementation of the enacted policy program. According to Sandiford and Rossmiller (1996), it is this conduct stage that will primarily determine the resulting performance of the policy in terms of the original aims. Thus it is worthwhile to think through the policy implementation system's structure and its likely effects on conduct at the *ex ante* or policy formation stage.

The lesson to be learned is that policies must be evaluated within the context of the institutional environment and the right questions must be asked. The relationship between the legislators and interest groups has an effect on design and implementation. Bindings made on successors and on implementers may be introduced to improve the acceptance of the policy. Consultation will affect the choice of alternative policy instruments. It is in this sense that institutions are most important in the choice and evaluation of policy initiatives and programs in developing countries. The greatest development failures of the 1990s in the countries undertaking structural adjustment policies and the transition economies have been failures of institutions,

including economic institutions such as functioning markets. There needs to be a clear shift in approach away from what the World Bank calls 'one size fits all' and we designate 'have model, will travel'. In developed countries we sense a more pragmatic, less ideological approach to public sector reform and policy implementation (Schwartz 1996). Whether this new found wisdom will be translated into practice in the development assistance arena is an open question.

The institutional approach to policy reform is more pervasive than might first be thought. Particularly in Australia and New Zealand, agricultural policy in recent years and the institutions that deliver marketing, extension and research services have all been modified in reforms inspired by an institutional approach. For example, consider the following areas in either country:

- Reform of marketing boards
- Evaluation and monitoring of policy programs
- Separation of functions including policy formation
- Private provision of services
- Integration of policy formation and policy implementation
- Contracting out
- Reliability of agents
- Privatisation of science providers
- Privatisation of extension providers
- Training for service staff.

On a more international basis, there are further examples from the developing world and elsewhere (Appendix). Most of these examples were aimed at cutting costs and introducing efficiencies into the delivery of agricultural services resulting from smaller budgets, withdrawal of funds from research and extension, and an increased emphasis on user charges (Johnson 2001).

Policy review processes within government and relevant agencies are clearly important in an institutional economics approach. Greater emphasis should be attached to giving decision makers policy advice that has been subject to proper analysis, and scrutiny as to its necessity, efficiency, and net impact on community welfare. Program proposals need to be accompanied by audit procedures and monitoring devices. Compliance costs should be identified. There should be little room for shirking or malfeasance. Yet a review of selected government monitoring and analysis agencies indicates none has a consistent and systematic approach to determining the effects of the policy delivery system on the achievement of policy objectives (GTZ-FAO 2001). Lacking a constructive input from the economics profession, ground has been yielded to fiscal bureaucrats and accountants.

In the case of foreign aid, the transactions cost model has to be directed at relationships between donor institutions and client countries. Problems are likely to be encountered as in the relationship between principals and agents. In spite of the best of intentions, government departments in developing countries may not be able to provide the type of commitment that is necessary for successful jointly funded and managed development projects (Johnson 1999). The World Bank has recognised that these principles have application to its portfolio of lending across countries (World Bank 1998a). The Operations Evaluation Department recognizes these requirements and has refined its procedures.

### 5. Concluding

It is clear that the mix of professionals in the development process has changed. For the moment the 'soft' disciplines have taken over. It remains to be seen whether they can deliver a better result in terms of economic development and poverty reduction.

It appears that a particular casualty has been the farm management approach to rural development, despite all the work on agricultural systems. The broader approach of the development anthropologists/sociologists as well as the emphasis on multiple goals such as environment, gender, and poverty issues have taken the emphasis off economic development in rural areas. These approaches appear to downgrade the gains from improved agricultural productivity. In addition, the remaining rump of small holders generally operate in very difficult conditions which prevents the linear model of agriculture-led development applying. Many of the gains from improved technology have already been achieved as in the case of the green revolution varieties of wheat and rice. A further factor, emphasized in numerous World Bank reports, is that many countries do not maintain a favourable economic environment for their primary producers, which would allow normal incentive systems to work.

It seems to us that there will continue to be a need to place the gains from increased agricultural productivity in the forefront of agricultural development for the sake of the rural people themselves. Research and extension services must be maintained. What our analysis suggests is that improvements must be sought in delivery systems and targeting of aid. It is economists who understand these processes and who can contribute the most to the setting up of programs and their implementation.

The foregoing discussion and conclusions establish the basis for strengthening the role of the agricultural economist in the work of development assistance. But agricultural economists will not be listened to unless they are equipped to carry out their traditional tasks competently and they

develop effective tools to carry out new tasks for which their disciplinary training gives them a comparative advantage – institutional analysis and a deeper approach to sectoral work in the rural economy being among them.

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## Appendix

### **New institutional arrangements for the conduct of government business and reducing costs in agricultural services around the world**

1. Contracting out agricultural services:
  - Procurement of inputs
  - Distribution of inputs
  - Veterinary laboratory services
  - Vaccination campaigns
  - Small farm credit schemes
  - Marketing services
  - Delivery, storage, transport
  - Price information (Hubbard 1995)
2. Contracting out policy advice:
  - Making policy advice competitive
  - Confidentiality concerns
  - Canadian and NZ experience (Storey 1996)
3. Privatising veterinary services:
  - Veterinary Departments in Africa
  - Development of the infrastructure
  - Finding the agents
  - Role of para-professionals
  - Development of contracting procedures
  - Role of local monopolies (Leonard 1993; Leonard *et al.* 1999)

4. Reforming agricultural service systems in Latin America:
  - Closing down of agricultural extension services in Ecuador
  - Encouraging NGOs to participate in irrigation services in Bolivia
  - Privatising private delivery of publicly funded agricultural research and extension in Ecuador (Haebig *et al.* 1998)
5. Reforming science services in New Zealand:
  - Separation of policy for and delivery of science services
  - Competitive bidding for government science resources
  - Creation of subject matter science provider companies (institutes)
  - Use of transparent governance mechanisms (Boston *et al.* 1996)
6. Outsourcing farm administration costs in Belgium
  - Compliance costs, information costs, income support
  - Minimizing transaction costs
  - Tasks dominated by complexity and uncertainty (Vernimmen *et al.* 2000)
7. Extension policy in Australia
  - The case for government intervention on efficiency grounds
  - Transaction and administration costs arising from policy change
  - Is ‘user pays’ necessarily more efficient?
  - Is market failure being addressed at least cost? (Marsh & Pannell 2000)