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Production and uses of subject-matter research in federal service: observations from research on Farmer Mac

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ABSTRACT

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Rapid institutional innovation in the 1980's has led to problems that exceed the scope of research normally assumed by individual researchers. During such periods of rapid change, subject-matter research may be particularly useful. This paper reviews research on the Federal Agricultural Mortgage Corporation (Farmer Mac) and examines its role in the policy debate.

THE FARMER MAC PROJECT

Economic Research Service (ERS) research on Farmer Mac began while legislation was under consideration in the fall of 1987. Farmer Mac is a Government-sponsored enterprise that will guarantee securities backed by pools of agricultural mortgage and rural housing mortgage loans. When Congress passed the *Agricultural Credit Act* of 1987 on 6 January 1988, a draft of our report had already been started (see Tables 1 and 2).

The Farmer Mac report had broad scope. The structure of the secondary market and other provisions of the legislation were outlined. Effects of the secondary market on the agricultural mortgage market were analyzed in a supply–demand framework. Performance of the secondary market for home mortgages and past research on this market were reviewed. Key performance

The views expressed in this paper are my own and do not necessarily reflect official positions of the Economic Research Service or the Farm Credit Administrations.

¹ Currently with Farm Credit Administration, U.S. Government.

TABLE 1
Time horizon for Farmer Mac's institutional development

Months	Action required by 1987 Act	Actual or expected completion data
0	Legislative enactment	1-88
3	Presidential appointment of the interim board	6-88
9	Presidential appointment of the permanent board and its chair	9-88
	Issuance of Farmer Mack stock to potential originators and poolers	12-88
	Election of other representatives serving on the permanent board	3-89
12	Permanent board issues underwriting and pooler certification standards	6-89
16	Congress completes its review of the proposed underwriting and certification standards ²	10-89 ¹

¹ Anticipated date of completion.

² Months from 6 January 1988 is 6 May 1989.

Source: De la Garza, 1987.

elements of the Farmer Mac secondary market were outlined and analyzed briefly. The published paper was roughly 50 pages long (Hiemstra et al., 1988).

The report was released in December 1988 and was well-received. Timing provides the key reason. At that time, the Farmer Mac board of directors had not been elected, a chief executive officer had not been hired and the land appraisal, loan underwriting, and pooler certification standards had not been approved by the Congress (Table 1). The public was just becoming familiar with Farmer Mac and an active policy dialogue was underway. Informed comment was therefore still possible.

SUBJECT-MATTER RESEARCH

Subject-matter research is "multidisciplinary research on a subject of interest to a set of decision-makers facing a set of problems" (Johnson, 1986). Subject-matter research should be distinguished from problem-solving research, which focuses on the particular problems facing an individual decision-maker, and disciplinary research, which focuses on refining research methods.

The operative words in this definition are 'multidisciplinary' and 'set'. One cannot deal with multiple research methods and sets of problems and decisionmakers in great depth and with great scope simultaneously. Either the scope or the depth must give.

TABLE 2

Chronology of events in the writing and release of the Farmer Mac report and related activities ^a

Date	Description of activity, byproduct, or use
09-87	Workplan submitted and literature review initiated
11-87	Publication proposal submitted
01-88	Need for followup work on bank deregulation articulated
02-88	Branch review draft circulated
	Need for followup work on the Farmers Home Administration (FmHA) secondary market articulated
03-88	Outlook article on Farmer Mac's progress published ^b
04-88	Followup empirical work on the farm mortgage market proposed
05-88	Division review draft presented
06-88	Report clears division review and is forwarded to editors
09-88	Efforts initiated to find data suitable to study prepayment rates
10-88	Several short articles and a briefing are proposed
	Summary of project printed in division promotional publication
12-88	Farmer Mac report goes to press
	Request for report and telephone interviews begin to come in
01-89	Presentation made to the ERS 'Thursday Morning Briefing'
02-89	Farmer Mac report reprinted
	Invited address given at a bankers conference sponsored by Farmer Mac
	GAO requests a briefing on Farmer Mac underwriting standards
03-89	Outlook article on Farmer Mac's progress published ^c
	Bank lobby organization photocopies report for distribution
04-89	Farmer Mac report summarized in <i>Farmline</i> ^d
	Comments prepared for industry review of Farmer Mac standards
07-89	Briefing to go over comments with Farmer Mac's CEO and staff
08-89	Study of farm mortgage interest rates and an Farmer Mac update progress presented at a professional conference for agricultural economists ^e
10-89	Invited address given at a professional conference for farm management specialists

^a Hiemstra et al., 1988. ^b Koenig and Hiemstra, 1988. ^c Hiemstra, 1989a. ^d King, 1989.

