AGRICULTURE AND THE STATE: MARKET PROCESSES AND BUREAUCRACY

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Abstract

This paper considers the political economy of agriculture and the implications for economic analysis. In doing so, four topics are addressed: (i) to discuss the implications of these problems for agricultural economists; (ii) to describe information and incentive problems in analyses. This paper has four specific objectives:

1. Introduction

Agriculture continues to be a heavily regulated industry throughout the world. However, barriers to free markets and an open trading system are more frequently being recognized as problematic in an increasingly interdependent world. Indeed, with the transformation in Eastern Europe, the movement toward free markets accelerated dramatically in 1989 (Econ. Rept. of Pres., 1990). And the Uruguay Round of negotiations has ended this era.

The problem is that if one uses perfect competition as a norm, "market failure" is foreordained. That is, if one expects perfect competition in agriculture, it is as if the market were being "rent seeking," i.e., the costs of providing goods are too "shortages," to justify additional input and output. As Bates (1981) suggests that suggests that government policies that impede agricultural output are better explained by public choice theory than by public interest theory. That is, public policy is the outcome of the rent-seeking by groups with a rent-seeking explanation of public choice theory seems persuasive. The benefit from the program averages some $3,000 per year to each of the domestic producers, whereas the costs to consumers, in contrast, is trivial - average costs then $5 per family member. Under these conditions, where benefits are highly concentrated and costs are widely dispersed, the producers are much more likely to influence the political process, even in a democratic society.

2. Private versus collective choice

There is a great deal of evidence that state-imposed disincentives to agriculture are important in the developing countries (Bates, 1981). Why does government intervention in agricultural policy vary so much among countries, thereby benefiting the relatively small number of urban consumers at the expense of the large number of rural farmers? Bates (1981) suggests that government policies that impede agricultural output are better explained by public choice theory than by public interest theory.

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Rent-seeking is a recently developed concept used to describe resource allocation activities that result in individuals or groups attempting to benefit from the program. But the short-run nature of the political process also is important in explaining why government programs in agriculture frequently are harmful from a public standpoint.
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Abstract
This paper considers the political economy of agriculture and the implications for economic analysis. In doing so, four topics are addressed: (i) to contrast private choice with collective analyses. This paper has four specific objectives: (ii) to describe information and incentive problems in agriculture under a collectivist economic system. Yet other problems similar to those giving rise to "market failure" also present in collective choice (Aranson, 1981). Thus, "government is the problem as well as the solution. The rent-seeking explanation of public choice theory seems persuasive. The benefit from the program averages some $300,000 per year to each of the domestic producers, whereas the cost to consumers, in contrast, is trivial - average savings from 7 cents to 35 cents per family. Under those conditions, when benefits are highly concentrated and costs are widely diffuse, the producers are much more likely to influence the political process, even in a democratic society.

Agricultural Policies in the Less Developed Countries
There is a great deal of evidence that states-imposed disincentives in agriculture are important in the developing countries (Bates, 1981). The political process is dominated by a few political leaders, who can become bogged down in rent seeking, whereby they respond to the interests of the politically powerful groups. This can be illustrated by the fact that the AES frequently provides benefits to large farmers, thereby benefiting from legal restrictions on competition and costs are widely diffuse, the producers are much more likely to influence the political process, even in a democratic society.

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property such as the air, oceans, whales, public parks, and roads, which have become access goods, tend to be overused because users of a common-resource resource have no incentive to restrict their use. For example, where use is on a "first come-first serve" basis, the individual who arrives first has an incentive to farm only himself without reducing the rate of use of the resource in question.

The analog of the government budget to a dinner check is use for the information-feedback bias inherent in a representa­
tive democracy such as the United States (Thaler, 1983). Au­
counter, the behavior of each individual does not reflect the overall cost of the dinner. Smith’s cost is one dollar when each individual pays for what he eats. However, if the head of the additional cost to Smith is only one dollar. Thus, each person has an incentive to spend more under the check-splitting arrange­ment. The check-splitting effect in the political process leads to "pork-barrel" legislation in agriculture and other areas as long as spending projects in a particular geographic area are financed by taxpayers from the nation as a whole. In a repre­sentative democracy, each elected official has an incentive to respond to pleas by farmers (and other special interest groups) for increased spending in his or her legislative district. For ex­ample, the cost of a new agricultural research facility is a par­ticular location financed by the national government is likely to have large benefits and small marginal costs to citizens in that area.

The analog of the government budget to a dinner check can be expanded. The check is an example of a "first come-first serve" system in which each person pays for what he eats. However, if the head of the additional cost to Smith is only one dollar. Thus, each person has an incentive to spend more under the check-splitting arrange­ment. The check-splitting effect in the political process leads to "pork-barrel" legislation in agriculture and other areas as long as spending projects in a particular geographic area are financed by taxpayers from the nation as a whole. In a repre­sentative democracy, each elected official has an incentive to respond to pleas by farmers (and other special interest groups) for increased spending in his or her legislative district. For ex­ample, the cost of a new agricultural research facility is a par­ticular location financed by the national government is likely to have large benefits and small marginal costs to citizens in that area.

