THE ROLE OF IMPLEMENTATION COSTS IN POLICY CHOICE –
AN ECONOMIST’S PERSPECTIVE ON THE
COMMON AGRICULTURAL POLICY

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* The views expressed are those of the authors.
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1. Introduction

1. Ladies and Gentlemen, I am honoured and pleased to be here today to address you on the important topic of the role of implementation or execution costs in determining government choice of policy instruments. The context is the Common Agricultural Policy of the European Union, which, since its inception in the early 1960s, has been subject to successive reforms. Each of these reforms has had implications for the costs of implementation of the policy. As preparations are in train to implement the most recent reform, which offers opportunities both for simplification (through adoption of the Single Farm Payment) and for increased complexity (through both increased choice and strengthened cross compliance requirements), it is pertinent and timely to ask what the role of implementation costs should be in determining policy choice and to what extent and how such costs can be minimised. Throughout the text, the terms implementation costs, or policy-related transactions costs, are used to mean all the costs incurred in the design, implementation, execution, monitoring and evaluation of policies or payments, including the costs incurred by farmers and their organisations.

2. A Brief History of the Common Agricultural Policy (CAP)

2. The foundations of the Common Agricultural Policy were laid in the Treaty of Rome in 1957. The emphasis was on increasing production and productivity, on market stability and on ensuring a fair standard of living for the agricultural community, although there was also a nod in the direction of consumers who were to be supplied at reasonable prices. It took some years for the policy itself to be elaborated and implemented. These objectives were gradually translated into a common market and price policy whose main features were:

- One market without internal borders and equal treatment of producers within the Community.
- A common import regime vis-à-vis third countries and the establishment of community preference.
- Common financing of the policy.

3. For cereals the result was an extensive market organisation with target and threshold prices, variable import levies and export subsidies, agreed in 1962. In 1963 common market organisations were agreed on for milk and milk products, beef and rice, and sugar was added in 1966. Then as now, it proved difficult to reach agreement, especially on common price levels and various compromises were found that effectively off-set some of the gains that would otherwise have occurred had comparative advantage been allowed to determine production patterns within the Community. The quota system for sugar was one such compromise. But the overall framework was the same, involving administered prices, variable import levies and export subsidies, and little or no attention was paid to structural or other policies.

4. Already in the sixties surpluses had emerged for commodities for which the EC had previously been an importer. Wheat is one important example. The 1970s saw the implementation of the farm modernisation elements of the Mansholt plan, which accorded investment aids to improve productivity and
competitiveness on farms judged to be potentially viable. These programmes probably further stimulated production and aggravated the already costly problem of surplus disposal. A regional element was first introduced into the policy in the 1970s with the development of the less favoured areas scheme.

5. Developments in the 1970s and 1980s were dominated by monetary and financial issues. Monetary developments made it difficult to maintain the common market organisations, and a complex system of agri-monetary adjustments was put in place to counter the effects of divergent currency developments. It became increasingly difficult to assure adequate financing for the CAP, as costs in the form of surplus storage and disposal exploded while revenues from import levies declined with the Community’s increasing level of self-sufficiency. Largely because of the financial consequences, annual negotiations about adjustments in key programme parameters such as prices became very contentious. Agriculture also became a source of trade conflict during this period, as third countries found their access to EC markets curtailed and also faced competition in third country markets from heavily subsidised EC exports.

6. From this process came first the co-responsibility levy on milk and when that was not sufficient, the introduction of milk quotas in 1984. The granting of the rebate to the United Kingdom dates from the same year. Towards the end of the 1980s a set of automatic (budget) stabilisers was built into the policy and a disciplinary mechanism known as the Agricultural Guideline was put in place. The stabilisers proved largely ineffective mainly because opposition to the price reductions that should have occurred was so fierce that they were not fully implemented, but also because the agricultural guideline allowed for a substantial increase in the agricultural budget and no effective constraint was felt until much later. But both the stabilisers and the guideline proved important in paving the way for subsequent reform and in particular for the McSharry reforms of 1992.

