

## VIEWPOINT: CONSTITUTIONAL ECONOMICS vs. CONSTRAINED OPTIMIZATION - IS A CHANGE IN EMPHASIS IN AGRICULTURAL ECONOMICS WAR- RANTED?

EC Pasour, Jr.  
North Carolina State University

In my invited lecture at the Annual Meeting of the Agricultural Economics Association of Southern Africa in September 1990, it was suggested that agricultural economists should place more emphasis on institutional and constitutional issues (Pasour, 1990).

The paper presented was written before visiting South Africa, and I would argue that the advice is relevant for agricultural economists in all countries. Moreover, I am now even more convinced that this topic concerning the proper focus of agricultural economics is especially timely for agricultural economists in South Africa.

Most of the work in agricultural economics involves various forms of optimal control models. The September 1990 issue of *Agrekon*, for example, includes optimization studies dealing with optimal carry-over stocks of maize, optimization of greenhouse temperature strategies, maize yield response functions, and the economic impact of irrigation agriculture. I have not read these articles and make no assessment of the soundness of the analyses presented. Moreover, I am not suggesting that optimal control studies are worthless or that they should be discontinued. Instead, my argument is that the prospective payoff at the margin is much greater from additional work dealing with institutional and constitutional considerations such as those discussed below.

First, consider institutional issues. Mike Lyne's dissertation, for example, pinpoints institutional factors in KwaZulu that decrease the efficiency of land use and lead to the overutilization of grazing lands (Lyne, 1989). Again, I make no assessment of the soundness of the analysis. However, the issues identified and discussed are highly important in improving agriculture resource use. Changes in institutional conditions such as land renting and privatization of grazing land are likely to have a much higher payoff in KwaZulu than conventional farm management studies focusing on adjustments in the optimum rate of fertilizer use, optimal technology in crop production, and so on.

Consider a second example - that of land nationalization. In terms of potential effect, land nationalization dwarfs in magnitude the importance of conventional optimization studies related to the production and marketing of farm products. At a time when land nationalization is being seriously discussed in South Africa, the role of property rights, problems inherent in common-property resources, and public choice theory should be at the top of the agricultural economics agenda. Although it may not be feasible to analyze the effects of land nationalization with the use of a formal mathematical model, this fact does not detract from the importance and relevance of the collectivization issue. There is ample evidence about the effects of nationalization from scores of central planning experiments throughout the world during the period since World War II. And if agricultural economists do not address this issue in South Africa, who will?

Consider a third example - land taxation. Currently, there is a great deal of discussion in South Africa about the effects of land taxation. Some economists implicitly argue that a land tax is neutral; others that it would be beneficial; and still other pleas are heard for a "progressive" land tax. Economic theory is available, and waiting to be used by agricultural economists, to show that the first two hypotheses are false. Similarly, public choice theory suggests that a progressive land tax would pose difficult incentive problems in administration. The problem is similar to that arising from the maximum payment limitation per farm for farm programs in the United States. Under the present limitation, thousands of farming operations have been reorganized so that additional persons can receive payments. A progressive land tax, in addition to its deleterious effects on resource allocation, would create administrative problems similar to that of a limitation on maximum payments per farm. These comments do not necessarily imply that a land tax of this kind would be worse than some other tax. The progressive land tax is just one example that demonstrates the importance of incentive problems arising in the collective choice process. More generally, information and incentive problems are endemic in the political process. Yet, these problems have received little attention by agricultural economists throughout the world in analyses of government farm policies.

Now consider a closely related issue, namely, the importance of the constitutional process. The constitutional view in economics suggests that ordinary democratic legislative processes will not prevent government from becoming an instrument of rent seeking (Buchanan, 1989). How important is rent seeking currently in agricultural policy in South Africa? Once the rules are agreed upon, people tend to optimize within the constraints that they face. So the most propitious time to address the rent-seeking problem is at the time the rules are formulated - the constitutional stage. South Africa apparently soon will be at the constitutional stage. Will agricultural economists play a role in highlighting the important constitutional issues? Again, constitutional provisions affecting private property, freedom of contract, and so on are likely to have far more effect on future agricultural production and marketing decisions in South Africa than traditional farm management and marketing studies. Although agricultural economists may not be directly involved in the constitutional process, they can play an important role in shaping the terms of the debate.

All agricultural economists do not focus on policy problems as such. However, all should be concerned with the role of government in the entrepreneurial market process. In assessing the effects of government intervention in agriculture, the economist should take a principled approach, evaluating every control scheme for its likely economic, legal, political, and ethical repercussions (Yeager, 1976).

The role of the agricultural economist is not to determine the optimal pattern of resource use on a province or state basis; a task that clearly is impossible, given the information problems in determining available resources, production possibilities, and consumer preferences. Instead the agricultural economist qua

policymaker should attempt to identify and explain the institutional framework that best enables individual farmers, middlemen, and consumers to effectively cooperate in pursuing their own diverse ends. The objective of public policy in agriculture should be the same as in other areas - the development of an institutional framework that provides maximum scope for individual choice. Only in this way can South Africa's resources be used most effectively and the interests of farmers, consumers, and taxpayers best be served. In short, this approach implies an increased emphasis on constitutional and institutional issues by agricultural economists in South Africa.

#### References

Buchanan, JM. (1989). Explorations into constitutional economics. College Station, Texas A & M University Press.

Lyne, MC. (1989). Distortion of incentives for farm households in Kwazulu. Department of Agricultural Economics, University of Natal, Pietermaritzburg.

Pasour, EC, Jr. (1990). Agriculture and the state: Market processes and bureaucracy. Invited paper, Annual Meeting of Agricultural Economics Association of Southern Africa, Durban, S.A.

Yeager, LB. (1976). Economics and principles. Southern Economics Journal, Vol 42 (April):559-571.