



*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

*file copy*

**CORNELL  
AGRICULTURAL ECONOMICS  
STAFF PAPER**

**"ECONOMIC CORRECTNESS" AND  
AGRICULTURAL ECONOMICS**

by

Ralph D. Christy

March 1993

SP 93-3

Department of Agricultural Economics  
Cornell University Agricultural Experiment Station  
New York State College of Agriculture and Life Sciences  
A Statutory College of the State University  
Cornell University, Ithaca, New York, 14853

## **"ECONOMIC CORRECTNESS" AND AGRICULTURAL ECONOMICS\***

Ralph D. Christy

"The profit motive, when it is the sole basis of an economic system, encourages a cut-throat competition and selfish ambition that inspires men to be more concerned about making a living than making a life."

Martin Luther King, Jr. (1963, p.102)

### **Introduction**

In many respects 1992 was a year of the races.<sup>1</sup> The Olympic races captured our attention for the better part of the summer. By fall, the United States presidential race heated up and we became obsessed with or disgusted by the process of selecting the next president. In a not-so-subtle way, the industrialized nations have been in the midst of a race for international economic superiority (escalated by the end of the Cold War). Through these races, to some degree, runs a common thread woven around philosophical arguments about how best to organize markets to obtain the desired results for sport teams, political parties, and nations.

---

\* Presidential Address presented at the Southern Agricultural Economics Association meetings, Tulsa, Oklahoma, February 1, 1993. I am indebted to Rod Hawkes, David Schweikhardt, Carlton G. Davis, Joyce E. Allen, James T. Bonnen, and William G. Tomek for comments on an earlier draft of this paper. I benefitted greatly from the suggestions given in a seminar at Cornell University by Dale Grossman, Ken Robinson, Ed McLaughlin, Njeri Gakonyo, Ayo Heinegg, Bernard Stanton, Deborah Streeter, Jan Low, Kenneth Simler, Lois Willett, Mildred Warner, and Gene German. I take responsibility, however, for any remaining errors.

Ralph D. Christy is an associate professor, Department of Agricultural Economics, Cornell University, Ithaca, New York.

<sup>1</sup> The use of "race" in this context was derived from Making the Grade: The 1988 Development Report Card for the States, The Corporation for Enterprise Development, Washington, D.C., April 1988.

Indeed, *economic correctness* expresses the view that unfettered markets are superior in achieving efficiency, growth, and welfare.<sup>2</sup>

Although much of economics centers on how markets are organized, the term "market" has ambiguous meaning among applied economists. This ambiguity has affected our profession's ability to serve private and public decisionmakers, and now threatens to render agricultural economists obsolete in the policy process. The challenge for applied economists is to design and evaluate alternative institutional arrangements within an economy and consequently provide guidance for public and private decisionmakers. Thus, I choose as a focal point of my address the role of markets in shaping the performance of firms and communities.<sup>3</sup> This address sets forth my views, somewhat introspective, on a central organizing institution within our economy. My remarks are intentionally intuitive. I do not expect universal agreement; I seek to place on record statements that might continue this dialogue.

At the outset, I offer commentary that will structure my arguments. As an applied field of economics, agricultural economics has relevancy for at least two sets of decision makers: first, private decision makers participating within the food and fiber marketing system and second, public-policy decision makers who are concerned with dysfunctional markets. As two terms important to agricultural economists--agriculture and rural--lose their uniqueness, the constituents for our work have expanded, perhaps more rapidly than our collective professional

---

<sup>2</sup> Alice H. Amsden, "P.C. to E.C.," New York Times, January 12, 1993, section A, p. 21.

<sup>3</sup> Here, performance is taken to mean the economic results that market participants and society expect.

ability to adapt to these new sets of information-users. Today, entrepreneurs, agribusiness firms, consumer groups, (to list a few private decision makers), and public-policy makers concerned with rural education, environmental issues, rural-urban poverty, and international trade are in need of economic information. Many of their questions are of a routine variety (i.e., dealing with economic efficiency for private decisionmakers) and our profession has served this demand quite well. As society becomes more socially complex and globally integrated, often questions such as "How can policy best be formulated to solve social problems?" or "What is the appropriate strategic response or initiative for a firm faced with global competition?" become increasingly more difficult to answer. These sorts of questions require at a minimum some understanding of markets.

My perceptions of the agricultural economics profession and markets can be distilled into two observations.

- Food and fiber markets are becoming more imperfect; witness the decline in the number of U.S. farmers and food firms, the control of sales by a few large firms, and the proliferation of differentiated food products. The relevance, and hence success, of agricultural economists will depend on how well we adapt, extend, and develop new theories and techniques for analyzing and predicting *strategic behavior* of firms in imperfectly competitive markets.<sup>4</sup> This observation is reflected in the question, "How does agribusiness view agricultural economics?" and its corollary, "What can agricultural economics offer to agribusiness?"

---

<sup>4</sup> Carlton and Perloff (pp. 400-401) refer to strategic behavior as "actions by a firm to influence the market environment within which it competes so as to increase the profits of the firm."

- Policy issues are now arising from unconventional sources and, in addressing the questions arising from such sources, a broader view of the policy arena must be adopted and a fuller understanding of the limits of markets and policy must be acquired if agricultural economists are to be effective policy analysts.<sup>5</sup> This observation relates to the question, "What can markets do and what can they not do?".