7. By 1990 it had become clear that the stabiliser mechanisms, even if faithfully implemented as intended, could not solve the surplus problems. It was also becoming clear that the negotiations on agricultural trade that were on-going in the context of the Uruguay Round would require concessions from the Community on tariffs, export subsidies and on the most trade distorting forms of domestic support. It was in this context that Commissioner McSharry was able to get agreement for a set of reforms that proved to be the most radical to date.

8. At the heart of the 1992 reforms were large price reductions in exchange for direct income payments per hectare or per animal, designed to compensate farmers for the revenue loss resulting from the price fall and accompanied by compulsory set-a-side for cereals and oilseeds. To receive the payments, producers were obliged to plant the land in question or to own eligible animals but total entitlements were limited by historical area, yields or animal numbers. The reforms were directed mainly to field crops and beef, while dairy, sugar and other products were unaffected. Ambitious proposals that would have favoured smaller farmers relatively more than large producers did not survive the negotiation. The only measure favouring smaller producers to survive was the exemption from compulsory set-a-side. Some pre-existing measures together with new measures were packaged as “accompanying” measures to the reform and were supposed to assist with the adjustment process. These included agri-environmental measures, early farmer retirement and payments in less-favoured areas.

9. Subsequent reforms continued along the path first traced in the 1992 agreement. Agenda 2000 continued the process of reducing cereal and beef prices with compensation through direct payments. The dairy sector was targeted for similar changes with price reductions in exchange for payments for dairy cows, although with delayed implementation. Accompanying measures were combined with some new measures into a new Rural Development Regulation. The impending re-launch of agricultural trade negotiations under the auspices of the WTO and enlargement would seem to have been the main triggers for this phase of reform. The promotion of agriculture’s contribution to the environment and landscapes,
and increasing interest from consumers in quality and safety attributes of food and of food production methods were also beginning to make themselves felt.

10. Built into Agenda 2000 was a requirement for evaluation or review. The process was launched by the Commission in the face of opposition from a number of member countries who considered it premature, and eventually led to a new series of reforms adopted in June 2003. These reforms, the most radical yet undertaken, continued along the established path of reducing prices and compensating farmers through direct income support. In the latest phase, governments were given the opportunity to decouple the payments, in other words to break the link between entitlement to payments and the obligation to produce. Moreover, the provisions which allow a farmer’s historical entitlement to area or headage payments to be converted into a single farm or single regional payment, also constitute a significant step in the direction of decoupling. However, reflecting growing beliefs about the multiple roles of agriculture and the desires of consumers, eligibility for payments became conditional on compliance with a number of statutory environmental, food safety, animal and plant health and animal welfare standards, as laid down in a priority list of 18 European standards. Penalties are envisaged for non-compliance.

3. The Implications of Successive CAP Reforms for Implementation Costs

11. At its inception, the main costs of the Common Agricultural Policy were met by consumers. The common market organisations raised prices above those prevailing outside the Community, and were maintained by a system of variable import tariffs. Implementation costs were low, due to the rather homogenous, centralised nature of the instruments used. They may even have diminished in new member states as EC measures replaced domestic measures. Budget costs rose as surpluses developed in some sectors and had to be exported with the help of export refunds. Administrative systems were developed to decide on the level of subsidy and on how to disburse them. Intervention purchase and storage of products in over-supply also began to impose significant costs. The “green money” system generated significant public and private transactions costs. Nonetheless, with the exception of the Less Favoured Areas Scheme and the Farm Modernisation Scheme, the CAP was not implemented at farm level and did not require direct one-to-one contact with individual farmers. Expenditures were rising, as was the complexity of the policy, but the great bulk of the costs continued to be borne by consumers through higher prices. Through the 1970s and 1980s, implementation costs as such did not emerge as a major issue.

12. The dairy quotas introduced in 1984 required management and monitoring at the level of the individual farmer, the first time this had happened in the context of a commodity governed by a common market organisation. Quotas were farm specific, as were penalties for delivering over quota (the super-levy). Although regulations differed across individual member countries, the methods chosen to manage the transfer of milk quota often imposed an additional administrative burden. Nonetheless, much of the cost of implementing the policy fell on farmers and co-operatives or other dairy processors. The budget stabilisers introduced in the late 1980s applied at sector level. Similarly they did not require micro-management at the level of the individual farmer.

