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## A CRITIQUE OF FEDERAL AGRICULTURAL PROGRAMS

E. C. Pasour, Jr.

Criticism of current agricultural programs is coming from within and outside agriculture. Secretary Bergland in recent "grassroots hearings" has called for new approaches in agricultural policy in which recipient benefits do not hinge on size of farming operation.<sup>1</sup> Hjort suggests that despite widespread agreement on the objective of encouraging the family farm, "the cumulative effect of our farm programs may well have been to hasten the concentration of the farm sector...." (Hjort, p. 748). Producers of flue-cured tobacco voted overwhelmingly in December 1979 to continue a program but are upset about high quota rental prices.<sup>2</sup> Outside agriculture, consumers are unhappy about the effects of farm programs on prices of milk, sugar, and other products. Students of the political process are concerned about the effects of the use of state power by small, politically powerful groups to secure economic gains.

What are the reasons for the dissatisfaction? Are the problems due to poor administration as alleged by Ralph Nader in other areas of economic regulation? Or are there inherent problems in the nature of the programs? MacAvoy (1979), after analyzing findings from a wide range of studies, found that conventional regulation in nonagricultural areas has not achieved its stated purpose, but has instead reduced the *quality* and *quantity* of output in directly affected industries. He concludes (1970) that the failure of regulation is not due to inept leadership but to problems inherent in current methods of regulation.

Studies of government regulation in other areas appear to be instructive in agriculture. The thesis of this article is that federal price support and market control programs in agricul-

ture cannot achieve the multiple and frequently conflicting objectives of producers, consumers, and taxpayers. Further, the problems are not due to poor leadership but are inherent in the nature of the programs. Although federal programs in agriculture, like those in other areas, are often instituted to overcome problems caused by "market failure," problems due to program deficiencies or "nonmarket failure" are equally pervasive and serious.<sup>3</sup>

This article has three objectives. First, the major purposes of current price support programs are briefly contrasted with program results. Second, inherent features of the programs which cause results to fall short of expectations are discussed. Finally, the policy implications of the article for southern commodities are briefly explored.

MAJOR PURPOSE AND EFFECTS OF CURRENT FEDERAL PROGRAMS<sup>4</sup>

The preamble of every farm bill since the 1930s has contained the explicit objective of helping the family farm (Laferney and Penn, p. 809). Although strengthening the family farm may have been an important objective, the dominant purpose of federal programs from the standpoint of many producers has been to "improve" income distribution, i.e., to increase income of farmers in relation to that of nonfarmers.

A cartel is a group of producers acting together to restrict competition, and any successful cartel is expected to affect the level of income to the affected group as well as the distribution of income. What has been the

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<sup>1</sup>"Secretary Bergland has been reported as saying, 'It provides too many benefits to the largest farmers who need them the least' " (*Progressive Farmer*, p. 130).

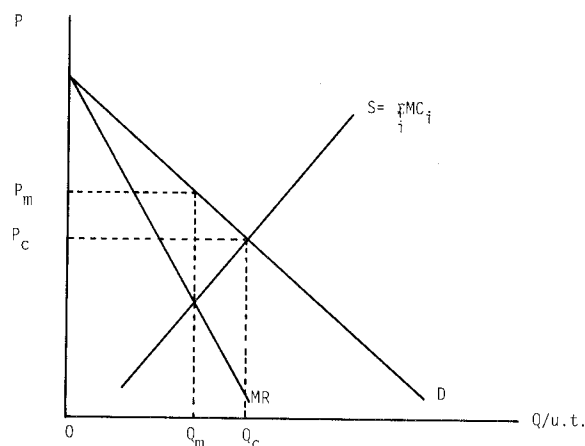
<sup>2</sup>As a grower recently stated, "When you have to give somebody a third of the gross for the privilege of growing tobacco, you know there's something wrong with the system" (Bickers, p. 26).

