

SYMPOSIUM SESSION SUMMARY

The Role of Economics in the Public Policy Debate AAEA Extension Track Organized Symposium Montreal, Canada July 30, 2003

This report highlights the activities and discussion for the symposium "The Role of Economics in the Public Policy Debate." The session originated with the goal of discussing the role of economic research, analysis, and education in the public policy debate. The session was designed to build on discussion at previous AAEA meetings, particularly a session on the presence of economists (or lack thereof) in the development of the 2002 Farm Bill. To go beyond the debate of how economists performed in the last Farm Bill, the session specifically addressed the role that economists can take in the public policy debate. Recognized experts provided an academic, Congressional, and administrative perspective of the issue.

Session Highlights

Dr. Joe Outlaw, Texas A&M University, moderated the session and set the initial stage for discussion. In noting the National Public Policy Education Committee was instrumental in surfacing the idea for the session with the Extension Section, Outlaw discussed the role of public policy education and alternatives/consequences analysis for policy issues.

Dr. Abner Womack, Director of FAPRI at the University of Missouri-Columbia and also AFPC at Texas A&M University, discussed the breadth of economic analysis that is requested from Congress regarding agricultural legislation. Womack noted that FAPRI conducts analysis to evaluate policy options and provides information, not recommendations. Washington receives that information and measures it against an implied set of policy objectives for farm policy in the areas of farm income, food supply, exports, conservation and environment, input industry, reserves, rural development, and government costs. Womack also noted that in recent years, FAPRI has shifted from traditional deterministic analysis of farm policy options to stochastic analysis, measuring the impact of policy alternatives through 500 simulations of production and marketing conditions.

Mr. Mike Seyfert, legislative assistant to Senator Pat Roberts of Kansas, discussed the focus of Congress and what policymakers really want from economists. Noting that economists often argue about economic theory, Seyfert noted that what is good policy is not necessarily good politics. Thus, there is a recognition that politics and the political process of coalition building imply that different parts of different proposals will often find their way into the solution of political compromise. Importantly, Seyfert noted the demands on the schedule of members of Congress and offered four basic principles for providing economic information to policymakers. First, keep the information simple and do not confuse it with undue economic jargon. Second, keep it short and readable: a one-pager is useful for background information; a two-pager is reserved for really important issues; a three-pager simply does not exist. Third, provide analysis based on facts and discuss what shocks to the baseline assumptions would do to the conclusions. Fourth, stick to your professions: "economists need to act like economists, not lawyers and lawyers need to act like lawyers, not economists."

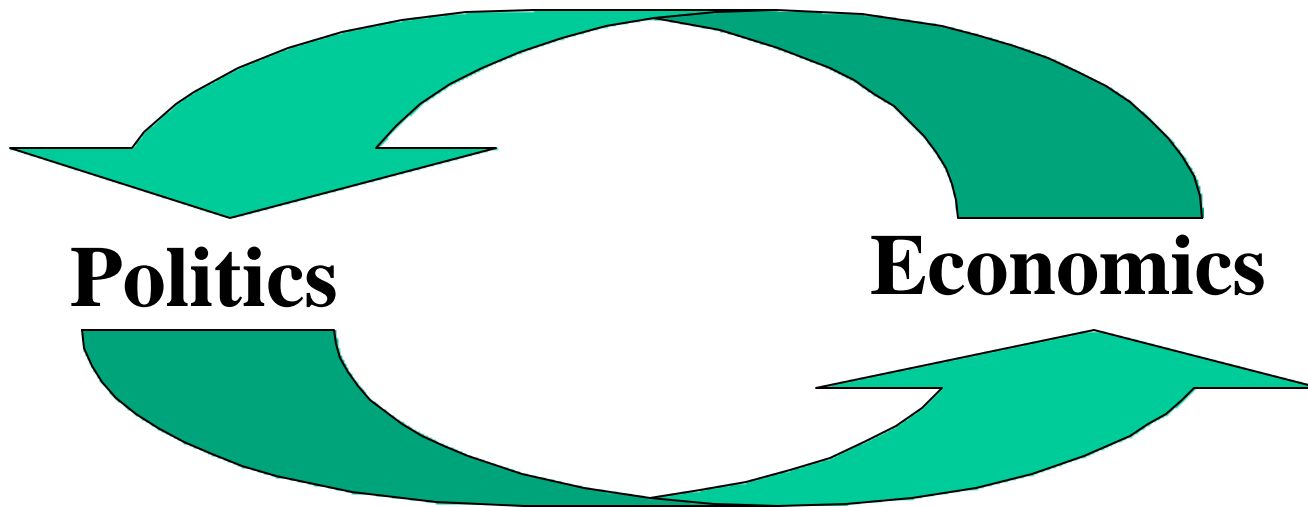
Dr. Keith Collins, Chief Economist at USDA provided a perspective on whether economics or politics was the real force in public policy. Noting the history of various policy issues, Collins suggested the record was mixed. Economics has had a significant and productive role over time in shaping the policy of trade liberalization; it is generally accepted that trade liberalization is a source of growth and wealth. On the other hand, politics plays a powerful role in the shape of domestic legislation. The election map of 2000 and the \$73.5 billion budget resolution generally determined the course of the 2002 Farm Bill, although

economics did play a role, particularly in shaping loan rates, WTO compliance, peanut program reforms and conservation programs. Then, there is much ground that is uncertain. In the current debate over payment limits and country-of-origin labeling, the current regulations or proposals have as much to do with politics as with economics. But, economics has had an important role in shaping federal laws relating to paperwork reduction, USDA reorganization, and the Government Performance and Results Act among others.