The McSharry Reforms of 1992

13. Payments resulting from the McSharry reform were based on a farm’s history in terms of area planted and yields or the number of animals kept. Eligibility for payments in the case of crops depended on compulsory set-a-side, but planting was obligatory on land in respect of which a payment claim was made. Similarly, farmers were required to own the animals in respect of which headage payments were claimed. These features of the scheme required that a direct relationship be established between the individual farmer and the government agency charged with implementing and monitoring the payments. Accompanying measures also increasingly required this kind of one-to-one relationship with government agencies, particularly for the agri-environmental measures. Less favoured area payments in place since the
1970s already involved counting animals on individual farms. Implementation of the McSharry reforms led to complaints in some countries, at least from farmers, about excessive bureaucracy, the complexity and length of forms that had to be filled, signalling for the first time that implementation costs could become an issue in the reformed CAP.

**Agenda 2000**

14. Agenda 2000 confirmed and continued the policy direction initiated by McSharry in 1992. There was growing emphasis on the European model of agriculture with its emphasis on the social, cultural, and environmental contribution of agriculture as the justification for a specific policy. A large number of existing and new measures were rolled into a new rural development regulation that was intended to simplify and supplement existing measures. Investment, training, early retirement, less favoured areas, afforestation and the installation of young farmers were all to be covered under the new RDR. Greater flexibility was given to countries to define appropriate environmental measures, as well as penalties for infringement or non-compliance. Although the great bulk of the payments continued to be based on broad measures of area or animal numbers, there was a tendency to increase the conditionality of payments and in so doing to increase the implementation costs. Similarly, the increased specificity of the policy instruments available under the general umbrella of the RDR was such as to lead inevitably to an ever closer relationship between individual farmers and the state (or its agencies) and to ever increasing implementation costs. The Integrated Agricultural Control System (IACS) was designed and implemented at this time in order to manage the direct payments.

**The 2003 CAP Reform**

15. Implementation of the 2003 reform designed and pushed through by Commissioner Fischler, will not begin until 2005. From the point of view of implementation, the reform presents both opportunities and risks in terms of administrative procedures and costs. The single farm payment (SFP) especially if regionalised should reduce administrative complexity and costs. A single system recording the identity of farmers, and including all relevant information about land parcels, entitlements and actual payments should be sufficient to generate payments and would allow significant reductions in implementation costs. As the farmer is no longer required to produce on the land or to own animals, there will no longer be a need to monitor and control these variables. On the other hand, countries that opt to retain “coupled” payments will be obliged to continue a dual administrative system also capable of checking production parameters such as land planted or animal numbers. To the extent that farmers in receipt of the SFP are not allowed to produce certain products, compliance will have to be checked. In these cases, there is a clear risk of increasing costs. Monitoring and control of compliance with the 18 priority regulations on which the SFP is conditional could also result in significantly increased costs, although little is known to date about how these aspects of the 2003 reform will be implemented. In particular, little is known about the stringency with which cross compliance will be enforced, nor about the specific methods to be used. However, member states will have considerable flexibility in defining cross compliance conditions. This provides an opportunity to take implementation costs into account in the design stage of the programmes.

4. What Do We Mean by Implementation Costs?

16. The terminology used in work undertaken by OECD is Policy-Related Transactions Costs. It covers all the costs incurred in the design, implementation, execution, monitoring and evaluation of policies or payments, including the costs incurred by farmers and their organisations. They can be described schematically as follows.
5. Do Implementation Costs Matter?

17. Research at OECD and elsewhere has shown significant inefficiency and inequity in the way agricultural policy is pursued in a large number of countries. Price supports have led to over-production and have generated deadweight losses – another way of saying that resources are wasted producing products that are not required by the market. Export subsidies reflect this mis-allocation of resources and have proven extremely disruptive of international markets and of international relations. Recently the spotlight has been on the detrimental effects of these measures on developing countries. Traditional agricultural policy instruments have also become increasingly perverse and inequitable in their distributional impacts, delivering the bulk of the assistance in direct proportion to production levels, area farmed or number of animals. In other words the biggest farms are the biggest beneficiaries – the largest 25% received almost 70% of the support in the EU according to the latest estimates. Moreover there are big leakages from the system with the result that much of the benefits are captured by input suppliers, processors, and non-farming landowners, none of whom were the intended beneficiaries. When support is delivered through a price mechanism, it has been estimated that as little as 25% reaches the farmer in terms of an increase in his net income. But when delivered as a payment without obligation to produce the farmer may retain as much as 50% in the form of an increase in net income. Finally, production linked farm support has been implicated in agriculture related environmental damage, landscape and habitat destruction and other negative externalities.

