

From Economic Research to Policy in 32 Years

De la recherche en économie à la politique : 32 ans d'expérience
In 32 Jahren aus der Wirtschaftsforschung in die Politik

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The European Commission has recently acted on agricultural research published 32 years ago to change fruit and vegetable standards, so saving €10–15 billion a year in unnecessarily high prices, environmental costs and health costs. The administrative policy and procedures that caused this delay are deeply disturbing for our profession. Having worked on policy for most of my career, as a civil servant in five countries and an international consultant in thirty, I have never come across anything like this outside the EU. Generally, action on agricultural policy can be expected within 4 or 5 years, after a series of staff economists and independent outside economists reach similar conclusions.

“ Il semble possible que le changement de politique soit guidé par la micro-politique des services publics plutôt que par ‘l’analyse économique’. ”

The European Commission standards for fruit and vegetables, which laid down what might be sold, and how it should be sorted, presented and labelled, were considered to be self-evidently correct in the 1960s and 1970s. They were based on policies going back to the 1930s. It appeared obvious that they were necessary if traders were to buy and sell on description rather than inspecting each consignment. It appeared obvious that there should be one and

only one set of standards, not different standards for each market. It appeared obvious that all produce should meet minimum standards in order to push up the quality offered to consumers and to keep up prices to farmers. It appeared obvious that anything that did not meet these standards was rubbish and should be dumped.

I researched horticultural marketing in the 4 years before Britain and Ireland joined the EEC in 1973 and the 8 years afterwards. After accession, minimum EC standards meant dumping probably a third of the fruit and vegetables produced, even though it was edible and saleable. It was dumped on cosmetic grounds – blotched fruit, oddly-shaped fruit, packages that were not uniform and crooked cucumbers. The grading standards did not correspond to market demand, and so reduced market efficiency. Those farmers who produced fruit and vegetables that did not meet these particular standard specifications but was cheaper, or fruit and vegetables which met the different standards that specific sub-markets preferred, were forced out of business. UK farmers were handicapped when competing with imports, as they had to cover costs when selling only two thirds of their crop, while foreign producers could sell the export outgrades on their local markets, so reducing unit costs. The British fruit industry collapsed. Pesticide use increased and consumer prices rose. Two thirds of the greengrocers went out of business.

My analysis of the EC standards system was presented in 22 books and papers on the economic theory of grades and standards, which I

applied to the practicalities of the fruit and vegetable market. I also published widely on marketing economics and horticultural marketing. Two papers (Bowbrick, 1977 and 1982) instantly went onto reading lists in universities around the world and stayed there for the next 25 to 30 years, then were partly replaced by my book (Bowbrick, 1992). Other papers which brought the theory together with the practical research on horticultural marketing reached horticultural economists worldwide including the EC. I did not receive criticism from economists or my invisible college. In 1981 I presented an analysis which used evidence and theory produced around the world and was in much greater depth than I have seen in all but a few policy reports (Bowbrick, 1981). It was damning, showing that there was no theoretical or practical justification for the system drawn up by a committee of grading inspectors in Geneva in 1947: on the contrary, theory and evidence showed that it harmed producers and consumers. The report produced detailed recommendations, which were novel at the time, but are what the European Commission has now adopted.

Most Member States of the EEC (which expanded into the EU) opposed reform, and the eventual decision to reform was taken in the face of fierce opposition by the majority of states. Conceivably, this was because senior government economists made decisions based on what was economically orthodox when they were undergraduates. The time frame fits.

Civil servants who have not tried to influence policy, or have tried but



Retailers no longer have to label vegetables with the EC Grade

failed, or have fought behind the scenes to prevent policy changes frequently use 'political constraints and pressure groups' as an excuse. It does not seem credible in this case, however, that those farmers who benefited from the legislation should exert the decisive influence rather than those who were bankrupted by it; or that the interests of the supermarket chains should override those of the friendly local greengrocers who were bankrupted; or that the consumer interest should be ignored. Certainly there was no public outcry when the EC reversed its policy. In my experience top decision makers do not base policy decisions on such trivial political issues, and indeed they frequently make decisions which they believe are in the best interest of the country, even when they know that these decisions will infuriate powerful groups. So some other influence must have been at work.