These observations are further developed by reviewing definitions of the concept "market", by identifying the challenges to and contributions by agricultural economics to the study of markets, and by discussing the potential role of agricultural economists in private and public decisionmaking.

### **The Concept of a Market**

The notion of what a market represents is so ingrained in conventional economic theory and in practice as to render the concept almost second nature to economists. The familiarity with what economists call a market sometimes comes in sharp contrast to the views of the business community. And within economic circles, we find varying ways in which this concept has been made operational. Consider the classic definition that views a market as "a region in which buyers and sellers are in such frequent intercourse with each other that a price of the same

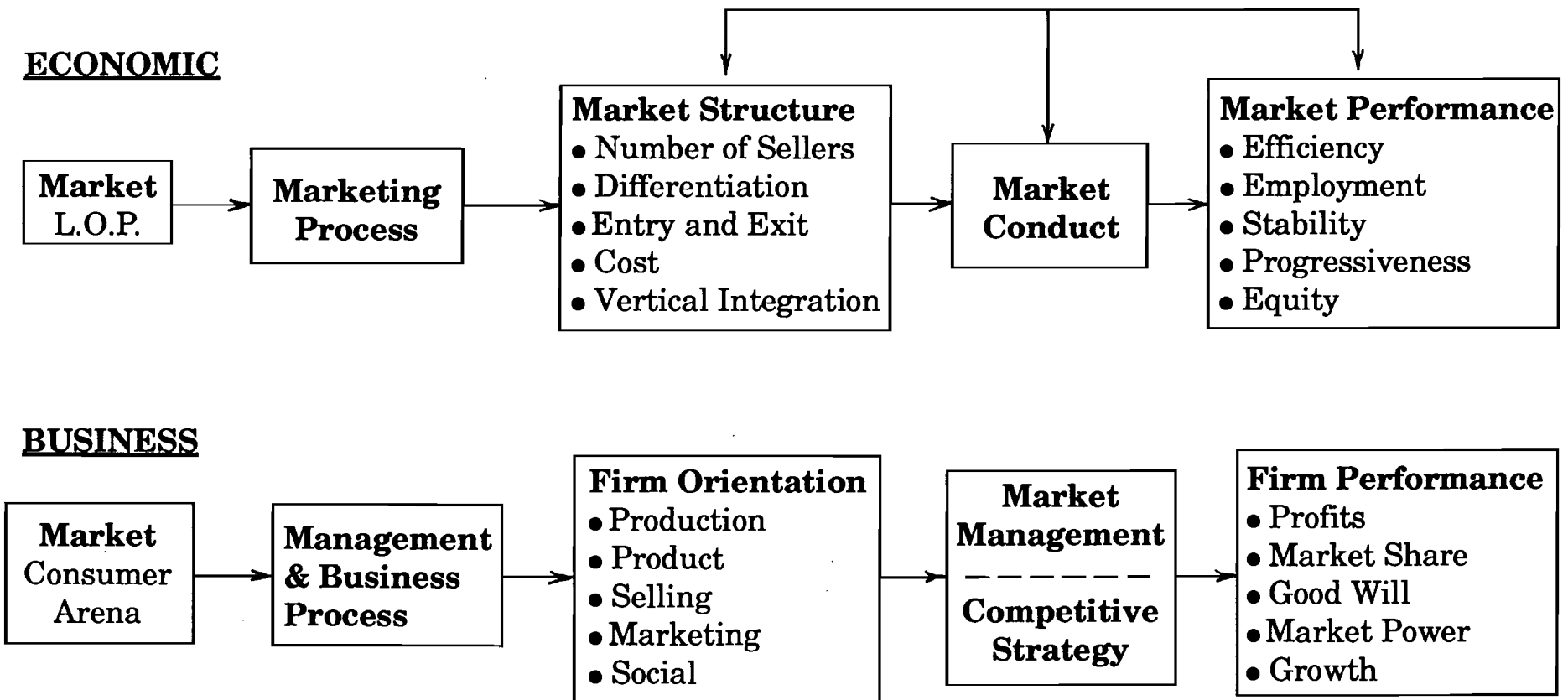
---

<sup>5</sup> James T. Bonnen reminds us that economic research and policy analysis differ significantly. He states "policy decision making is essentially a problem-solving matter and has to be described as multidisciplinary and prescriptive" (Bonnen, p. 44). Economic analysis relies primarily on the application of tools of economic theory while public policy analysis requires the use of a group of disciplines, recognizes a characteristic of policy decisions as involving values (what is good or bad), and focuses on achieving a prescriptive statement about what ought or should be done (which is either right or wrong). These are substantially different kinds of analyses.

good tends to equality easily and quickly" (Cournot). On the other hand, consider the more modern definition offered by Richard Lipsey, "an area over which buyers and sellers negotiate the exchange of a well-defined commodity" (Lipsey, p. 69). In 600 B.C., Anacharsis of Scythia defined a market as "a place set apart where men may deceive one another."