18. Against this background, OECD countries have committed repeatedly to a reform process that aims to reduce the overall level of support and protection to the sector. The essential elements of that
reform are a rolling back of price support and related protective border measures, to be replaced by direct payments targeted to specific policy objectives and as far as possible decoupled from production. This process would allow the realisation of the many objectives set by countries for their agricultural sectors, while minimising economic inefficiency and unwanted international spillovers.

19. Successive reforms of the CAP can be situated in this overall framework. Since the principles were established, support to EU agriculture as measured by the PSE has fallen from 39% of the value of gross receipts in the sector (average 1986-88) to 35% (average 2001-2003). Over the same period there has been a significant move to direct payments (now 45% of all support) and sustained efforts to decouple payments from production, culminating in the most recent reforms. Although most payments (and most support) continues to be broadly available to all farmers who qualify on the basis of historical entitlements, there is also a distinct effort to target payments to specific objectives in the domain of environmental performance, food quality and safety and animal welfare.

20. There seems to be little doubt that successive reforms of the CAP have increased complexity and the associated administrative costs. It is notable also that successive reforms lead to the scaling back of many measures but rarely to outright abolition. Many programmes co-exist, incurring significant fixed costs even if other costs are falling. It is relatively costless from an administrative point of view to create a system whereby consumers provide income support to the farm sector by paying higher prices. A centralised decision making process to fix prices and an effective customs service sufficed initially, although surplus disposal costs subsequently became significant. Nowadays, transfers to farmers in the European Union amount to 108 billion Euros, of which 55% comes from consumers and 45% from budgets. This contrasts with 87% from consumers in the mid eighties and close to 100% during the 1970s. Moreover, much of the budgetary element is delivered with conditions that increasingly require detailed interaction between the government agencies charged with implementing the policy and the individual farmer. The recently agreed reforms could reinforce this trend.

21. From an economist’s point of view implementation costs are only one element in a complex set of costs and benefits, which together determine whether the policy being pursued is efficient, effective and equitable. In the case of the European Union a more pertinent question might be whether the changes in the CAP result in net benefits in a broad economic sense in comparison to the policies that they are replacing. In this context the change involves a switch from consumer to taxpayer financing. This is essentially a distribution question about who should pay. Making consumers pay implies imposing a regressive tax on them, while making taxpayers pay will usually mean that the policy is financed by a progressive tax. Another distribution issue relates to how much. Improved targeting can allow the burden on taxpayers or consumers to be reduced, while producers or other (sometimes unintended) beneficiaries of the policy get less. With respect to efficiency, implementation costs are only one element in an equation that, on the cost side, should include the implementation costs, and deadweight losses associated with the policy, including negative externalities (environmental damage, for example). On the benefits side, there may be reduced negative externalities or increased positive externalities, and reduced wastage (deadweight losses). In reality, governments have considerable difficulty in measuring some of these parameters. It is nevertheless, true that implementation costs are only relevant if they can be estimated relative to the other costs and benefits of a policy.
6. The Trade-Off Between Implementation Costs and Precision - Broad Versus Targeted Approaches

22. We have seen that concern about implementation costs has arisen because new policy measures less directly linked to production or factors of production are increasing in importance. These measures are increasingly conditional on production restraint, environmental performance, or other compliance requirements all of which require administrative, control and evaluation procedures that were unnecessary when centralised, broad based measures were put in place using price and border measures. In this context implementation costs matter in the wide economic sense only if they are so large as to offset the benefits achieved by switching to the new policy measure. This debate has raged mainly in the context of multifunctionality, but is relevant to any policy change, whatever its motivation or modalities.

