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Looking Back While Going Forward: An Essential for Policy Economists

Otto Doering

Institutions, individuals, and historical precedents have always been important in economic policy decisions, but economists seldom adequately reflect these influences in their conventional economic analysis of policy. It seems that economists' deepening lack of cognizance of society's broader objectives means they seldom try policy instruments that are really new.

Other Paradigms

A number of social scientists have developed different approaches which analyze public policy. Institutional economists, historians, and political scientists began with descriptive analyses, developing their own premises, analytical systems, and predictive assumptions. Economists have allowed their own concern for increasing quantification and precision to narrow their focus, taking economics away from its roots in the broad social science view of political economy. Public choice analysis has recently provided a halfway house for economists because of its similar approach and many familiar assumptions.

Economists have compensated in different ways for the divergence from the other social sciences. One methodological alternative open to economists is to modify another social science and attempt to incorporate it within the economics paradigm. Recent efforts analyzing welfare-transferring policies and social welfare-increasing policies are good examples.

Incorporating modifications from other social sciences is attractive because problems are sliced in a way that economists can understand and trust, making such an approach a familiar and more user friendly one. Economists can apply a degree of mathematical rigor to this approach, folding something like public choice analysis into the analytics of neoclassical economics. Causality becomes clearer, capable of being demonstrated in the familiar terms of the economics paradigm. Such adaptations, however, keep the analytical scope narrow.

Other alternatives are public choice, political science, or historical analysis without adaptation. This route gains breadth but poses special difficulties for economists. It forces them into incompatible situations. Economists must integrate information on variables that differ from those in conventional economic mod-

els, and the two types of information do not always merge easily or conveniently.

In a sense, it is far easier to take the first alternative, concentrate on those variables in other approaches that economists tend to use themselves, and do so in a way that meets economists' notions of consistency. However, my gut feeling is that by forcing other approaches into the economists' box, we lose the strength of the other approaches that we sought in the first place.

We gain a great deal from approaching institutions, events, and behavior as students of institutional economics, history, political science, and public choice. Such an approach helps us understand better how to define policy problems as well as why government acts and when and why people respond to government. Alexis de Tocqueville's *Ancien Regime*, for example, contained heretical (but telling) comments on the impact of institutional structure upon the scope, process, and content of government policy after the French Revolution.¹ He showed how the inherited institutions of the centralized monarchy influenced the new French Republic to behave like its predecessor. Somewhat the same could be said more than 100 years later about the behavior of Russia under Lenin and Stalin following Czarist patterns of political control and economic development.

In contrast to the long-term influence of old institutions, something very different happened in France after the Second World War when effective policymaking occurred only with the creation of new institutions that broke the pattern of their predecessors. Students of comparative government followed the post-war metamorphosis of the French republics with fascination. As in the pre-war period, government after government would crash, unable to cope with national needs. DeGaulle waited in the wings until an institution was created with enough central power to allow the executive and the legislative branches to function effectively. DeGaulle's unwillingness to step into the void until institutions stabilized helped force the creation of such an institution. Effective institutions for decisionmaking and policy implementation were the major forces in determining what was possible and what happened in France, not economic influences as economists now measure them.

Economists cannot ask the right questions about the expected success or impacts of a policy unless they have some appreciation for the other forces at work. This view is stated superbly by Lionel Robbins in his

Doering is a professor of agricultural economics at Purdue University, West Lafayette, IN. He thanks Deborah Brown and Gene Wunderlich for their helpful reviews and Wayne Rasmussen for his sense of agricultural history.

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¹Literature cited in the text is listed in the Bibliography section at the end of this essay.

lecture on "Economics and Political Economy." Some of these forces were once within the ken of political economy but are no longer a part of modern economics. Broad macroeconomic policy analysis suffers as a result.

On a somewhat different level, some of the most helpful public choice analysis includes economic considerations, but economic paradigms are not necessarily the driving force of the analysis. A good example of this is the work of Robert Bish and Vincent and Eleanor Ostrom who come from the government and public administration tradition. They investigated numerous factors that affect the choice of public services and their delivery mechanisms. Their research in public administration led to fresh treatment on many issues of interest to economists—like the identification and analysis of noneconomic factors influencing the cost and quality of public services.