Mr. Brad Lubben, Kansas State University provided a discussion of the three presentations. It is important to note the critical role economists can play in the public policy debate. Policy educators stress the need to focus on explanation and not prescription. Given Womack's presentation, the alternatives/consequences approach may now include 500 possible consequences for every alternative. It is also important to remember the constraints within which economists operate. While it is apparent that economics is important, it is not paramount. Regarding the 2002 Farm Bill, Lubben noted that "politics designed the Farm Bill, economics set the rates." Not every economic solution is a political solution or even a feasible alternative. As noted by Seyfert, it is important for economists to provide the information that policymakers need in a form that they can use. While economists may be frustrated in the apparent lack of economics in the public policy debate, it is worth remembering that policymakers respond to many goals, of which economics are only a part. As Collins pointed out, the fact that economic theory and analysis has had a major role in shaping the policy of international trade does say economics is important. However, it is important to also remember that many policy issues are shaped by more than economics and that for some policy issues, economic analysis doesn't provide the definitive answer.

Economics or Politics-the Real Force in Public Policy?

“Politics is the rationalization of economic self interest”--DG



The Power of Economics: Trade Policy

- **Trade liberalization accepted as source of growth & wealth**
- **GATT/WTO/NAFTA/Doha**
- ***But*, are the adjustments real??**
 - **Yes: tariffication (peanuts, horticultural crops), decoupled payments**
 - **No: dirty tariffs, domestic support unconstrained, sugar in NAFTA**

The Power of Politics: The Map

The vote Tuesday, county by county

Vice President Gore won in 677 counties and
1000 Gov. George W. Bush in 2,434 counties,
according to preliminary results.