^e Hiemstra and Lee, 1989.

Source: Author's monthly accomplishments log.

The Farmer Mac report was a legislative review with analysis–policy research, one type of subject-matter research. Two characteristics distinguish this type of policy research. First, researchers must deal with high levels of uncertainty. Dialogue can be broken off at any point as priorities shift so the demand for research is subject to wide peaks and troughs. The risk of wasted effort grows with the length and narrowness of the project. Second, timeliness presents both a challenge and an opportunity. The policy dialogue may

significantly redirect the course of research. Timely knowledge generated by research may significantly influence policy, provided that researchers establish credibility and play by the rules of the game.

The more widely research is circulated, the more likely the researcher will participate in the policy dialogue. Telephone interviews, invitations to speak, and followup research prod the researcher to become progressively more involved in the dialogue. In theory, the researcher's involvement can take the form of 'educator', 'entrepreneur for efficiency', or 'ideological combatant' (Nelson, 1987). In practice, media communication leads researcher and audience to perceive different roles. This result may also arise because research has different constituencies. Each may express different needs and interests.¹

RULES OF THE GAME

Successful research requires both technical and organizational skills. The project must be accepted as an agency priority, credibility must be established, and the authors must play by the rules of the game. Corners can be cut, but if these items are not properly managed even a well-written manuscript with an audience may languish in the review process.

1. Project recognition and initiation

Research begins when one defines an area of study. A research proposal is drafted and substantive work typically begins once a publication proposal has been prepared and reviewed by supervisors. The Farmer Mac proposal was quickly accepted because congressional passage of the legislation was imminent and the workplan encouraged submission of a proposal.

Desire does not assure action. The value of research is often discounted until proven both doable and useful. Proof usually means publication with favorable reviews. Followup research is typically easier and may have competition.

The Farmer Mac research proposal had two additional strikes against it. First, data for empirical study was not readily available. An issue dealing with commercial banks or thrifts more narrowly might have attracted more attention because regulators collect vast data sets in quarterly call reports.

¹ An example of differing perceptions arose at one point in a panel discussion of Farmer Mac before an audience of country bankers. After several references to the 'need to clarify' ambiguous points in underwriting standards outlined in the legislation, I was reprimanded by another panelist arguing that such points should be "determined by the market." He clearly interpreted my request for clarity as advocacy for regulation.

Second, the wide scope of the Farmer Mac issue discouraged research. Understanding Farmer Mac required a grasp of roles of competing lenders, secondary markets more generally, and the particular curiosities of the legislation itself. These factors motivated the formation of a work group.

A work group solved several problems. First, individuals in the group may bring different perspectives, skills, and informal contacts to the research accelerating movement down the learning curve. Second, a work group provides a first step in the review process. Third, a work group can reduce potential problems arising out of the division of labor ('turf' problems). Fourth, group efforts may probe deeply into the subject matter and may enhance the motivation of individuals, provided that the group gets along.² A good work group can enrich the research experience, improve product quality and productivity, boost credibility, and provide organizational continuity over time.

Before the establishment of our work group, little or no substantive analysis had been done on the secondary market for agricultural mortgages³. The proposal for a secondary market—a market in which lenders sell their loans to investors—was drawn up by analogy to the secondary market for home mortgages. Early papers discussing this proposal cited probable benefits of such a market uncritically. Most public testimony on this proposal was drawn from lobbyists familiar with the home mortgage market and agricultural banking (De la Garza, 1987). Analysts at the General Accounting Office (GAO), Farm Credit Administration, and the Department of Treasury provided technical analysis to support the legislation.