For the purpose of this paper, the operationalization of the market concept is framed from two disciplinary vantage points (Figure 1). First, an economic perspective of a market connotes an arena where buyers and sellers jointly determine the value of goods, services, and ideas through exchange. A core concept underlying the existence of a market for economists is the *law of one price* (LOP) which purports that markets exist under such conditions (perfect competition) where prices equilibrate given time, place, and form utilities. Marketing then becomes the process by which goods, services, and ideas flow from production to consumption. As such, economics becomes primarily concerned with the performance of a system and the structure and organization that influence such performance. Economic efficiency has been the major criterion economists have used for evaluating market performance. Therefore, an economic perspective of a market gives rise to conceptual frameworks designed to evaluate the impact on the social (and private) welfare of decisions made by participants within the marketing system. These decisions, reflected by actual strategic behavior, influence the performance of the market. Because economic views include the various participants operating in the market and society, this science is affected with a welfare interest.

**FIGURE 1. THE MARKET CONCEPT: ECONOMIC AND BUSINESS PERSPECTIVES**





Second, markets can also be operationalized from a business (management) perspective. The term "market" then takes on the meaning of a group of potential buyers (customers). Within this paradigm, a market consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want (Kotler). The task for the firm then becomes one of coordinating its activities such that its goals are achieved. A key concept, *market management* is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individuals and organizational objectives (Kotler).

Firms may vary in their philosophical interpretations of the marketing process, ranging from a strictly production orientation to a societal view of the marketing function. In general, the business view of a market is designed to operationalize concepts that provide principles and frameworks for firms to achieve their objectives. Generally, in imperfect markets (characteristic of most industrial and many consumer markets) firms are left with price, product, place, and promotion strategies to achieve their goals. The firm's behavior is shaped by the competitive strategy emanating from its marketing philosophy, industry structure, and previous experience. The goal of the firm is largely held to be profit maximization, although this goal can vary over time and among firms who may also choose, as well, market share or good will as goals.

This section of the paper has argued that the term *market* can range in meanings: at one extreme, as a place where value is discovered and determined; at the other extreme, as a group of willing and able buyers. Economic perspectives of markets provide for the development of conceptual frameworks that address questions of social welfare and assist in private choice. The business concept of markets lends itself more to the development of analytical techniques that

can aid owners and managers of firms with strategic decisions. These two concepts of markets bring into view the sharp differences between societal goals and the goals of the firm, although some would counter that a firm cannot achieve its goals in the long run without considering its social responsibilities. Over time, economic perspectives of markets have been modified to allow for the exchange of not only goods, but services and ideas as well. Finally, as the market concept evolved, the role of the ultimate consumer has influenced how economics and business view the term. Therefore, while fundamental differences exist in an economic perspective of markets compared to a business view, some convergence has taken place around society's goals, what can be marketed, and the role of consumers.

### **Agricultural Economics and Markets: Contributions and Challenges**

Research on imperfectly competitive agricultural markets now enters its sixth decade. During this period, work has focused on issues of economic control, market power, consumer preference, global markets, strategic decisions, and economic development. A review of the topics and methods used by agricultural economists conducting research in imperfectly competitive food markets is presented in this section to facilitate the development of the arguments of the paper.

Agricultural economists began generally to apply the industrial organization model to food and fiber markets in the 1940s (Nicholls). It was widely recognized then that profound transformations were taking place in several commodity markets and that structural and organizational change was characteristic of many agribusiness industries. Earlier research in these areas was limited by the lack of public data and the unwillingness of private business firms

to provide data on costs, pricing strategies, and firm output. The inability of marketing researchers to provide useful answers to some important policy questions gave impetus to the establishment of the National Commission on Food Marketing in the mid 1960s. Farris (pp. 9-10) provides an excellent overview of the evolution of the commission's work:

"The commission's work (1966) added to general understanding of food marketing by highlighting several emerging tendencies and implications for public policy for the food industry. By having the power of subpoena, the commission acquired some particular types of data, along with insights from business, that were previously unavailable to researchers. The research was on a scale large enough to benefit from staff interaction on concurrent and related studies. The one and one-half years of operation was too short a period, however, to analyze in depth many of the potentially promising problem areas. A working paper prepared by Shaffer suggested research organization alternatives and helped provide the stimulus for undertaking several potentially promising subsector studies."

In 1973, Regional Project NC-117 was established with a core group of researchers located at the University of Wisconsin and participating researchers from the Midwest, U.S. Department of Agriculture (USDA), and other interested states. This research committee also worked with congressional committees and the Federal Trade Commission. The regional project extended and expanded existing descriptive studies of the food and fiber system by including other subsectors at the state level and developing theoretical frameworks of vertical coordination. Traditionally, industrial-organization (I/O) theory had been applied mainly to horizontal market relationships within food markets. Marion attempted to integrate and combine vertical coordination with industrial-organization theory. He recognized that the I/O paradigm had important applications to the study of vertical market relationships and the coordination of these systems, in addition to its earlier application to single-industry research.

In 1978, the USDA commissioned a major study of the structure of U.S. agriculture. This research project was designed to answer the questions "Who controls agriculture?" and "Where is it heading?" Focusing on structural and organizational changes in production agriculture, it provided a description of current farm structure, factors that had influenced food production, problems that may arise in the future, and an overview of considerations important to the issue (USDA).

