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PHOTOS BY J. NORMAN REID

Economics In Farm Policy Making Today

Interview with Robert L. Thompson

USDA has had a long tradition of considering economic information and analysis in policy making. For example, the Bureau of Agricultural Economics (the predecessor agency of the Economic Research Service, the National Agricultural Statistics Service, and the World Outlook Board) was created by Secretary Henry C. Wallace in 1922.

Today, the Assistant Secretary for Economics is responsible for directing these agencies and linking economic information and analytical findings to the policy processes. Robert L. Thompson, who was in this position until his recent return to Purdue University shares his perspectives about these linkages and the appropriate role of economics in policy making.

CHOICES' Editor, Lyle Schertz, opened the interview by asking what it's like to be the top USDA economist.

THOMPSON: It's a unique opportunity to work with the Secretary of Agriculture, with program administrators across the Department, and with other agencies of the Executive Branch in deciding how to implement farm programs and in conceptualizing policy options.

It provides access to an information flow that is unparalleled but overwhelming at times.

With the resources of the Economic Research Service, the National Agricultural Statistics Service, and the World Outlook Board at your disposal it provides an unparalleled

opportunity to influence the direction in which a substantial fraction of the nation's agricultural economics research resources are going.

CHOICES: You were with the Council of Economic Advisers before you became Assistant Secretary for Economics. Is being in USDA different from sitting at the White House?

THOMPSON: Yes, at the Council of Economic Advisers I still had time to read and think and to really dig into the issues myself. As Assistant Secretary I have had to rely on staff to do most of the analysis. Issues come by at such a furious pace that one does not have enough time to personally read and think and synthesize. And that's probably the greatest frustration I've had in this job. Time simply doesn't permit assistant secretaries to dig into the meat of the issues with which they must deal.

CHOICES: How hard is it to get your voice heard in the policy decision process relative to the voices of other assistant secretaries and administrators?

THOMPSON: Both the Council of Economic Advisers of the White House as well as the Office of Economics in USDA have institutionalized the opportunity for the best economic analysis that the agencies are able to turn out to be heard at the decision table.

Economists, though, have to recognize that the economic arguments often fail to carry the day in the debate. Maybe nine times out of ten the decision is made on political grounds not on the economic merits of the case.

CHOICES: Do commodity issues take the major part of your time relative to the other responsibilities of the Department?

THOMPSON: We spend a huge amount of our time on analyses that feed into commodity policy decisions. Commodity

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policies constitute the dominant part of our agricultural policy in the United States. We have commodity group-driven policies that address the interests of those specific commodity groups.

Emphasis on commodities hasn't kept us from getting involved in other areas. The biggest problem we confront in agriculture in the United States today is financial stress among farmers and how to resolve the farm debt problems. We've kept a substantial amount of resources focused on these issues—documenting the magnitude and severity of the financial stress problems and coming up with fresh ideas on what we might do about it both for farmers and the farm lending system.

International trade is probably the other big problem of American agriculture today. We're going into the GATT Round, and I've made sure that the levelness of the playing field is documented and that we have creative ideas on possible solutions and negotiating strategy.

CHOICES: What about your time? Is there much left for rural development, conservation and environment, forestry, or food stamps?

THOMPSON: Not a lot, but the Office of Economics has to cover the full spectrum of economic issues. We have an excellent staff in the economic agencies who stay on top of the full range of issues. Without them it wouldn't be possible to address all of these issues.

CHOICES: You mentioned the Economic Research Service earlier. As you see its role, is its primary purpose to serve the Secretary of Agriculture, administrators of other agencies in the Department, or the U.S. Government as a whole?

THOMPSON: The Economic Research Service has multiple clientele both within and outside the U.S. Government. The Secretary and his key staff are, of course, a primary clientele. There is direct access for ERS's analyses to the Secretary in

both policy formation as well as program implementation. But the Congress, other USDA agencies, and the rest of the Executive Branch of the Government rely on ERS as well.

CHOICES: But these "clientele" often disagree over policy. Can ERS serve masters with conflicting policy stances?

THOMPSON: Only if the objectivity of ERS is jealously protected by the Assistant Secretary for Economics. Objective analysis may not always support the position the administration, the Congress, or some powerful interest group is taking at a

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given point in time. At times that puts the Assistant Secretary for Economics in a tough bind.

But I think we've successfully defended the objectivity of all of the Economics agencies. We have fewer political appointees in these agencies—than in any other part of the Department. That is absolutely essential to avoid any possible perception of politicizing that would undermine the agencies' credibility.

CHOICES: What happens when a study says things at odds with what the Secretary or the White House would like said?

THOMPSON: It becomes incumbent on the Assistant Secretary for Economics to defend the quality and objectivity of the

analysis and pray he doesn't get fired for letting it be published.

CHOICES: Does it adversely affect ERS budgets?

THOMPSON: So far I don't think so. As the government has become increasingly involved in agriculture with highly complex programs, the need for good data and analysis on which to make program decisions has become increasingly obvious.

CHOICES: You have been a key individual on commodity discussions on the Hill. What is that experience like?