Where research gets done can make a big difference, even if a mandate and jurisdiction over the topic seem to be in hand. Several reasons for this can be cited. Different supervisors have differing interests and research priorities. Levels of experience, career objectives, constituencies, and attitudes towards research can all affect priorities. Attitudes towards research can be important. Entrepreneurial researchers and supervisors sometimes view subject-matter research as inherently inferior to disciplinary and problem-solving research because it often has important public good characteristics that make benefits more difficult to identify and capture. Attitudes

² The advantages of group effort are often encouraged by supervisors. Staff conflicts arise when group efforts are imposed on individuals that do not otherwise get along.

³ A notable exception to this statement was a study done by Kaufman (1987), a business economist, who attempted to answer the question as why private lenders failed to establish a secondary market without Government assistance. Kaufman's work focused on the value of agency status in promoting a secondary market.

After the Farmer Mac report appeared, GAO (1989) published an analysis of Farmer Mac's underwriting standards that went far beyond the descriptive work published earlier (GAO, 1987).

towards risk can also affect research. If a supervisor is unwilling to accept the risks posed by policy-sensitive research on behalf of subordinates, even completed research can be delayed or frustrated entirely.

The most important determinant of priorities is timing. Administrators and pastors both talk about 'teachable moments'. A teachable moment is a period when counsel is sought and perhaps acted upon. Subject-matter research produces some knowledge about what is or what ought to be. There are times when this knowledge is sought after and times when it is not. If research results are inconsistent with stated policy or potentially embarrassing to an official, it is unlikely to be taken seriously and can result in a swift reprimand. Recent examples of obvious conflict between research results and stated policy suggests that more tolerance exists among political leaders in this respect than is often assumed.⁴ This underscores the point that research can enter a policy dialogue, even if hotly contested, if researchers maintain administrative support and their research is both credible and timely.⁵

2. Establishing credibility

Establishing credibility in a policy dialogue is an ongoing challenge. Participants in the dialogue include agency supervisors, lobbyists, policy beneficiaries, the media, and policy-makers in the Administration and Congress.⁶ Knowledge concerning the dialogue can be widely and unevenly distributed among participants. Research is normally useful to some participants and useless to others.

⁴ The clearest example came with the release of the Trade Embargo study in 1986 (Lee et al.). The study reached the conclusion that the 1980 trade embargo against the Soviet Union had no measurable effect on U.S. agricultural exports. This result was in direct contradiction to numerous Presidential speeches. Notwithstanding, when questioned by the press, the Secretary of Agriculture denied having approved the research and did not reprimand the researchers responsible.

⁵ GAO analysts, for example, have their reputations on the line constantly. If their administrators lose interest in a program, it becomes obvious quickly because staff members may experience constant intimidation from program agency administrators. Even legislatively-mandated research can be quelled in this context if GAO administrators are unwilling to bear the heat.

⁶ The idea of a dialogue is much less pejorative than the old notion of an 'Iron Triangle' involving Congressional subcommittees, specific agency heads, and interest groups and is probably more accurate. The existence of an Iron Triangle in today's policy environment is much less likely than perhaps in years past because the media, other Federal agencies (such as the Office of Management and Budget, the U.S. Department of Treasury, and the Office of the Special Trade Representative), and cross-issue interest groups are increasingly willing to enter into the minutiae of policy discussions than might have been true even a few years ago.

The formalized process for establishing credibility is the agency clearance process. The formal clearance process combines peer review, review by supervisors, and manuscript editing. Because of their technical expertise and role in brokering information and in career advancement, supervisors are the most important part of this process. Support for research by immediate supervisors is not always necessary for research to be done, but the usefulness of the research must be demonstrated to supervisors within a reasonable length of time. The chief mechanism for keeping interest up during the formative stages of research is to prepare periodic status reports and to publish short articles on related topics. These activities bolster administrative support for long-term research.⁷

The need to set out rigid timetables in manuscript preparation and review and the realization that the best reviews are not always the most gratifying often make clearance stressful. Informal reviews sometimes speed the process.