From my own experience of UK and Irish Government officials at the

time, it appears that the internal politics of the civil service and the role of non-economists were of paramount importance. When I started publishing my research, I was working in an Irish agricultural research institute. My results caused a violent emotional reaction in non-economists there, notably horticulturists and soil scientists. They chose to believe that I wanted growers to produce rubbish – diseased, damaged and misshapen produce – in spite of my repeated denials, and my insistence that growers should produce what the market wanted, not what officials in Geneva had decided they should. I was also informed that there was strong pressure, particularly from Government inspectors and horticulturalists, for my views to be suppressed. It is understandable, perhaps, that horticultural researchers who have devoted their careers to producing the 'perfect' cucumber should react strongly to a suggestion that it might not be economically rational to dump

everything that they did not consider 'perfect'. It is understandable that a Grading Inspector who has spent his career deciding whether a box of cabbages is Class I or Class II should react strongly to the suggestion that this is, at best, a waste of time. But I do not understand the reaction of the soil scientists. I would not suppress or alter my results, so I resigned and changed my career. Only then was I able to publish two key documents (Bowbrick, 1981, 1982).

It was not until 2002 that I was able to get information about the internal workings of the British Ministry, using the Freedom of Information Act. The Ministry of Agriculture, Food and Fisheries (MAFF, now incorporated into Defra) called for tenders for a consultant to do an Economic Evaluation of Marketing Standards for Horticulture and Eggs, as part of its ongoing reviews of policy. I registered an interest. Soon e-mails were circulating in the Ministry; these can be interpreted as an attempt to change the terms of

reference in order to exclude me from the contract on the grounds that some civil servants did not like a report that I had written in another country 20 years previously. One message claimed that I had a commitment to 'an anti-marketing standards position'. This was false: on the contrary, I had written books and papers on making grades and standards work as an effective marketing tool.

“ Es scheint möglich, dass Politikveränderung durch die Mikropolitik im öffentlichen Dienst anstatt durch wirtschaftliche Analysen vorangetrieben wird. ”

The Ministry did indeed act to ensure that the review would not be carried out by anyone prejudiced by previous knowledge of the subject. They awarded the contract to a team with no noticeable academic or

practical qualifications or experience in the economics of quality, horticultural marketing, agricultural policymaking or agricultural policy administration. Their literature review identified just 20 publications; in my personal collection I had 1,156 books, papers and monographs on quality, grades and standards, many of them on horticulture. Most of the 20 publications had no relevance – pride of place was given to Akerlof's (1970) long discredited paper on the market for second-hand cars. The large literature on horticultural and egg marketing was ignored. While Kohls (1998) and I are cited, there was no mention of Kohls' trenchant criticism of badly designed or researched government standards systems, nor was there any mention of the fact that I was critical of the EC system. MAFF also explicitly made the decision to ignore my advice, based on years of experience, that one survey methodology – the one that the successful bidder proposed using – would not work in this instance. It failed miserably, with virtually no response. The resulting report would not, in my judgement, have been accepted by international agencies or Third World governments. The panel awarding the tender had few economists. It

did include grading inspectors though, which is rather like asking a traffic warden to determine transport policy.

Implications and alternative systems

In the examples I have quoted it seems possible that policy change or resistance to policy change in agriculture and the environment is driven by the micropolitics of the civil service, rather than by economic analysis. It would be surprising if the same were not true in other sectors. In this one instance I estimate the cost to the EU to be of the order of €10–15 billion a year, so the effect on the economy as a whole is likely to be measured not in billions but in percentage of the GNP. This also has serious implications for our profession if it simultaneously undermines the ways in which research is commissioned by government and delivered by the research community.