<sup>3</sup>In a recent analysis of government regulations in the beef industry, for example, 84 regulatory issues were investigated. It was estimated that only 36 resulted in a net positive social benefit, whereas 27 had a negative impact and 21 had no significant effect (CAST, p. 1). Fisher contends that government protection and aid to milk, egg, and hops producers in Great Britain have been counterproductive in terms of producer interests.

<sup>4</sup>The following discussion of agricultural programs and program effects is not intended to be exhaustive. The first part of the article is concerned primarily with the effects of federal price support programs on income distribution and an allotment and land values. In addition to these effects, federal research, regulatory, and commodity programs have important resource allocation effects. The discussion of "nonmarket failure" elsewhere in the article is relevant to government intervention whether to "improve" income distribution or to increase the efficiency of resource use.

effect of government-sanctioned cartels on income? First, consider the effect on overall returns. A group of competitive producers, if they successfully collude, can increase returns to the group by restricting production and increasing price (Figure 1).<sup>5</sup> The competitive

FIGURE 1. Effect of Cartel on Price and Quantity



equilibrium given by the intersection of the industry supply and demand curves does not maximize the income of all firms taken together. If firms act together and reduce output from  $OQ_c$  to  $OQ_m$  where marginal revenue equals marginal cost (and where price is increased from  $OP_c$  to  $OP_m$ ), income will be maximized (Becker, 1971, p. 99).

A cartel, as suggested by Figure 1, might be expected to operate in the elastic portion of the demand curve. In reality, because of fear of political retribution, concern about loss of political support and development of substitutes, etc., the cartel may not restrict production (or raise price above the competitive level) as much as indicated in Figure 1. It is a moot point in the case of agricultural supply control programs, for example, whether producer returns over time would be increased by further restrictions on current production. In reality, of course, the cartel is not given information on present or future market and political conditions and operates as a "price searcher" in attempting to determine the optimal production and marketing strategy.

Although there is a near consensus that the dominant purpose of peanut, tobacco, and other government-sanctioned cartels is to increase net producer returns, there is no consensus about their actual effects. Lamm found in a recent study that the peanut control program *did* increase net producer income. This result is predictable on the basis of cartel theory, at least in the short run. The long-run impact of cartel pricing on net producer returns, however, is much less predictable.<sup>6</sup>

The effects of government programs on income distribution are difficult to isolate. However, one specific effect is that commodity programs based on volume of production yield larger benefits to larger producers.<sup>7</sup> Moreover, as a result of these programs which result in higher prices of milk, sugar, tobacco, peanuts, and other products, many low income consumers subsidize agricultural producers who have relatively higher incomes.

As one fairly clear-cut example of the effect of government programs on income distribution, consider the case of direct government payments to farmers. In 1978, per farm direct payments averaged more than \$2,000 for farms with sales *exceeding* \$20,000 per year but averaged less than \$500 for farms with sales of *less than* \$20,000 per year (USDA, p. 61). When one takes the much higher net income per farm operator family on the larger farms into account, it seems clear why Secretary Bergland is concerned about the distribution of benefits.

Consider next the close relationship between government programs and land values. Rapidly increasing capital requirements have implications for entry into agriculture. Furthermore, federal programs as in the case of peanuts and tobacco have contributed to rapidly increasing land costs (Bullock, Nieuwoudt, and Pasour; Seagraves and Manning).<sup>8</sup>

Consider the effect of an increase in the level of price supports, *ceteris paribus*, for tobacco. The greater the extent to which product price is supported above the market clearing price, the higher will be the value of the right to produce, i.e., the allotment value. Moreover, the increase in allotment value increases producer costs regardless of whether the allotment is owned or rented. Competition will tend to

<sup>5</sup>There are problems with this conclusion. First, the potential long-run gains to the cartel hinge on the closeness and availability of substitutes. The less elastic the product demand, the greater are the potential gains. Over time, the demand for most products becomes more elastic as substitutes are developed and consumers have greater opportunities to substitute. Second, the conclusion ignores the question of the distribution of potential gains among producers. Specifically, it ignores the effects of the cartel on the incomes of *excluded* producers.

