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THE FIRST ELMHIRST MEMORIAL LECTURE

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*On Economics, Agriculture, and the Political Economy**

The increase in the economic value of agricultural products since 1972 raises several important questions. Are the high world prices of these primary products here for the long pull or are they transitory prices? The answer, as I see it, depends in large measure on what governments do to agriculture. What then are the agricultural cost implications of the acts of governments? In this context, the issue of value and price can be put as follows: Are the underlying costs such that world agriculture could produce over the next decade and longer a supply of products that would be adequate to equate the demand at substantially lower relative world prices than the prices that prevailed during 1974 and 1975? I shall argue that the technical and investment opportunities to increase agricultural production are such that the answer to this key questions is in the affirmative. But this is not to say that these opportunities will be realized. It is not a prediction that governments will act appropriately.

I take it to be obvious that what governments do to agriculture differs greatly from country to country. It is also obvious that the economic performance of the agricultural sector differs markedly among countries. What is not obvious, however, is that much of the difference in the economic performance of the agricultural sector is a consequence of what governments do to agriculture. Most agricultural economists see this issue as too controversial and too unsettled for analysis. Some will say that it entails special values, welfare objectives and the maintenance of political authority and that these are matters that go beyond positive economics. It is my contention, however, that economics can deal with major parts of this issue, and that economists can evaluate the economic effects of what governments do to agriculture.

To suggest what I have in mind, consider the marked differences in the responses of agriculture throughout the world beginning in 1973 to the sharp rise in the economic value of agricultural products. The actual incentives that would warrant an expansion in production by farmers varied widely from country to country. A large part of the differences in these incentives is the result of actions taken by governments. Accordingly, the 1973–1975 period is akin to an "ideal" experiment to measure the influence that governments

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had on incentives and to determine the effects that these differences in incentives had on the production responses of farmers. I shall be returning to this "experiment" presently.

Using Viner's definition, agricultural economics is what agricultural economists do. Much of what they do is done well. The use of theory in empirical work has been justly praised by Wassily Leontief in his American Economic Association presidential address. He criticized the drift in economics toward theoretical assumptions with insufficient concern about observable facts. He noted, however, that "an exceptional example of a healthy balance between theoretical and empirical analyses and of the readiness of professional economists to cooperate with experts in neighboring disciplines is offered by Agricultural Economics".[1] Professor Leontief's assessment, however, is only part of the story. It is true that we who are agricultural economists know a good deal about soils, agronomy, crops and livestock, and we stay abreast of the contributions of agricultural scientists. We are not naive and simple-minded about the role of farmers as workers, capitalists, and entrepreneurs. We are skilled in using modern quantitative techniques, and occasionally there is one among us who contributes to their advances. Our studies of the management and production of farms are guided by the theory of the firm, and our macro models are designed to deal with agriculture as an integral part of the general economy. But what Leontief fails to see is the increasing opposition to economics in social and political thought, the debasement of economics by governments, and the unwillingness or inability of economists to challenge this adverse drift. That "healthy balance between theoretical and empirical analyses", attributed to agricultural economics, does not suffice to make this challenge.

This opposition to economics is not confined to either the low or the high income countries. Nor is it restricted to a particular type of government. It is not limited to agriculture, for clearly other parts of the economy are not spared. Most of the high priests of national and international politics, whether they speak for the first, second or third world, are at heart contemptuous of economics. But despite differences in political organization, in cartels, in marketing boards, in commodity agreements and in internal pricing of factors and products, *there is no free lunch*. The hard realities of the costs of producing goods and services are not abolished by either national or international politics. Herein lies not only the hope but the necessity of economics.

The easy road is to accommodate opposition. But the utility of economics is reduced by making it ever more permissive. Although corporations, labor unions, farmer organizations and consumer advocates perform useful functions, they are not innocent economic agents for they do conspire to exact benefits for themselves at the expense of others. To disassemble economics for the purpose of serving the special interest of these organizations is to sell economics short. While it is also true that governments are necessary, to make economics subservient to them regardless of what they do to the economy is to take the heart out of the utility of economics. What all this implies for us in agriculture is that it will not suffice for agricultural economists to take the particular economic goals of governments as given. For economists to proceed in this manner means that economics becomes hostage to government. When this occurs, and it can be readily observed, the result is that economists become "yes-men" in the halls of political economy.