23. Many governments mention income of farm households as one of the main considerations driving farm policy. Consider a government whose objective is to bring all farm families up to the minimum threshold level that has been defined as acceptable for the society in question. The way chosen is to raise farm prices. As we have seen, this had the perverse effect of raising the incomes of all farmers in direct proportion to the size of the farm enterprise. The bulk of the benefits go to larger farms who do not need it while needy families may still suffer unacceptably low income, because the output of the farm is small. This policy is not costly to the taxpayer and the administrative burden can be relatively light, although consumers are implicitly and regressively taxed. Consider now that the government decides to abolish the price support policy because it has caused over-supply and led to pollution. Instead it decides to directly target income support to farm families who need it. This will require identification of qualifying families. It will be necessary through means-testing or other method of income estimation to establish entitlement and to create a payment system. Existing social security networks may well be the most appropriate. It is highly likely that the administrative and monitoring costs of this policy will be substantially larger than those associated with the price policy. But the level of expenditure itself is likely to be much smaller, even if the costs associated with disbursing it are high relative to the previous policy or high relative to the payments themselves. Moreover, farm households that would not have qualified for income support according to the general criteria applied by the society are no longer receiving transfers from less well off consuming households. The new income support payments are financed from taxation which, in most countries, is progressive. In all respects there has been an improvement in equity. In what circumstances might a government decline to implement this change. Only if the implementation costs of the new policy are so big as to offset the gains from improved targeting of the measure.

24. Consider now a farm policy objective of a different nature – to preserve the landscape that has been shaped by farming over centuries. Initially the government pursues this (and other objectives) through price policy. But this type of policy causes waste and inequity of the kind mentioned already. Moreover, it is extremely difficult to ascertain the impact of a price policy on landscape. Nonetheless, it is incontrovertible that landscape and habitat continue to be lost through field consolidation, and the adoption of monoculture in some areas, and that abandonment of farming continues to occur in marginal areas, suggesting that the policy is not successful. The government decides to change the policy to target the cherished, landscape features that are threatened. Farmers will be paid for the preservation of specific landscapes and habitats. Most likely government or its agencies will contract with individual farmers for the provision or preservation of the desired landscape features.

25. Again, there are likely to be significant administrative and control costs associated with this policy. This is confirmed by some anecdotal information available from the literature which reports these at levels as high as 50% of the actual compensation paid, as is the case for a Moorland Scheme in the United Kingdom, 54% for a special landscape venture in Norway and in the region of 12% for an open landscape programme in Sweden. Compared to general area or headage payments where transactions costs are reported between 1 and 5%, these costs are high indeed as a percentage of the transfers. But we cannot
really judge the significance of these costs except in comparison to the total costs and benefits of the policy. To do this, as in the income example, we need to know the outcome and how it has changed compared to the previous situation. With respect to income, society already has a well established benchmark to measure against and well established statistical systems to monitor achievements. It is relatively easy to ascertain if all the households targeted have attained the minimum income level and at what cost. In the case of landscape neither the benchmark, nor the value which society attributes to the preservation of the landscape are easily established complicating the task of accounting for all the costs and benefits of the policy instrument in question.

26. In the case both of income policy and landscape preservation, it is clear that targeting is a key issue. By providing support only where it is needed – farm families experiencing poverty or farm landscapes threatened by either intensification or abandonment – the actual level of expenditure required should be much lower than when broad measures bestow benefits on all farms irrespective of their needs or capacity to enhance the landscape. Targeting creates the possibility of overall benefits to the economy, even with significantly greater implementation and monitoring costs. Moreover, a well functioning administration would ensure that savings through targeting were re-allocated to allow the agencies in charge of implementation to fully carry out their functions. In the landscape example, welfare gains are possible also with broad based measures to which compliance and monitoring conditions are attached. In this case the trade off is between higher transactions costs and increased landscape benefits. The outcome will be determined in large measure by the extent to which the broad untargeted payment actually accrues to areas where there is no threat to the landscape or no desire from society to preserve it. On the other hand, if successive policy changes maintain the initial level of support, while attaching more and increasingly stringent cross compliance or supply control conditions, it is clear that rising transactions costs can be met only if total budget outlays are allowed to rise. In the current wider economic and budgetary situation facing many OECD countries this is unlikely to produce optimum results.