<sup>6</sup>In cases where exports are important, price increases achieved by restrictions on production may reduce income from exports more than enough to offset income increases due to domestic price increases. Furthermore, increases in price (as in the case of cotton price supports) are likely to encourage the development and adoption of substitutes. In the long run, a mandated price increase may increase the elasticity of demand enough that the returns to the cartel are less than would be obtained in the absence of the cartel.

<sup>7</sup>In the case of peanuts and tobacco, there has been a consolidation of operating units through allotment rentals. Because quota returns accrue mainly to quota owners, the effect of allotment rentals is to smooth the distribution of program benefits.

<sup>8</sup>Monetary and fiscal policies of the federal government, as discussed elsewhere in this article, have also been important in increasing the demand for land and other real assets as hedges against inflation.

bring about an increase in allotment rental values and land values until the expected rate of return on investments in these assets is again comparable with that of investments in other assets of comparable risk.<sup>9</sup>

The phenomenon of program benefits being capitalized into input prices has been characterized by Tullock (1975) as the "transitional gains trap." Price support programs, for example, generate transitional gains for producers in the industry when the programs are initiated. When these gains have been fully capitalized, costs of allotments, land, and other specialized resources are increased so that the expected rate of return is no higher than normal. Thus, later entrants who must purchase production rights receive little benefit. Moreover, if such a program is terminated, owners of specialized resources—primarily land and allotments—will incur large losses.

The magnitude of the "trap" created by state grants of monopoly power in agriculture is illustrated by the case of flue-cured tobacco. The production quota in 1979 was about 1 billion pounds (Pugh). The average rental value of quota in North Carolina was about 40 cents per pound (but varied among counties because leasing and transfer, a predominant type of rental, is restricted to county lines). Thus, a windfall loss of \$400 million per year would be imposed on allotment owners if the tobacco price support program were terminated. Once a program is begun and the benefits are capitalized into the prices of production rights and other specialized inputs, there is no way to avoid this "trap."

The concept "transitional gains trap" is very closely related to the "rent-seeking" theory developed by Tullock (1967) and Posner. When politics creates profit opportunities, investment will take the form of attempts to secure access to the profits. Posner contends that obtaining and maintaining a monopoly is itself a competitive activity and that, at the margin, the costs of obtaining the monopoly are equal to the benefits so that these outlays are economically unproductive. This theory appears to be an accurate description of the effects of allotments and other production rights in agriculture for on-going programs.

The costs of production rights to potential producers, at the margin, are equal to the expected benefits. The outlays incurred by producers in purchasing or renting allotments and other production rights may, in a manner analogous to that described by Posner, be viewed as economic waste.

## EXPECTATIONS VERSUS ACTUAL RESULTS

Many economic studies in the last decade have shown that the effects of government regulation are typically not consistent with the stated purpose. Stigler's thesis is that regulatory agencies ostensibly designed to protect the "public interest" are generally "captured" by the industry involved.<sup>10</sup> Older regulation organized on an industry-by-industry basis, as embodied in the Interstate Commerce Commission, the Civil Aeronautics Board, and occupational licensing, supposedly was enacted to protect the public but often promotes the interests of the regulated group at the expense of the public at large.

Is the Stigler hypothesis applicable to federal programs in agriculture? Are price supports, market controls, and other federal programs in agriculture designed to further the "public interest" by protecting and benefiting the public at large? Or is it more realistic to view these programs as attempts by agricultural producers to enhance their own economic interests by controlling entry (or otherwise restricting competition)? The burden of proof appears to be on those who contend that the federal programs in agriculture are somehow different from federal programs in many other sectors which serve to enhance the incomes of the regulated groups.

