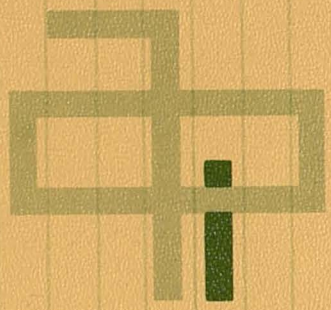

Policies Affecting Rural People

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EVALUATING THE COSTS AND BENEFITS OF PAST FARM PROGRAMS[1]

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Professor Williamson has presented a thoughtful and stimulating paper outlining a framework within which to evaluate two major clusters of farm programs during the past one-third century. That he has not done a definitive job is no valid criticism. This is too big a subject for that. Nor shall I attempt to present a definitive evaluation.

I take it that, in the words of Senator Douglas when discussing the sugar program recently on the floor of the Senate, our job is to "aerate" the subject--in this case, costs and benefits of farm programs. Rather than attempt to give a detailed critique of Professor Williamson's excellent paper, I shall attempt to continue the aeration process, and shall indicate in the course of my comments any reservations I may have with respect to his analysis.

I. What do we want to know about costs and benefits of past farm programs and for what purpose?

1. We are not dealing here with project type of benefit-cost analysis such as is applied to public investment projects--for example, water resource projects.

2. In fact, public programs (in contrast to particular projects) do not lend themselves well to a simple summation of dollar benefits and costs. While it doubtless is possible to quantify much more than we now do with respect to the benefits and costs of public programs, some of the more significant benefits and costs seem to lose a part of their content when expressed only as quantities. Few would insist benefits and costs that can't be measured are nonexistent. Nevertheless, there is a strong

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[1] Comments on paper by J. C. Williamson, Jr. The views expressed here are those of the author and may or may not agree with the official position of the U. S. Bureau of the Budget.

temptation to act that way. Appropos of this point, I am reminded of a remark by a great teacher of economic theory to the effect the earth must have been revolving around the sun a long time before we developed techniques to measure this phenomenon.

Professor Williamson has indicated the kinds of problems that arise when we attempt to measure the benefits of the research and education aspects of farm programs. I wish he had pursued further the question of the unit value to be imputed to the added agricultural output resulting from these programs. We do not seem to have much difficulty in accepting the application of a discount factor to added output resulting from government investment in productive capacity in the form of physical plant. But when the added output results from the application of improved technology made possible by investment in research and education programs, the subject seems to fog up. I am assured by the best authority the latter situation is quite different from irrigating more land to grow more cotton we don't need, but I sometimes suspect there may be some wishful thinking here.

3. For historical evaluation of farm programs, perhaps more instructive results are likely to be obtained if we refrain from direct comparison of total benefits and total costs of programs and are content to identify specific program areas which could have been better handled and to indicate alternative ways to improve the programs and reduce their costs--zero budgeting v. base budgeting.

(1) Some of the farm programs of the last three decades doubtless could have been operated in such a way as to come nearer to the avowed objectives without increasing budgetary and other costs. The early commodity programs, for example, doubtless suffered from failure to give adequate attention to their effects on production and prices of other commodities--tendency of retired wheat land to be shifted to feed grain. While we seem to have learned the principle of substitution is valid with respect to both production and consumption of agricultural commodities, we still hear from some quarters that public investment programs which increase production of so-called "nonsurplus" commodities (those which do not pile up in CCC inventories) are not a matter of concern for farm policy.

a. For a meaningful historical analysis focusing on weak spots in farm program areas we need to break the last three decades into at least three time periods representing different kinds of situations: (1) the depression years of the 30's, (2) the war and immediate post-war years, including the Korean period, and (3) the post-Korean period.

b. For each period it would be desirable to consider separately at least three broad groups of programs: (1) programs achieving their results mainly through the level of returns from farm commodities; (2) programs geared to the financing process--operating mainly through a debtor-creditor relationship between people and government; and (3) programs contributing or promoting additional inputs of farm resources and technology--conservation, land development, research, extension, etc. Some arbitrary allocation of programs would be required, and it might be necessary to add still other categories. These three, however, would be sufficient for a start.