Square miles of counties won

Gore 580,134
Bush 2,427,039

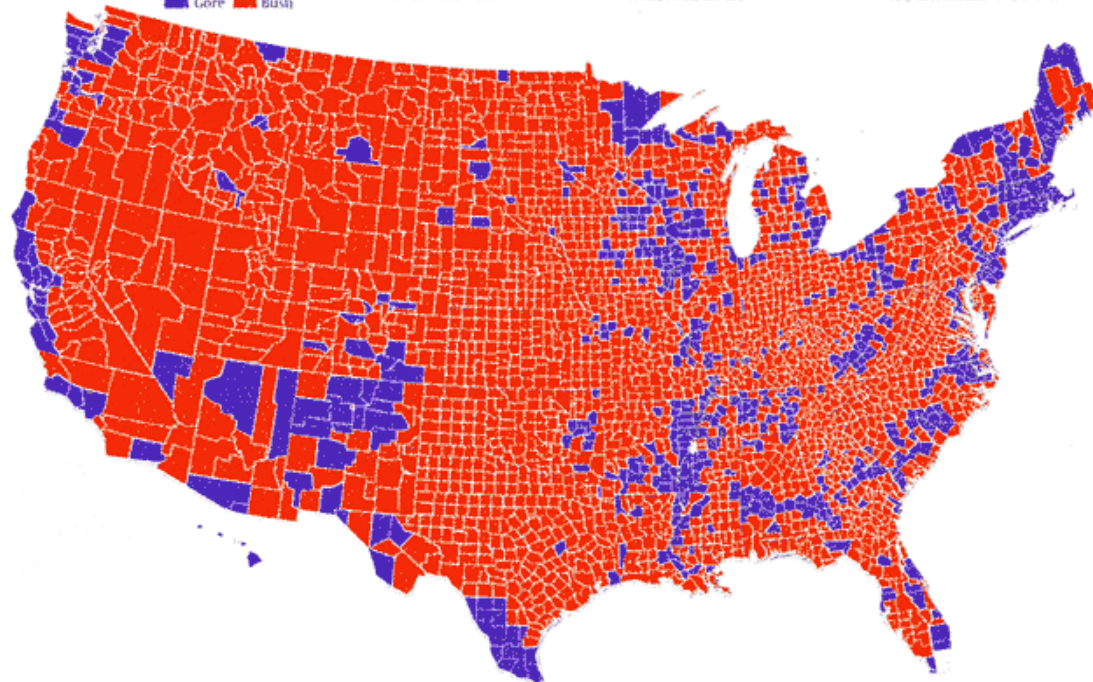
Population (1998) of counties won

Gore 127 million
Bush 143 million

Growth (1990-99) of counties won

Gore 5%
Bush 14%

■ Gore ■ Bush

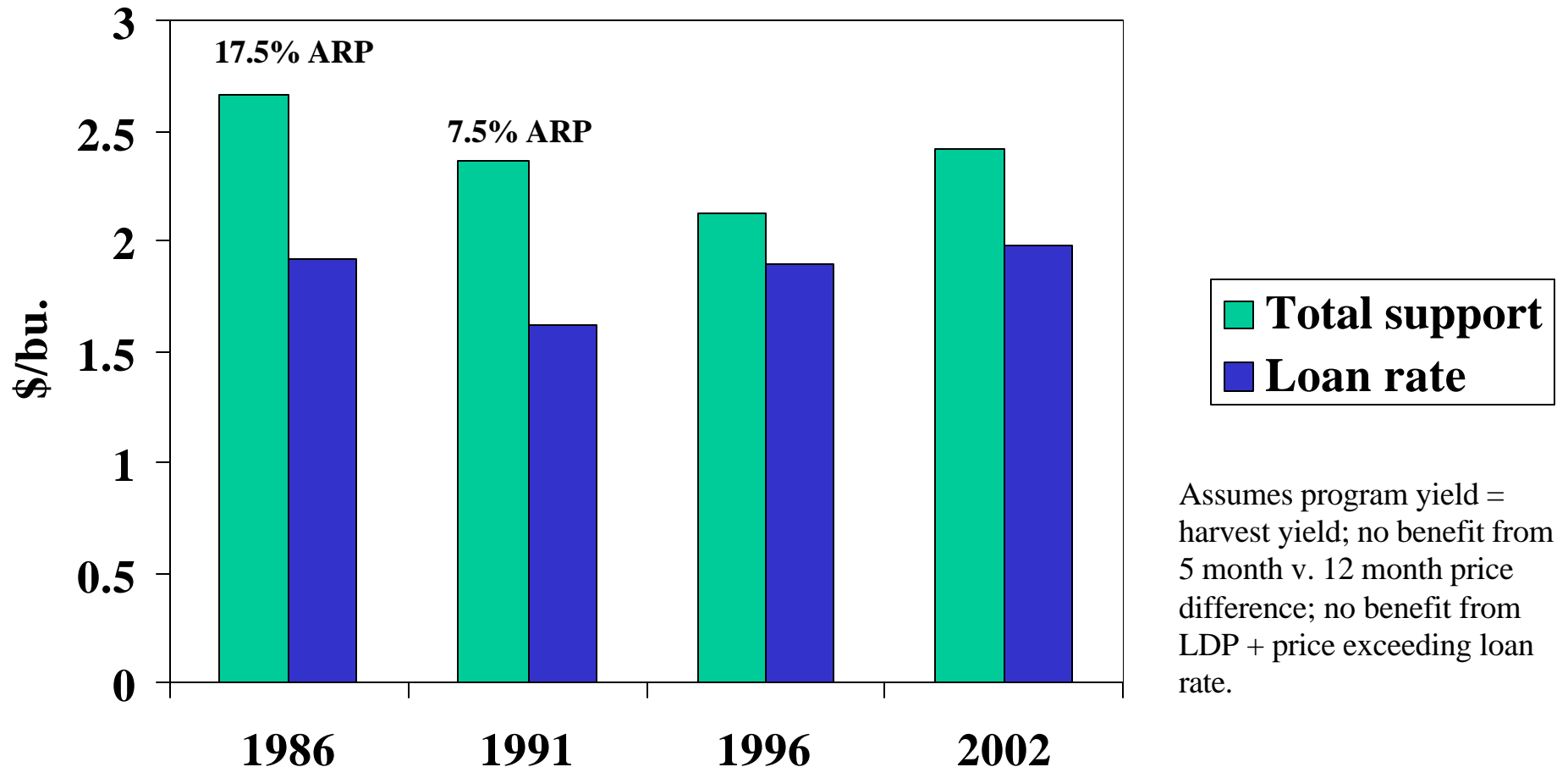


The Power of Politics: Domestic Farm Policy

The Farm Bill:

- The map and other factors generated +\$73.5 billion budget resolution. What followed:
 - Higher loan rates
 - New countercyclical crop and milk programs
 - Base and yield updating
- “Where have all the economists gone?”

Corn: Loan Rate and Total Support



Economics in Domestic Farm Policy: Not all was lost

The Farm Bill:

- **Loan rates possibly worse/rebalancing**
- **Response to WTO concerns: DP/CCP**
- **Peanut program**
- **Conservation programs**
- **Probability scoring**

The Power of Politics: Domestic Farm Policy

Disaster Bill:

- **The Whitten Doctrine:**
 - “There has never been a disaster that was not a political opportunity”
- **Economists response: crop insurance, farm bill, disincentives, deficit, livestock is the problem**
- **Politicians response: \$3 bil. but offset it, reduced rates, 95% cap, linkage**

Uncertain Ground: Economics or Politics?

- **Payment limits**
- **COOL**

Economics Rising: the Regulatory and Budget Arena

- **Laws:**

 - Paperwork Reduction & Elimination Acts**

 - USDA Reorganization Act of 1994**

 - SBREFA**

 - GPRA**

- **Other:**

 - E.O. 12866**

 - President's management initiative**

Conclusion

- **What you see depends on where you sit**
- **If you're in the policy tent:**
 - **Watch for delusional proximity**
 - **Watch for the slippery slope**
- **Economists are not a constituency**
- **Politicians need concrete results that can be acted upon**
 - **Data, background, context, feasible alternatives, costs, benefits**