Informal reviews are reviews not required for formal clearance and may precede or follow the formal review. They become important when little or no expertise exists in the agency with respect the subject-matter and when it becomes expedient to include dialogue participants in the review. An informal review straddles the line between review and release.⁸ It typically involves a pledge by the author not to circulate the draft too widely and by the reviewers not to quote the report until the final report is released. A fair amount of trust must accordingly exist among everyone involved. The informal review of the Farmer Mac report was extensive focusing on former colleagues with subject-matter expertise and knowledgeable Government and academic researchers. Trusted lobbyists and congressional staffers may be included in an informal review to get a feel for political sensitivities. Consultants and analysts in private firms are typically excluded from informal reviews because of their proprietary use of information.

Publication is an important part of the process of building credibility. Subject-matter research may be difficult to publish in cases when the agency possesses a large reserve of unpublished knowledge. Subject-matter research may be viewed as pedantic or a threat to the established division of labor.

⁷ The Farmer Mac research was pursued actively roughly from August 1987 through November 1988. During this time I published a short research paper on an unrelated topic—a bridge project from a previous assignment, co-authored an outlook article on Farmer Mac (Koenig and Hiemstra, 1988), and reviewed several pertinent books for journal publication (Hiemstra, 1988 and 1989a). The outlook article clearly opened up our results for their first public view.

⁸ An informal review should not be confused with leaking a report, although the effect is sometimes the same, because a leaked report normally involves a breech of administrative trust, that is, an end-run around supervisors.

The author may need to provide a strong case for why circumstances warrant publication. Skepticism about the usefulness of a publication may, however, indicate that publication was simply untimely in the past and that frustration exists because previous work went unrecognized. Open opposition to research may also occasionally arise. It is usually motivated by conflicting perspectives or jurisdictional disputes. On such occasions the only really helpful defense is to argue that no corners were cut in the review process and to show proof.

When a reserve of knowledge exists in the agency, it should be respected and whatever is useful should be incorporated in the research. Even if the publication goes forward, however, it is should recognized that internal acceptance of the author's perspective and conclusions generally follows rather than precedes publication.

A final rule goes without saying. The freedom to participate in a policy dialogue is a privilege, not a right for researchers. A researcher may earn the right over time to enter into dialogues pertinent to specific research results or be strictly forbidden to discuss the research with other participants to the dialogue. Timing, overall credibility of the researcher, sensitivity of the subject-matter, and the attitude of supervisors all have an impact on the freedom enjoyed. In the case of the Farmer Mac dialogue, the authors were—after a point—given guarded encouragement to interact with dialogue participants.

INTERNAL USES OF THE RESEARCH

The existence of an ongoing external dialogue often generates an internal dialogue. The internal dialogue can take on a life of its own, drawing increasingly larger numbers of researchers into related work groups, ordering research priorities, and stimulating spinoff research. Successful researchers can generate enormous visibility for their work. Successful supervisors accordingly work hard to channel internal dialogue around agency objectives and mediating friction among researchers.

Subject-matter research often assists in defining problems suitable for incorporation in the workplan and future research. Ideas generated in subject-matter research often lead to more focused disciplinary and problem-solving research. Friction arises when researchers attempt to control followup research when related work was in progress. Because Farmer Mac has not been extensively researched, this type of conflict has not been a problem.

The Farmer Mac project began yielding followup research even before its report was completed. Early research suggested the need for separate research on a parallel secondary market established by the same legislation for

Farmers Home Administration (FmHA) guaranteed loans. Early insights also led to a study of legislative proposals to repeal the Glass-Steagall Act⁹ (Hiemstra, 1990), agricultural mortgage prepayment rates (Rossi, 1989), and the structure of the primary market for agricultural mortgage credit (Hiemstra and Lee, 1989).

Imperfections in the market for information shape the roles played by researchers and supervisors. If researchers participate primarily as producers in the information market, then supervisors participate primarily as brokers. These roles can be mixed and individuals prefer different mixes. Whatever the mix, the vitality of the agency depends on these relationships being well-ordered. The existence of scale economies (a 'learning curve') in producing and brokering information suggests that efficiencies accrue when researchers and supervisors specialize. Uncertainty in judging the quality of research also suggests the need to specialize.

