

SUMMARY

In Canada, governments have a long history of intervening in the agri-food sector. But the economic contexts in which the agriculture sector operates tend to evolve rapidly; decades after putting policies in place, governments and stakeholders may no longer recall the rationale for intervening. The traditional justification for intervention is public concern with the distribution of income (an equity consideration) or a failure of markets to work according to economic theory (an efficiency consideration). The justification for intervention due to imperfect markets can involve:

- ❑ Public goods and services, such as web-based extension reports and crop information. Private markets can fail to provide enough of a public good or service when it is impossible to exclude individuals from consuming the good or service and one person's use does not exclude that of another.
- ❑ Externalities, such as higher public healthcare costs resulting from poor nutrition. An externality occurs when benefits or costs are not borne by the decision maker.
- ❑ Market power and monopolies, such as when a firm influences market prices. Cooperatives, for example, were granted certain privileges to offset the concentration of power in the hands of a few buyers or service providers such as the railroads.
- ❑ Imperfect and asymmetric information, such as when one party is uncertain about a product's attributes, or when a processor has more information about required attributes than does a supplier. Labelling requirements can solve some of these private-market imperfections. The rationales for intervention can also be based on offsetting economic distortions created by the actions of a foreign party. Subsidized exports by one country can undermine returns in another. Another economic argument for government intervention is to harmonize standards with major trading partners.

Social policies also drive government intervention. For example, subsidies to grain-based ethanol and other biofuels have been justified by the desire to develop rural economies, encourage energy security, and meet environmental objectives. Other political reasons for government intervention include: improving sector competitiveness, encouraging economic development in certain sectors by lowering the risk of failure, signalling areas of opportunity for growth (e.g., bio-chemicals), and building capacity in underdeveloped areas. The equity argument for intervention is based on inadequate levels or distribution of income.

In the case of democratically elected governments, intervention is not always based on equity considerations, but can be driven by the demands of constituents or interest groups. These groups attempt to redistribute income toward certain groups and away from others, and the resulting income transfer may not be consistent with broader economic goals. Political markets are no more perfect than their private-market counterparts.

These justifications are based in large part on markets not working perfectly. However, this is not a sufficient cause for government intervention. The benefits of government intervention should also exceed the costs, which can include costs of administration, compliance costs by those affected, and distortions created in the economy.

A review of current programming in the agri-food sector suggests that the rationale for intervention may not be clear, or that there may not be a solid economic argument supporting the intervention. This observation reinforces the view that some interventions are based on political realities. Therefore, policy objectives need to be clearly stated and government interventions should be as efficient as possible.