What Economists Can Really Say About Policy Choices

Abner Womack

AAEA Annual Meeting

Montreal, Quebec

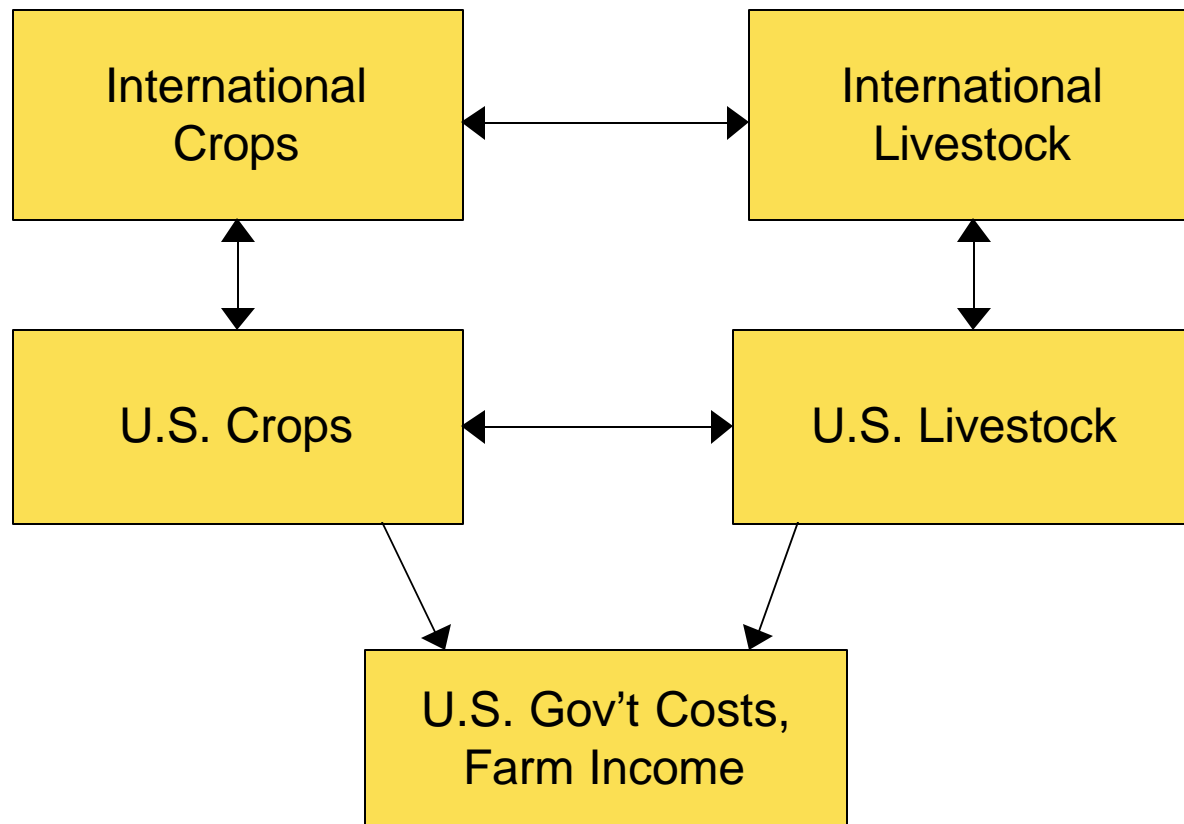
July 27-30, 2003

FAPRI

Who we are

- Food and Agricultural Policy Research Institute (FAPRI)
 - Joint institute of University of Missouri and Iowa State University
 - Working together with colleagues at Texas A&M, Arizona State, University of Arkansas and Texas Tech
- Congress provides much of our funding to prepare projections of agricultural markets and analyze the effects of alternative policies

FAPRI model linkages



FAPRI models: a few characteristics

- Multi-market (models linked across commodities and countries)
- Dynamic (markets adjust over time)
- Partial equilibrium (macro-economic conditions treated as given)
- Non-spatial (for each country, estimate total exports/imports, not trade matrix)
- Hybrid (some portions estimated econometrically, some synthetic)

Representative Farms

A photograph of a rural farmstead. In the foreground, there are rows of crops, likely corn, in various stages of growth. In the middle ground, a cluster of white farm buildings is visible, including a large barn, several smaller houses or outbuildings, and two prominent blue silos. The background shows a line of trees under a clear blue sky.

Farm Level Analysis

- National
- Missouri

Why We Do It?

Because of National Farm Policy Objectives

1. Income - **Maintain adequate net farm income for livestock and crop farmers**
2. Food - **Maintain an adequate food supply at reasonable prices**
3. Exports - **Maintain a competitive trade position**
4. Conservation and Environment - **Programs must enhance environmental and conservation quality**
5. Inputs - **Maintain a viable input industry**
6. Reserves - **Adequate reserves in the event of crop production problems**
7. Rural areas - **Complementary to the development of rural areas**
8. Government Cost - **Achieve all objectives at the least government cost**



FAPRI Products

- 10-year baseline projections of U.S. and world agricultural economy
- Analyses of alternative scenarios--**what happens under alternative assumptions concerning policy, technology, climate, or the general economy**

The 1-2-3 Scenarios: An Analysis of Safety Net Alternatives

*The 1-2-3 Scenarios were prepared at the
request of Representative Charles Stenholm
in July 2000*



www.afpc.tamu.edu

FAPRI

www.fapri.missouri.edu

Scenario Assumptions

- *For the scenarios, all baseline policies remain in place, i.e. AMTA payments remain.*

- In addition, assume authority exists for additional spending above baseline levels for the 2001-05 crops.
 - Average \$1 Billion/Crop Year (\$5 Billion Total)
 - Average \$2 Billion/Crop Year (\$10 Billion Total)
 - Average \$3 Billion/Crop Year (\$15 Billion Total)

More Assumptions

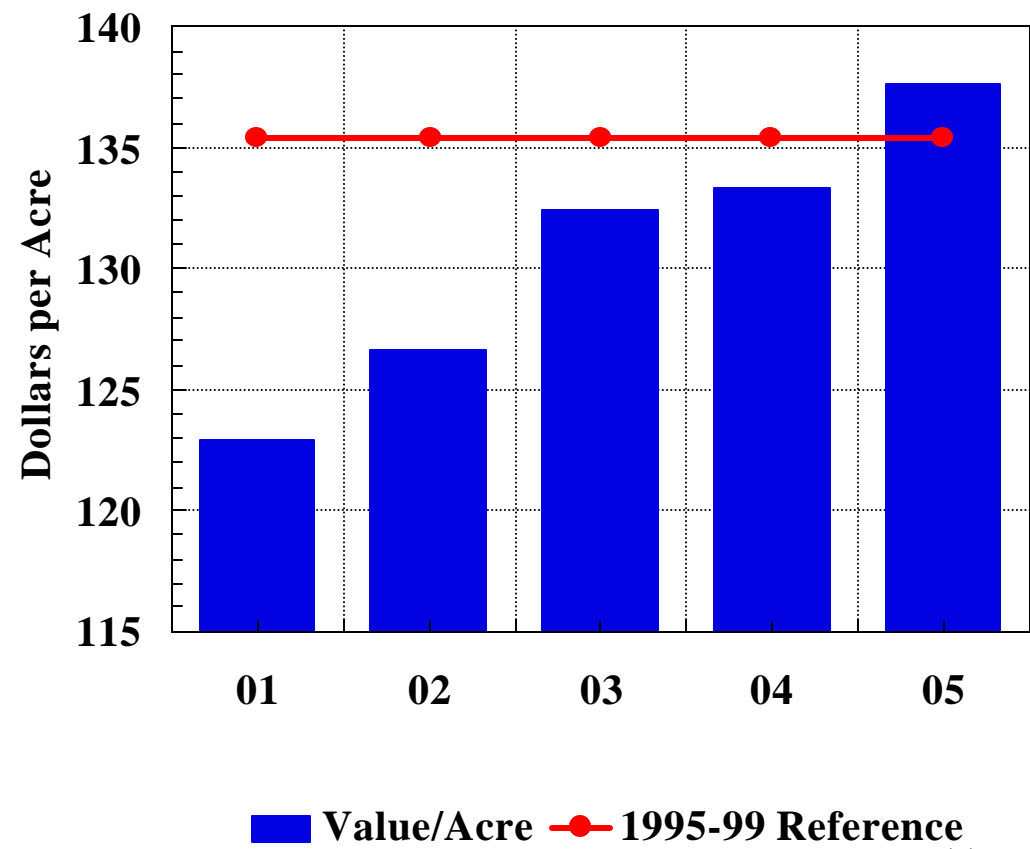
- Spend the additional money in three ways
 - **Modified Supplemental Income Payments (MSIP)** - Payments based on 1995-99 reference period.
 - **Higher Marketing Loan Rates (LR)** - Increase ***all loan rates by the same percentage*** in order to achieve the additional spending.
 - **Market Loss Assistance (MLA) Payments** - Distributed in the same fashion as the previous MLA payments. Some money included for oilseeds.
- Precise levels for loan rates and SIP triggers set so as to spend on average the same amount as the increase in MLA payments.

