



Agricultural and Food Policy (4201-410)

Agricultural Policy Paradigms and Path Dependency

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Lecture notes and further information:
<http://www.uni-hohenheim.de/apo>



Path Dependency



- Path dependency is the dependence of economic outcomes on the path of previous outcomes, rather than simply on current conditions.
 - The theory of path dependency is not an alternative to neoclassical economics but rather a supplement to it.
 - Most prominent examples for path dependency:
 - "QWERTY" standard typewriter (and computer) keyboard
 - Videocassette recorders (Betamax vs. VHS)
 - "standard gauge" of railway tracks (i.e. the width between the rails)
 - "Rule of the road" (driving on the right or the left side of the road)
- ⇒ Choices or events have led to the establishment, and "lock in" of particular techniques, institutions, policies and other features of the economy - although other outcomes would have been possible.

Path Dependency



- Agricultural policies change over time, but they tend to create path dependencies.
 - Policy history is important to understand today's decisions and to predict those for tomorrow.
- ⇒ We consider decision processes as path dependent *if they are strongly determined through decisions that are made in the past.*
- "Path dependence has to mean, if it means anything, that once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchment of certain institutional arrangements obstruct an easy reversal of the initial choice. Perhaps the better metaphor is a tree, rather than a path. From the same trunk, there are many different branches and smaller branches. Although it is possible to turn around or to clamber from one to another – and essential if the chosen branch dies – the branch on which a climber begins is the one she tends to follow" (Levi, 1997, p.28).

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Path Dependency – 3 Critical Policy Dependencies



1. Strategic Dependency

- Without government, producers have to compete
 - ⇒ Farmers have to find market and marketing strategies and management strategies to manage and deal with the challenges of the market.
 - With government, producers will rely on the action of the government.
 - ⇒ Hence producers will have the strategy to pursue the government to act in favour of producers' interest.
- ⇒ Once you rely on a strategy, it's difficult to follow another path.

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Path Dependency – 3 Critical Policy Dependencies



2. Support Dependency

- The greater the levels and history of support ⇒ the more dependent will the farmer become on continuing levels of support ⇒ the greater will be the resistance to the removal of the support.

3. Program Dependency

- Policy intervention necessarily requires bureaucracy and also generates political networks associated with the policy.
 - ⇒ Everybody knows, how the policy program runs and how it is operating.
 - ⇒ Therefore it can be observed, that generally existing policies are modified, instead of their total replacement.
 - ⇒ Through that, existing policies tend to become more and more complex and thus more difficult to change.

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Path Dependency



- **The conception of path dependence (where preceding steps in a particular direction induce further movements in the same direction) is *linked to the idea of increasing returns.***
 - The relative benefit of the current activity compared to other possible options increases over time.
 - Putting it another way: the costs of switching to some previously plausible alternative rise.
 - Increasing returns are self-reinforcing or positive feedback processes.

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Path Dependency



There are a number of reasons why policies tend to be self-reinforcing:

1. There are usually significant start-up costs for new policies.
 2. New policies establish mental images, which serve to filter incoming information and feedback.
 3. Knowledge is gained from the operation of a policy. This knowledge is more likely to be valuable in further development of an existing policy than in implementing a new policy.
 4. The bargaining and coordinating costs of adjusting a current policy are usually much less than the bargaining and coordinating costs of developing a new policy. This creates a strong incentive toward continuing the current policy course.
- ⇒ An impetus to depart from an existing policy path only occurs when it becomes crystal clear that the current policy is untenable.

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Agricultural Policy Paradigms



A policy paradigm can be defined as:

⇒ a common set of values, principles and norms that shape how policy-makers identify policy problems and choose policy instruments to address those problems.

- When policy-makers seek to persuade relevant publics of the need to accept significant changes in policy, they frame their arguments in ways consistent with their chosen paradigm.
- A paradigm shift is therefore a replacement by one such model with another, either suddenly or over time.
- Policies at national level shift at different speeds in different countries, depending on bureaucratic inertia or political entrenchment.
- Some countries may change policies in one commodity sector to reflect the new paradigm, but back off change in another commodity sector.