Insightful noneconomics approaches need not be wedged into the economics paradigm to be useful to economists. I am convinced that economists must review and learn from the other approaches, but it is not essential (and may be harmful) to force others' methods into the economist's mode.

Time Frame and Scope Limitations

Economists impose both time frame and perspective limitations on themselves. Current agricultural policy appears to be the product of 5-year flashbacks. Each of the recent farm bills tries to deal with the problems of the previous 5 years. When the environment cooperates, the bill works moderately well. When there is a major change in conditions, Congress has to act again. The process is one of tinkering with existing mechanisms without much discussion of new societal goals or the possibility of a changing environment.

Agricultural policy instruments were mostly forged in the 1930's in response to the cataclysmic events of the Depression. The events of the 1920's and 1930's led to a willingness on the part of the New Dealers to try almost anything. If something did not work, it was jettisoned without ceremony, and something else was tried. Henry A. Wallace, the most politically powerful Secretary of Agriculture under President Franklin D. Roosevelt, ran a free-wheeling show that would have made the White House staff of any recent administration blanch. Little micromanagement of USDA came from the White House, and not much supervision flowed from the secretary's office to the rest of the Department. Apparently Roosevelt was willing to give a number of strong-willed people their head, reining them in only when complete disaster loomed. Wallace did some of the same during his 1933-40 tenure at USDA. This attitude was encouraged by a sense of political self-confidence that lasted until Democrats suffered severe losses in an interim congressional elec-

tion. Opposition to change within government was confined to the small entrenched bureaucracy originally in place. The larger, newly created bureaucracies and institutions initially owed their existence and growth to promoting and implementing change. The policies possible under such circumstances differ radically from policy possibilities today. There is not the national sense of urgency about today's major national fiscal and financial problems that would be necessary to overcome the resistance of today's entrenched bureaucracy. This inaction also limits scope.

Ones Who Looked Forward

During the 1930's, economists with a broad view of agricultural policy were able to create their own program options, anticipating with uncanny accuracy the situations we face today. It is a unique experience for an economist today to read the *1940 Yearbook of Agriculture*, which was the social science yearbook of the Wallace era. Chester Davis's piece on the development of agricultural policy since the end of the First World War sets the stage like an operatic overture. He reminds us that "a nation's agricultural policy is not set forth in a single law, or even in a system of laws dealing with current farm problems. It is expressed in a complexity of laws and attitudes which, in the importance of their influence on agriculture, shade off from direct measures like the Agricultural Adjustment Act through the almost infinite fields of taxation, tariffs, international trade, and labor, money, credit and banking policy" (p. 325). Davis's broad and wise perception was not well remembered, to our cost, in the 1970's with respect to trade, and in the 1980's with respect to money, credit, and banking policy. Davis's candor on issues like the usefulness of parity price or parity incomes as measures of appropriate levels of income support is remarkable. He wonders "whether the objectives of agricultural policy can be once and for all established by a simple exercise in arithmetic" (p. 320).

Howard Tolley's piece in the same *Yearbook*, "Some Essentials of a Good Agricultural Policy," is both prescriptive and prophetic. He asks what farm people want in terms of a good life and defines these wants and their sources. Then he tries to determine policies that would best meet those wants, while taking into account the broad pattern of policy shaped by these wants during the previous decade. Tolley saw the objectives of farm policy during his era to be of three general types:

- "Activities designed to increase incomes of farmers who produce commodities for sale on a commercial scale,
- The efforts to raise incomes and to improve the living conditions of migrant laborers, sharecroppers, subsistence farmers, victims of drought or flood, and others at a disadvantage

within agriculture itself, and

- Activities designed to encourage better land use and more efficient production "

Tolley wrote that "most government programs of both the distant and the recent past have been directed toward improvement in the condition of commercial agriculture. It appears now [1940] that the last two of the groups of activities just listed will receive increasing attention in the immediate future" (p. 1,169)

The remarkable thing about agricultural policymakers in the 1930's was that they were not marginalists in their thinking. The severe nature of the problems confronting them and the inability of existing institutions and policies to cope with these problems encouraged an intellectual clean slate with a willingness (at times, propensity) to develop new approaches and new institutions. Some of Rex Tugwell's social experiments with the Resettlement Administration would be considered radical even today (Tugwell was staff economist undersecretary to Wallace and head of the Resettlement Administration under Franklin Roosevelt). The change that swept through the U.S. Department of Agriculture was such that many activists and visionaries believed that USDA was where the coming social revolution in America would originate.