I believe that the core of economics is sufficiently robust to evaluate the cost and welfare effects of various political-economic institutions. One need not become stranded on value judgments. No doubt I am now vulnerable; I obviously need a cloak of credibility. It is at hand from the pen of my colleague, Harry G. Johnson.

> One of the penalties or privileges of advancing age and professional maturation in an academic career in the social sciences is that one is forced to think in terms of progressively broadening frames of institutional and cultural reference. The young economist . . . comes out of the graduate student mill with a narrow range of specialized skills and the stamp of his teachers' ideas heavy upon him. He makes his way initially by applying his skills . . . in an institutional and social context taken as an immutable part of his environment. Only as he acquires self-confidence, on the one hand, and abrasive experience of the larger . . . world, on the other, can he afford again to accord himself the liberty to question society's institutions . . . .[2]

Needless to say, agricultural economists are not renowned for their critical evaluations of the economic effects of various political institutions on agriculture. At a more general level, the positive implications of value and price become weaker as economists become more permissive. To reach the Promised Land, never introduce value-judgments into your analysis, always screen your assumptions with great care to make absolutely sure that they are not contaminated!

There are two academic styles for dealing with economic assumptions and value judgments. From the twenties to the fifties it was the style to question the assumptions of theoretical analysis and dispute the value-judgments asserted to be implicit in the theory. It has been called, quite properly, "negative economics".[3] Since then the emphasis has shifted to whether or not the implications of the economic theory, given its assumptions, are validated by observable economic behavior. This approach has become known as "positive economics".

It is not difficult to question the simplistic assumptions of the early English economists. Nevertheless, particular implications of their theory are valid empirically, for example, that the removal of the tariff on imported wheat increases the real income of the working class. Marx accepted this implication of the tariff on wheat and called this tariff a "bread tax". Despite the criticism levelled against the assumptions on which Marx's theory rests, one of the implications of his theory is that technical advances in agriculture over time reduces the income share of landlords. The economic history of the high income countries strongly supports this implication. There are, however, other parts of classical theory and of Marxian theory that fail to meet the test of positive economics.

The analytical task that I deem to be possible and necessary need not be confined to current developments. Economic history is replete with political-economic experiments from which we can draw information. To gain an historical perspective, I shall begin with an account of the interactions between social thought and the institutional order to show the rise and decline of particular political-economic institutions and the apparent reasons for the instability of these institutions. I shall then consider some of the more important economic effects of various political-economic institutions on agriculture currently and in the recent past.

1. INTERACTION BETWEEN SOCIAL THOUGHT AND THE POLITICAL ECONOMY

I shall appeal to three assumptions, namely, that social thought consists of various social, political and economic ideas, that the dominant social thought shapes the institutionalized order of society (country), and that the malfunctioning of established institutions in turn alters social thought. The ideas that are embodied in social thought are of two historical types: those that rationalize and contribute to the codification of the prevailing order, and those that arise in protest to the established order which become embodied in social thought and then become strong enough to induce a real alteration in political-economic institutions.[4]

The mercantile economy that prevailed for at least a century, for example in England, prior to 1776 was buttressed by the established Church and the Law. It was also rationalized by the economic "literature" of that period which provided support for governmental restrictions on trade, on internal prices and wages and on migration – *restrictions which have once again acquired a modern ring.* The advocates of mercantilism had a theory which implied that keeping wages low increases the national product. It is this implication that provided support for the utility-of-poverty doctrine.

In retrospect, the utility-of-poverty doctrine of that period is startling not because it is no longer pursued by many countries but because it was so openly supported at that time. The doctrine held sway for a century in English history during which the poverty of the lower classes was declared to be desirable. Between 1660 and 1776, the mercantilism of England produced an intricate system of foreign and domestic policies, and it sought to rationalize the utility of poverty. Edgar S. Furniss[5] in his prize-winning Hart, Schaffner and Marx essay devotes a long chapter to "The Doctrine of the Utility of Poverty". The beliefs of illustrious individuals of that period should increase our ability to doubt the social thought of any period. Thomas Mun's view was that "penury and want do make a people wise and industrious". Arthur Young asserted that "every one but an idiot knows that the lower classes must be kept poor or they will never be industrious". John Law argued that "laborers were to blame for recurring high prices because of their insufferable habits of idleness contracted when food was cheap". William Petty joined in this chorus. There should be taxes on consumption and out-migration should be curtailed. Charity was thought to be the nursery of idleness. A larger population would keep the laborers poor, and immigration should be encouraged. George Berkeley, Bishop of Cloyne, proposed to reward parents of large families and to tax families with no children in support of the doctrine of the utility of poverty.[6]

One of the contributions of the classical economists was to show that, contrary to claims of mercantile economists, low wages imposed by governments reduce the national product. I view their analysis bearing on this issue as an excellent example of positive economics.