The 1980s established a period of expanded developments in the theoretical foundations of marketing research on imperfect food markets. In the field of industrial organization, increased attention has been focused on firms' use of strategic behavior to shape their market environment with the purpose of achieving the firm's goals (Carlton and Perloff, Rogers and Caswell). Although this "new theory of industrial organization" has formalized some arguments about the operation of markets and firm behavior, few empirical tests of the models have been conducted. The application of the new industrial-organization theory to the study of markets is controversial (Sheperd). A critical need exists to resolve this controversy by conducting empirical tests of competing theories.

Four regional groups supported research focusing on imperfect food markets during the 1980s. First, research in the area of global strategic marketing is being conducted by North Central Regional Research Project 194 (NC-194) titled *The Organization and Performance of World Food Systems: Implications for U.S. Policies*. NC-194 focuses on the application of international trade and industrial organization theory to world markets (imperfect) for agricultural and processed food products. It emphasizes the strategic choices of U.S. firms and government policy as they affect firm and U.S. competitiveness in world markets. Second,

Northeast Regional Project 165 (NE-165), *Private Strategies, Public Policies, and Food System Performance*, was established as a project with a core group at the University of Connecticut. This research further extends the industrial-organization approach to food markets by incorporating strategic-marketing concepts, developed primarily within business schools, and by extending the model to include performance dimensions that reflect more explicitly the consumer perspective (i.e., food safety and quality) and economic development (employment, growth, etc.). Third, the Southern Regional Research Project S222 focused on the international trade of food between states in the southern region and developing nations of the Caribbean and Central and South America. Finally, the Western Regional Coordinating Committee 72 (WRC 72) functions as a coordinating mechanism for researchers interested in strategic-management issues in the U.S. food and fiber system.

The 1990s has brought a new challenge for marketing researchers as issues of economic development, global trade, and public policy influence the competitiveness of food markets. The Experiment Station Committee on Organization and Policy (ESCOP) report, Research Agenda for the 1990s, includes improving marketing efficiency and competitiveness of agricultural products as a priority research area, and identifies research on mergers and buyouts, firm decisionmaking, and consumer preferences as priority areas of work. The Social Science Agricultural Agenda Project (SSAAP) identified a research and outreach agenda related to agribusiness (Johnson and Bonnen). This agenda included the need for additional work on management of agribusiness firms, globalization of agriculture, and impacts of public policy on food-system performance. This agenda for the twenty-first century now places the study of markets as a pivotal role in achieving national goals. It requires applied economists to possess

a strategic understanding of the firm and sets the stage for applied economists to prescribe a role for the public sector in creating an environment that will maintain the national competitiveness.

### **Markets and Business:**

#### **Research Paradigms or Analytical Techniques?**

During the past fifteen years, the business and economics professions have experienced an explosion of literature examining and analyzing strategic behavior of firms (Kay; Rogers and Caswell; Westgren, Sonka, and Litzenberg). These "new" approaches to some degree have spilled over into agricultural economics, and they will likely continue to influence our research, outreach, and teaching programs. This development within the agricultural economics profession is occurring because of the following reasons:

- Structural changes within food and fiber markets are making the competitive model, which has been used to describe a firm's behavior, less useful.
- Value-added components within the food system are increasing relative to farm value, and our ability to improve system-wide efficiency and coordination is linked to understanding firm strategies beyond the farm gate.
- As firms within the U.S. food systems exhaust their scale economies, they seek economies of scope. This corporate behavior is not fully captured by U-shaped cost curves.
- New competition brought on by global markets increases private decision makers, demand for strategic decision making skills.
- Technological change has made markets more dynamic and more difficult to maintain.

For these reasons, our profession is called upon to provide information to private decision makers within the food and fiber system. Already we have competition from management schools as they have set forth a set of techniques that describes firm behavior. What can the agricultural economics profession learn from the business management sciences that will improve our abilities to provide useful information to food and fiber firms?

The management science approach to markets attempts to address the behavior of the firm directly, whereas the economics framework of neoclassical and industrial-organization theories makes basic behavioral assumptions and then moves on to firm performance. The firm is treated as a "black box" and much of its behavior is omitted by economic theory. It seems that the management sciences can offer much to the economics profession on this subject. Neoclassical economics assumes the firm to be rational and with full possession of market information. These assumptions force analyses on all aspects of the firm except its behavior. Leibenstein argued that what economics needs is a "micro-micro" branch of the science which would examine the firm's decision-making processes.

The dominant tradition in industrial organization has emphasized empirical relationships among the structure, conduct, and performance of an industry. The focus of the work was established by Bain and extended by Scherer. The paradigm seeks to establish a relationship between the structure of an industry, its firms' behavior, and the resulting economic performance. All factors that explain firm behavior are external to the firm; the theory does not attempt to explain differences among firms. The unit of analysis is the industry, not the firm. This paradigm speaks to public policy (i.e., antitrust, regulation) and not directly to the firm's managers or owners.

This glaring omission from economic theory has motivated many economists to seek alternative paradigms. These theories have had limited use within agricultural economics. However, for the above reasons, their importance in helping economists understand the strategic behavior of the firm is critical. A brief discussion of three alternative frameworks for analyzing firm behavior appears relevant to the development of arguments presented herein.

