The problem of optimum policy choice in European agriculture

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Traditional Welfare economics leaves little room for subjectivity or politics (Sugden, 1981). It seems to offer a direct and objective solution to economic problems without a social decision-making process (in other words a political process) being necessary. In theory at least it is this idea which currently predominates as fast as finding solutions to economic and social problems is concerned. In my opinion this results in some fundamental queastions simply being overlooked. I should like to illustrate this drawing some examples from the agricultural policy of the EEC.

The economic problems of the EEC are problems of choice. A good example of this is given by the situation in 1970. At about the same time several different proposals were made as to how European economic problems should be solved. These were the Mansholt plan, the Vedel plan and the van Riemsdijk plan (Anon., 1969; van Riemsdijk, 1973, Priebe et al., 1972). At the time there were at least five alternatives; namely the European Policy as it was, or to change it along the lines suggested by one of the four more or less mutually exclusive plans — each of which seemed to offer a fundamental solution. Which of these alternatives should have been chosen and why?

The traditional answer runs something like this: look at the effect of adopting each of the plans in turn and choose the one which is most beneficial to the EEC. Beneficial effects being seen by the economist in terms of benefits greater than costs. How did the Mansholt, Vedel and van Riemsdijk plans stand in this respect? It is difficult to answer this question since the authors supplied no cost-benefit analysis of their plans and it is easy for an outsider to misinterprete the intentions. From my own experience I know what a difficult thing it was to attempt to do — either privately or on commission. However there must be some analysis of this type if we are to persist with the rational approach. This means taking into account not only the direct costs and benefits but also the consequences for the international division of labour and trade, for the environment, the distribution of income, the national budget and for society in general.

It is noteworthy that no systematic analyses of this kind were undertaken, or

at least they were not made public if they were. How then were the politicians able to make a decision? Certainly not in the manner suggested by the rational theory of the textbooks, since this requires that the effects of the policy be identified, measured where possible and then weighted according to the importance attached to them by the Community. The values assigned to each of the effects are then summed and it is clear which of the plans has scored the highest. This process of weighting however implies that the social welfare function (or utility function or set of goals (as you like) of the Community is known.

Theory requires that the plan which maximizes this function for the given circumstances be the one adopted. In the example we see that there was in fact no real knowledge about this function, neither with regard its form nor the magnitude of the variables for any of the alternatives. How then is the politician, economist of bureaucrat supposed to decide which is the optimum solution?

Theories of economic policy and Welfare economics assume a knowlegde of all political goals. Thus one is only required to develop models which show the quantitive effects of various proposals on these goals. This way of thinking goes back to Tinbergen (1975): 'In this century governmental behaviour has increasingly attempted to look after the general interest, in whatever sense that may be taken. We shall indicate this entity by the symbol Ω (omega). It is a function of a certain number of target variables indicated by y_k. A certain numerical value of some y_k will be called "a target". These targets will be chosen to make Ω a maximum. Acts meant to attain this maximum may also be referred to as the optimum policy, as far as it makes sense to conceive other policies as well. In principle, the determination of the optimum policy, if only qualitative policies are considered possible, is one of choice from a finite number of alternatives. For each conceivable policy the result of Ω should be known and the alternative showing the highest Ω value be chosen. The fixation of the function Ω is a difficult matter; generally it would not be considered conciously but intuitively by those responsible for the policy.'

According to this view economic policy is concerned with a mathematical definition of optimum policy. One might well ask what the practival relevance of this theory and procedure is when one realizes that the function is unknown and that it is by no means certain that optimizing behaviour infact predominates. Let me sketch out the possible implications of the absence of an explicit welfare function.

Not everybody in a society has identical individual welfare functions (van Praag et al., 1981). One can imagine that people with approximately similar individual welfare functions might group together and that each group puts forward its views as if they were the goals of the society as a whole. Such groups fit in organizationally in the various political parties. More often than not none of the groups has an absolute majority. Coalitions in and between the parties are then the solution. Very little research has been done into coalition behaviour, but one rule that seems to hold is that conflict between parties to a coalition is temporarily minimized. The parties engage in a policy of vote-exchange and non-intervention in order to have some peace, which is a prerequisite for gov-

ernment. In doing this typical solutions are being applied which are little (if at all) suited to systematic calculation. Koopman (1973) has demonstrated that it is not possible to make such calculations, e.g. in the form of a 'Planning, Programming and Budgetting System', because they come into conflict with the political system. In my opinion it is the other way round. A technical solution is not possible since over the whole range of economic policies systematic calculation does not seem feasible, thus the political system emerges. The realities of politics and the traditional theories of economic politicy are widely divergent. This results from the fact that those theories are formulated a priori and no one questions the applicability of the idea of a social welfare function or investigates whether 'maximalization' in itself is a typical mode of behaviour. The methodology prescribed by Tinbergen is an excellent intellectual exercise, but it is not a description of economic reality.