The ideas that are associated with liberalism emerged in large part as a protest to the adverse social and economic effects of mercantilism. The basic ideas of liberalism gradually developed into a strong internally consistent body of social thought, and over time liberal political and social institutions replaced mercantile institutions. 1776 has become a convenient birth year of liberal thought. What is often referred to as the bible of economics, namely the *Wealth of Nations*, carries this date. The argument of Adam Smith rests on the proposition that people, in responding to their own diverse self interests in their economic activities in an open competitive economy which is not fettered by private and public monopolies and which is supported by a political order in which the functions of government are greatly restricted, will maximize the social product. The economics of Smith became an integral part of the core of liberal social thought which, over the decades that followed, profoundly altered the institutionalized functions of many governments.

In Adam Smith's economy there is no room for the doctrine of the utility-of-poverty. The utility that matters is revealed by what people do in serving their own self interests. Smith's argument for an open competitive market implies free trade and a free labor market paying wages that are not fixed or restricted by government. It also implies that people are free to migrate from farms to towns and to leave the country if they choose to do so. Migration boomed in response to changes in institutions and to the economic opportunities associated with economic growth and the related growth in population which in turn also induced migration. Even in Russia of that era, we have August von Haxthausen's[7] account covering his 1843 tour into Russia of the liberal approach of that government in the opportunities that it accorded the Mennonites and Hutterites.

But the actual performance of the institutionalized liberal political economy in turn gave rise to protests which featured what was seen as a critical flaw of the liberal economic system, namely that it favored private property rights, and in doing so it gave rise to capitalism and to industrialization with insufficient protection of the rights of labor. The ideas advanced to correct this flaw are embodied in a body of social thought that calls for a political-economic order in which the functions of government are much enlarged, even more so than they were under mercantilism. As social thought it is viewed as socialism; as a political-economic system, it ranges from centrally planned economic development to a system of command economics. The ideas that emerged from these protests prior to those of Karl Marx called for various forms of socialism. The contributions of Marx, however, came to dominate the political and economic foundations that are required for socialism. The response to Marxian ideas has altered greatly the institutions of many nation states, and as noted, the economic functions of the governments of these states are much enlarged.

An essential part of the argument in support of socialism is that an open competitive system is blind and that the self interests of people must be directed and controlled in order to achieve efficiency and equity in economic development. Prices, wages and migration are instruments to be used by government in achieving its goals.

There now are signs of a nascent neo-liberalism. Because of the dependency of socialism on a vast increase in the functions of the government, which in some countries consists of strong authoritarian nation states, and because of the now widely observed adverse effects that the governments of these states have on personal freedom, protests akin to those of two centuries ago are once again the order of the day.

The historical record of the last three centuries is not inconsistent with the view that social thought and institutions are far from stable. The pattern of instability has some of the earmarks of a cycle. When institutions function badly they produce the seed for their decline. In my thinking, this cycle of instability is an indication of the incompleteness (inadequacy) of the social thought that shapes institutions.

2. AGRICULTURE AND THE POLITICAL ECONOMY

Much of the economics of agriculture that really matters is in the differences of the political-economic institutions. When markets are segmented by governments, the advantages of the extention of the market are lost. When imports and exports are controlled, agricultural prices do strange things. When marketing boards have a monopoly, farmers and consumers are well advised to beware. When governments authorize the procurement of agricultural products from farmers, the agricultural economy is placed in receivership. When the ministers of agriculture treat agricultural scientists as clerks, the agricultural research enterprise becomes stagnant.

The economics of agriculture in this context has both short and long run implications. Those which are short run are most readily put to test when a major change occurs. The events of 1973–75 came unexpectedly, and suddenly they resulted in large changes. I shall appeal to this period in commenting on particular short run implications. For the long run, I shall consider various governmental effects on agricultural production during the last three decades.

