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THE ROLE OF THE ECONOMIST IN AGRICULTURAL PRICE POLICY FORMATION*

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Introduction

For the economist today certain precautions must be taken to avoid the danger that writing and research in the policy field will become sterile as an occupation. The economist can draw up new policy proposals or analyze old ones, but to what purpose? Is there any chance that he will be listened to with respect by policy makers? Can he be useful and still be an independent thinker, or must he be an ally of some special interest group? Picking the proper role is a task which needs to be performed periodically.

The first step in considering this role will be to examine briefly the process by which public and especially federal agricultural price policy is made. Second, we will consider those tasks which constitute the professional function of an agricultural economist and those tasks which, while not strictly within the field of agricultural economics, are well performed by agricultural economists because of their special training. Thirdly, the particular application of these functions in policy formation, policy administration and the periodic reassessment of policy will be considered. Lastly, the considerations which influence any agricultural economist in picking his own role will be considered briefly, as well as the responsibilities of the profession as a whole.

The Process of Policy Formation

Generally speaking policy is first, the selection of the general objective of the policy-forming group and secondly, selection of the means to attain those objectives. Price policy covers the area that revolves around prices and includes both prices considered as objectives of policy and prices as means to attain other objectives. As an objective the parity price concept has been with us a long time but we also have for objectives price stability, certain relative prices among crops, and certain patterns of long-term price movement. As a means of achieving other objectives there are certain functions which the price system can perform and must perform efficiently in a free enterprise economy. Price policy is also concerned with helping prices to perform those functions efficiently.

Policies which consider prices as means or as objectives cannot be considered in isolation from other policies. In a sense, in our current agricultural legislation, prices are not objectives at all but are considered the means for achieving equality in agriculture and satisfactory income levels. Price objectives will not be advanced to extremes when they conflict with other goals such as proper income distribution, tenure patterns, and efficiency in agriculture since doing so would not advance the ultimate objectives which price policies are used to advance. Likewise we do not go to extremes in promoting a free market economy where it leads to local distress, excessive inequality and possible depression.

There can be little hope that a definitive statement of the objective of price policy will ever be made. Congressional hearings, speeches, interviews, and resolutions do not give a consistent picture. We must recognize that public

*The useful criticism of J.M. Tinley and S. Hoos is especially acknowledged.

policy is directed toward many confused and even inconsistent objectives because it is a composite of the objectives of many groups who differ in their wants and concept of society. There is no clear-cut mandate to any group to form and develop agricultural price policy. By constitutional mandate, the Congress is the chief policy farming agency of government, passing laws and keeping a close watch over the executive branch of the government. In addition, the Secretary of Agriculture is clearly a policy-forming official and farm organizations, editors and others have important effects on agricultural price policy formation.

The policy process consists of formation of basic mandates by the Congress, under pressure from many sides, interpretation and development of the details of policy by the Secretary "in the interstices of legislative mandate", periodic reassessment of the results and consequent modification by the same process in which policy was originally formed.

We can state that the objective of agricultural economics is to promote effective policy formation. This would mean promoting efficiency in obtaining the results sought by some given action on the part of the Congress or efficiency in recognizing in advance what results would be obtained from passing any given law. It would call for being able to devise effective means of obtaining stated objectives of policy and being able to put those means into effect. In this process the trained economist can be a big help. Of less importance, the process of policy formation should be rapid, well organized and economical of the talents of legislators and administrators. Making policy effective is the main problem of price policy.

What the Economist Can Do

Questions of public policy have been the concern of economists since before the days of Adam Smith. In a democracy everyone has the prerogative of concerning himself with policy, but the special role of the economist, peculiar to himself, lies within the fields for which his training and experience especially qualify him.

The roles which the agricultural economist can play in policy formation are first, research roles, which means digging up, assembling and analyzing factual information, and drawing conclusions on the basis of what evidence is available.

In his role as an educator the agricultural economist is the one who can supply and interpret facts and show people the means or method of putting facts together to arrive at useful conclusions. Class rooms, extension work, and committee service all have their place in this educational function.