7. What is Known About the Transactions Costs of Different Policy Instruments?

27. Transactions costs have rarely if ever been measured and analysed in the wide cost-benefit type framework that is recommended here. To the extent that policy related transactions costs are known or divulged they are usually expressed per participant, per hectare, as a percentage of the payment made to the farmer or as a percentage of the total cost of a programme. From an economic point of view, although helpful, none of these measures on its own allows a policy instrument to be fully evaluated, and much less to be compared to alternative instruments designed to generate the same outcome. Much of the published evidence is highly anecdotal in nature and the methods used to gather it unreliable. For example, costs are established ex post by asking people how much time they spent on particular tasks. This kind of method may be inaccurate because memories are faulty but also because there may be a built-in incentive to overstate the time and costs in some institutional settings.

28. The most commonly used benchmark for transactions costs relates them to the transfers or payments made by the policy. This could be quite misleading particularly if set-up costs are not distinguished from running costs or if the fixed cost is high for each transaction and there are many small farms. Table A shows a selection of examples drawn from across the OECD, covering a range of policy types and countries. Minimum and maximum values for the same type of policy are indicated. Despite its anecdotal nature, the data here seem to confirm the hypothesis that more specific or targeted programmes have higher implementation costs than broad brush measures. It also confirms that, for the same measure or type of measure, transaction costs can vary hugely. This may reflect structural characteristics of the sector (e.g. dominance of small farms with high fixed costs per payment), differences in implementation and control conditions, (e.g. different conditions, more stringent or frequent checks on compliance) or simply differences in administrative efficiency.
Neither the overall performance of a policy instrument nor the significance of transaction costs can be evaluated without some determination of outcomes. This is notoriously absent from many policy making processes. In order to evaluate outcomes, clear and preferably quantified targets have to be defined. In reality this is an often neglected aspect of policy making, with objectives stated in only the most vague terms and little or no effort made to monitor results. For example, a recent report by the EU’s Court of Auditor’s declared that the existing statistical sources did not allow the Commission to adequately measure disposable farm income nor to compare the income of farm households with that of other socio-professional groups, despite the fact that a major objective of the CAP is to ensure a reasonable standard of living for the farm population.

**Table 1. Range of PRTCs as a Percentage of Transfers for Various Policies**

<table>
<thead>
<tr>
<th>Policy</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price support Norway(^{(1)})</td>
<td>0.25</td>
<td>12.0</td>
</tr>
<tr>
<td>Export subsidies(^{(2)})</td>
<td>0.44</td>
<td>2.26</td>
</tr>
<tr>
<td>Area payments (EU)(^{(3)})</td>
<td>0.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Headage payments (EU)(^{(4)})</td>
<td>2.5</td>
<td>20.0</td>
</tr>
<tr>
<td>Organic payments(^{(4)})</td>
<td>2.4</td>
<td>30.0</td>
</tr>
<tr>
<td>Environmental payments(^{(4),(5)})</td>
<td>7.5</td>
<td>38.0</td>
</tr>
<tr>
<td>PROCAMPO payments(^{(6)})</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Investments subsidies(^{(2)})</td>
<td>13.0</td>
<td>52.0</td>
</tr>
<tr>
<td>Conservation programmes(^{(7)})</td>
<td>5.0</td>
<td>41.0</td>
</tr>
<tr>
<td>Land use/landscape payment(^{(4)})</td>
<td>8.0</td>
<td>110.0</td>
</tr>
</tbody>
</table>

**Source:**
3. SAI (April 2000), *Administration of Arable Payments in the Netherlands, Sweden and England*, A report by the Netherlands Court of Audit, the Swedish National Audit Office and the United Kingdom National Audit Office.
6. OECD Secretariat estimates.
7. Heimlich, R.E., A Case Study in Policy-Related Transactions Costs in Agri-Environmental Programs: The US Conservation Reserve Program. (Case study undertaken for OECD)