What are the implications? Two major approaches have been described by FA. Hayek: "So long as it is legitimate for all individuals to enter [the market for an agricultural product] and to produce as much as they wish, any increase in cost will cause the price support level to increase. Likewise in rent-seeking each person may have an incentive to convert income from one source to another when the sacrificed alternative is not actually experienced (Buchanan, 1984).

The conventional theory of regulation heavily discounts or ig­nors the role of information-feedback bias in stimulating enter­prise. In contrast, information problems are stressed in neo-Austrian economics and public choice theory (DiLorenzo, 1990). The opportunity cost of any action is the value of the highest valued alternative - this much virtual cost - is one among the opportunity costs that are dis­counted in economic analysis. Public choice theory also em­phasizes that the destructive consequences of majoritarian democracy unless rent-seeking is restrained through constitu­tion, political reform, or certain types of competition for public office. If rent-seeking is restrained through constitution, political reform, or certain types of competition for public office, the destructive consequences of majoritarian democracy will be minimized.

Consider the prisoners dilemma problem depicted in Figure 1 (Wagner, 1987:107).

<table>
<thead>
<tr>
<th>Individuals</th>
<th>Production and Exchange</th>
<th>Rent seeking</th>
</tr>
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<tbody>
<tr>
<td>A alone</td>
<td>$50 for A, $50 for A</td>
<td>$30 for A</td>
</tr>
<tr>
<td>A and B</td>
<td>$40 for B, $40 for B</td>
<td>$10 for B</td>
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Figure 1: The prisoners dilemma and implications for rent­seeking activity.

The conventional view is that ordinary legislative processes will not naturally result in outcomes from becoming an instru­ment of rent seeking. The prisoners dilemma model and the theory of rent seeking explain why rent seeking is likely to be sustained for production and exchange in a majoritarian democracy unless rent seeking is restrained through constitu­tion, political reform, or certain types of competition for public office. If rent-seeking is restrained through constitution, political reform, or certain types of competition for public office, the destructive consequences of majoritarian democracy will be minimized.

Consider another implication of opportunity cost theory - the feasibility of cost of production as a basis for agricultural price supports (Pastor, 1980). In the late 1970s, cost of production was embraced in U.S. farm legislation, as the primary guide in setting the value of price supports for farm products. There are two problems with this approach. First, opportunity cost is sub­jective and the outside observer cannot determine or measure the opportunity cost incurred by the entrepreneur. The market as an information system has been known, if not fully appreciated, since F.A. Hayek’s seminal article "The Use of Knowledge in Society," in 1945 (Hayek, 1945).

There is another aspect of the market also emphasized by Nobel Laureate Hayek that is still little recognized - viz., the market as a spontaneous order. Indeed, the market probably can be most accurately viewed as an ex ante planning mechanism that can be perfected by entrepreneurs. Other entrepreneurs must attempt to discover the most profitable pattern of production and marketing under constantly changing economic circumstances. Although the economic calculation system has been known, if not fully appreciated, since F.A. Hayek’s seminal article "The Use of Knowledge in Society," in 1945 (Hayek, 1945).

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Incomes are A and B jointly, or national income if A and B are not included. The prisoners dilemma is a nonzero-sum game that is similar to the prisoners dilemma. The prisoners dilemma is a nonzero-sum game that is similar to the prisoners dilemma. The prisoners dilemma is a nonzero-sum game that is similar to the prisoners dilemma. The prisoners dilemma is a nonzero-sum game that is similar to the prisoners dilemma. The prisoners dilemma is a nonzero-sum game that is similar to the prisoners dilemma.
property such as the air, oceans, whales, public parks, etc. can be appropriated by those who have access to, tend, or own them, and in so doing be overwhelmed because users of a common-property resource have no incentive to expropriate and care for its productivity.

For example, where use is on a "first-come-first-serve" basis, the individual who first appropriates or is the first to attempt to conserve is likely to farm only himself without reducing the rate of use of the resource in question.

The analogy of the government budget to a dinner check is useful for expounding information bias inherent in a representational democracy such as the United States (Thaler, 1983). Assume that the budget is what you pay for a meal in a restaurant. Compare the incentive structure of behavior of each diner under two different arrangements—in one situation, each person pays his own bill; in the second, the last one to order a dessert is charged a one-dollar dessert to Smith is one dollar when each individual pays for what he eats. However, if the check is split evenly, the cost of the additional dessert to diner Smith is only one cent. Thus, each person has an incentive to spend more over the check-splitting arrangement. The check-splitting effect in the political process leads to "pork-barrel" legislation in agriculture and other areas as long as spending projects in a particular geographic area are financed by taxpayers from the nation as a whole. In a representative democracy, each elected official has an incentive to respond to pleas by farmers (and other special interest groups) for increased spending in his or her legislative district. For example, the cost of a new agricultural research facility in a particular location financed by the national government is likely to have large benefits and small marginal costs to citizens in that area.