First, the *behavioral theory of the firm* advanced by Cyert and March (1963), was an attempt to depict the firm in more realistic and operational terms. A behavioral approach was employed (as opposed to the formal theory of an omniscient firm), which relaxed the classic assumptions and hence viewed the firm as an institution that is confronted with the uncertainty of its environment, with problems of maintaining a viable vertical business coalition, and with a limited capacity to assemble, store, and utilize information.

Cyert and March (C & M) characterize the firm as an *adaptively rational* system rather than an *omnisciently rational* system. They argue that a business organization is an adaptive institution; the firm learns from its experiences.

C & M assert that as long as the environment of the firm is unstable, the heart of a behavioral theory must be a process of short-run adaptive reactions. To examine the major attributes of short-run adaptation by firms functioning in a changing world, they focused on the standard operating procedures of business organization and the ways in which these procedures changed. Standard operating procedures are a set of fairly well-defined rules (decision processes) that enable the firm to adapt to different environments; they are the formal institutional memory of an organization. For example, in microeconomic theory, one finds the



decision rule that equates costs and revenue at the margin ( $MC=MR$ ). For similar purposes, the firm adopts a set of rules that aid in decision making.

C & M note that procedures most likely to be treated as fixed are those incorporated in the explicit standard operating procedures of the firm; they give stability to the organization and direction to activities that are constantly recurring. In addition to providing needed stability, the standard operating procedures influence (and in many cases dictate) the decisions made in the organization.

C & M present a theoretical picture of the firm in a real-world environment of uncertainty, change, and adaption that deviates from the depiction of the firm assumed in microeconomic theory. Also, they view the firm as being heavily conditioned by rules (standard operating procedures), and these rules in turn reflect organizational learning processes by which the firm adapts to its environment.

Second, *transaction-cost economics* originated with the attempt of economists to answer questions associated with alternative organizational arrangements. The transaction-cost approach concludes that all gains from trade would be realized but for transaction costs and legal impediments to exchange. For example, during the last decade or so, primarily through the writings of Williamson (1975, 1985), the substantive contribution of transaction-cost economics has been to relate the costs associated with organizational alternatives. This theory has guided the major methodological approaches to the study of economic organizations. Although a relatively new theory, Masten notes that while "... the logic and predictions of transaction-cost economics have been shown to apply to a broad range of institutions and an increasing number of industries, there has been little systemic analysis of agricultural transactions in transaction-cost

terms." Several reasons may explain the less-than-enthusiastic reception of transaction-cost theory by agricultural economists. First, Rogers and Caswell (p. 8) observe that "what is missing from the pure transaction-costs approach to organizational form is a recognition of the corporation's ability not only to adapt to change but also to influence and shape it through adoption of new strategies and forms of internal organizations." One of the salient features of applying the transaction-cost approach has been the need for very detailed knowledge of the industry being studied. Even within a subsector of the agricultural economy, significant variation in exchange mechanisms exists, making it difficult to generalize from the detailed analysis of a particular case.

Finally, the *strategic market-management* paradigm, developed mainly by business schools, has wide appeal in analyzing the conduct of the firm. Strategic marketing management, popularized by Porter (1980, 1985), is an extension of the industrial organization, structure-conduct-performance model. However, it focuses on producing prescriptive information for managers as opposed to regulatory information for public policy makers. Strategic behavior accepts the view that the firm has within its options the ability to shape its environment and thereby influence its outcomes. The firm's behavior is not solely a function of structure, but it is generated as part of the firm's internally developed strategic plan. Strategic management is a composite of several economic theories, including neoclassical economics, organization theory, and behavioral theories of the firm.

Alternative theoretical frameworks and analytical techniques are emerging from management sciences and applied economics; however, they are not widely used by agricultural economists. While current *economic correctness* is turning over more to the market, the market,

in turn, is giving over to the firm a larger share of economic activity. In fact, more economic activity is occurring within organizations than within open-market pricing systems (Stiglitz). This observation is especially true of large corporations that participate within our economy. Smaller organizations that attempt to service niche markets also employ strategic market management to guide their decision making. To be of service to private decisionmakers, agricultural economists must acquire an understanding of the strategic behavior of the modern firm. Simply put, knowing the market is not enough. Management schools offer a useful set of analytical techniques that provide insight into the firm's behavior. Applied economists must continue to provide the development of frameworks that will explain and predict the consequences of strategic behavior on firm and market performance.

### **The Limits of Markets**

My concern in this section of the paper has relevancy to agricultural economists who provide information to public policy makers. I accept the proposition that much of agricultural economics information provided the public sector revolves around the disfunctioning of markets. During the past decade, however, markets were thought to be the institution that could solve many of society's problems (*economic correctness*). The fundamental or overriding philosophy was to never ask government to do what individuals, families, or firms could do better. It is expected that the 1990s will seek a balance by offering the corollary: Never ask markets to do what government can do better. Deciding on the appropriate role for government has long been one of the central concerns of economics.