Modified SIP for Wheat:

Where the Baseline Is Important

- Relative to the FAPRI baseline, MSIP will play a larger role in the early years as the value per acre falls well below the 1995-99 average.
- Over time, stronger prices and increasing yields reduce the gap between the value and the reference period.

Wheat Value vs. MSIP Reference Value

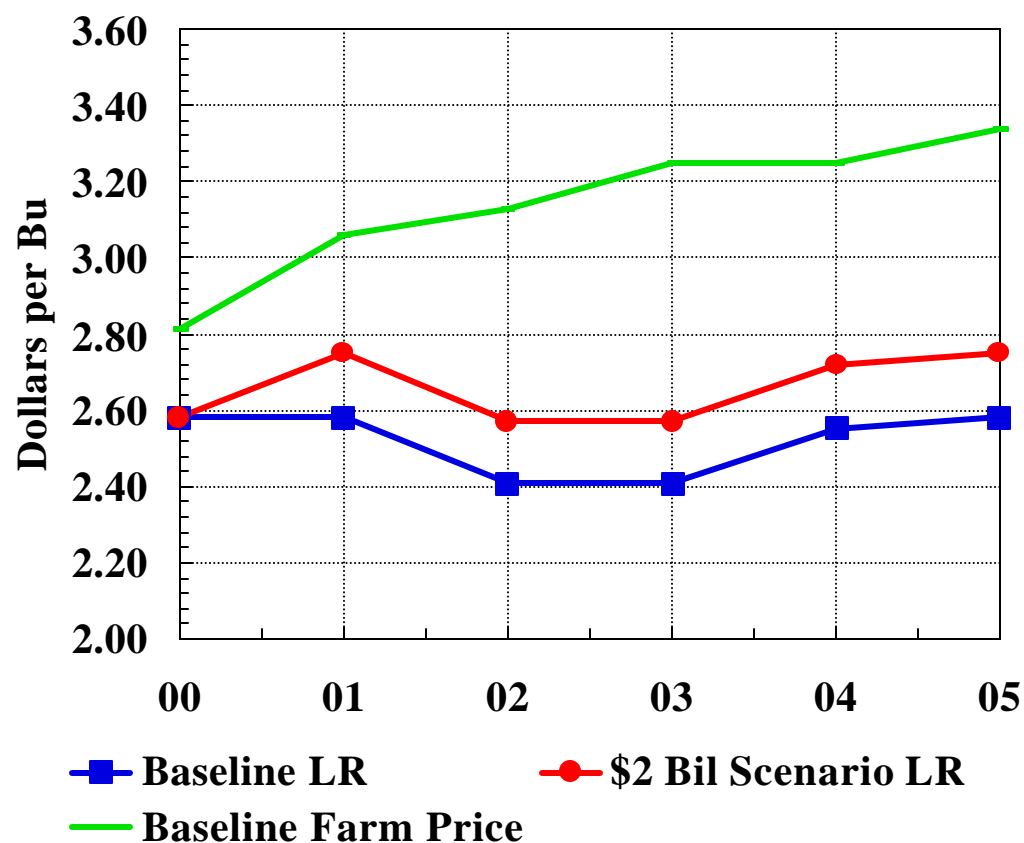


Loan Rate Formulas for Wheat:

Where the Baseline Is Important

- In the FAPRI baseline, loan rates are held fixed through the 2001 crop and then allowed to adjust to minimum levels based on the formulas.
 - Rice loan rate remains at \$6.50 in the baseline.
- The scenarios maintain this convention with loan rates for all crops increased by the same percentage above baseline levels.

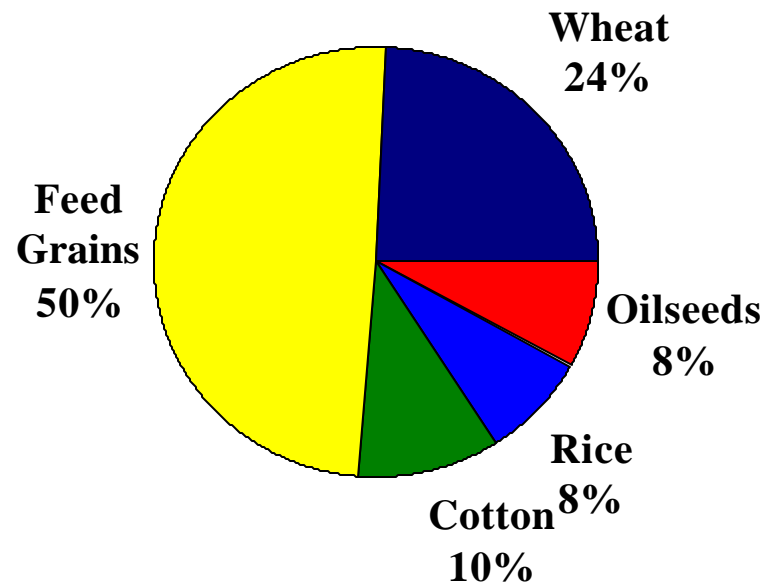
Wheat Loan Rate vs. AWP



Market Loss Assistance

- Market Loss Assistance payments are allocated based on percentages from the previous assistance packages.
- Feed grains receive 50% of the money under these rules.
- Wheat receives 24% of the money.

