All consumers are not the same. Neither are all agricultural producers. Yet ag policy analysis typically has assumed they are, which can result in ineffective or inefficient policies. The University of Nebraska-Lincoln is leading a new research effort to change that approach.

UNL received a two-year $766,166 grant from the U.S. Department of Agriculture to establish a new policy research group within its Center for Agricultural and Food Industrial Organization.

Traditionally, policy studies have imagined a “representative consumer” or “representative producer” in analyzing agricultural policy, said Konstantinos Giannakas, UNL agricultural economics professor who will lead this research.

However, there’s really no such thing. Consumers respond to food policies in very different ways, driven by preferences, income and other factors. Producers’ responses to ag policies vary, too, depending on factors including education, experience, location, management skills and available technology.

“We’re not all the same. We make different decisions based on where we’re coming from,” said Peter Calow, research professor with UNL’s Office of Research and Economic Development and part of the research team. “It’s hard to take these differences into account. It’s much easier to make the presumption that everybody is the same.”

Calow said policy-makers long have understood that those differences exist, “but they presumed the variability wouldn’t make a lot of difference in the end” in making policies about consumers’ and producers’ decisions.

USDA and others now believe those distinctions potentially make a huge difference, and UNL’s research is aimed at developing a new policy-analysis framework that will take them into account.

Many market studies already account for these differences, Giannakas said, but policy studies

are lagging.

As an example, Giannakas pointed out, one can look at consumers' reaction to initial introductions of genetically modified foods. European consumers were up in arms initially, while most American consumers were not.

"We'll be trying to get a handle on these variabilities through observing what people say and do in experimental situations, which is an area called behavioral economics. This is really cutting edge stuff," Calow said.

Giannakas agreed. "This is novel. This has not been done in ag policy analysis."

"Economics is about behavior and incentives. Policy is about the kind of incentives you're creating for people," Giannakas said. "The so-what question – why USDA is excited about this, why policy makers are excited about this – is this will enable us to take any policy and see how it will affect different consumer groups and different producer groups."

The research will build on work Giannakas and colleagues have been doing for a decade, which has focused on the market for organic products; the economics of innovation and intellectual property rights; the economic effects of the introduction of genetically modified products under different regulatory and labeling regimes; the role of cooperatives in the agri-food system; conservation compliance on highly erodible lands; the market and welfare impacts of country-of-origin-labeling; and consumer demand for quality-differentiated products.

Once developed, this new framework will be used to analyze important policy issues such as the market potential and best regulatory response to food nanotechnology; producer behavior and design of policies related to downstream water pollution issues; least-cost policies to facilitate commercialization of biomass crops for energy; the impact of agricultural policies on entrepreneurship and the economic development of rural communities; and producer response to various risk management policies.

Policy analysis will be able to determine the effects of different policies on different groups of

producers and consumers – for example, comparing consumers of nanofoods vs. consumers of conventional, genetically modified or organic products; low income vs. high income producers; more efficient producers vs. less efficient producers.

“We believe this will lead to improved policy design, enhanced efficiency, increased effectiveness and fewer policy failures,” Giannakas said.

The research, which also will use behavioral and experimental economic methods in policy analysis and design, will involve about 11 faculty as well as graduate and post-doctoral students.

The grant is from USDA’s National Institute of Food and Agriculture.