Much special interest legislation can be explained in terms of costs and benefits to particular groups. The benefits of special interest legislation are generally concentrated whereas the costs are widely diffused. The benefits, for example, of the sugar price support program which results in domestic sugar prices being more than twice the world market price, are very important to the 15,000 sugar producers in the United States.<sup>11</sup> Yet our

<sup>9</sup>Federal programs to increase incomes of agricultural producers are sometimes justified on the basis of the "cost-price squeeze." The implied assumption is that government assistance will no longer be required when the rate of return on investments in agricultural production exceeds that in other areas. Competition in agriculture, however, means that there will always be a cost-price squeeze regardless of the levels of support prices or direct assistance.

<sup>10</sup>In Stigler's words: "We propose the general hypothesis: every industry or occupation that has enough political power to utilize the state will seek to control entry" (Stigler, p. 5). The theory of self-interest in politics ignores the effect of ideology. Most economists appear to think that ideas are important in influencing legislation, and research reports in economics often conclude with policy implications. However, policy prescription is useful only if research findings are, in fact, relevant in formulating policy. Kau and Rubin, in a recent analysis of congressional voting behavior, conclude that "ideology is significant in explaining voting by congressmen on bills with primarily economic components. . . . There appears to be something that is significantly and systematically associated with voting which correlates with the ratings given to congressmen by ideological groups" (p. 384).

<sup>11</sup>Bosworth graphically describes sugar legislation as an example of how political power of a special interest group can influence the legislative process. "A politician is tempted always to vote for the special interest.... There are 15,000 sugar producers in this country. There are 220 million consumers. You would think the outcome of a bill to more than double the current price of sugar would be obvious. We could get sugar for 7¢ on world markets, the President offered 15¢ to domestic producers, they are asking for around 19 or 20¢. Why is it that those bills get as far as they do? Because there are 15,000 sugar producers who do not care about any other issue short of war. Those 220 million sugar consumers will never know what hit them. Nobody is going to change his vote for his Congressman depending on how he voted on the sugar legislation" (pp. 796-7).

expenditures on sugar as individual consumers are low enough that it is not in our economic interest as individuals to devote much time to sugar legislation. The same phenomenon of highly concentrated benefits and widely diffused costs appears to hold for much of the government intervention in agriculture (and in other areas).

Despite the fact that the state is often used by politically powerful groups to restrict competition, economists have been ingenious in devising theoretical arguments that can be used to justify this intervention.<sup>12</sup> To what extent are the widely cited reasons for intervention applicable in agriculture? Public goods theory has recently been proposed by Hochman and Rodgers as a basis for "Pareto Optimal" income redistribution. When Jones makes a contribution to a poor person, the charitable act benefits not only Jones but other people who share Jones' charitable impulse. Thus, Hochman and Rodgers argue that the level of voluntary charity is suboptimal and that government intervention is warranted to overcome this "free-rider problem" associated with voluntary charity. The redistribution associated with federal programs in agriculture which increase farm income, however, cannot be justified on the basis of public goods theory. The previously cited data on direct government payments to farmers are not consistent with the norms of Pareto optimal redistribution which hold that transfers flow solely or largely from higher to lower income groups. Income transfers in agriculture, as in other sectors, are generally to politically powerful groups not defined by income.<sup>13</sup>

### Political Failure

In recent years, environmental externalities have increasingly been used to justify a wide range of state activity. There is alleged to be "market failure" because real world markets do not conform to the idealized model of perfect competition. Consider the following statement about environmental regulation.

"And we, as economists, using concepts such as market failure, externalities, and public goods (or bads) ... can demonstrate that society is better off if government constrains the private sector than if it does not" (Seitz, p. 818).

Recent work in public choice and the economics of information has exposed the tenuous basis of many policy recommendations concerning spillover problems. Real world markets are imperfect but so are real world political institutions when measured against textbook models of democracy. That is, there is "government failure" in the sense that the political process is imperfect in comparison with an idealized polity. Thus, the fundamental problem is one of comparative institutional choice (Demsetz). Will real world markets or real world political institutions better handle externalities and other alleged problems of "market failure?"