In agricultural policy we expect that, if we are to change behaviour, we must change systems and incentives. Exhortation is not enough. For example, the British Treasury has guidelines that tenders for the review of policy are to be handled at arm's length from those making and administering the policy; and that people whose careers might be affected by the conclusions should not take part in selecting the reviewers. These guidelines, however, appear to be little used in practice.

In my experience there are arrangements in non-EU countries which do limit the problems identified here (which is not to suggest that their systems do not have their own inefficiencies and corruptions). This shows that solutions are possible, though it is not suggested that systems developed for other countries can be imported without change to the EU. In most of the countries I work in it is believed that there should be regular, usually annual, reviews of policy by



Retailers have introduced 'economy' lines, with vegetables that need not meet the EC cosmetic standards

recognised experts. It is believed that where policies have a significant impact, the reviews should be duplicated or triplicated, preferably by people with a range of viewpoints – the cost of a review is negligible compared to the cost of a policy that is not working well, or that is producing the opposite effect to the one intended. There are reviews by the civil service, but there are also reviews by international organisations, such as FAO, the World Bank, the EC, UNDP, ADB and by bilateral organisations. The input of international organisations does, of course, raise its own problems (Griffiths, 2003). However, it does prevent some of the problems identified here.

No doubt civil servants in other countries would like to select researchers and consultants who would come up with the results they want, but there is limited opportunity, as the international organisations select consultants by different criteria, and the single consultant who produced a paean of praise for the civil servants would have little credibility. International organisations and countries can, of course, select consultants according to their biases, and blacklist those who produce inconvenient results, but this still leaves the consultants with alternative employment, so the

chilling effect is not as great as in the UK for instance. To some extent the biases of the host country, the World Bank, FAO, etc cancel each other out; although those of the agencies may reinforce each other, as with the Washington Consensus. It is not unusual for foreign consultants or agency staff to sit in on government tender selection boards, providing technical expertise and confirming the openness and adherence to the rules of the selection procedure.

“ It seems possible that policy change is driven by the micro-politics of the civil service, rather than by economic analysis. ”

The multi-agency approach also means that there are a lot of reports produced, which are freely available. These can be reviewed by the local and agency economists. One of my proposals for a major policy change was extremely unpopular with a section of the civil service, but happened to be reviewed, and approved, by teams from the World

Bank, FAO, EC, and USAID over the following 2 or 3 months; so it was accepted and implemented. As the reviewers have access to all the reports written over the last few years, the bad reports stand out.

In any civil service, people think they may damage their careers or worse, by speaking up against a policy espoused by senior civil servants, powerful groups in the Ministry or politicians. However, these frightened civil servants are eager to speak to a consultant they believe to be ‘safe’, often a foreigner, often paid by an international organisation rather than the civil service. I find them to be a vital source of fact, analysis and political guidance. And an important role of the consultant is to be a scapegoat, saying out loud what everyone knows but is afraid to be the first to say.

It would not be a simple matter to introduce these changes, doing serious policy review, removing the chilling effect on a researcher’s career, removing pressures to change results, cleaning up the selection procedure, publishing the results and encouraging serious professional criticism. But we know that it is possible; it has been done elsewhere. If there is the political will, it can be done. In the present economic situation we cannot afford not to act.


Further Reading

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summary


From Economic Research to Policy in 32 Years

 The European Commission has recently reformed its system of horticultural standards, acting on economic research which was published 32 years ago and accepted immediately by academic economists. The delay may have cost €10 to €15 billion a year in higher costs and prices, reduced health and environmental damage. One reason for the delay may be that top government economists based their decisions on the economics that was orthodox when they were undergraduates. Action was taken by researchers and civil servants to suppress unwelcome research results. Key economic decisions were made not by economists, but by civil service horticulturists and grading inspectors who blocked reform, possibly because they felt their expertise was not valued or their jobs were threatened. Action was taken to prevent a knowledgeable outsider from carrying out a review because civil servants did not like a book he published 20 years earlier. Such actions have a chilling effect: consultants or academics who say what they think can have their careers destroyed. Systems used outside the EU could have speeded change: for example, regular policy reviews using independent reviewers – academics, consultants or international organisations. Strict selection procedures for consultants, strictly enforced, are essential. Publication of reviews is important.