Allocation of MLA Payments



Policies Analyzed in this Study

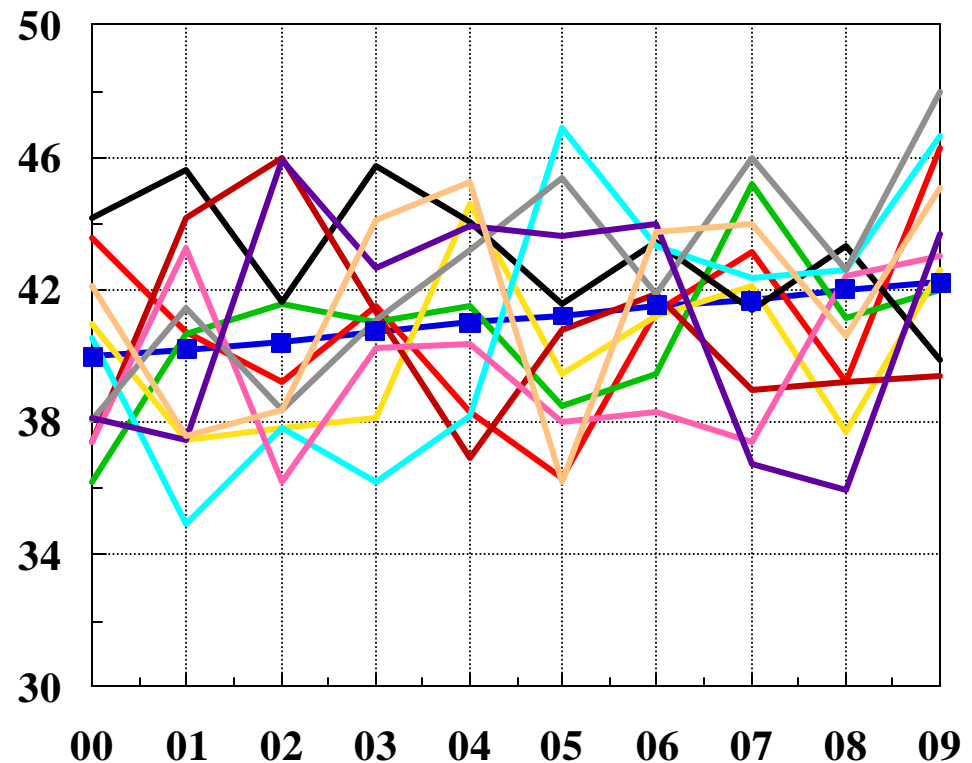
- 3 ways to spend an additional money above baseline spending over the 2001-05 crops.

	Avg Annual Additional Spending		
	<i>\$1 Billion</i>	<i>\$2 Billion</i>	<i>\$3 Billion</i>
<i>MSIP (Trigger %)</i>	89.80%	93.86%	96.75%
<i>LR Increase Above Base</i>	3.50%	6.67%	9.60%
<i>MLA Payments</i>	\$1 bil/crop yr	\$2 bil/crop yr	\$3 bil/crop yr

Multiple Draws Must Be Done, Done, Example for Wheat Yields

- Looking at one possible path doesn't provide enough information.
- Program must be evaluated over a number of runs. We have done 500 simulations.
- Graph shows 10 of the 500 wheat yield paths used in this analysis.
- Remember - all other shocks are being introduced at the same time.

