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# AGRICULTURAL POLICY:

## *It Is Not Necessarily The Best of All Possible Worlds*

by E. C. Pasour, Jr.

There is sharp disagreement among economists concerning the importance of economic education to public policy. On the one side is a view associated with the University of Chicago which argues that government programs that survive in the political process are superior to available alternatives.

In contrast, the conventional view is that economists, through research and education activities, can play important roles in bringing about improvements in public policy. I associate myself with this view. In my opinion there is ample scope for improvement in U.S. farm policy and a productive role for economic education because of imperfections in the political process.

### Chicago Political Economy

Chicago political economy (CPE), a branch of the Chicago school of economics, is a positivist approach that uses price theory to analyze government activity. In CPE, the government is considered a mechanism used by people, their associations, corporations and other economic agents to redistribute income.

In CPE, government programs that survive politically are held to be relatively efficient in the sense that they are considered to be better than available alternatives.

Although George Stigler is the chief architect of CPE, the conclusion that the political process is efficient is supported by an impressive array of studies. Notable contributions have been made by Stigler, Gary Becker, and Sam Peltzman, all economists at the University of Chicago. Bruce Gardner and a number of agricultural economists also have contributed to CPE.

In CPE, elected officials and the bureaucracy subordinate to them are viewed as "perfect" agents of the electorate because, it is argued, politicians are driven by political constraints rather than their own preferences.

For Nobel Laureate Stigler the implications are dramatic for economic analysis—when economists purport to discover harmful economic policies, it is the economists themselves who are mistaken. In the case of the sugar program, for example, he would argue that it is superior to all other ways that income might be redistributed to sugar interests. That is, the sugar program accomplishes the redistribution efficiently—it takes into account all relevant knowledge including information that economists might know and provide. Consequently, when economists find a program to be inefficient, the true account (according to Stigler) is that economists "refused to listen to the society, not that the society refused to listen to the economists."

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The implication for agricultural economists and agricultural policy is straightforward. Agricultural economists have little or nothing to contribute to sugar policy or, more generally to the agricultural policy process. Lawmakers never make wrong decisions!

### Imperfections in the Political Process

The conclusion that policies cannot be improved assumes extraordinary knowledge and foresight on the part of voters and government officials, elected and appointed, and discounts the importance of imperfections in the political process. These assumptions and the imperfections of the political process are why the CPE view is in error and the conventional view of the role of economists is the correct one.

The political process is plagued by information and incentive problems. The information problems can be traced to the separation of power and knowledge in the political process. Those who have the power to act—voters, legislators, or agency decision-makers—always lack crucial information related to availability of resources, production opportunities, and consumer preferences. But, such information, much of which is specialized to time and place, is necessary to select actions in the "public's interest."

Moreover, methods used to achieve a redistribution of income affect the public's perception of the costs to achieve the income transfer. For example, many of those who bear the cost of the sugar program are unaware that they do so. In this case, the sugar program may not be optimal even if there is a tight linkage between voters and

their elected representatives.

It is noteworthy that it is difficult for the public to determine the magnitude of redistribution of income associated with a price support program implemented through import quotas or supply controls. (In contrast the magnitude of income redistribution of direct income transfers like food stamps is more readily apparent.)

Indeed, agricultural marketing orders and price support programs for tobacco, peanut, and commodities that operate through government enforced supply controls, which raise prices to consumers but require minimal outlays by taxpayers, frequently are advertised as being "self help" programs. And more generally, farm programs are made sufficiently complex that it is difficult even for policy analysts much less the general public to understand how they operate and gauge their indirect and less visible economic effects.

Incentive problems in the political process can be traced to the separation of power and responsibility. Again, those voters, legislators, or agency decisionmakers with the power to make changes, do not always bear the consequences of their actions—at least not to the same extent as decisionmakers in the entrepreneurial market process. Thus, the voter frequently is poorly informed and "rationally ignorant." It just doesn't pay to be politically involved.

Legislators with an eye on reelection tend to have a shortrun bias. They favor policies that benefit constituents in the short run which have costs that occur after the next election. Bureaucrats try to maintain and increase the scope of their authority with equally negative effects on the long-run interests of their

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constituents. In short, the political process does not have an effective "invisible hand" that converts private selfish behavior into collective good.

Another problem is that individual voters rarely have the opportunity to vote for or against a particular public policy. Instead, they can usually vote only for individual candidates, none of whom are likely to represent the constituent's preferences on all issues. Moreover, after assuming office, officials subsequently enact a multitude of policies, many of which were not discussed prior to the election.

### Economic Education and Public Policy

Education of the public about economic issues must take into account the role of "rent seeking," using the power of the state to redistribute income to agriculture and other special interests from the public at large. The economic privilege associated with rent seeking in agriculture today is harmful for two reasons.

First, the distribution of the lion's share of the benefits of farm programs to farmers with above-average incomes is inequitable from practically anyone's standard of equity.

Second, huge amounts of time and money are spent by agricultural interests (sugar, dairy, tobacco, and so on) in lobbying efforts to achieve and maintain the favored status. A recent study estimated that the effects of obtaining and maintaining economic privilege

through the political process cost the U.S. economy 22.6 percent of GNP in 1985. Thus, there is ample opportunity to improve the political process by exposing economic privilege in our society through economic education and then by eliminating it.

Economic ideas have consequences for public policy. Milton and Rose Friedman cite the dismantling of the mercantilist structure of government in England during the 1800s, including the repeal of the Corn Laws, as the final triumph of Adam Smith, some 70 years after he argued against protectionism. More recently, economists played a leading role in the economic deregulation movement of the late 1970s and 1980s that notably affected transportation and banking, providing both an intellectual foundation and detailed studies of the effects of regulation in specific industries.

Of course, economic events often can be viewed as consistent with opposing theories, and Stigler shows that the previously described deregulation episodes can be interpreted as consistent with CPE. For example, some may argue that the repeal of the Corn Laws resulted from a shift in political and economic power as England's agricultural classes declined and its manufacturing and commercial classes grew. Similarly, the recent deregulation of major sectors in the U.S. economy might be attributed to shifts in political power attributable to technological innovations, rather than to economic education, including the free trade arguments of economists. These alternative explanations cannot be merely dismissed. However, even if accepted, they do not negate the reality that ideas, information, and understanding from education are important, even in the short run. Cost-benefit calculations by individuals can change quickly in response to new information.

In other cases, public policy may respond slowly to economic education. For example, the elimination of agricultural trade restrictions was seriously considered for the first time under the auspices of the recent Uruguay Round of GATT. This development reflects a growing recognition that current farm programs can be explained by imperfections in the political process. In short, U.S. farm programs are not the best of all possible worlds. Thus, agricultural economists can make an important contribution to public policies affecting agriculture by providing ideas, information, and education that leads to increased understanding by the public.

### For More Information

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