De la recherche en économie à la politique : 32 ans d'expérience

 La Commission européenne a récemment réformé son système de normes pour l'horticulture, en se fondant sur des recherches économiques publiées il y a 32 ans et acceptées immédiatement par les économistes universitaires. Ce retard pourrait avoir coûté 10 à 15 milliards d'euros par an, en termes de hausse des prix et des coûts, de diminution de la santé et de dommages pour l'environnement. L'une des raisons de ce retard pourrait être que les économistes de la fonction publique fondent leurs décisions sur l'économie qui était orthodoxe lorsqu'ils étaient étudiants. Les scientifiques et les fonctionnaires se sont efforcés de supprimer les résultats qu'ils désapprouvaient. Les décisions économiques majeures n'ont pas été prises par des économistes, mais par des horticulteurs du service public et des inspecteurs du classement des produits, qui ont bloqué les réformes, peut-être parce qu'ils craignaient que leur expertise soit sous-évaluée ou que leurs postes soient menacés. On a empêché un expert extérieur de mener une étude parce que des fonctionnaires n'aimaient pas un livre qu'il avait publié 20 ans auparavant. De telles actions ont un effet dissuasif : les consultants ou les universitaires qui disent ce qu'ils pensent peuvent voir leur carrière détruite. Les systèmes utilisés hors de l'Union européenne, par exemple des examens réguliers des politiques par des examinateurs indépendants - universitaires, consultants ou organisations internationales, pourraient avoir accéléré le changement. Il est essentiel de mettre en œuvre des procédures strictes de sélection des consultants et de les appliquer strictement. Il est également important de publier le résultat des études.

In 32 Jahren aus der Wirtschaftsforschung in die Politik

 Die Europäische Kommission hat kürzlich ihr Normungssystem im Bereich Gartenbau reformiert und ist damit einer Wirtschaftsstudie gefolgt, die 32 Jahre zuvor veröffentlicht und umgehend von Wirtschaftswissenschaftlern angenommen worden war. Die Verzögerung könnte Kosten in Höhe von EUR 10 bis 15 Mrd. pro Jahr in Form von höheren Kosten und Preisen, verminderter Gesundheit sowie Umweltschäden nach sich gezogen haben. Möglicherweise lag die Verzögerung u.a. darin begründet, dass die Spitzenökonomien der Regierung ihre Entscheidungen auf jene ökonomischen Grundsätze stützten, die zu deren Studienzeiten gelehrt wurden. Wissenschaftler und Beamte haben Maßnahmen eingeleitet, um unerwünschte Forschungsergebnisse zu blockieren. Tragende ökonomische Entscheidungen wurden nicht etwa von Ökonomen getroffen, sondern von Gartenbauern aus dem öffentlichen Dienst und Garteninspektoren, die sich der Reform in den Weg stellten - möglicherweise, weil sie ihr Fachwissen nicht honoriert oder ihren Arbeitsplatz bedroht sahen. Es wurden Maßnahmen ergriffen, um einen sachkundigen Außenstehenden davon abzuhalten, einen Review zu verfassen, weil ein 20 Jahre zuvor von ihm veröffentlichtes Buch nicht auf die Zustimmung der Bürokratie traf. Folgendes wirkt abschreckend: Die Karrieren von Unternehmensberatern oder Wissenschaftlern, die offen zu ihrer Meinung stehen, können zerstört werden. Außerhalb der EU angewandte Systeme hätten den Wandel beschleunigen können: Regelmäßige politische Reviews beispielsweise von unabhängigen Gutachtern – Wissenschaftler, Unternehmensberater oder internationale Organisationen. Verbindliche und rigorose Auswahlverfahren für Unternehmensberater sind erforderlich. Die Veröffentlichung der Reviews ist wichtig.