Lecture X: Consequences of Political Process and Rationale for Government Interventions

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1. Consequences of Political Process

2. Rationale for Government Intervention

3. Public Choice Theory

Consequences of Political Process – PSE

- Agricultural support is defined as the annual monetary value of gross transfers to agriculture from consumers and taxpayers, arising from governments' policies that support agriculture, regardless of their objectives and their economic impacts.

- The Percentage Total Support Estimate indicator (%TSE) represents the total of policy transfers to agricultural sector expressed as a share of GDP.

- The Percentage Producer Support Estimate (%PSE) represents policy transfers to agricultural producers, measured at the farm gate and expressed as a share of gross farm receipts.

## Consequences of Political Process – PSE, Continued

- TSE transfers consist of transfers to agricultural producers (measured by the PSE), consumers (measured by the CSE) and support to general services to agricultural sector (measured by the GSSE).
- Transfers included in the PSE are composed of market price support, budgetary payments and the cost of revenue foregone by the government and other economic agents.
- http://www.oecd.org/tad/agricultural-policies/ producerandconsumersupportestimatesdatabase.htm

PSE and CSE

Country	1986-88	1995-97	2015-17	2015	2016	2017
	Producer Subsidy Equivelents					
Brazil		-14.4	2.7	2.6	3.6	2.0
Canada	36.1	16.7	9.3	8.6	9.8	9.6
European Union	39.2	33.8	19.3	19.0	20.7	18.3
United States	21.2	11.9	9.6	9.5	9.6	9.9
	Consumer Subsidy Equivelents					
Brazil		12.3	-0.1	0.8	-1.1	0.1
Canada	-22.7	-11.2	-11.0	-9.7	-11.8	-11.5
European Union	-35.7	-20.8	-4.1	-3.7	-4.7	-4.1
United States	-2.4	4.3	14.2	14.2	13.9	15.4

U.S. Development of Support

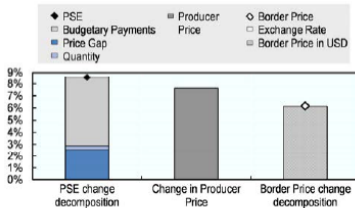Figure 25.1. United States: Development of support to agriculture
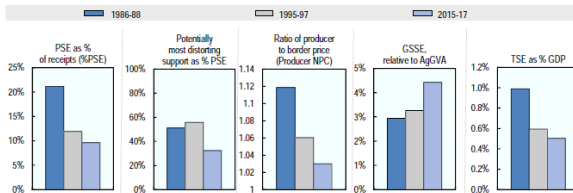
Source: OECD (2018), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

StatLink http://dx.doi.org/10.1787/888933758034

U.S. Decomposition of PSE

Figure 25.2. United States: Decomposition of change in PSE, 2016 to 2017

Source: OECD (2018), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

StatLink http://dx.doi.org/10.1787/888933758053

Figure 25.3. United States: Transfer to specific commodities (SCT), 2015-17
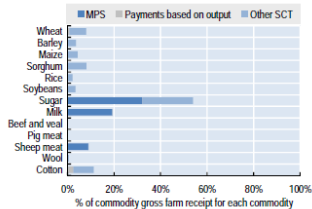
Source: OECD (2018), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

StatLink http://dx.doi.org/10.1787/888933758072

Canada Development of Support

Figure 5.1. Canada: Development of support to agriculture
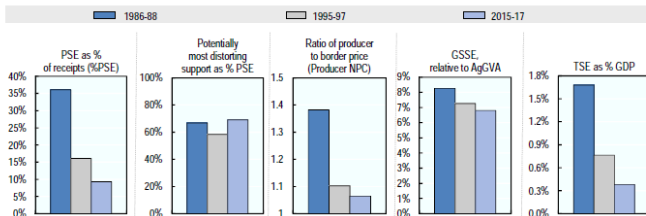
Source: OECD (2018), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

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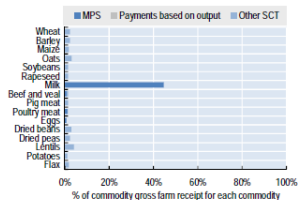
Canada Decomposition of PSE

Figure 5.2. Canada: Decomposition of change in PSE, 2016 to 2017
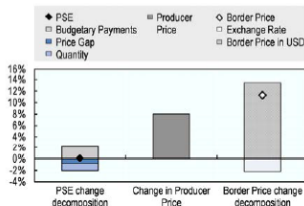
Source: OECD (2018), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

StatLink http://dx.doi.org/10.1787/888933755754

Figure 5.3. Canada: Transfer to specific commodities (SCT), 2015-2017

Source: OECD (2018), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database). http://dx.doi.org/10.1787/agr-pcse-data-en.

StatLink http://dx.doi.org/10.1787/888933755773

Rationale for Government Intervention

- Traditionally, economists have viewed the role of government in terms of its ability to mitigate the effects of market failures.

  - Market failures arise from the existence of externalities, benefits or costs that are not captured by the market, such as pollution or scenery.
  - Optimal government intervention can move the market equilibrium closer to the societal optimum.

- Conversely, some other economists question government intervention, arguing that government inefficiencies outweigh the inefficiencies of the market.

Monopolist/Monopsonist Model

Input Market

Output Market
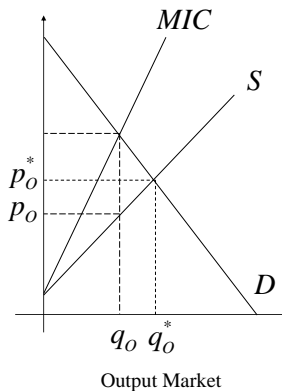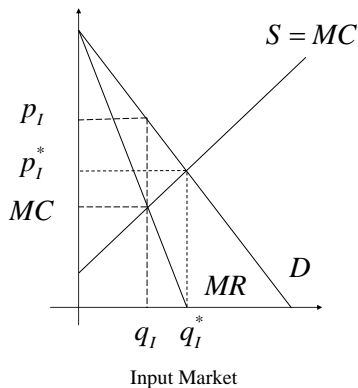
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- The idea is that, if an externality can be assigned property rights, a market can be created for that externality.
- For example, if government could assign ownership to carbon dioxide emissions and set a quota for these emissions, a market for emissions could be established.

Efficiency, Stabilization, and Redistribution

- **Efficiency.** The efficiency branch of government introduces policies, programs, and expenses with the objective of making markets more efficient. It includes the subsidization of public goods (such as some form of public research), the limiting of externalities (including Pigouvian taxes), and regulations that limit market power.

- **Stabilization.** The stabilization branch of government attempts to stabilize the economy. Boadway (1997) refers to the creation by a government of macro-institutions, such as the U.S. Federal Reserve and the Bank of Canada, as means to stabilize its currency.

- **Redistribution.** Another function of government is to redistribute income among groups in society. Economists recognize that markets may produce an efficient optimum without regard to distribution among the members of its society. Therefore, society may have social goals that precipitate the redistribution of resources or outputs.