Within the agricultural economic profession, thinking on this topic is not new. Over twenty-five years ago, Shaffer (1967, p. 1) set out to evaluate the effectiveness of agricultural economics market research and made the following observations:

"The role of the social scientist is critical in our day because, for the first time in history, we seem to have the technical capacity to control the physical environment to the benefit of all men but we lack the capacity to construct the necessary social institutions to take full advantage of this capacity. In a sense, the ultimate research question is how can markets be instituted to achieve the purposes of the community, whatever they may be."

This view holds that the task of social scientists is to evaluate the role of markets, as institutions, in achieving society's goals. *Economic correctness* asserts the belief that market-based solutions result in the efficient use of resources, notwithstanding society that seeks multiple goals (equity, full employment, sustainability ...). The use of efficiency as the sole criterion for policy analysis undermines economic correctness arguments. More recently, additional insights have been offered that suggest that the efficiency criterion is inappropriate for making welfare judgments (Lang; Shaffer 1987; Bromley). Efficiency is a product of a unique set of values and power distribution embedded in the initial resource endowment. Therefore, economists would do well to make use of a broader array of performance criteria and acknowledge trade-offs inherent to their analysis when displaying the distributional impacts of alternative policies.

I offer some observations on current economic and social problems that underline my concerns for applied economists in the role of policy analysts. Last year I coauthored a paper with Allen addressing the question: What happens when policy and markets fail? We posed this question after reviewing the impact of agricultural policies on the rural disadvantaged and recounted that government involvement in the agricultural sector and rural economy was based on the *market failure* arguments. It was thought to be necessary to have government

"interference" in the market system if socially beneficial results were to be achieved. In response to market failure, the role assigned to government in the operation of the economy has been progressively enlarged. In fact, questions relating to how efficient government was in rendering services or redistributing resources became a part of agricultural economic and policy analysis as applications of the public-choice (rent-seeking) theories (Rausser).

The market failure argument, it seems, focuses exclusively on the shortcomings of the private sector. While focusing on the efficiency of the public sector, *government failure* viewed the government influence on the structure, conduct, and performance of markets; endogenized government as a participant within the political economy; and placed emphasis not on the failure of markets as much as it did on the failure of government. These conflicting schools of thought provide polar opposite arguments and often reach different conclusions (primarily because of their assumptions). Either the private sector was ineffective in allocating resources that were consistent with social welfare or the government was inefficient in the provision of social services. These opposing schools of economic thought have led to a form of economic "grid-lock" in our professional debates.

Perhaps a more constructive role for social scientists is to determine where policies have failed, thus allowing for the creation of alternative institutions--government-based or market-based--to address such failures, rather than accepting that the market is superior in allocating resources in a socially acceptable fashion. *Policy failure* reflects those policies that (1) ignored the problem, (2) were in place but not effective, and/or (3) caused unintended, mostly negative consequences where these results created costs that were greater than benefits (Allen and Christy). Policy failure calls for a continuous evaluation of the impacts of public policies on

economic units and on the economy. This evaluation recognizes that, over a period of time, policies recreate circumstances; that is, government influences the structure, conduct, and performance of markets out of which new problems and thus new policies arise. This process must be understood by policy analysts; otherwise, the real failure must lay at the feet of those trusted with the responsibility of evaluating the impacts of policy on markets. It seems to me that too much weight has been given to this "polar opposites game" and more emphasis should be placed on how best to organize institutions to solve problems.

This past spring as I sat home and watched South Central Los Angeles in flames, I had the sinking feeling that this uprising was nothing new, the situation being very much reminiscent of the 1960s. A more troubling feeling occurred when I asked myself, "What can an agricultural economist do about these issues?" After all, these were urban problems and could easily be ignored as beyond the jurisdiction of our profession. More reflection on this problem ultimately led to an observation that, to a large degree, the problems of urban America are, in part, about the functioning of markets, and these problems are not removed from rural America in the sense that it was productivity growth in agriculture which led to labor displacement in rural sectors of the economy. During the past five decades, 5.4 million people, many of whom were African Americans with little training or formal education, exited agriculture. The structural changes in rural labor markets had much to do with the South Central L.A. uprising. But the lack of effective public policies to help in this transition coupled with the lack of individual responsibility were even greater factors contributing to our present-day urban dilemma (Thurow). Perhaps larger contributions can be made if agricultural economists begin to address

issues related to the "big picture" in ways where policies and their consequences can be better understood and communicated.

We in the South need not look to the West Coast or to major urban centers of this country to find professional challenges. Almost two decades ago, I began the study of economics with the hope that it would somehow enable me to do something about the plight of the poor and disadvantaged throughout the world and particularly within the rural South. In the past twenty years, we have witnessed what many may regard as progress in the South, with truly bright spots (largely confined to urban areas) of economic growth and development. We know fundamentally what has led to this success. But our profession has not, in my opinion, shown enough concern for the pockets of poverty that still remain among us -- black belt counties of the Southeast, Appalachia, the rural Mississippi Delta, and South Texas. We have no prescription for these vital parts of our region. It will become increasingly difficult to justify the study of markets for the sole purpose of helping farmers sell more cotton or for assisting an industrialized nation to pursue a cheap food policy exclusive of the wider socially complex and globally integrated problems of our times.