**8. How to Minimise Policy Related Transactions Costs?**

It is widely accepted that a targeted measure, aimed at a specific and preferably quantified objective, the achievement of which is monitored, is ideal in many circumstances. It is also clear that the implementation costs of such measures are likely to be greater than those of broad, untargeted measures, whose outcomes go unexamined. That said, all governments have a general duty to minimise the economic and financial costs associated with any particular outcome. It follows that reducing the implementation costs associated with any given policy instrument is recommended irrespective of whether or not there is full knowledge of the costs and benefits of the policy in question. This is an important aspect of the work currently being undertaken at OECD and has yielded a number of insights, drawn from across the 30 member economies, concerning features of policy design, implementation and monitoring that can minimise the associated costs.
At the outset

- Investment in gaining political and social acceptance for the measure being planned may facilitate implementation, generating higher participation (economies of scale) and reducing compliance costs in the longer run. Various communication and education mechanisms can be employed in this effort.
- Policy design will also be assisted if available information concerning structural or other characteristics of the target groups or areas is exploited to the full.
- Programmes should be designed from the outset to generate the kind of information about costs and outcomes that will be required for meaningful evaluation. If this is not done at the beginning it may be too late when contractual and other relationships are already established.
- The number of agencies involved in implementation should be minimised and ideally farmers would face a single/desk agency for all agricultural policies be it for payments, animal disease control, sanitary and phytosanitary standards, food safety, or environmental performance.

Design, implementation and control

In the establishment of any new policy programme a number of trade-offs needs to be considered.

- In the current environment one of the most obvious trade-offs is between the level of precision and the level of administrative costs. An example from agri-environmental policy could be the choice between the development of standard agreements for the delivery of a certain level of environmental service and individualised contracts that might ensure a better outcome but at higher cost.
- If the desired outcomes are more likely to be delivered by particular sub-groups within a large diverse target group, delivery and monitoring conditions can be tailored to exploit these differences. For example, if particular types of farms are known to be predominantly responsible for pollution, delivery and monitoring conditions in an abatement scheme could be simplified for other farmers for whom otherwise the fixed cost element in the total delivery cost could be very high.
- Control procedures can be chosen to improve compliance, for example if relatively small numbers of participants are chosen to be controlled, but with significant penalties for non-compliance, compliance may be improved among risk adverse farmers, even though there is a small probability of being controlled.

There are many other ways in which policy related transactions costs can be more readily subject to control and reduction.

- Make transaction costs transparent by measuring, tracking and reviewing them.
- Sharing experiences is also important whether across agencies within countries or across countries as is occurring in this particular forum.
- To the extent possible, existing institutions and existing databases should be used so that only incremental costs are incurred.
- Documentation, rules, forms and controls should be as simple as is compatible with the achievement of the programme objectives.
- Routine administrative tasks can be contracted out through competitive tendering in order to reduce costs.
• Potential participants can also be asked to bid to ensure that the lowest cost suppliers of a desired service are those that enter the scheme.

• Modern information technologies can be harnessed to reduce many aspects of implementation costs. Examples are on-line form filling and submission, computerised payments directly to bank accounts (or through chip bearing cards to be used in ATM machines as in the PROCAMPO programme in Mexico), or using satellite tracking systems (GIS) to monitor compliance to set a side or environmental agreements.

Institutions

31. Most of the policies under discussion confer benefits on farmers, either in the form of direct income supports or through, usually voluntary, participation in programmes that seek to enhance the quantity and quality of environmental or other “services” supplied by the farm. Requiring programme beneficiaries to bear part of the costs of delivery, implementation or control, could be a useful device to control those same costs. For example, a penalty for late submission of information could work in the direction of increased efficiency and reducing overall costs. Requiring that the cost of further monitoring be borne by the farmer in a case where a breach of a compliance condition has already been found, might be a useful way to minimise control costs in the longer run.

32. Finally, the importance of having accounting and control procedures in place that can track actual costs cannot be overstated. Knowing what the costs are and comparing with other policies, other regions, other institutions or other countries is a key element in understanding the significance of PRTCs and in ringing the alarm bells if they exceed reasonable levels. As already stated, one of the most striking results from the OECD work so far is the almost complete absence of established procedures for measuring and monitoring such costs.