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Agricultural Policy Paradigms



Four Agricultural Policy Paradigms

- **Dependent Agriculture**
 - Needs government support
- **Competitive Agriculture**
 - Able to compete for resources
- **Multifunctional Agriculture**
 - Provides public goods and services
- **Globalized Agriculture**
 - Part of supply chain

Source and further reading: Moyer & Josling (2002), Coleman et al. (2004)

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Agricultural Policy Paradigms



Dependent Agriculture Paradigm

- The dependent paradigm is organized around the core belief that agriculture fulfils basic food needs and provides national security, as well as social and political stability and rural employment and welfare, but *requires government help* to enable it to generate adequate incomes.

Competitive Agriculture Paradigm

- The competitive paradigm emphasizes agriculture as a sector that *can hold its own against other sectors* of the economy and that can function effectively in a market economy and an international trade system (at least, where markets are permitted to operate free of distorting, dependent paradigm style policies).

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Agricultural Policy Paradigms



Multifunctional Agriculture Paradigm

- The multifunctional paradigm is organized around the belief that agriculture is an integral part of the countryside and *provides non-market goods* that would be under-produced without some degree of government support.
- Central to this view is the argument that agriculture provides public goods and services in addition to, and in many ways more important than, its role as a producer of raw materials for the food industry.
- It is *argued that returns from commodity markets inadequately reward the farmer for such public goods and services as:* a pleasant-looking and environmental friendly countryside, a stable social infrastructure and cultural heritage built on small towns and villages, high standards of plant, animal and public health, or high quality foods.

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Agricultural Policy Paradigms



Globalized Agriculture Paradigm

- The globalised production paradigm situates agriculture in potentially global food supply chains, where farmers are seen as supplying land and animal management services to an *integrated vertical process* from input supply and technology provision through marketing of the product.
- The paradigm is based on a conception of agriculture that focuses less on its peculiar characteristics as a sector and more on its integral place in the food system.
- It views agriculture as one stage in a global supply chain stretching from finance providers and chemical and biological input suppliers to retail stores and niche marketing outlets such as farmers' markets.

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Agricultural Policy Paradigms



The Ideas Behind the Paradigms

- To see the significance of ideas in the setting of the policy, it is necessary to compare more explicitly the four paradigms in terms of their assumptions and rationale. Therefore we can group the ideas into the following categories:
 - **The nature of the 'agricultural problem'** that policy has to tackle
 - The most fundamental distinction between the ideational basis for these four paradigms is the divergent views on the place of the agricultural sector within the economy.
 - **The policy objectives and the instruments**
 - If the paradigms are each based on different ideas about the nature of the agricultural problem then they also imply different policy objectives and different instruments to achieve these objectives.

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Agricultural Policy Paradigms



The Ideas Behind the Paradigms (cont'd)

- **The preferred trade policy and the view of the world market**
 - The 4 paradigms also include divergent views about the nature of world markets.
 - These views, in turn, have varying implications for the objectives and instruments to use in trade policy.
 - The development of trade policy in agriculture over the past 20 years can be seen as the result of conflicting 'world views' of individual countries with respect to agricultural and food market and divergent notions as to what role policy should play.

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Agricultural Policy Paradigms



	<i>Character of Agriculture</i>
<i>Dependent</i>	<p>Low incomes in agriculture</p> <p>Not competitive with other sectors without assistance</p> <p>Not competitive with other countries without protection</p>
<i>Competitive</i>	<p>Average or above average income levels in farming</p> <p>Competitive with other sectors for resources</p> <p>Competitive in world markets</p>
<i>Multifunctional</i>	<p>Incomes from farming inadequate for support of rural areas</p> <p>Production of public goods and services are under-rewarded</p>
<i>Globalized</i>	<p>Farmers as part of supply chain</p> <p>Managers of land and livestock resources</p> <p>Consumer-driven (ie: top-down) sector</p>