In addition, there are many fields in which an economist can play a useful role although they are outside his sphere of professional competence. As an administrator or legislator, a man would not be called upon to perform the duties of a professional economist, but having such training would make a man particularly able to be effective in such positions. Often the advice sought from agricultural economists is not strictly professional advice, but is sought because the individual of whom it was asked had particular talents in combining his economics with political or administrative know-how.

There is another role, neither research nor education in any strict sense

of the term, and which is hard to name. It is almost the most common role played by agricultural economists in the policy-formation field, and consists mainly of preaching the doctrine of national welfare as the proper goal of policy and of free enterprise being the way to attain that goal. This role is observable in many sections of the Readings in Agricultural Policy, published by the Farm Economics Association, in the report on Postwar Agricultural Policy of the last grant colleges, and in any issue of Farm Policy Forum.

There is a great tradition behind this activity and in general economics find a large proportion of the profession engaged in parallel activity in business, labor, international trade, and such fields. Although no name can be attached to this role, it should be clear that it is not a form of research or education. Indeed, one of the characteristics of the pronouncements in the line we are thinking about is that those pronouncements are seldom based on research results, but are the outgrowth of an implicit faith in some form of free-enterprise economy. We do not mean to condemn this faith, but merely to point out that it is a faith because there has been little proof that the results which many economists believe would come about if a general free enterprise system were instituted would be obtained. We just do not know. Indeed, our economic history is full of examples where application of the free enterprise principle in restricted spheres led to results far different from those expected.

It should be clear that preaching the free enterprise doctrine is not educational in the sense of supplying facts and means of reaching conclusions from facts, if for no other reason, because there are so few facts within easy reach of the common man. While the originators of the free-enterprise doctrine indulged in close logic there is far more teaching and accepting of general conclusions than teaching the means to reach conclusions from facts. This process is especially well demonstrated in beginning classes in economics, where students very quickly learn the jargon of marginalism or general equilibrium theory and the acceptable conclusions as well. We rate them good students when they know the right answers to the economic catechism, but know that the time of exposure was too short for assimilation of very much of the logical framework of economic theory. Thurman Arnold described the process and content of popular economics as being essentially theological when he wrote his excellent Folklore of Capitalism.

This special "theological" role requires separate evaluation. It raises many special questions. It is not directly related to the policy-formation process although the attitudes it engenders affect the policy process. To the extent that it persuades people to accept common policy objectives it serves an important unifying function which is quite essential in a democratic country. While it may hamper thinking things out by supplying ready-made answers we should also recognize that there are many questions for which there are no answers, proved in the scientific tradition, and there are some areas where the idea of "proof" does not apply. Agricultural economists will continue to give answers in these areas because they will be asked for answers and will be unable to avoid giving them.

To what extent should agricultural economists be guardians of the public interest? To what extent should we try to persuade the public to accept our somewhat poorly defined concept of the public interest? Our concept of the public interest is derived from the classical economists and has undergone surprisingly little change. A modern man can feel a strong community of ideas when he reads Adam Smith. We must recognize that the economic criteria of

public welfare are special, and may not be the same as those preferred by many others. This raises the question as to how we can advocate means to attain the public interest as we see it, and evaluate and provide means for others to advance the public interest as they see it.

We must also recognize that many of the prescriptions advanced for maximizing national welfare have much the same status as pre-Harvey medicine. The analogue of economic prescription and medical prescription is a good one, both because of the history of development in each case and because of the nature of the ideological conflict involved. The logic of medical science as derived from Galen and Aristotle was thought impeccable by generations of scholars, even as is economic theory today. Medieval doctors neither hesitated to prescribe for their patients on the basis of their medical theories, nor often thought it necessary to test their theories. When Baconian principles of experimenting and testing were applied and medical science was abetted by advances in other fields the results became one of the triumphs of our civilization.