Externalities, consumer ignorance, fraud, and monopoly often discussed by economists as "market imperfections" are no less important in the political arena.<sup>14</sup> The private sector certainly has no monopoly on erroneous and misleading information. How many political speeches, for example, could meet the standards imposed on advertisements of commercial products by the FTC? Information is always scarce and costly but information problems appear to be even more severe in the political sphere. Most citizens "grope in the dark" in choosing among various political parties, candidates, and programs. The reason is clear when one considers the costs and benefits of voting. The costs of informed voting to the individual are overwhelming but the expected benefits from the marginal vote are small. In facing an all or nothing option, voters are denied the marginal choices of consumers in the market. However, citizens obtain the benefits of public action regardless of whether they vote.

Furthermore, recipients of goods and services provided collectively cannot readily evaluate goods and services when no direct payment is made or when payments bear little relationship to opportunity costs (Mitchell). In fact, the citizen is provided little information about most collectively provided goods and services. What, for example, are the economic and political implications of attempts to allocate land resources through administrative land use controls? How much will prices of land for housing and other urban uses be increased by actions which "preserve" agricultural land? If the price signals of the land market are consciously disregarded, how will

<sup>12</sup>"There is a pervasive intellectual and popular commitment to the belief that the failures of the market are the primary source of that which is wrong with the economy. Each interest group has its own agenda of such market failures. To overcome them, an increasing number of organized groups seek protection and redress by means of public programs and institutions created by government.... The resulting modifications of the political economy in general do not correct actual market failures but tend to bring about other forms of economic failures. My concern on this point is that in part by design but mainly unwittingly some of the specialized research in departments of economics supports this special interest fragmentation of the economy by means of government intervention" (Schultz, 1979, pp. 14-15).

<sup>13</sup>These groups include among others textile and steel manufacturers, labor unions, college students, older people, "and in all probability, the intellectual class" (Tullock, 1971, p. 383). Thus, public goods theory does not appear to justify income transfers by the state.

<sup>14</sup>Externalities are usually discussed in terms of market goods and services. However, externalities are also widespread in nonmarket decisions. There is always a dissatisfied minority when political decisions are made on the basis of any decision-making rule other than the rule of unanimity. An externality is inherent when decisions are made on the basis of majority rule because members in the minority must accede to actions favored by the majority which they cannot prevent or receive compensation for.

planners determine the pattern of land use which is in the "public interest?" In land use and all other areas, the citizen must make political decisions on the basis of fragmentary data.

The theory of nonmarket failure is an important corrective for the implicit assumption in conventional analysis of perfectly functioning governments.<sup>15</sup> Imperfections appear to be no less important in the political sphere than in the market sector. Thus, as Becker (1958) suggests, it may be preferable not to regulate economic activity and to suffer the bad effects rather than to regulate and suffer the effects of political imperfections. At any rate, real world markets should be compared with real world political institutions and not with an idealized polity.<sup>16</sup>

### Implementation Problems

The theory of nonmarket failure is crucial in explaining why actual program results so often fall short of expectations. Wolfe points out the kinds of problems often ignored in program implementation.

"Even the most sophisticated policy analysis usually neglects implementation issues. Policy studies rarely raise, and almost never answer, such questions as *who* would have to do *what*, and *when*, and with what foreseeable resistance, modifications, and compromises if alternative A were chosen, or B, or C ...? Analysts implicitly assume that the costs and benefits, as modeled in the analysis, will not be altered by implementation" (p. 132).

The significance of problems related to program implementation is illustrated by the use of production cost as a basis for farm price supports. Economists have stressed the practical problems of basing support price on cost because cost estimates vary widely among farms even within a given geographic area. However, the procedure is also indefensible from a theo-

retical standpoint (Pasour). In a world of specialized factors including land and production rights, costs cannot be determined independently of product price (Friedman). As support price is increased, the increase is capitalized into higher allotment values and other production costs, and the best estimate of production cost under these conditions is product price! Yet economists devote countless man-days to theoretically indefensible attempts to estimate production costs empirically as a basis for agricultural price supports.

