ECONOMICS, GOVERNMENT AND THE FOOD INDUSTRY

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INTRODUCTION

The opportunities and constraints experienced by the food industry in a modern economy are determined largely by what happens in relevant markets and through government actions. Markets include those for all inputs and products/services produced and sold. Government actions include policy creation and enforcement for the macroeconomy, general industry, social infrastructure and the food industry in particular.

A distinction must be drawn between good private economics and good society-wide or national economics. For example, what is good for the food industry may not be good for the economy as a whole. Some things that governments do add to profits in the food industry, and to economy-wide income, and are justified on economic efficiency grounds. Other policies increase incomes of the food industry but reduce economy-wide income and national efficiency, yet may still be attractive because of expected political benefits.

The main theme of this chapter is that whether government policies for the food industry benefit or diminish the national economy depends on whether or not they bring the private food-industry incentives into closer alignment with the incentives reflecting benefits and costs from a national view. Evaluation criteria depend not on whether government food-
industry policies result in higher industry profits, but on whether they efficiently address food-market inefficiencies.

A reality of the food industry is that much of its product and factors of production are internationally traded. Consequently, it needs to be understood that what a country can do efficiently in its own food industry can depend, to a great extent, on world market prices over which it has little or no influence.

OVERVIEW AND MODEL OF GOVERNMENT

There is a multiplicity of possible relationships between economics, government policy and the food industry. The relationships that are of most interest depend on one’s purpose. For example, if the objective is to forecast the economic future facing a country’s food industry, developments in the relevant markets are fundamental. These include the markets for farm-produced raw materials used by processors, labor, capital and processed food products. In a world that is becoming more integrated through trade, and sometimes through political cooperation, foreign markets are becoming increasingly important. In many situations, the economic returns in food processing depend more on export market opportunities than on domestic ones. The effect of government policies that impact on the profitability of such investments must also be considered: assistance for production or export, regulation of food standards, environmental protection and attitudes toward foreign investment and competition policy.

While the commercially-oriented person or firm is interested in the actual effects of present and potential government policies on their own private interests, the focus of the public policy perspective is on what the government should do in the food industry. Economists who work within the conventional public interest paradigm emphasize the role of government in correcting market failures, thereby enhancing economic efficiency. For those following this approach two fundamental questions are: (1) are there really inefficiencies in the working of the market, and (2) can government address those inefficiencies in a way that generates total benefits in excess of the correction costs?

Viewing the government as the beneficent corrector of market failures is not always easy. Indeed, it may often seem an unworldly view! Why would so many people, including economists, be employed in trying to persuade governments to redistribute income to rent-seeking firms and industries if government was motivated solely by the public interest? In explaining both the form and the size of the economic effects of government policies, the private interest paradigm may be more useful than the public interest model (for example, Sieper). In the private interest model, government regulation is determined within a political market