U.S. Wheat Yield

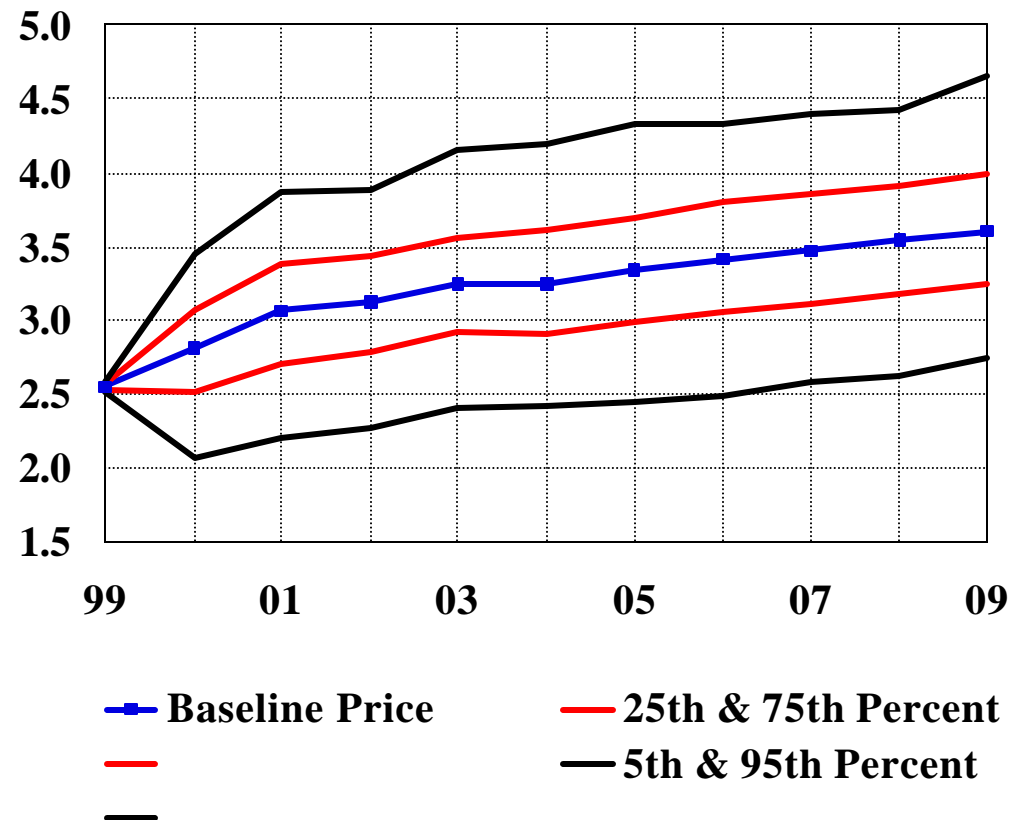


Generating Results, Developing Probability Ranges



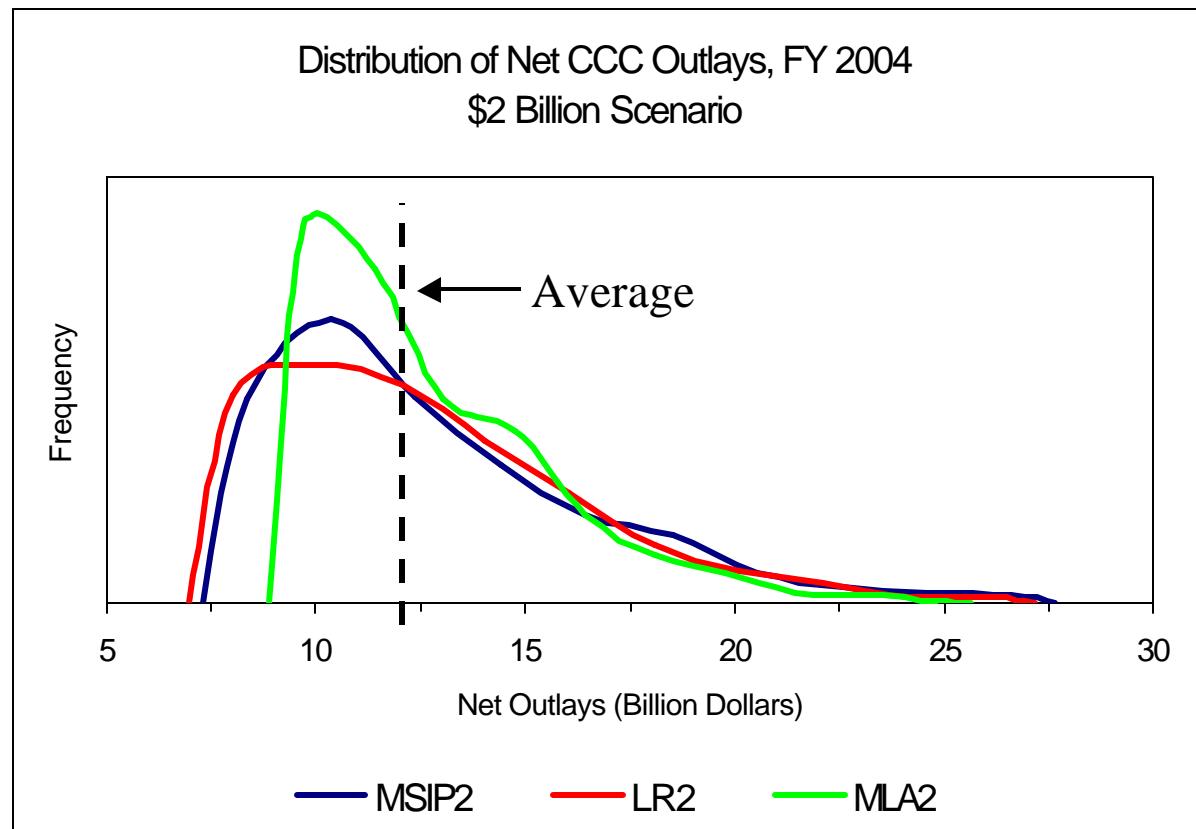
- The results of the 500 draws will give variability around production, consumption and prices.
- We can develop probabilities ranges or the likelihood that price will be in a certain range.

U.S. Wheat Farm Price (\$/Bu)