### IMPLICATIONS FOR SOUTHERN COMMODITIES

The predictable response to the preceding discussion is, "Don't criticize current programs unless you can recommend a better set of programs." It is not the purpose of this article to propose an array of new programs. The following comments, suggestive in nature, imply that a superior alternative does not necessarily involve special programs on a commodity-by-commodity basis. Indeed, there is much evidence that our current national economic problems have been caused or exacerbated by the concerns of various interest groups leading to a tug-of-war for shares of the income pie.<sup>17</sup> More attention to this inherent political problem of democracy is sorely needed.<sup>18</sup>

What are the implications of the preceding analysis? First, consider land prices in agriculture. Despite widespread concern within government about rising land prices, federal policies encourage land price increases. Because much of the increase in land prices can be attributed to inflation, the most effective policy on the part of the federal government to hold down land prices would be to implement noninflationary monetary and fiscal policies. Moreover, price support programs such as those for peanuts and tobacco where allotments or production quotas are tied to the land inevitably lead to increases in land prices.

Second, much of the support for federal commodity programs has been based on price

<sup>15</sup>Wolfe (p. 138) identifies four sources and types of nonmarket failure. They include "internalities and private goals (relating, for example, to agency budgets, technology, and information acquisition and control); redundant and rising costs; derived externalities; and distributional inequity (indexed on power, as well as on income or wealth)."

<sup>16</sup>Dahlman demonstrates that one cannot determine empirically whether an observed real world externality constitutes a deviation from an attainable optimum and concludes: "You cannot show analytically that the government, in principle and in all cases, handles externalities better than the market; nor can you prove the opposite...." (p. 156). Concluding that government intervention is warranted because markets do not conform to the standards of the conceptual model of perfect competition is "much like the judge who awarded the prize to the second singer after having heard only the first contestant" (Mitchell, p. 1).

<sup>17</sup>"We can prevent government from serving special interests only by depriving it of the power to use coercion in doing so, which means that we can limit the powers of organized interests only by limiting the powers of government.... If that power is unlimited, it will and must be used in the service of particular interests, and it will induce all the organizable interests to combine in order to bring pressure upon government" (Hayek, 1979, p. 16).

<sup>18</sup>"Even if all citizens as consumers stand to gain from a general policy of non-intervention, each citizen as employee or investor stands to gain from *particular* interventions.... This dilemma has recently led Professor Hayek to explore the possibilities of constitutions having two distinct representative assemblies with different tasks. One would be a true legislative body and the other concerned with government proper, i.e., everything except the making of laws.... The purpose of this separation of powers is, of course, to create a legislature which is not subservient to the momentary pressures of government, and hence which severely limits the response which governments may make to immediate political pressures, in order to protect the long-run interest of these same people" (Littlechild, pp. 78-9).

uncertainty and instability in agriculture. There is no consensus among economists about the costs and benefits of stable prices (Samuelson; Waugh). However, here again, a stable economic environment quite likely is the greatest contribution the federal government can make toward a reduction in price uncertainty. In addition, recent experience with the sugar program, the International Coffee Agreement, and government management of CCC wheat stocks provides little support for the idea that government *can* stabilize commodity prices.<sup>19</sup> Thus, on the basis of past experience, there is little reason to expect government stabilization efforts to succeed where private efforts fail.

It may be possible and feasible to further reduce price uncertainty through market measures. Hedging through futures markets, for example, is one way to reduce the variability of returns, and these markets currently play an important role in reducing the impact of risk and uncertainty.<sup>20</sup> Furthermore, there appears to be considerable potential for an increased role of futures markets.