While the need to specialize in research is well-recognized, it is not widely understood why supervisors should specialize in serving as information brokers. Substantial prejudice exists against supervisors that openly and effectively broker information. An effective broker interprets information, communicates what is useful in a given context, and provides credibility to information produced by subordinates. This later function is most important because in an environment of uncertainty policy-makers seek the counsel of personal acquaintances. As a consequence, there is substantial product-differentiation in the market for information and being 'well-known' or establishing a 'reputation' is analogous to the phenomena of a brand name in food retailing. Experienced supervisors can therefore lend their credibility to the work of lesser-known subordinants and expand the prestige of the entire agency through brokerage. Resentment arises when brokerage is undertaken strictly for motives of personal advancement.¹⁰

The clearance process tends to promote supervisory brokerage. Ideas picked up from research may enter a dialogue without the authors' knowledge. Researchers resent this brokering because once research is published participation by the author in the dialogue becomes redundant and the discussion has already moved on to new items. The increasing tendency of supervisors to delegate publication review, however, reduces this kind of brokering. The development of a separate clearance track for staff requests

⁹ The National Bank Act of 1933, commonly referred to as the Glass-Steagall Act, forbids commercial banks from underwriting most classes of private securities.

¹⁰ Agency political appointees often attach their names to papers ghost-written for them. This activity is normally accepted without comment for popular audiences. Credit taken for papers presented to professional audiences is, however, another matter.

(specific information requests from policymakers that come down the line) also tends to reduce the brokerage of research when staff work and research are done by separate analysts. These two developments often allow researchers more freedom to speculate in producing information and, in some cases, to integrate forward in information markets to broker their own product.

Subject-matter research provides the researcher with a means to broker information. In providing a broad review of issues, subject-matter research links technical knowledge gained from previous research to the current policy dialogue. When the researcher lacks credibility relative to the subject-matter, credibility must be sought by some other means. This can be done by forming a work group to undertake the task or by being absolutely thorough in communicating and documenting the source of ideas.

The Farmer Mac report devoted a lot of space to interpreting the results of financial research within the context of the proposed legislation. In this sense, it focused on the brokering of published research from the finance literature. The dialogue on Farmer Mac was new at the outset, involving an entirely new set of participants. For this reason, the report received much more publicity than is typical of research reports and the authors enjoyed greater freedom to enter the dialogue. Had Farmer Mac been with an established institution, much of this legislative interpretation might have been handled through staff work and research on Farmer Mac would not have received wide circulation.

EXTERNAL USES OF THE RESEARCH

The value of research is measured in terms of who uses it and how often. The demand for research during a policy dialogue can be strong because participants will request information informally over the telephone and formally through staff requests. It is hard to know how the information presented is actually used, however, because some information is available from other sources and the policy dialogue moves on quickly to new issues.

1. General observations

Policy research success can be measured in terms of requests for information and the establishment of relationships with dialogue participants. The status of the requester and the intimacy of the relationship established provide further indications of research success. Other performance indicators include opportunities for followup research, reprints of the report, invitations to speak, agency research awards, and promotion.

We did not anticipate the strong interest in our research on Farmer Mac. A legislative overview with analysis does not necessarily add much to the

stock of knowledge although it makes existing knowledge accessible to a wider audience. In this sense, we were surprised to discover that even basic knowledge about the agricultural credit and securities markets was limited to those with a background in agricultural lending and investment banking, respectively. There did not even seem to be much cross-fertilization between the two. The Farmer Mac report therefore quickly found a niche in appealing to both groups and served to educate those who did not fall into either group, such as farmer borrowers.¹¹

This observation did not become apparent early in the project. We discovered it in discussions with other Government analysts working with credit and securities markets. Ongoing relationships were established with the Farmers Home Administration, the FCS, with the Office of Management and Budget, and with auditors in the GAO responsible for the Farmer Mac legislation. In comparing notes we found our conclusions being accepted as authoritative even before we were convinced that we had gotten the facts straight. Only after a number of informal reviews were completed did we become confident of our own work.