Today economists often prescribe agricultural price policies derived from theories which too few of us show any interest in testing. It would be a unique experience in the history of ideas if the body of economic theory could survive empirical test without modification. Where practical politicians and others can call our bluff by asking "prove it" we should be very cautious about making policy statements based on untested hypotheses in neo-classical economics. This is not to say that we should hesitate to make pronouncements before all the facts are in. Useful statements can be made on the basis of theories which are not proved but which seem justified by their seeming realism and logical basis. Our experiences with price theory show it to be a very useful tool for predictive purposes, and tests made in the field of production economics are heartening also. The point is merely that in making policy statements based on neo-classical economics we should proceed with caution and with an understanding of the status of the theory on which our recommendations are based.

The difficulties of making prescriptions for advancing the national welfare should not deter economists from concerning themselves with its problems. Nations are welded into one and prosper through the efforts of men with broad prospective. Agricultural economists will be more useful advisors and workers for the national well-being if they call to the attention of policy makers broad general interests instead of narrow fields of interest and if we persuade policy makers to take the long view instead of the short. We will be useful if we persuade legislators to examine the philosophy behind production restriction and price control in agriculture, and if we persuade them to consider whether the restrictive policies they favor for agriculture are consistent with their ideas about promoting competition in the rest of the economy. While there can never be complete agreement as to what sorts of price policy will advance the general welfare, the criteria advanced by agricultural economists and the thinking which they are in a good position to stimulate can help solidify popular opinion along useful lines and can lead to a more adequate consideration of general-welfare objectives of policy.

There is need for research efforts directed toward certain policy objectives as there is need for factual information unshaped by biases. Let us consider what kinds of information will contribute to efficiency in the process of policy formation.

Policy Formation

In the specific field of policy formation we can visualize several roles of importance. Nothing is more certain than that the ideas of people on the subject of agricultural prices are fluid, changing under the impact of the information at their disposal, how straight they think, and economic circumstances. The general price policy atmosphere of 1950 seems to be quite different from that of 1930 with regard to factual information, ideas, the nature of prejudices and the sophistication with which they are blended. People need leadership and they need concrete ideas to play around with, to accept or reject. By general discussion and specific proposals advanced by economists these functions are facilitated.

Agricultural economists have a special fund of information which they make available, and in so doing we will promote the efficiency of policy formation. As trained scientists we also have a special understanding of the way in which the economy operates. Our valuations and concepts of society's goals have a special flavor and are worth advancing as proposed objectives.

There is need for intelligent public thinking on the relation of such limited objectives as high farm prices to such objectives as maximizing national income, economic progress, equitable income distribution, and efficiency within agriculture.

In the development of means to achieve such objectives as high farm prices the economist can increase the efficiency of policy formation through his action on the effectiveness of various means to obtain those objectives. Even if he does not favor high price support the economist can perform useful tasks for legislators who do. It is no easy matter to put together the elements that make up a suitable policy, even if the objectives are such simple ones as high prices. Usually there is not enough information for anyone to make sure what the result of any given policy-act will be, and in the absence of complete data the intuition of trained economists is often pretty good.

In the usual case, price policy is developed as a result of a fight among interested groups. The roles of arbitrator or advisor are useful ones for which agricultural economists are often well qualified. We can be somewhat impartial; we can be a source of compromises and stimulating ideas; we can point out common ground, misconceptions; and we can clarify time-wasting arguments and confusion. Being able to draw upon professional training and information has made it possible for some agricultural economists to perform these functions very effectively in the development of marketing agreements in California.

Usefulness of Economic Information in Policy Formation

In the main, the role of the economist in price policy formation must be to provide information. We have discussed several possible roles and can think several more besides, but in each case the economist is useful because of the special fund of information and theory on which he can draw and which he can to provide analysis of particular situations. It follows from this statement that it is highly important that agricultural economists be well equipped with information and theory also. The short-comings of theory without factual basis have been discussed, and it appears evident that development of better theory depends on having better factual information.

The need for more and better factual information concerning policy matters is real. In developing market control programs under state and federal laws, for example, interested parties and the administrative agencies want to know the effectiveness of various control techniques. Secretary Brannan's proposals and such questions as what level of support prices would be so-called "stop-loss levels" will be more effectively dealt with if adequate factual information is collected.