Finally, given the U.S.'s comparative advantage in the production of farm products, the farm sector potentially has more to gain from freer international trade than other sectors of the economy. Because exports constitute about 30 percent of the market for U.S. farm products, protectionist policies appear to be inconsistent with the narrowly conceived well-being of the farm sector as well as with that of the nation at large (Luttrell). Furthermore, it is increasingly important to recognize that protection for single products can be self-defeating by triggering retaliatory protective measures in other countries. Farm exports as a percentage of cash farm receipts have only recently regained the levels that prevailed in the early 1920s before the large increases in tariffs in the 1930s. Wanniski contends that increased tariffs associated with the Smoot-Hawley tariff bill enacted in 1929 were a key factor in bringing on the stock market crash and the Great Depression. Regardless of whether this is true, agriculture clearly has a substantial stake in freer international trade.

## CONCLUSIONS AND IMPLICATIONS

Two major questions or problems arise in analyzing potential policies for southern commodities. First, what would we as citizens acting through our political representatives *like* to achieve? As suggested heretofore, price support programs *cannot* achieve the conflicting objectives of producers, consumers, and taxpayers. For example, although income transfers are often justified on egalitarian grounds, any program which supports producer incomes through product price will provide more benefits to higher income producers. Income transfers in agriculture, like those in other areas, appear to be better explained by political power than by the public goods model of welfare economics. In view of imperfections in the political process, we cannot assume either that the stated purpose of legislation is broadly beneficial or that actual program results will be consistent with the stated legislative purpose.<sup>21</sup>

The second major problem is the limitations of government. It is increasingly being recognized that there are limitations to what government *can* do. This attitude was well expressed by Hayek (1975) in his Nobel Memorial Lecture:

"If man is not to do more harm than good in his efforts to improve the social order, he will have to learn that in this, as in all other fields where essential complexity of an organized kind prevails, he cannot acquire the full knowledge which would make mastery of the events possible. He will therefore have to use what knowledge he can achieve, not to shape the results as the craftsman shapes his handiwork, but rather to cultivate a growth by providing the appropriate environment, in the manner in which the gardener uses this for his plants" (p. 442).

In the evaluation of various policy alternatives, information problems and problems of implementation are too often ignored or minimized. Externality problems are "solved," for

<sup>19</sup>"For example, it was argued for years that while the old sugar program raised U.S. prices above world prices most of the time, the program provided insurance against fluctuations on the high side. Yet, when world supplies shrank and prices exploded in 1974, the U.S. price went right up with it.... Similarly, the International Coffee Agreement that we joined in 1975 was advertised as a stabilizing device, yet when the Brazilian frost struck in July of that year, it could do nothing to prevent two years of high prices. Even in grains, where CCC stocks had helped in smoothing out relatively minor price fluctuations in the 1960's, they were of little use when stabilization was really needed in the mid-1970's. Indeed in this episode it seems clear that *government was an important agent of instability*: first through subsidizing wheat exports in 1972, then by selling off stocks too quickly in 1973 and 1974 (it was not private speculators but our own CCC that mishandled this), then by attempts to redress the error via export controls in 1973-1975, and finally by encouraging farmers through 1976 to believe that a new era of high prices and prosperity had dawned...thus promoting the classic cob-web cycle of overproduction in 1977" (Gardner, 1979, pp. 166-7).

<sup>20</sup>Gardner (1977) suggests hedging by means of commodity options as a way of providing farm income stabilization (but not farm income support). A market in put-options does not exist in the U.S. because Congress banned options trading in the major agricultural commodities in 1936. The CCC loan program is a put-option market provided by the government.