As I noted at the outset, the 1973–75 period on world agriculture is an instructive "experiment" in prices. We all know that the shortfall in food and feed grains enhanced the economic value of these products, but what is overlooked is the fact that this increase in value was greatly distorted by various governments. A major set of countries suppressed the economic signals that were called for by the shortfall. Consumers in these countries were spared from adjusting their consumption to accommodate the shortfall, and thus, the burden of the required consumer adjustment was increased in the rest of the world. Similarly, in agricultural production throughout the European Economic Community, agricultural prices were held in check and farmers did not have the required economic incentives to increase their production. In sharp contrast, in Australia, Canada and the United States, the food and feed grain markets were open and competitive and farmers responded sharply to the higher prices. So did the farmers in Brazil in the case of soybeans. In general, on this issue, many of the low income countries have a better economic record than the European Economic Community.

Does the control of agricultural prices in one part of the world increase instability in the other part? Looking at the price effects of the 1973–75 change in the supply–demand balance in food and feed grains, the answer is in the affirmative. Theory and evidence tell a consistent story on this point, namely, when a government achieves internal price stability by controlling agricultural exports and imports, it increases the price instability in the rest of the world.

The open market instability of agricultural prices that occurred in the early seventies was much greater than that of the sixties although the shortfall in grain production caused by poor crops in the sixties departed farther from the trend level in world production than did the shortfall in the early seventies. The reason commonly cited for this difference in the behavior of prices between the two periods has been the grain storage policies of the United States, Canada and Australia. But a careful analysis of the price effects of these stocks indicates that a large part of the greater price instability of the seventies remains unexplained.

D. Gale Johnson (1975)[8] has advanced the hypothesis that this unexplained instability of agricultural prices in the seventies is a consequence of the fact that "a much larger percentage of the world's grain production and consumption in the early 1970's than in the 1960's occurred in a framework of policies to achieve internal price stability through the controls of imports and/or exports". The evidence supports the Johnson hypothesis: fixed internal agricultural prices have become increasingly the rule in the Soviet Union, the European Economic Community and China; these countries account for about half the world's grain utilization in recent years. As a consequence, prices in about half of the world "do not serve the function of influencing either consumption or production when the world's demand–supply balance has changed". Accordingly, all of the adjustments must be made in the other half of the agricultural world. In the early seventies "these adjustments fell primarily upon two groups of countries – major grain exporters and the low income developing countries that imported grain". Theory implies that the increase in price resulting from a given shortfall of grains would be approximately doubled in that half of the world where prices are not fixed compared to the rise in prices that would have occurred if the other half had not fixed their internal prices of agricultural products. This important implication of the theory does not depend on value judgments; it is a testable implication, and in terms of positive economics, the evidence supports the implication.

In developing agriculture for the long pull, what types of public control machinery are on the recommended list of agricultural economists? A pointless question no doubt, since we have not made it our business to analyze and publicly certify the economic performance of alternative control devices. For my part in the spirit of the Mikado, I've got a little list of economic offenders who never would be missed – who never would be missed.

I know of no country in which the productive capacity of agriculture has been in fact increased by large P.L. 480 grain transfers from the U.S. to the receiving country. P.L. 480 is on my little list because when it comes to building agriculture, P.L. 480 is a liability.

The procurement of agricultural products from producers by the authority of the state is bad economics, and when it occurs it is a sure sign that the country which uses its police powers for this purpose is in deep agricultural trouble. Needless to say, command procurement is one of the major economic offenders on my list.

In marketing it is necessary to distinguish between cooperatives that are subject to competition and marketing boards that are vested with monopoly powers as agencies of the state. I find it odd that agricultural economists have so grossly neglected P. T. Bauer's excellent studies of West Africa's marketing boards. Marketing boards are always established for a noble purpose, e.g., to stabilize agricultural prices. But if the commodity is mainly exported, the board becomes a convenient device for raising revenue for the government; as the sole buyer it can pay a low price to farmers and sell abroad at a high price. It is a successful public device for pricing the best export crop to death! Then, too, some boards "employ" an inordinate number of people who are favored by the government – the well known practice of the "spoils system". A cogent and useful economic assessment of the various marketing boards in Kenya is at hand in *Agricultural Development in Kenya*.[9] I list state monopoly marketing boards as economic offenders.

While it is not difficult to detect the adverse effects of large P.L. 480 imports, of command procurement, and of state monopoly marketing boards on agricultural production, there are other and more important unsettled economic questions. Is it true that rents, interest and profits "never will be missed" once they have been eliminated? Why not substitute administered prices for competitive prices? When black markets prosper, what are the economic implications?