The opportunity to address a conference of country bankers proved to be the most revealing in this respect. Over 90% of the stock issued by Farmer Mac to private lenders was sold to small rural bankers in the Midwest, such as those attending this conference. Several important insights evolved out of the discussion. First, both lenders and poolers were represented on the Farmer Mac Board of Directors, but only the poolers appeared to understand the proposed secondary market. Second, poolers at the conference viewed lenders as mortgage brokers while we had assumed that lenders would function primarily as portfolio lenders (that is, speculators). Third, discussion of loan underwriting and pooler certification standards revolved around the types of loans that would be sold in the secondary market. Poolers were particularly interested in this discussion because farm mortgage sales are likely to generate too low a volume of business to support active security trading and more than a handful of poolers. Poolers therefore argued for standards loose enough to include types of loans in the market that were not envisioned by Congress.

This discussion of standards underscores a source of frustration in our research. The highly technical nature of secondary financial markets made it

¹¹ Our chief competition in providing a description of the legislation came from members of the Farmer Mac Interim Board of Directors who offered their expertise in expensive workshops held around the country in the fall of 1988 at the time of the Farmer Mac stock issue. We offered for free what was sold for hundreds of dollars through these conferences. Our report was appreciated enough that several financial firms and at least one lobby group photocopied the entire report and circulated it among their employees/members.

difficult to find knowledgeable reviewers who did not have a proprietary interest in the legislation. The interpretations of the legislation provided to us and to the public were often deliberately biased towards the position being taken by one lobby or another, much like the bankers at the conference cited above were told they would be brokers. Several attempts to influence our interpretations were made which might have turned our research into disguised promotional literature. Our research played an important role in highlighting ambiguities in the legislation promoted by lobbyists who saw a need to provide Farmer Mac greater market discretion than Congress publicly espoused. Important ambiguities arose in connection with the handling of reserve requirements, the role of the FCS, and, as cited above, the role of lenders (brokers versus speculators).

Our inexperience left us vulnerable to manipulation, but we were less vulnerable than if our research had not been more narrowly defined. In followup research on bank deregulation, for example, the use of economic research focused on efficiency arguments left bank safety and soundness concerns substantially under-represented in the policy dialogue (Hiemstra, 1990).¹² Policy-makers aware of this omission were hard pressed to make up for the loss, in part, because their arguments did not carry the credibility of well-known researchers.

These kinds of omissions are widespread in policy dialogues and private interests are quick to subsidize narrowly-defined research. Subject-matter research with more public-good characteristics is, by contrast, less-frequently financed by the private sector.¹³ The private value of research may, under some circumstances, be directly related to its use out of context.¹⁴

¹² Nelson (1987) used the deregulation controversy as a case study in the role of economist as advocate. The emphasis on efficiency is not accidental, but rather stems from the leading role played by economists in the deregulation debate. Unfortunately, the experience of financial deregulation to date suggests that the preoccupation with efficiency in this debate may do more to discredit economists than add to their prestige as the public becomes more aware of the genesis and cost of the thrift crisis.

¹³ Private research institutions with broad constituencies, such as the Brookings Institution and the American Enterprise Institute, finance some of the best policy research available.

¹⁴ A particularly notorious example of this recently arose in the securities industry when it was discovered in a Harvard University study of low-grade ('junk') bonds than a previous study substantially understated defaults and overstated the profitability of these bonds. The earlier study, financed by an industry group and done at a university with close industry ties, measured defaults as a percent of outstanding issues rather than looking at defaults over the life of the bonds. The difference is significant because most outstanding low-grade bonds have been issued in recent years and default rates rise with the age of the bond. Default rates in the Harvard study therefore measured at 34% of sample portfolio versus 2% in the earlier study (Winkler, 1989).

The wide scope of subject-matter research provides a context that makes it difficult to magnify highly improbable relationships and to extrapolate from low-probability events. Wide scope therefore makes subject-matter research more objective in the sense that the role of judgment—the assignment of probabilities to events and relationships not well-understood—is more transparent.

2. Observations on particular constituencies

Our research on Farmer Mac had a number of specific constituencies and each group tended to confront different problems with the proposed market.