### **Précis**

This address is directed toward applied economists as they provide information to private and public decision makers. Central to this discussion is the role of markets as institutions in achieving society's desired ends. Current "economic correctness"--the view that unfettered markets are superior in achieving efficiency, growth, and welfare--has attempted to return a

larger role to the private sector, but the relative roles of market-oriented versus government-oriented solutions to problems are often not well appraised.

The agricultural economics profession is at an intellectual crossroads. Because we are applied social scientists, as the world around us changes, we face the challenge of constant self-identification and self-evaluation. Views presented herein have called for agricultural economists to move simultaneously toward an understanding of the *strategic behavior* of firms in imperfectly competitive markets and toward an adoption of *policy analysis* consistent with a socially complex and globally integrated economy. We simply must find ways to accommodate both economic and business views of markets.

Today, "What can agricultural economics offer agribusiness?" is a reoccurring question. To be effective in serving private decisionmakers, a focus on "micro-micro" aspects or strategic behavior of the firm will be required of agricultural economists. Agribusiness consists of large-complex corporations, medium-sized firms, and small entrepreneurs. The economic activity occurring within modern firms, although they vary in size, is being guided by the strategic behavior framework and techniques, used especially by the excellent ones, and less by market forces exclusively. This view of agribusiness must be incorporated within teaching, research, and outreach programs in departments of agricultural economics.

"What can markets do and what can they not do?" has long been one of the central concerns of economics as it applies to questions of public policy. Public-policy issues are increasingly a part of a larger interconnected world. It may not be readily apparent that the South Central Los Angeles uprising was, in part, about the functioning of markets (yes, it was also about justice, public policy, and individual responsibility). Policy questions are becoming



more interrelated, and because we cannot simply draw boundaries around our applied disciplines, a broader view of social problems must be incorporated in our analyses of today's social problems. As agriculture becomes a smaller part of the economy, we must aggressively point out agriculture's contributions to the economy and identify the impacts of agriculture on the environment, labor markets, consumers, and other participants within the system.

Like other professionals, economists are sometimes reluctant to apply the tools of economics and management to the study of their own circumstances. While most departments have completed some type of strategic-planning exercise, we have little knowledge of how this effort influences resource allocation or directions taken within our programs. Little is known about how the strategic-planning effort influences the performance of departments, colleges, and universities. Furthermore, as a discipline, agricultural economics has operated in a fairly decentralized manner. Many of our activities are project-driven at an individual state level. Tightening federal and state resources for research will change the way we do business. In the future, national priority-setting exercises will demand individual and organizational inputs from agricultural economists for the development of a strategy designed to increase public support for our research agenda. Strategic behavior has application for the management of departments, colleges, and universities and, perhaps, for a broader set of professional issues as well (Kotler and Fox). We must employ strategic-management techniques in our teaching, research, and outreach programs.

Finally, within respective units, discussions are taking place on the appropriate titles of the agricultural economics profession, affiliated associations, and scientific journals. Some hold the view that the comparative advantage of agricultural economists is in applying our tools to

a broad range of problems (Houck). Others caution us not to forget our traditional base of support--agriculture. We must do more than change names. The challenge for applied economists is to design and evaluate alternative institutional arrangements within an economy and, consequently, provide guidance for public and private decisionmakers. Economic correctness aside, as we approach the twenty-first century, it will take the combined efforts of the private sector and an enlightened public sector to solve the entrenched and emerging economic and social problems of this nation.

## References

- Allen, Joyce E. and Ralph D. Christy. "African Americans in Rural Society: Needed Directions in Public Policy." *Am. J. Agric. Econ.* 74.3(1992):826-33.
- Bain, J. S. *Industrial Organization*. 2nd Ed., New York: Wiley, 1968.
- Bonnen, James T. "Relevancy of the Social Sciences in the Policy Arena: Implications for Agricultural Economics." *So. J. Agric. Econ.* 21.1(1989):41-50.
- Bromley, Daniel W. *Environment and Economy: Property Rights and Public Policy*. Cambridge: Basil Blackwell, 1991.
- Carlton, D. W. and J. M. Perloff. *Modern Industrial Organization*. Glenview, IL: Scott, Foresman and Co., 1990.
- Cournot, A. *Research into the Mathematical Principles of the Theory of Wealth*. Translated by Nathaneil Bacon from the French edition of 1838. New York: Macmillan, 1897.
- Cyert, R. M. and March, J. G. *A Behavioral Theory of the Firm*. Englewood Cliffs, NJ: Prentice-Hall, 1963.
- Experiment Station Committee on Organization and Policy, Planning and Budget Subcommittee. *Research Agenda for the 1990s: A Strategic Plan for the State Agricultural Experiment Stations*. ESCOP 90-1, 1990.
- Farris, Paul L. "Agricultural Market Research in Perspective," *Future Frontiers in Agricultural Marketing Research*. Ames, Iowa: Iowa State University Press, 1983. p. 3-15.
- Houck, James. "The Comparative Advantage of Agricultural Economists," *Am. J. Agric. Econ.* 74.5(1992):1059-65.