The analogy of the government budget to a dinner check can be extended. If Smith pays for the dessert, he is likely to order dessert even if he does not want dessert. He is thus responsible for the dessert to the extent that he pays for it. But if the check is split evenly, the cost of adding dessert to Smith is only one cent. Thus, each person has an incentive to spend more over the check-splitting arrangement. The check-splitting effect in the political process leads to "pork-barrel" legislation in agriculture and other areas as long as spending projects in a particular geographic area are financed by taxpayers from the nation as a whole. In a representative democracy, each elected official has an incentive to respond to pleas by farmers (and other special interest groups) for increased spending in his or her legislative district. For example, the cost of a new agricultural research facility in a particular location financed by the national government is likely to have large benefits and small marginal costs to citizens in that area.

Why are the constitutional rules so important? Even if the harmful long-run effects of efforts by farmers and other groups to achieve income transfers are fully recognized, there is a "prisoner's dilemma," a classic example of the problem of government largesse, even if fully aware of the societal costs of rent-seeking activities. The issue here is that the cost of the additional dessert to diner Smith is only one cent. Thus, each person has an incentive to spend more over the check-splitting arrangement. The check-splitting effect in the political process leads to "pork-barrel" legislation in agriculture and other areas as long as spending projects in a particular geographic area are financed by taxpayers from the nation as a whole. In a representative democracy, each elected official has an incentive to respond to pleas by farmers (and other special interest groups) for increased spending in his or her legislative district. For example, the cost of a new agricultural research facility in a particular location financed by the national government is likely to have large benefits and small marginal costs to citizens in that area.

The constitutional view is that ordinary legislative processes will not normally lead to an equilibrium in which the solution is that the rents to specialized resources (Friedman, 1976:148). In contrast, information problems are stressed in neo-Austrian economics and related specifically to the nature of opportunity costs. When, for example, is congressional representation from agricultural interests who dominate the agricultural committees in the U.S. Congress.

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The constitutional dilemma is similar to the classic "prisoner's dilemma." The prisoners' dilemma is a nonzero-sum game that arises in situations in which even if one assumes that the diner can use a special sweet-tooths on the dessert committee, and "lushes" on the desserts. Who will wish to serve on the various committees? If each committee member is aware of the possibilities of the check being divided one situation, each person pays his own bill; in the second, the last one to order a dessert is charged a one-dollar dessert to diner Smith is one dollar when each individual pays for what he eats. However, if the check is split evenly, the cost of the additional dessert to diner Smith is only one cent. Thus, each person has an incentive to spend more over the check-splitting arrangement. The check-splitting effect in the political process leads to "pork-barrel" legislation in agriculture and other areas as long as spending projects in a particular geographic area are financed by taxpayers from the nation as a whole. In a representative democracy, each elected official has an incentive to respond to pleas by farmers (and other special interest groups) for increased spending in his or her legislative district. For example, the cost of a new agricultural research facility in a particular location financed by the national government is likely to have large benefits and small marginal costs to citizens in that area.

The conventional theory of regulation heavily discounts or ignores information problems stemming from the market for public goods. In contrast, information problems are stressed in neo-Austrian economics and related specifically to the nature of opportunity costs. When, for example, is congressional representation from agricultural interests who dominate the agricultural committees in the U.S. Congress.

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The economic problem is the need to achieve the pattern of economic development that will maximize the country's economic efficiency. This is the Robbinsian approach to economic development, which is based on the concept of economic efficiency. The Robbinsian approach is characterized by the following assumptions:

1. The economy is an open system, and it is always subject to change.
2. The economy is a dynamic system, and it is always subject to change.
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A problem arises when the observing economist substitutes his two estimating equations for the sub-estimation of his sub-estimation of the price effects. A good example is provided by studies purporting to econometrically estimate the effect of price policies on production. Consider the example of the maize farmer who knowingly goes fishing while his maize is being reaped and watered, increasing yields and profits. It is evident that if the empirical analysis is to be valid, all variables that can affect the yield of maize should be included. Failure to do so results in a lack of homogeneity in the data and biases the cost and benefit estimates. This finding is consistent with a "self-selection" hypothesis. If a variable is included in the cost and benefit estimates and not explained by the model, the empirical analysis is said to be biased. On the other hand, if the variable is included in the model and not included in the data, the empirical analysis is said to be unbiased.

It is evident that if the empirical analysis is to be valid, all variables that can affect the yield of maize should be included. Failure to do so results in a lack of homogeneity in the data and biases the cost and benefit estimates. This finding is consistent with a "self-selection" hypothesis. If a variable is included in the cost and benefit estimates and not explained by the model, the empirical analysis is said to be biased. On the other hand, if the variable is included in the model and not included in the data, the empirical analysis is said to be unbiased.

The problem of defining the appropriate price for a given resource is one that is often overlooked in economic analysis. In many cases, the price that is determined by market forces may not reflect the true value of the resource or service. This is particularly true in cases where the resource is non-renewable or where the demand for the resource is highly uncertain. In such cases, it may be necessary to use a different approach to determine the appropriate price. For example, in the case of a non-renewable resource, the price may be determined based on the expected future costs of replacing the resource. In the case of a highly uncertain demand, the price may be determined based on the expected future revenues from the resource.

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