My own visits to the Soviet Union began in 1929 and I have extended them to observe agriculture in the other socialistic countries of Eastern Europe. Compared to most of the world, these are highly skilled, technically advanced and in general well-equipped countries. The puzzle is in the below par performance of agriculture. Despite the recent very large investments to increase agricultural production, it is evident that the cost of producing milk and meat is exceedingly high; the quantities that consumers are demanding are not forthcoming. Weather, climate and soils do not hold the key to this puzzle. Nor can the disappointing performance be attributed to a lack of competence in the management of agricultural production. In an analysis of the disappointing performance of Soviet agriculture since World War II, my colleague, D. Gale Johnson, finds that it is not primarily a consequence of the very large collective farms.[10]

The key to this puzzle is in the allocation of resources that are devoted to agricultural production. Economic inefficiency is the problem. Viewed as an allocative problem, it is not confined to the socialist countries. It is in fact pervasive throughout most of the low income countries, although the administrative devices that are used in allocating resources differ widely from country to country.

When the dominant social thought proscribes the use of rents, interest and profits and declares that market-oriented competition is blind, the accommodating political economy is severely handicapped in allocating resources for agricultural production. It may use all manner of devices – distributing fertilizer and other inputs by issuing quotas, controlling the migration of farm people from farm to farm and from farms to cities, segmenting the market for agricultural products within the country and allowing no movements between the different areas except as approved by the government, and even preventing farmers from buying and selling to each other.

The heart of the problem then becomes one of knowing what the real economic values are, values to be used in commanding production and consumption. In this context no matter who is making economic decisions, be they planners, managers of collective farms or small private farms, using the information that is thus provided, leads to economic inefficiency. This is not to argue that the supply of valid, usable economic information is costless. It becomes very expensive under the above circumstances for the available supply in many countries has two attributes: the quality of economic information is exceedingly low and, nevertheless, very costly. It should also be noted that improvements that are to be had from the work of the agricultural scientists in terms of better plants, animals, fertilizers and equipment – important as they are when they are used efficiently – in no way solve the problem of ascertaining the real economic value of agricultural products and factors. Nor is the solution to be had by simply using more advanced computer technology.

I return in closing to the question with which I began, what about future costs of agricultural products? In terms of technical possibilities and pure economic opportunities, the prospects for lower costs are good, but in terms of what is being done politically, the prospects are bad. Meanwhile, international food conferences produce a lot of weak reports, and social thought produces strong ideologies. But reports and ideologies do not produce food. Fortunately, plants and animals do not read reports nor do they discriminate against the ideology of any government. One thing is certain – what farm people will be able to do holds the key to our story. Would that agricultural economists would help them to write that story!

NOTES

[1] Leontief, Wassily (1971) 'Theoretical Assumptions and Nonobserved Facts', *American Economic Review* 69, 1–7.

[2] Johnson, Harry G. (1975) *On Economics and Society,* University of Chicago Press, p. ix.

[3] This quote is from Johnson, Harry G. (1975) 'Learning and Libraries: Academic Economics as a Profession: Its Bearing on the Organisation and Retrieval of Economic Knowledge', *Minerva*, 13:4, pp. 621–632.

[4] In part drawn from my paper, 'The Economic Value of Human Time Over Time', April, 1976, publication forthcoming.

[5] Furniss, Edgar S. (1920) *The Position of Laborers in a System of Nationalism,* Boston, Houghton Mifflin, see Chapter 6.

[6]See my 'Public Approaches to Minimize Poverty' in *Poverty amid Affluence*, edited by Leo Fishman, New Haven: Yale University Press, 1960.

[7]His *Studies on the Interior of Russia*, edited by S. Frederick Starr and translated by Eleanore L. M. Schmidt, University of Chicago Press, 1972.

[8]Johnson, D. Gale (1975) 'World Agriculture, Commodity Policy and Price Variability', *Proceedings of the American Journal of Agricultural Economics*, December.

[9]Heyer, Judith, Maitha, J.K., and Senga, W. M., (eds.) (1976) *Agricultural Development in Kenya*, Nairobi, Oxford University Press. See Chapter 10 especially.

[10]Johnson, D. Gale (1975) *'Theory and Practice of Soviet Collective Agriculture'*, Office of Agricultural Economics Research, University of Chicago, Paper 75:28, December. Unpublished.