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Problems with policy analysis tools

Agricultural economists, and general economists too, have a natural tendency to look for and then feature the big theme, the broad generalization. Comparative advantage in international trade, resource combination in production economics, and a host of other examples can be named.

No objection is to be raised. But the soundness of an analysis often rests not on grand design but on its particulars, the workaday tools of our trade. These can be conceptualizations, the data, or even conventional theses that we take for granted without bothering to look into them. If the component parts of our analysis are flawed, the judgments arrived at are likely to be unreliable.

I had planned to write about potentially flawed components in analysis when the First Quarter 1993 *CHOICES* came to my desk. Several of the articles develop the theme I have just stated. I touch briefly here on three of them but for the most part I add examples of misunderstanding or misuse of our workaday tools that I have encountered in teaching about public policy, particularly on the Extension circuit.

And because I am especially concerned for education about policy, I comment also on the closely related matter of how policy issues, or positions taken about them, are characterized. Several articles in First Quarter *CHOICES* offer examples of a trend in use of language that I believe to be unfortunate.

A preference for neutral language

To take up the last point first, my argument is that work in the policy arena should be as nearly neutral and impartial as possible. This rule applies to the analysis and equally to the language of reporting it. In recent years a journalistic touch has been brought into reporting, as catchy words are used that implicitly endorse or deride what is being dealt with.

I cite three examples from *CHOICES*, two unfavorably and one favorably. In writing about the untrustworthiness of personal income data for specified purposes, Gardner says he is “demythologizing” farm income. Of course he isn’t. The myth image, currently popular, doesn’t fit. Gardner is only objecting to ill chosen data series. Another example of innocently intended yet inappropriate language is Harrington and Doering’s labeling their proposal for a new farm program as “reform.” The word may be a

short term for the neutral “reformulation” but it nevertheless implies a value judgment that we in Extension were taught not even to suggest. What the two economists present is a credible alternate.

Schaub and Sumner, by contrast, address common misperceptions about federal budget data in the straightforward terms of “measurement issues and policy.”

Be careful with the data

As I wrote in an article published in the May 1991 *American Journal of Agricultural Economics*, agricultural economists have always been addicted to numerology—statistical data. Fine. But it would be better if they were more scrupulous in both compiling and using the data. Gardner spoke insightfully about this problem in his Fellows address of 1992, and wrote in a similar vein, as noted above, in the First Quarter 1993 *CHOICES*. Gardner puts it that “supine acceptance of data can cause scientific mischief...” (*American Journal of Agricultural Economics*, November 1992). Yea, verily, it can and does.

In his Fellows paper, Gardner names several examples such as the Minnesota-Wisconsin milk price, measures of farm productivity, and a relic from statistical antiquity, data on farm income. In his *CHOICES* piece he centers on farm versus nonfarm income comparisons. His protests about untrustworthy income data are too mild. I would add that aggregate farm-nonfarm comparisons are pointless and have no proper bearing on policy, if for no other reason than that the 5-million farm population and 250-million nonfarm universes are too disparate to be comparable. Why bother?

Perhaps strangely, one facet of the farm-nonfarm income relationship is being revived once again. It is comparative returns to factors. We veterans know that the parity concept began as parity prices, and graduated first to parity of income and then to parity of returns — returns to factors. We spotted quickly the problem with factor returns. It is that farm income is a joint return, and return to one factor, as management, can be derived only by imputing data for another. Return to management can be estimated only by imputing return to capital, and vice versa.

That game has been played recently, as we read in various media that returns to capital in farming compare favorably with those in other investments. Inso-

Harold Breimyer is professor emeritus in the Department of Agricultural Economics at the University of Missouri.

far as the data are reliable, and aside from the imputation issue, all the data tell us is that capital pricing is reasonably efficient. Capital value is anticipated income discounted at the going rate of return. Hence the return to capital in farming can be expected to be on a par with return to other investment. It's all a tautology. We ought not treat it as anything but that.

The old conundrum: supply response

I may chide Harrington and Doering gently for putting a value laden "reform" tag on their proposal for farm policy, but they examine carefully several of the component parts of policy. Of those parts, the crucial one is a functional relationship that has long given economists fits. What, precisely, is the supply response to price in the absence of acreage controls? I think the two authors trust farmers' responsiveness too much, but that's not my point. I only remind that, comparatively, demand analysis is a breeze but in spite of lagged variables and other ingenious approaches, response to the forward planning pricing Harrington and Doering would introduce is one of the partially-knowns in our field. Yet it is crucial to policy analysis.

It is important to recognize which portions of an analysis are highly trustworthy and which are less so.

The aggregation, or micro-macro, dilemma

One major arena in which economists trip themselves is that of the relationship between the individual enterprise (in production or consumption) and higher levels of aggregation. During my years of Extension teaching on public policy I found myself frustrated repeatedly by my listeners' insistence in thinking of the economy as the individual unit multiplied a thousand, or thousand-thousand, times.

Schaub and Sumner, in their illustration of measurement issues and policy, point out that the federal budget "is not the same as a household or business budget." They could have added that a summing of farmers' business transactions is a world apart from the agricultural component of the Gross Domestic Product statistic; that private saving accounts have little to do with an economy's saving; and that thinking of money in terms of coin, paper, or even plastic is a big blunder. As nutshell illustrations, aggregate data for the agricultural sector can be derived from farmers' mail-in records only by a wizard's heroics; much true macro-saving arises in borrowing and currency expansion, a contradiction to personal socking-it-away; and computer records of financial transactions do not fit well with everyday concepts of money.

I add several other illustrations of confusion in aggregation. They begin with the kingpin of all economic statistics, the Gross (National or Domestic) Product. Oldtimers will remember that during the 1950s the Soviet Union reported spectacular Gross Product growth. The USSR, we shrieked, was overtaking us. Cooler economic heads tut-tutted: the Soviets were only monetizing their output.

Is that a far fetched example? If so, try this one. Between 1980 and 1990 our Gross Domestic Product per capita, in real terms, increased 18 percent. A creditable record, is it? During the decade employment of females increased 27 percent. How much did monetization of housework contribute to the increased GDP? Taking in each other's laundry gives a nice but false (or at least misleading) boost to that statistic.

We hear it said that our growing federal government debt threatens national bankruptcy. What an inappropriate extrapolation of individual experiences! The 12 percent or so of the debt that is owed abroad does constitute an economy-wide obligation. The other 88 percent arises in transfer payments and will be resolved, if at all, either by reciprocal transfers or by sneaky inflationary default — all internal. Bankruptcy is an inappropriate term.

Our monetary system is a loose cannon. Much of the monetary value in the system arises in financial-system lending and its "worth" is proportional to the soundness of the loans. Quantity of money is one of the strangest of concoctions, really misleading language.

Summary

I have named here only selected and random illustrative examples of terms and concepts that, if not dealt with discriminatingly, can distort our understanding of economic processes. The field of public policy is particularly vulnerable, owing primarily to our mixing technical and everyday use of the same words, together with the built-in difficulty of separating micro from macro (aggregative) conceptualizations.

The message of Gardner and others calling for care in handling the tools of our trade is timely, a useful reminder to all of us. It is easy to mishandle those tools. Aside from that admonition, perhaps one operating practice can be suggested. It is to make it a point to look closely into one tool each week. It might be a data tool, or a careless leap from micro to macro concepts, or any of a number of ideas we accept as rote. In such a practice, some surprises would be in store! ☐