<sup>21</sup>Economists should not assume that what government does is an accurate reflection of the "true social values of the country regardless of the economic consequences.... 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 in the economy.... When economists merely accommodate governments, they serve only to rationalize what is being done and lose their potential as educators" (Schultz, 1978, p. 9).

example, by suggesting a per unit tax equal to the difference between marginal private cost and marginal social cost. As Hayek stressed a generation ago, however, the marginal efficiency rules of theoretical welfare economics are *not* directly applicable to the economic problem which society faces.<sup>22</sup> Opportunity cost is inherently subjective, and there is no way to obtain the information needed to implement such efficiency rules (Buchanan, 1969). Furthermore, this Pigouvian approach involves the implicit assumption that the political actors who devise the market-correcting measures "act solely to maximize social efficiency without regard to their own utility, power, prestige, income or vote appeal" (Cheung, p. 81).<sup>23</sup> The evidence strongly suggests, however, that self-interest continues to motivate people when they move from the market into politics or bureaucracy.<sup>24</sup>

Fluctuating prices for agricultural commodities bring calls for government stabilization policies. In such cases, market results should be compared with an attainable alternative. In retrospect, prices often vary more than they would if speculators were more farsighted. Yet what is the evidence that government *can* obtain better information than market participants? Even if superior information

were available to the government, what is the basis for thinking that prices would be stabilized more effectively in view of the imperfections and uncertainty inherent in the political process?<sup>25</sup>

Finally, the policy analyst should not assume that current programs and institutions are unchangeable.<sup>26</sup> Economists often feel constrained by realism considerations in evaluating policy alternatives and are reluctant to suggest policies requiring changes that are considered impractical or unrealistic (Philbrook). What is unrealistic today, however, may become realistic tomorrow as people acquire additional information about the costs and benefits of alternative policies. In 1965, for example, a system of flexible exchange rates was considered to be unrealistic and some economists were chided for suggesting the system as a solution to balance of payments problems. A decade later, a system of flexible exchange rates was in use. So, in agriculture, the policy critique which appears unrealistic in terms of today's legislation may, in reality, be relevant tomorrow. The economist can play an important role in analyzing both the effects of existing agricultural programs and the implications of alternative institutional arrangements (Buchanan, 1979).

<sup>22</sup>"The reason for this is that the 'data' from which the economic calculus starts are never for the whole society 'given' to a single mind which could work out the implications and can never be so given.... The economic problem of society is thus not merely a problem of how to allocate 'given' resources—if 'given' is taken to mean given to a single mind which deliberately solves the problem set by these 'data.' It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know" (Hayek, 1948, pp. 77-8).

<sup>23</sup>Niskanen has argued that because power, prestige, and income tend to be related to agency size, bureaucrats have an incentive to expand their budget which may well lead to an overcorrection of any potential externality problem.

<sup>24</sup>Thus, in the economic theory of politics, there is no presumption that politicians and bureaucrats are any different from the rest of us. "It is not an 'evil man' assumption. There is no implication at all that politicians and bureaucrats behave any differently from other people. There is no implication that they are grabbing, self-interested, maximizing, squeezing, any more than you or I or anyone else" (Buchanan et al., 1978, p. 157).

<sup>25</sup>Gardner (1979) cites two recent examples where short-run political considerations dictated agricultural policy. "The period immediately prior to the 1976 election offers two telling examples of the role of political calculation, the decisions to raise the loan rate of wheat from \$1.50 to \$2.25 per bushel, and to triple the tariff on imported sugar from .625 to 1.875 cents per pound. The decisions were basically political ones, and would not have been made had the election not loomed so large in White House thinking" (p. 193).

More recently in 1979, the Carter administration, initially opposed to federal loan guarantees to the Chrysler Corporation, later insisted that the company take a larger package than it originally requested. The change in policy, according to press reports, was not based on economic conditions but was motivated by 1980 political considerations. In agriculture, the suspension of grain sales to Russia by President Carter (in January 1980) greatly increased price uncertainty in domestic grain markets.

<sup>26</sup>In the words of Nobel Laureate T. W. Schultz: "The core of my argument is that one of the primary functions of academic economists is to question society's institutions. Economists are all too complacent about their freedom of inquiry. They are not sufficiently vigilant in safeguarding their function as educators. They should give a high priority to scholarly criticism of economic doctrines and of society's institutions" (1979, p. 17).



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