9. The Time Dimension in Measuring and Controlling Policy Implementation Costs

33. Several aspects of the time dimension are important in understanding the nature of PRTCs and in attempting to keep them under control. One important distinction is between set-up costs and running costs. The former may be quite high but should be considered as analogous to capital or investment costs to be amortised over the life of the programme. This is a better way to view and compare the costs associated with different programmes. Frequent changes in terms and conditions governing policies should be avoided if this difference between initial and continuing costs is to be exploited to keep overall costs low. Continuity in key programme eligibility and control parameters allows expertise to develop, in contrast to frequent changes which may generate significant additional costs. More generally, the networks established in a stable policy environment and the capacity that is built up over time should pay off in terms of lower costs over time.

10 Summary and Conclusions

34. Policy trends in agriculture are leading inevitably to higher implementation costs (at least when expressed in relation to payments) as broad brush, production-linked measures are replaced by more decoupled and specific measures. Highly centralised mechanisms such as intervention prices give way to measures that increasingly require hands-on involvement of governments with farm operations. The history of the Common Agricultural Policy can be characterised in this way. Whatever the term used, the change that is occurring from the old “productivist” model of agriculture to a “multifunctional” model or to the so-called “European” model of agriculture, agriculture, by its nature, requires new instruments with more specific objectives and closer interactions between farmers and government agencies. The result is increased implementation costs. In parallel, modern governance principles require governments to be specific about programme objectives and to monitor achievements, while delivering value for money to
taxpayers. Although likely to produce cost savings in the long term, better design and control measures have to be funded.

35. There is much research, at OECD and elsewhere, that shows that broad, production based measures are wasteful, and inefficient and that much of the benefits accrue to unintended beneficiaries. The logic of agricultural policy reform that goes in the direction of decoupled and targeted measures is that total transfers to the sector should decline. Considerable savings could be made if more focussed measures are used. Some of those savings could be used to provide for the extra policy design, implementation, control and monitoring costs. But overall, the desirability of these changes depends on the cost/benefit equation. A number of key parameters are crucial – the degree of targeting which will determine the amount of the payments themselves, the sum of all the policy-related transactions costs and the nature of the outcome. By the latter is meant the extent to which programme objectives – poverty alleviation, pollution reduction, animal welfare, or landscape preservation – are reached. However, if no effort is made to target expenditures while conditionality and compliance requirements become increasingly onerous, it will be much more difficult to achieve the improvement in overall programme effectiveness that would justify rising implementation costs.

36. Governments have a general responsibility to minimise the costs incurred in achieving any given policy objective. A continuous effort to control transactions costs should be an intrinsic part of overall budgetary control strategy. Even without full knowledge of transactions costs, there are many steps that can be taken in the design, implementation and control phases of policy development.

37. At the outset, work hard to gain political and social acceptance. Exploit existing databases to understand the targeted population. Think about how to generate information that will help in evaluation.

38. Make sure that institutional relationships are right. All participants should have a stake in controlling costs. Those who make the rules should not be too remote from those that implement them. Programme beneficiaries can be given incentives to improve their efficiency and minimise compliance costs.

39. At the implementation stage, evaluate trade-offs between precision and costs, to the extent compatible with programme objectives. Simplify subject to the same constraint. Use market or quasi market mechanisms such as sub-contracting or bidding on the part of participants. Minimise the number of agencies. Pool information generated by other programmes. Exploit modern information technologies. Consult and compare. Avoid multiple and frequent changes in rules and procedures as these will make acquired knowledge and expertise redundant and force implementation agencies to “start all over again”.

40. Finally, one of the most striking conclusions from OECD work to date concerns the paucity of information about policy related transactions costs. Often, data are not collected at all, or are collected using seriously flawed procedures. Where relevant information is collected the benchmarks used to evaluate it are rarely appropriate. Virtually, no example has been found of an exhaustive effort to account for all costs and benefits. Similarly there are remarkably few efforts to compare transactions costs across different measures, time periods, regions or even countries. An obvious key step should be to develop better processes whereby transactions costs are measured and their significance evaluated. Until this is done, transactions costs, like outcomes, will remain the missing variables in many policy decisions.


OECD (2002) *Agricultural Policies in OECD Countries; A Positive Reform Agenda*.