Source: Moyer & Josling (2002), Coleman et al. (2004)

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Agricultural Policy Paradigms



	<i>Policy Objectives</i>
<i>Dependent</i>	<p>Government help needed to find and secure markets</p> <p>Supply control necessary to avoid surpluses</p> <p>Income support even in normal market conditions</p>
<i>Competitive</i>	<p>Move towards free markets</p> <p>Relax supply control</p> <p>Eliminate government stocks</p> <p>Provide safety-nets in times of price weakness</p>
<i>Multifunctional</i>	<p>Preserve countryside (i.e. for recreational value)</p> <p>Keep family businesses viable</p> <p>Emphasize rural development (develop off-farm jobs)</p>
<i>Globalized</i>	<p>Establish quality and safety standards</p> <p>Fairness in contractual relationships</p> <p>Identity preservation and market differentiation</p>

Source: Moyer & Josling (2002), Coleman et al. (2004)

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Agricultural Policy Paradigms



	<i>Suggested Policy Instruments</i>
<i>Dependent</i>	Border protection Surplus buying State trading Export assistance
<i>Competitive</i>	Decoupled payments in transition Risk management instruments Low safety-nets Foreign Market development
<i>Multifunctional</i>	Environmental subsidies Protection against 'mono-functional' agriculture Constraints on farming practices
<i>Globalized</i>	Harmonization of regulations and standards Competition enforcement Protection of intellectual property Investment rules

Source: Moyer & Josling (2002), Coleman et al. (2004)

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Agricultural Policy Paradigms



	<i>Main Supporters of Paradigm</i>
<i>Dependent</i>	Farm organizations First-stage processors Dairy and sugar sectors
<i>Competitive</i>	Larger farmers Agricultural processors and traders Grain and oilseed sectors
<i>Multifunctional</i>	Small-farm groups Farmers in remote areas Dairy and beef sectors
<i>Globalized</i>	Retail stores Food processors Specialty farms Pigs, poultry, fruits and vegetables sector

Source: Moyer & Josling (2002), Coleman et al. (2004)

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Agricultural Policy Paradigms



	<i>Trade Policy Aims</i>
<i>Dependent</i>	Avoid restrictive trade rules Allow subsidies without constraint
<i>Competitive</i>	Improve market access Remove export subsidies Constrain domestic support
<i>Multifunctional</i>	Moderate pressure on agriculture Allow subsidies for environment Allow subsidies for animal welfare
<i>Globalized</i>	Strengthen intellectual property rules Harmonize SPS and TBT rules Ensure competitive conditions

Source: Moyer & Josling (2002), Coleman et al. (2004)

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Agricultural Policy Paradigms



	<i>View of the World Market</i>
<i>Dependent</i>	World market unstable and unreliable Prices depressed and no basis for domestic policy Self-supply of basics desirable
<i>Competitive</i>	World market stable and reliable if domestic policies are reformed World prices best guide for domestic policy Trade offers best solution to food security problem
<i>Multifunctional</i>	World market reflects 'mono-functional' agriculture Prices inadequate for supply of public goods Trade threatens to undermine environmental goals
<i>Globalized</i>	'World market' is often intra-firm sales Instability and uncertainty created by government intervention

Source: Moyer & Josling (2002), Coleman et al. (2004)

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Links between Paradigm Shifts and the Trade Rules



⇒ Uruguay Round featured the paradigm clash between Dependent and Competitive models

- US pushed for the extension of the Competitive Agriculture Paradigm into the international arena, supported by Cairns Group.
- EU initially defended agriculture as being dependant on protection, but MacSharry reforms of 1992 signalled shift in EU position to allow for such an extension.
- Japan and Korea held out to the end as the strongest defenders of Dependent agriculture

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Links between Paradigm Shifts and the Trade Rules



⇒ The URAA paved the way for Competitive agriculture rules system

- Market access rules removed scope for domestic market control.
- Export competition rules limited scope for domestic stockpiles and export of surpluses.
- Domestic support rules forced switch of emphasis from price supports to direct payments.