THOMPSON: Frustrating, but rewarding. Immediately after I was sworn in as Assistant Secretary, I began serving as the administration's spokesperson at the meetings of the Senate Agriculture Committee for the 5-month markup of the farm bill.

I really had to wear 2 hats—spokesman for the administration and USDA's chief economist. My greatest frustration came most often when pressed for immediate responses to analytical questions from the Senators. You couldn't go back to the Department and figure out the answer overnight. You were lucky to have 20 seconds to formulate a response, and they wanted point estimates that they would hold you to 2 years later. Nevertheless, the experience provided numerous insights into the political process and the compromises struck among commodities to ensure that you can get 51 votes in the Senate and that you can get 218 votes in the House.

CHOICES: When Senators and Congressmen ask for your immediate analyses and answers, are they really looking for economics or are they looking for something to support their position?

THOMPSON: More often than not it's probably the latter. If individual members don't think your answer will support their position, they probably won't ask the question. In some cases they really are looking for information, but the way the political process works they are mainly looking for debating points.

CHOICES: Can an economist in a political position always be loyal to the administration? Are there times that professional responsibilities force you to choose between the two?

THOMPSON: The objectives that this administration has been trying to achieve in farm policy are generally supported by objective economic analysis. So, I felt rarely asked to compromise my professional integrity. That's probably a unique situation. I would have had great difficulty performing in this role if I did not feel that objective analysis supported what we were trying to do in policy.

CHOICES: What are the big problems of agriculture today? Are we addressing them with commodity programs?

THOMPSON: The debate on the farm bill was driven by concern over financial stress and farm income, but the response of Congress and commodity groups was to freeze target prices and maintain large deficiency payments rather than directly deal with the biggest problem—financial stress.

CHOICES: Doesn't that relate to one of the issues former USDA Secretary Clifford Hardin writes about—the subcommittee structure of the Congress?

THOMPSON: It has a great deal to do with that. The subcommittee structure of Congress makes it very easy for commodity groups to get what they determine to be desirable policy written into law. If we really wanted to get at the financial problem we ought to address it with financial instruments not with untargeted deficiency payments.

CHOICES: Would you extend that logic to encompass the concerns that some people have for rural people who do not

We've worked on the excess land and excess capital in farming and now we need to deal with excess labor.

farm and who don't have either a base acreage or deficiency payment of any kind but are looking for jobs?

THOMPSON: I'd say the three big challenges right now are (1) to resolve the financial stress in the farm sector, (2) to stimulate rural development in order to generate more off-farm employment opportunities and (3) to implement labor market adjustment policies including job retraining for people who want to leave farming. It could also include early retirement for farmers who don't yet qualify for social security, but would like to leave farming early.

CHOICES: Early retirement from farming or from other activities in rural America?

THOMPSON: I think specifically farming. We know we have too many resources in the farm sector relative to current and probably prospective market demand. We're paying farmers to take land out of production, and we've been depreciating down the excess capital investment over the last 5 years by means of negative net fixed capital formation.

One issue that we haven't directly addressed is excess labor in agriculture. Over the longer haul we'll continue to have outmigration of labor from farming as long as that labor cannot earn as much within agriculture as people with similar skills in other lines of work.

What I'm suggesting is labor market adjustment policies and retraining to facilitate the migration that's going to occur inevitably, i.e. to make it less painful economically and psychologically for the families involved.

CHOICES: How hard is it to get the leadership of the Department of Agriculture to embrace that kind of concept?

THOMPSON: In the administration's proposals concerning both competitiveness and rural development there are labor market adjustment assistance proposals. In addition, Secretary of Labor Brock has made sure that some of the monies from the Job Training Partnership Act were targeted for rural America. That is a move in the right direction.

CHOICES: The Hill?

THOMPSON: I think that the Hill is willing to make any labor market adjustment program broad enough so it not only addresses employees of the manufacturing industries but would also encompass farmers. We've worked on the excess

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land and excess capital in farming and now we need to deal with excess labor.

It's a tough one for anybody to talk about, but it's got to come.

CHOICES: Will members of Congress support this kind of policy?

THOMPSON: They cannot say we need fewer farmers. They may accept a policy that addresses the issue, however.

CHOICES: What do you see as the role of agricultural economists in the policy process?

THOMPSON: In the last several years agricultural economists have gained greater access to the policy process.

In a sense, the policy debate has become a numbers game. Every interest group feels that it has to hire an econometrician or an econometrics consulting firm to analyze the expected impacts of the policy options on their interest.

CHOICES: Are you saying economists are being used?

THOMPSON: I see economists—especially econometricians—having far more access than traditionally. But the situation may be worse today. Economists have gotten a bad name because each interest group has its own analyst to come up with often conflicting analyses. The members of Congress often throw up their hands. They get the impression that if you pay an economist enough you can get any answer you want. And that's hurting our reputation.

We had credibility problems anyway because of the difficulty of forecasting economic events. The unpredictability of weather, changes in government policies here and around the world, and political events that affect the state of the markets all complicate our work. Then when every interest group trots out its slick analysis and enters it into the record,

you find a tremendous level of frustration among policymakers.