Looking years ahead and recognizing the importance of resource conservation, Tolley suggested tying program participation to requiring farmers to "follow a system of farming that will more fully conserve the soil or control erosion than does their present system" (p. 1,175). He also recognized the continuing exodus of farm people to urban areas, its impacts, and its potential policy requirements. These architects of new programs did not see mere tinkering at the margin as sufficient to meet present needs, let alone the future goals of farm and urban people regarding agriculture and public welfare.

Marginalists in Objectives and Policies

A critical question today is whether policy economists are now marginalists, by natural selection if not by training. Is the discipline of economics, as we practice it and teach it, largely marginalist? It is not necessarily a bad thing to be a good marginalist. But, at times, our view of what is possible or appropriate for analysis or policy must be broader. For some past generations of economists, the paradigm, the profession, and the political system allowed them to be more than marginalists, especially in times of crisis.

Many persons are concerned about the paucity of new ideas from policy economists. These observers are asking us to cast a wider net in terms of both goals and policies for agriculture, natural resources, and the public welfare. Current agricultural and rural policies appear to have reached the end of the line in terms of

public support, available finance, favorable international terms of trade, and a politically supportable agricultural structure and income distribution. It is not just fate that has caused agricultural program expenditures to be cut 25 percent in the budget compromise of 1990, a much greater proportional hit than any other major program.

Are we looking at continuing marginal changes in agricultural policy and agricultural policy mechanisms, or are we thinking ahead for basic structural changes in both policy and policy mechanisms? Mechanisms aside, how broadly is agricultural policy viewed? Should agricultural policy support *all* farmers regardless of their size and income levels, their environmental and conservation practices, their use of resources (especially subsidized resources like water), or their treatment of migrant labor? Are we continuing to craft farm programs to meet the first goal mentioned by Tolley, "activities designed to increase incomes of farmers who produce commodities for sale on a commercial scale," to the point where this objective by itself is no longer well supported by the general public? Are policy economists just marginalists looking narrowly at single-sectional goals rather than at the breadth of society's goals?

Tolley believed in 1940 that the first goal for agriculture had been sufficiently dealt with. We attempted to address the second goal in the Great Society programs and recently addressed the environmental and conservation concerns in the context of commercial farming policy. At what point should policy economists initiate a broader debate on goals for agriculture and rural people? Fresh and innovative thinking about where we go from here will have to go beyond current policies and their mechanisms and beyond marginal analysis. Marginalists survive well during stability. We are beyond stability, and instability demands something else.

Preparing for an Unstable World

What do those charged with agricultural policy do if the GATT negotiations continue to founder upon agricultural issues, trade wars break out, the United States has a prolonged recession, deficit and financial institutions continue to deteriorate, problems intensify, we continue to sell off productive assets to foreign firms, and all this leads people to believe that economic nationalism is the best approach to deal with our declining world economic power? Is commercial agricultural policy all we really need for agriculture and rural America? Do we finally pay real attention to the broader national policies Davis recognized as being fundamental to agriculture? Is anyone worried about this? Who has been thinking about more than marginal changes in existing policy and institutions to deal with such events?

Policy economists need to do good economics. They also need to be aware of what is going on beyond the economics paradigm. We cannot afford to be methodologically, intellectually, or politically bound in any way that narrows our approach to problem definition or problem solving. Today, the confines of institutional environment, training, intellectual scope, and methodology inhibit economists from exploring a sufficiently wide range of alternative policies and their consequences.

An interest in institutions and their influence, the study of individual and group behavior, and a knowledge of history force an economist to come to grips with things that go beyond marginal analysis. Recent world political and military events have been cataclysmic, not marginalist. This says that robust methodological approaches in economics that can reflect basic structural changes are more important than superior analytical performance that assumes stability. In addition, if we consider noneconomic investigations of human actions only to squeeze them into the economics paradigm, we will forfeit that very breadth and scope economics needs. An increasingly volatile world will require better understanding of fundamental human and institutional behavior. Investigations beyond economics must be used to broaden our perspective and enhance our view beyond the economics paradigm.

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