(2) For this kind of an evaluation, we need at the outset a somewhat more neutral frame of reference than the conventional benefit-cost framework, which tends to mix description and evaluation. Although not perfect, the concepts of "inputs" and "outputs" have the advantage of being relatively neutral with respect to value judgments as compared with "benefits" and "costs" and do not stress monetary valuation quite so much.

Inputs include "opportunities foregone" in the broadest sense, whether represented by budgetary outlays (and eventually taxation) or by loss of opportunity imposed through the market or administrative actions. It comes close to the time-honored concept of opportunity costs in the sense of covering "what we had to give up." "Outputs" include what we got.

Needless to say, it would be hard to decide in some cases whether a result such as a change in income distribution should be classified as an input or an output. This is not too serious, however, since it can be handled later in the evaluation stage by deciding whether to give a particular item a + or a - sign or to record different parts with different signs.

I am not sure, therefore, how far one can go in specifying goals in advance of the analysis. Perhaps the goals should be stated only tentatively and on more than one basis: for example, the apparent intent of the legislation, goals indicated by program operations, goals of different power structure group, along with the goals that we as economists recommend, etc. One purpose of program analysis should be to provide a better basis for selection of goals, particularly in deciding how much of a given kind of output is reasonable in view of the inputs required to produce it. It is possible the much discussed "parity income" goal for commercial agriculture might not pass this test--it might not be worth the cost to try to raise farm income that high.

(3) The first step is to describe the inputs and outputs of a particular program as fully as possible, using both dollar values and

other measures. Probable input and output impacts should be included even though precise measurement is not feasible. This is essentially a spread sheet operation. The process of building up a spread sheet for a program should yield some insight even when much of it defies neat summarization in quantitative terms.

(4) To the extent feasible, the inputs and outputs of different farm programs should be described in the same terms, so that questions can be raised whether inputs from one or another program are a more effective way to achieve certain outputs. For example, since price supports, loans and grants all are possible methods to assist low income farmers in improving their situation, classification of outputs should permit identification of this particular output under each of several types of programs.

(5) Within programs, questions can be raised as to whether modifying the components of the inputs (or the conditions attached to particular inputs) would be more effective in achieving desired outputs. Also, outputs can be evaluated with respect to the extent to which they deviate from the avowed objectives of programs or are diluted by other outputs of relatively low priority. For example, the intended beneficiaries may be given some help, but only as a by-product of substantial help for people who are less in need of it--price supports as a way of helping poor farmers.

(6) While such an analytical process will not yield precise benefit-cost ratios (such as are derived from project benefit-cost analyses), the insight derived from the process may well suggest (1) ways to increase or improve outputs from a given bundle of inputs or (2) a pattern and volume of inputs more likely to result in the desired outputs. In some cases it may throw light on the amount of a particular output that we really want in view of its input cost. It may enable us to redefine the goals of the program more realistically.

II. Some farm program areas needing analysis

1. Have past farm income support programs tended to increase or decrease disparity in income distribution among rural people? Presumably we are not interested in increasing the amount of disparity among rural people in the distribution of income. It has been claimed, however, that our farm income support programs have been regressive. If true, can the conditions attached to public inputs into these programs be adjusted, without sacrificing major objectives, to reduce disparity in income distribution?

2. Have rural credit programs been used most effectively? In addition to providing a source of capital to individuals on favorable terms, credit programs that lend on favorable terms have been a means of guiding rural development. Are the outputs we have been getting out of our rural credit programs consistent with the longer run necessities of an efficient commercial farm economy? Are the apparent contradictions between our credit programs and developments in commercial agriculture of major or minor importance?

3. In the past, most of our efforts to deal with rural poverty have been associated with lending programs. To what extent do the inputs introduced through credit programs result in effective treatment of rural poverty? It is sometimes claimed we are financing some people into an over-crowded farming industry when both their own welfare and our needs for farm commodities indicate we should be financing them out of farming (although not necessarily out of rural areas). It would be helpful if we knew more about what have been the results of our credit programs, from the viewpoint of both individual borrowers and the rural economy as a whole.