But:

Dependent agriculture still retained high levels of border protection.

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Links between Paradigm Shifts and the Trade Rules



⇒ **The agreement on Agriculture also paved the way for Globalized agriculture rules**

- SPS Agreement imposes risk-assessment
- TRIPS Agreement allows for IP protection
- GATS brings rules to service sectors
- TRIMS limits foreign investment risks

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Links between Paradigm Shifts and the Trade Rules



⇒ **Multifunctional agriculture not fully addressed in the URAA**

- Rural Development programs included in green box but constrained by rules.
 - Inadequate attention to environmental policies and to the joint-product problem.
- ⇒ These issues were treated under the heading of “non-trade concerns” and postponed to the next round.

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Links between Paradigm Shifts and the Trade Rules



⇒ **“Multifunctionalism” became a widely stressed issue for countries and groups concerned about URAA.**

- Picked up by environmental groups in Europe and the EU Commission as an “alternative farming model”.
- Adopted by Norway, Switzerland and others to counter pressure from abroad for more liberalization.
- Embraced by Japan as including food security.
- Expanded by EU Commission to include rural development and animal welfare.

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Links between Paradigm Shifts and the Trade Rules



⇒ **Current Round of WTO talks on Agriculture (within the Doha Development Agenda) sees next round of conflicts between these paradigms**

- Can these paradigms co-exist in a well-functioning trade system?
- Can rules be found to accommodate essential elements of all four paradigms?
- Or will one paradigm succeed and others have to adapt?

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Can the Paradigms Coexist?



⇒ Positions taken by countries reflect their “world market” paradigm

- Cairns Group strongest proponent of Competitive agriculture, as leading to a stable world market.
- EU seeking to build in “multifunctionality” into WTO rules but also pressing for globalized agriculture rules.
- US seen as hovering between positions, leadership role compromised.
- Developing countries split on which model to support, depending whether they are importers or exporters, confident or cautious.

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Can the Paradigms Coexist?



⇒ Traditionally, conflict has been between *Dependent* and *Competitive* agricultures

- Dependent agriculture imposes costs on Competitive Agriculture
- Competitive agriculture raises the cost of protection

⇒ Focus has therefore been on negotiating constraints on support levels, subsidies, etc.

- Market access and tariff levels
- Export Competition

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Can the Paradigms Coexist?



⇒ But conflicts also arise between *Dependent* and *Multifunctional* agricultures

- Dependent agriculture imposes costs on Multifunctional agriculture through low prices for private goods and increases cost of public goods.
- Even Multifunctionalists are willing to negotiate constraints on export subsidies.

⇒ Hence split between EU and Japan, Korea:

- EU is not resisting liberalization across-the-board
- Japan and Korea arguing for commodity-by-commodity tariff reductions

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Can the Paradigms Coexist?



⇒ *Dependent* also conflicts fundamentally with *Globalized* agriculture

- Government farm policy gets in the way of a supply chain
- Incentives are for quantity not quality
- Identity preservation not central to dependent agriculture
- Government influence over markets crowds out private initiatives.

Question: why are supply chain captains (e.g. supermarkets) not involved more actively in countering the dependent paradigm?

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Can the Paradigms Coexist?



⇒ What about conflicts between *Competitive* agriculture and *Multifunctional* agriculture?

- Public goods become more expensive to provide with competitive world markets
- Transfers costs of public goods to taxpayers
- Exporters will remain suspicious of motives of importers

⇒ Strict rules on subsidies may be necessary to reconcile these two paradigms

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Can the Paradigms Coexist?



⇒ Can there be conflicts between *Competitive* and *Globalized* agriculture paradigms?

- Competitive agriculture still centered on the notion of “national” agriculture
- Global agriculture challenges notion of ownership, sovereignty, control
- Comparative advantage determined by investment flows

⇒ Key problem is distribution of rewards from supply chains

Source and further reading: Moyer & Josling (2002), Coleman et al. (2004)

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