We really need, I think, intense debates within the profession and critical reviews of each other's work in order to try and come up with greater consensus on model structure and parameter estimates. The price responsiveness of export demand is probably the greatest area of disagreement, but not the only one. But these determine expected impacts of a whole range of policy proposals.

CHOICES: But won't politicians and lobbyists hunt until they find the answers they're looking for anyway?

THOMPSON: No, I don't think so. If the profession can begin to reach greater consensus, it may increase the credibility of the agricultural economics profession and in turn it would have a greater impact on the direction of policy debates. I know that our tools have limitations because we deal with highly correlated data series. So it is difficult to separate the relative impacts of alternative variables on expected outcomes. We have access now to policymakers, but we've got to be careful we don't lose our credibility.

CHOICES: As you describe the situation, it seems that we could become professional hired guns.

THOMPSON: I think there's a considerable view that that's where we are already. It is unfortunate.

CHOICES: That would seem to place a tremendous responsibility on the Association and on institutions, such as the one you're going to head, and the one you're leaving. Those are the institutions that have to protect the credibility of the profession.

THOMPSON: I agree. And I've done what I could while I've been at the Department to demand high quality analysis while protecting their objectivity. There is also a heavy burden on the analyst because of the limitations of econometric tools. You can't just pull data series out of historical records and plug them into the computer and get out truth with a capital T without any further thought.

The reality is there must be involvement of commodity experts who understand markets and how they work as well as econometricians. The potential payoff from our research is maximized when we have the involvement of both. But they must respect each other for what they can offer.

You need the computer model to simultaneously take into account the interactions among the various markets. In agriculture the markets are so interlinked that you can't do partial analysis looking at the corn sector in total isolation from everything else, for example. On the other hand, the analyst has to understand the limitations of the model. Also the policy analyst, I'm convinced, needs to spend some time in Washington to understand not only the economics of the market but to understand the policy process in which the outcome of that analysis is going to be used.

CHOICES: What about the analysts in Washington spending some time understanding how individual farmers respond and how farmers adjust behavior to policy rules?

THOMPSON: That's an important issue because policy unpredictability or uncertainty is one of the greatest sources of uncertainty in agriculture. The government has a profound

impact on markets. The unpredictability of what Congress and the Administration are going to do is as great a source of uncertainty as weather conditions.

CHOICES: How is it that the interest groups have become so enamoured with having econometric models demonstrating their results? Evidently that's useful in the political debate.

THOMPSON: Well, it really has become a numbers game that you go out and get a credible professional to come up with a final computer printout. There is a scientific aura, I think, that comes with computer results. Computer models can make an important contribution to the debate. They permit us to look at the multitude of interactions that exist among commodity markets simultaneously to far greater extent than back of the envelope analyses possibly can.

CHOICES: But they also incorporate a number of coefficients that no one political decisionmaker will examine.

THOMPSON: That's absolutely right. Members of Congress don't have time to worry or even think about all these interactions, and I think they want to believe that the professionals have the tools to do that.

CHOICES: Doesn't that imply an important responsibility on the profession to review models, anoint those that are credible, and to resist the use of models until they are reviewed by peer groups?

THOMPSON: That's definitely right. The Agricultural Trade Research Consortium (ATRC) has begun some important work in that direction. In the last couple of years the ATRC gave a group of trade modelers some standardized problems. In effect, they said "here's a policy issue; analyze it; and come back to us in a short amount of time with the best analysis your model can do of this issue." Then they dug in, talked about them, and evaluated the performance of the models.

CHOICES: What proportion of the models used in the agricultural economics profession has been reviewed by peers and given a "good agricultural economics seal of approval?"

We're in the golden age of the biological sciences.

THOMPSON: Negligible. For example, models of private econometric forecasting companies are black boxes because the models are proprietary. By definition their models are not going to be reviewed. They are proprietary information.

CHOICES: Individually, we resist it?

THOMPSON: Very much so.

CHOICES: But as you said earlier with respect to export elasticities, there are particular variables and coefficients that just drive the answers.



THOMPSON: Absolutely. For example, there is no coefficient in this whole mandatory control debate that is more important than the price responsiveness of export demand and until we can get some professional consensus on that issue the profession has very little it can offer to that debate.

CHOICES: You are about to become dean of the School of Agriculture at Purdue University—a major land grant university. Why do you want to be a dean?

THOMPSON: I've always viewed myself more as an educator than a political operator. I never viewed the move to Washington as a permanent move into the political arena. I viewed it much more as an opportunity for a unique education in the politics of agricultural policy.

I have a strongly held commitment to the best quality education that we can provide to the future leaders of agriculture. The experiences that I've had in Washington give me perspectives that should help me as dean. We confront some difficult challenges in agriculture, but we are also on the threshold of terribly exciting times. We're in the golden age of the biological sciences with genetic engineering and everything that goes with it and a lot of that exciting work is going on in colleges of agriculture today. And I see the land-grant institutions like Purdue playing an important role in these areas.

Admittedly, we have financial stress problems and rural development needs. And there will be difficult structural adjustments in farming and associated input industries. The universities can play an important role by providing the analytical foundations on which those moves will be made and by training people who will participate in those adjustments. **C**