- Johnson, Glenn L. and James T. Bonnen, eds. *Social Science Agricultural Agendas and Strategies*. East Lansing, MI: Michigan State University Press, 1991.
- Kay, John A. "Economics and Business." *The Econ. J.*, 101.404(1991):57-63.
- King, Martin L., Jr. "How Should a Christian View Communism," *Strength to Love*. Philadelphia: Fortress Press, 1963.
- Kotler, Philip. *Market Management*. Englewood Cliffs, NJ: Prentice Hall, 1991.
- Kotler, Philip and Karen F. A. Fox. *Strategic Marketing for Educational Institutions*. Englewood Cliffs, NJ: Prentice-Hall, 1985.
- Lang, Mahlon G. "Economic Efficiency and Policy Comparisons," *Am. J. Agric. Econ.* 62.4(1980):772-77.
- Leibenstein, H. "A Branch of Economics is Missing: Micro-Micro Theory", *J. Econ. Lit.*, 17(1979):477-502.
- Lipsey, R. G. *Positive Economics*, 6th ed. London: Weidenfield and Nicolson, 1983.
- Marion, Bruce W. *The Organization and Performance of the U.S. Food System*. Lexington, MA: Lexington Books, 1986.
- Masten, Scott E. "Transaction-Cost Economics and the Organization of Agricultural Transactions." *Examining the Economic Theory Base for Vertical Coordination*, Symposium sponsored by NC-194 Symposium and Ohio State University, Chicago, IL, October 17-18, 1991.
- National Commission on Food Marketing. "Food from Farmer to Consumer, and Ten Technical Studies," Washington, DC: USGPO, 1966.

- Nicholls, William. *A Theoretical Analysis of Imperfect Competition with Special Application to Agricultural Industries*. Ames, Iowa: Iowa State University Press, 1941.
- Porter, Michael E. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York: The Free Press, 1980.
- Porter, Michael E. *Competitive Advantage: Creating and Sustaining Superior Performance*, New York: The Free Press, 1985.
- Rausser, Gordon C. "Political Economic Markets: Perts and Pests in Food and Agriculture," *Am. J. Agric. Econ.*, 64.5(1982):821-33.
- Rogers, Richard T. and Julie A. Caswell. "Strategic Management and the Internal Organization of Food Marketing Firms," *Agribusiness*, 4.1(1988):3-10.
- Scherer, F. M. *Industrial Market Structure and Economic Performance*. 2nd Ed., Chicago, IL: Rand McNally, 1980.
- Shaffer, James D. A Working Paper Concerning Publicly Supported Economic Research in Agricultural Marketing. USDA, ERS, 1967.
- Shaffer, James D. "Does the Concept of Economic Efficiency Meet the Standards for Truth in Labeling When Used as a Norm in Policy Analysis?" *Economic Efficiency in Agricultural and Food Marketing*. Eds. Richard L. Kilmer and Walter Armbruster. Ames, IA: Iowa State University Press, 1987.
- Sheperd, William G. "Publishing Performance in Industrial Organization: A Comment," *Rev. Indust. Organ.*, 5.1(1990):137-46.
- Stiglitz, Joseph E. "Another Century of Economic Science," *The Future of Economics*. Cambridge, MA: Blackwell Publishers, 1992. pp. 134-141.

- Thurow, Lester. C. "Agricultural Institutions and Arrangements Under Fire." *Social Science Agricultural Agenda Project*. Eds Glenn L. Johnson and James T. Bonnen. East Lansing: Michigan State University Press, 1991.
- USDA, Economic Research Service. *Structure Issues of American Agriculture*. Agricultural Economics Report No. 438, November 1979.
- Westgren, R. E., S. T. Sonka, and K. K. Litzenberg. "Strategic Issue Identification Among Agribusiness Firms," *Agribusiness*, 4.1(1988):25-37.
- Williamson, O. E. *Markets and Hierarchies: Analysis and Anti-Trust Implications: A Study in the Economics of Internal Organization*. New York: Free Press, 1975.
- Williamson, O. E. *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*. London: Macmillan, 1985.

OTHER AGRICULTURAL ECONOMICS STAFF PAPERS

No. 92-12	An Economic Analysis of the U.S. Honey Industry: Data Documentation	Lois Schertz Willett
No. 92-13	An Economic Analysis of the U.S. Honey Industry: Data Summary	Lois Schertz Willett
No. 92-14	An Economic Analysis of the U.S. Honey Industry: Econometric Model	Lois Schertz Willett
No. 92-15	Sustainable Development and Economic Growth in the Amazon Rainforest	Jorge Madeira Nogueira Steven C. Kyle
No. 92-16	Modifications in Intellectual Property Rights Law and Effects on Agricultural Research	William Lesser
No. 92-17	The Cost of Producing Milk as a Management Tool	Eddy L. LaDue
No. 92-18	The Inefficiency and Unfairness of Tradable CO 2 Permits	Jon D. Erickson
No. 92-19	Environmental Costs and NAFTA Potential Impact on the U.S. Economy and Selected Industries of the North American Free Trade Agreement	Duane Chapman
No. 92-20	Capital Asset Issues for the Farm Financials tandards Task Force	Eddy L. Ladue
No. 93-01	Managing Transboundary Water Conflict: The United States and its Boundary Commissions	David J. Allee Leonard B. Dworsky Albert E. Utton
No. 93-02	Segmenting the Milk Market into bST-Produced and Non-bST-Produced Milk	Loren W. Tauer