4. Historically, development of land resources and improvements of production technology have long been high on our list of priorities among farm programs. We seem to tolerate unimproved human resources better than we tolerate unimproved land resources; and increased productive efficiency is widely accepted as an unmixed blessing regardless of its social and economic impact. Have our efforts in these directions had as one significant effect aggravation of the problem of excessive total resources in agricultural production? This may be a question of conflicting goals. If so, can the conflict be reduced without loss of the important values of these kinds of programs?

One of my colleagues with an occupational interest in the size of the agricultural budget (a preoccupation of a substantial number of people at this season of the year) suggested findings of an input-output analysis be used to answer this question: How much could the agricultural budget be reduced if all major program inconsistencies were removed? It is possible some of the apparent conflicts are more in the nature of intellectual irritants than major budget items. A major area that would require examination would be the so-called "water resource projects" carried on in several agencies of the federal government.

5. In the realm of specific commodity programs, three can be used to illustrate potential fruitful fields of historical input-output analysis:

(1) The sugar program. Have we gotten enough public benefits to justify the added price domestic consumers have had to pay for sugar?

Has a protected domestic sugar industry been a significant stabilizing influence in the domestic supply and price of sugar? What has this cost domestic consumers? Could we obtain the same amount of stabilizing influence more efficiently? How good a foreign aid program results from paying the sugar producers in designated foreign countries a premium price for sugar?

(2) The wool program. Evidence seems to indicate, as in the case of the sugar industry, we have been maintaining a sheltered domestic industry that cannot compete in the world market. The inputs are clearer than the outputs. Perhaps one principal result of supporting the incomes of sheep growers has been to retard the decline in the sheep industry and thereby indirectly subsidize consumers who happen to like lamb meat. Surely this is not one of the avowed objectives of this program. Parenthetically, the wool program does not appear to have aroused much intellectual curiosity among students of farm programs. The explanation may be it is not an expensive program in terms of absolute dollar costs. However, budgetary costs in relation to gross income of the sheep industry are not small.

(3) The rice program. Have we built up a rice growing industry in the United States when the resources used for this purpose (human and other inputs in addition to land) could be better used in other kinds of production? With the budgetary costs of the rice program equal to such a large part of the gross income from rice growing, a study of alternative uses for resources now being used in rice farming and of alternative sources of rice for domestic and foreign aid purposes would appear likely to be a rewarding effort.

III. Concluding observations

It would be surprising indeed if an evaluation of past farm programs on the basis of hindsight would not reveal actions taken earlier that should not be repeated. However, having observed these programs firsthand over the last 30 years, and having shared the environment in which many of them evolved, I am not inclined to be too harsh in my evaluation of the way they were operated. I am inclined to be somewhat more critical, however, of our continuation of some of the program features now that we have the benefits of hindsight based on analytical studies of farm policy. Benefit-cost, input-output, cost effectiveness and related kinds of systematic program analyses (the substance is more important than the name) can increase our knowledge of how programs work and our ability to design better ones. But the prime movers for changes must come from the political processes, and these must of necessity consider values in addition to those that can be brought to bear in an input-output analysis of a specific program. The political process is generically

different from the market process, and who is to say which process produces the best set of values. To be most instructive, therefore, such program analyses perhaps should find a place also for the political facts of life.

Power structures in the political world are as real as economic forces and often are far more visible than economic forces. To the expert they probably are no more difficult to measure and classify than some of the economic forces. Instead of blaming political forces for preventing adoption of sound economic policies, (as we are wont to do) perhaps we should frankly recognize political power as an input (like economic resources, it also has alternative uses) and recognize political results (often in fields far removed from farm policy) as outputs. For example, the political power structure may be such that the West will continue to be able to obtain public investment programs, but among the possible types of investment programs that would meet political goals some may be better than others.

As a matter of actual operations, even when we firmly resolve to confine our program analyses to alternative ways of maximizing economic well-being, somebody eventually has to take account of political forces and goals. As economists we may even be happier, and our analyses may be more convincing, if we make room in advance in our analytical scheme for alternative programs consistent with these political forces and goals.