If only one cares to look one can see the dangers which threaten economic science; namely:
— Politicians can make arbitrary use of economics
— Economists may see the views of politicians as being the concretisation of the social welfare function
— Economists and politicians do not understand each other well; this can lead to irritation and frustration, accompanied by the accusations and reproaches of being 'opportunist', 'short-sighted', 'amateurish', 'full of hot air', or simply 'that is not politically acceptable'.
One way to avoid this may be to incorporate real political behaviour into economic theories.

Later on in the 1970s EC Dairy policy caused many problems. This case illustrates well some of the difficulties associated with the problem of choice. The traditional approach demands a model of the European dairy world and insight into the social welfare function or Ω (see Fig. 1).

In fact there is no official dairy model for the EEC and no Ω. One has to work on an original basis although use can be made of a variation on the model devised by the FNZ research team (FNZ, 1978; Oskam, 1981). The existence of an accepted function for societies' aims is equally tenuous. There is hardly any literature on the subject and precious little research has been done. In theory use is made of the general form $\Omega = y_k \cdot w(y_k)$, where y_k represents the effect of a policy on, for example, agricultural incomes, consumer incomes, the EAGGF budget, the environment and so on, $w(y_k)$ stands for the political weights attached to these effects.

The effects denoted by y_k can be derived from the model, the weights have to
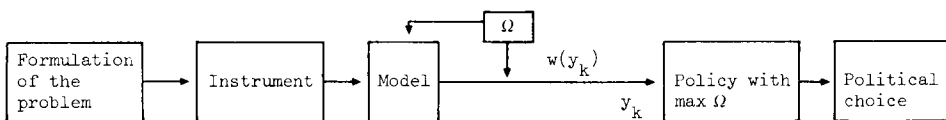

Fig. 1. Tinbergen's procedure.

come from somewhere else. We acquired some ideas for this by analysing the personal opinions of members of various groups about the effects. Such group as the FNZ research team, participants in the Dutch congress of agricultural economists at Veghel, members of the labour fraction of the European Parliament who visited Wageningen, and those who took part in the International symposium in Wageningen on this subject (van den Noort, 1981). By and large views on the model were similar. However there was substantial difference of opinion as to the nature of the most desirable policy. This resulted from differences in 'political' weighting. How much bigger would these differences be if other groups with other preferences and possibly completely different political opinions were included? The ideas of 'society as a whole' are not known, and the weights which politicians eventually do apply do not necessarily reflect the coefficients or weights of the real social utility function or objective function (set of goals). Moreover it seems that the views of politicians diverge even when they belong to the same party. More experience with this type of analysis and a more detailed study would perhaps lead to a clearer picture, but it would essentially be a collection of individual opinions, which might be broadly categorized.

In my opinion a solution to the EC dairy problem is not te be found in a systematic process of this sort: it can only be found within the political process. The European Council of ministers, the European Parliament, the Brussels bureaucracy and the pressure groups all have a role to play. Coalition politics are the order of the day. The main reason for this is that the final decision rests with the European Council of ministers and in such important matters as the dairy question the decision must be unanimous. The ministers (as one might expect) do not have identical views or interests at heart. If a unanimous decision is to be reached then som form of coalition is necessary — all the more since such a small selection of subjects are involved in this policy and thus the possibilities for exchanging votes or bargaining in other ways are strictly limited.

Dairy policy can be seen as a game with winners and losers. What one wins the other loses — especially when one looks at budget contributions. This policy is a 'zereo-sum-game' in Thurow's meaning of the phrase (1981). The various pressure groups defend their interests so avidly that it is very difficult to change anything. No single group is prepared to be the victim of change and it is almost impossible to persuade any particular group or country to accept a loss. In this context I refer not only to the 'farm lobby' but also to the national interests defended by the ministers of the member states. As the results of the November 1981 Summit conference in London show, it is the members of the last-mentioned group who are the most difficult to persuade.

Traditional theory and its application offer insights but do not generate optimum policy. The social welfare function (or objectives function) is unknown. Economic theory is not unique in being directly unsuitable for application to policy formulation. Lekanne (1981) writes about 'the actual lack of utilization of social science knowledge in public policies', whilst Ringeling (1981) admits that political science can offer no solution to the problem of optimum policy choice. Heldring (1982) says very generally on the subject: 'Often policies are not made

on the basis of objective analysis, but on the basis of other considerations and the analysis is altered to fit the policy and not vice-versa.' Or as Joan Pearce (1981) put it: 'In agricultural policy, decisions are often made on political grounds, and a spurious economic rationale for them is invented subsequently.'

With reference to such laments one might say: A trouble shared is a trouble halved. Perhaps we can learn from each other. We must, I suppose, start along the road to a new economic theory, a body of theory yet to be expounded. As long as such a theory remains unformulated the question of optimum policy choice remains an intriguing problem.

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