

## *Economic Analysis of Modern Agricultural Policy*

*by Shinichi Shogenji*

**G**endai Nogyo Seisaku no Keizai Bunseki (*Economic Analysis of Modern Agricultural Policy*), the 1999 winner of the 15th Tohata Award\*, discusses some of the characteristics and controversial points of the modern agricultural policies employed in Japan, including policies aimed at food provisions, markets for agricultural products, farmland regulation, land improvement, less favored areas (LFAs), and environmental protection.

Agriculture in Japan shows distinctive characteristics not seen in other developed countries. Japanese agricultural industry is led by wet paddy rice growing; developed countries in Europe and North America engage largely in upland field cropping and pastoral stockbreeding. Moreover, Japanese farms are supported by collective management of rural communities, while Europe and North America have agriculture systems characterized by independent farming activities. In addition, Japanese dietary patterns have changed remarkably along with the postwar

rapid economic growth. As a result, Japan's self-sufficiency rate in the area of food has dropped to an exceptionally low level.

Japan's agricultural policies—intended for these unique conditions of Japanese agriculture—inevitably combine different requisites from those in Europe and North America. However, the book emphasizes not only the uniqueness of Japanese agriculture and policies, but also the common denominators of agricultural policies shared by contemporary developed nations. Modern developed countries, beyond each agricultural particularity, face common tasks for the reform of agricultural policies. In some areas, the function of the market should be strengthened, and in other areas the role of government is expected to become more effective.

For instance it is also emphasized that the function of markets should be maintained in transactions of farmland. On the other hand, farmlands are inefficiently dispersed when the mechanism of farmland reallocation by organi-

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zations does not function properly. The financial issue of land improvement projects is also analyzed from the standpoint of the pursuit of socially optimum allocation of resources. The analytical keywords here are the indivisibility of capital stock and the “free rider” problem concerning quasi-public goods.

Five of the 15 chapters in the book analyze EU agricultural policies. The characteristics of market policies for agricultural products and policies for LFAs are drawn on the basis of microeconomic theory. Among those, concerning the issue of the agricultural products market, economic analysis also goes into highly specific areas, including trade in milk quotas. Some people consider the EU policy reforms on agricultural product marketing to contain valuable lessons for Japan. In fact, the reformation of the price policies of agricultural products in Japan—which has rapidly progressed—includes the introduction of a system of price-lowering and direct payment, a system similar to that of the EU.

An analysis on LFAs policies is also highlighted. The differences and commonalities between the LFAs of the EU and Japan are clarified; some people have concluded that Japan can learn much from the EU, but it should not simply design its own policies based on those of the EU. Common points between the EU and Japan can be found in old historical agricultural communities in LFAs; those communities which utilize nature industrially, and at the same time, ensure that natural spaces are easily accessible to people residing outside rural areas. For this reason, LFAs policies not found in the United States or Australia can be justified. However, as mentioned above, there is also a difference in agricultural structure: the EU has an independent farming system; Japan’s farming system is supported by rural communities. Considering those differences, it is not appro-

priate for Japan to simply introduce, the EU’s income compensatory payment scheme.

Future agricultural policies in Japan should learn from the ideas and principles of other developed nations. However, to shape those ideas and principles, Japanese policies should be based on international standards, and still be firmly rooted in Japan’s unique agricultural climate. The leitmotiv of this book is to apply economics to the design of agricultural policies that meet these two requirements.

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\*The Tohata Commemorative Award is awarded annually by NIRA to promote excellence in research. The award began in 1984 as part of NIRA’s 10th anniversary celebration in honor of the late Professor Seiichi Tohata and his achievements in policy studies. It is granted to studies related to economics, sociology, and culture that, in NIRA’s judgement, make significant contributions to the advancement of policy studies and to the improvement of living conditions worldwide.

Professor Tohata embodies many of NIRA’s ideals. He joined NIRA at its inception in 1974 as Chair of its Research Council. He was also influential in the formation of government policy in diverse areas, most notably in agriculture.

The 15th Tohata Award was also awarded to *Kokusai Rekishi Kyokasho Taiwa (Dialogue on International History Textbooks)*, Takahiro Kondo (1998, Chuo Koron sha), 234 pages.

Agricultural economics is an applied field of economics concerned with the application of economic theory in optimizing the production and distribution of food and fiber. Agricultural economics began as a branch of economics that specifically dealt with land usage, it focused on maximizing the crop yield while maintaining a good soil ecosystem. Throughout the 20th century the discipline expanded and the current scope of the discipline is much broader. Agricultural economics today includes a variety of Getting the agricultural policy mix right. Efficient agricultural policies are essential to meeting increasing demand for safe and nutritious food in a sustainable way. While growth in demand for food, feed, fuel and fibres presents significant opportunities for agriculture, government policies must address challenges such as increasing productivity growth, enhancing environmental performance and adaptation to climate change, and improving resilience of farm households to market shocks brought on by weather and other unforeseen circumstances.Â Countries also provide important peer review of both policy data and analyses in the report.Â All of our food, agriculture and fisheries research and analysis is available to read online for free on the OECD iLibrary. Â» Access publications.