The information which the economist can supply will be drawn from two main sources. First, economic theory will yield useful generalizations, which we have stated must be handled with care. Secondly, we consider our experience with other comparable programs, paying particular attention to checking the experience against the theory in those areas where the theory does not seem to give complete answers.

It is regrettable that factual information on the operation of price support programs is so scarce, especially when we consider the need of such information in evaluating current proposals. Consider, for example, the kinds of information on such an important matter as storage policy which appeared in the recent Readings in Agricultural Policy. The only article to appear was that of J. S. Davis, published in 1938. Is it not strange that 12 years later we should have so little analysis of the results of the operations of the Commodity Credit Corporation? There have been many articles but little information. Shepherd's work stands almost alone. Marketing agreements, which seem to be increasing in importance, are in exactly the same situation. Without adequate factual information good analyses have been difficult. We have had to rely on very general economic theory to a greater degree than is desirable. We can do much with theory alone, but it can never compensate for not having sufficient factual information. Proper economic analysis calls for an informed blending of the two.

One of the limitations of excessive reliance on theory is that we live in a society where people are accustomed to facts. Theory unsupported by facts, in addition to its other limitations, will not be convincing to policy-makers. One of the best examples is in the field of international trade. Trade restrictions are often favored by groups who are deluded as to the size of the benefits they will gain, and are not opposed by groups who fail to see the costs to them. While economists are free-traders, almost to a man, they have failed in the main to convince the general public, and it is a safe bet that they will not succeed until more precise down-to-earth information is on hand.

Even if political considerations determine the decisions which Congress will make in policy matters we should not overlook the importance of accurate factual information and analysis in clarifying the issues. Selection of objectives must always be political. Economic research contributes directly to the efficiency of the policy formation process, not so much by changing or affecting those objectives as by implementing the attainment of them.

Policy Administration

Once the basic policies have been established by Congress, the administering agencies have the task of implementing them. Since legislation seldom

Davis, J.S. "The Economics of the Ever-Normal Granary" *Journal of Farm Economics*, 1938.

goes into the details of administration, it is necessary for administrators to make a multitude of rules and decisions, often according to principles stated in the basic law. Administration has, therefore, the same need for information and economic analysis which exists in the legislative phase of policy formation. Indeed, since laws need only state general principles and administrators must come to grips with the problems that Congress tosses into their laps, they have even more need for the services of economists. This need seems to be indicated by the commonness of economic-analysis units within action agencies of the United States Department of Agriculture. Only since the war has Congress established an economics unit for legislators.

Reassessment and Modification

The policy formation and modification process is continuous and where it is seen that desired results are not being obtained there will be changes in laws and techniques of administration. Efficiency of policy formation will be increased, therefore, by speed and accuracy in evaluating results. As agricultural economists, we should attempt to answer questions on "live issues". Historical material is useful insofar as it bears on current or prospective questions.

We know that federal farm programs have affected the operation of individual farms and the pattern of agriculture as a whole, through changing the pattern of relative commodity prices, the overall price level and price expectations, and also through direct controls over the use of land resources. We know that one of the effects of these programs has been to bring about production changes which have offset efforts to increase prices. There have been substantial differences in the impact of the programs on farmers in different situations, with different crops and different choices to make among crops. The indirect effects of programs on the production of forage and non-controlled crops, the effect on the amount of animal production, and the price effects of these changes are in other areas about which we know less than we should.

As in the analysis of policies being proposed, factual information and analysis in economic terms is needed for study of programs already in effect and being considered for modification.

Our present information on programs does not permit evaluation of effects in terms of many welfare issues such as the impact of programs on agricultural income distribution. The impact of the programs on resource allocation has been studied and some excellent reports issued, but the picture is still incomplete and inconclusive. The whole question of the importance of price and production uncertainty in agriculture and its effect on the use of resources needs investigation, particularly in connection with the impact of federal price programs which change the pattern of price expectations.