The media in the dialogue over Farmer Mac can best be described as agricultural financial newsletters, newspapers, and magazines that cater both to farmers and farm lenders. The general agricultural publications have not tended to take much interest in Farmer Mac. Editors of these publications take one of two views in their work. Some focus on disseminating information to market participants on how Farmer Mac is expected to function. They quote published information uncritically and their requests for information center on the basic questions: who, what, and when? Others focus on participating in the policy dialogue. At each point in the legislative process, they telephone a wide variety of dialogue participants to size up positions. Their questions are usually highly technical focusing on specific research conclusions.¹⁵ They may also express strong personal positions on these issues.

Market participants include private agricultural lenders (agricultural banks and life insurance companies), FCS institutions, and prospective poolers. Roughly 1500 lenders and 30 poolers purchased Farmer Mac stock with the intent to participate in market operations. Because the secondary market is a wholesale market for agricultural mortgage loans, borrowers do not participate directly in the Farmer Mac market. This latter point has, however, sometimes been misunderstood because other government-sponsored enterprises have been more directly involved in primary markets.

Two important controversies have arisen among participants in the market. First, what will be the competitive relationships among lenders and poolers, and between private lenders and the FCS lenders? Second, how large is the secondary market likely to be and how many poolers will survive? Prospective

¹⁵ Telephone interviews (summer 1989) have been prompted by the congressional review of Farmer Mac's land appraisal and loan underwriting standards. Typical questions have focused on the pricing of Farmer Mac securities relative to Federal Land Bank bond issues and the eventual size of the market. The Farmer Mac report basically answered the latter question. The pricing issue was only analyzed in the broadest of terms and has required additional research.

tive poolers were the best informed on both of these issues as evidenced by their public testimony in hearings on the Farmer Mac standards and by their actions in setting up networks to purchase agricultural mortgage loans. Serious errors were, however, made by investment bankers anticipating market size and pooler management requirements that may be linked to the weak market analysis included in the prospectus accompanying the Farmer Mac stock issue.¹⁶ The Farmer Mac report clarified some of these issues, but it came out after the stock issue had been closed.

The FCS and the Farmer Mac board apparently made extensive use of the Farmer Mac report – each requested about two dozen copies of the report. One can only speculate on what information proved most useful to them. The focus of followup discussions has been on security pricing issues.

Other professionals have also contributed to the policy dialogue. As with the media, there are two groups of participants. The first group consists of professionals that work for organizations involved in the policy dialogue and the prospective market. The FCS, the various Federal departments, the congressional committees, lobby organizations, private lenders, and poolers have all employed financial experts in preparing their positions. For the most part, the work of these professionals has been considered proprietary information and has not been made available to the public. The same is true of most of the data that might conceivably have been used to study this market. The second group consists of relatively independent professionals that have been free to publish their research. While this group is potentially quite large, the startup costs in understanding the technical details of this market are considerable. Of the half dozen full-length reports published on this market, most were prepared by GAO. The Farmer Mac report remains, however, one of the few to survey the range of public policy issues.

The direct contributions of the Farmer Mac report in the policy dialogue remains hard to judge with any precision. Informal requests for briefings and copies of the report have suggested interest in our research. To date, however, formal requests for staff work and testimony have not as yet been received.

CONCLUSIONS

Research on Farmer Mac proved useful, even though it added little to the overall stock of knowledge on agricultural credit and securities markets,

¹⁶ The prospectus focused on a description of the legislative requirements and an overview of the agricultural mortgage market extracted from financial outlook publications. No attempt was made to gauge the eventual size of the Farmer Mac secondary market. Even though Farmer Mac securities must be registered with the Securities and Exchange Commission, Farmer Mac stock was not.

because it was available during the policy dialogue. It served primarily to even out the distribution of knowledge about these markets among dialogue participants.

Subject-matter research may likewise be more useful in periods of rapid structural change and general uncertainty than in periods of less turmoil. If the rapid pace of institutional innovation in our times requires that more subject-matter research be undertaken, then clearly researchers need to increase their awareness of how their research is being used and their willingness to delve into research topics that cannot be approached with highly refined research techniques.

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