Individual Decisions as to What Role to Play

All agricultural economists have their own beliefs, valuations, their favorite objectives for price policy, and their own favorite ideas of ways to achieve those objectives. Since we are human after all, these beliefs and are bound to affect our research and teaching, either by influencing the process on which we choose to work, or by influencing the techniques we use.

The economist working for public agencies or private organizations must be prepared to advance the avowed aims of his employers, although he may have

influence in determining those objectives. Academic people are usually free to choose their own objectives within wide limits, provided only that their teaching be educational and their research meaningful in the eyes of their colleagues. It is doubtful if anyone can be happy working for a group with public-policy objectives widely different from his own. Our personal ideas on price policy will determine what role we wish to play in price-policy formation, and for whom we can work in a satisfactory fashion.

Our training will determine what tasks in policy formation we are able to do. Many of the tasks in the policy field call for the development of objective information. While no one can be completely objective, the concept of objectivity is real and valuable, and objectivity exists in varying degrees. We must recognize that some economists are well qualified by instinct and training to developing objective information while others are not.

At the same time we should recognize that economy of efforts will usually restrict objective workers in the policy field to working out the answers to questions framed in terms of other peoples' objectives.

Certain important tasks which the economist can play in policy formation are by their nature impossible tasks for an objective worker, as for example, helping decide what their policy objectives are. Where factual information is not sufficient to permit definitive objective statements of fact, or where intuition and judgment must be exercised, objectivity is not a very useful frame of mind.

While there is plenty of room for objective research there are also plenty of research and educational opportunities for those who prefer to work in terms of given goals. There are, of course, competent men who reject the idea of objectivity in the social sciences and who consider the work of any economist in terms of his known biases.

It is interesting to speculate as to whether many specialists in price policy ever make a conscious effort to determine what role they are able to play and what role they wish to play. Most of us probably take advantage of whatever opportunities come to us, but there are important reasons for evaluating those opportunities in terms of our abilities and interests. It is seldom that performing one function will not partially shut the door to others. Research workers who advocate certain policies will not be acceptable advisors to persons not favoring those policies, and objective research which they turn out will be accepted with some slight suspicion, not based on any question of personal integrity, but on the subtle effects on objectivity of biases and beliefs. Those who wish to do objective research in the tradition which many economists have taken over from the natural scientists will find that they must eschew taking an active part in the policy process. Those who work for private groups must be willing to accept very definite limitations on the part they will play in advocacy of policy or in research. The particular difficulties of working for public agencies and being active in the policy field at the same time are all too obvious.

Responsibilities of the Agricultural Economics Profession

There is need to evaluate the overall effectiveness of the agricultural economics profession in price policy formation, and to consider the relations between different members of the profession. The impact of agricultural

economists is the impact of many different individuals whose ideas cannot and should not be molded to any common pattern. It is somewhat unrealistic to ask what differences might exist in public policy if these individual economists were removed en masse at some past date, and whether these differences were good or bad. I am not prepared to evaluate them, other than to state generally that the work of some economists has obviously been harmful in terms of my own ideas while I approve of that of some others. In a sense, the idea of parity came from the agricultural economics profession. The parity idea is something of a millstone around our necks at the present time, but are we prepared to say that it would have been better if it had never been thought of?

In terms of the future the question is not whether or not agricultural economics can make a positive contribution to policy formation, but how it can make the most effective contribution. It is safe to say that improvements in information and training will increase our professional effectiveness.

Improvements in information will result from improved skills in information collecting and statistical knowledge, and from improvements in the analytical abilities of agricultural economists. There is no reason why these improvements should be restricted to forthcoming graduates of our colleges. Improved information will be the product mostly of the work of specialists in particular aspects of agricultural economics. Specialists in farm management and storage programs are better qualified for consideration of the impact of storage programs on production while price analysts must answer certain other questions. The theorists and the policy specialists have their parts to play also.

We need to reconsider whether the training and direction of efforts in the price field have been efficient in terms of implementing effective price policy formation, and whether or not something might be done to better direct our efforts.

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