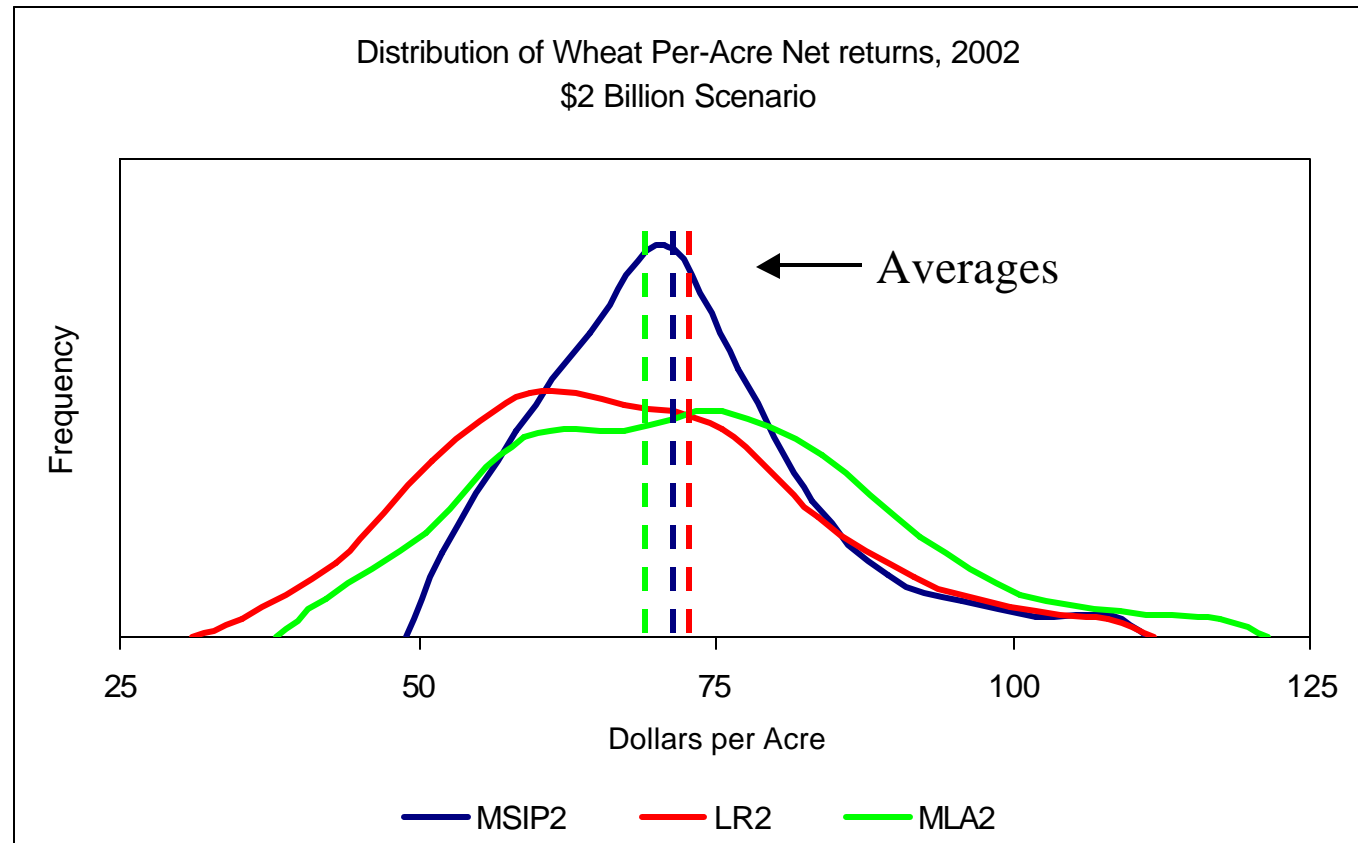
Distribution of Gov't Outlays, \$2 Billion Scenario

- Average spending levels are similar under all 3 programs (\$12.6 Bil)
- With fixed payments, there is a higher minimum under MLA.
- In all cases, much more upside spending potential than downside.



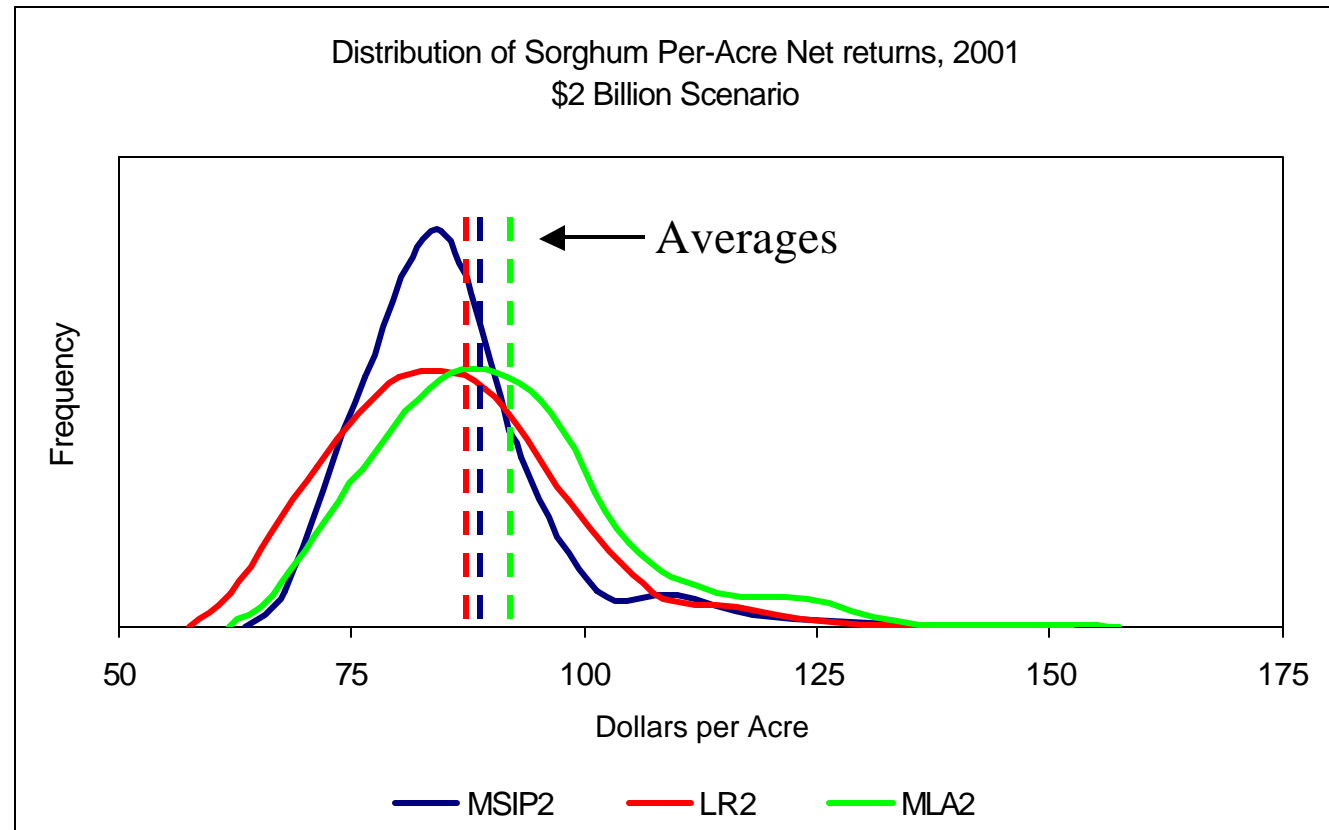
Distribution of Wheat Returns, \$2 Billion Scenario

- Returns average \$72 under MSIP2 and \$67 under LR2. Average is \$73 under MLA2.
- SIP reduces more of the downside risk in returns.



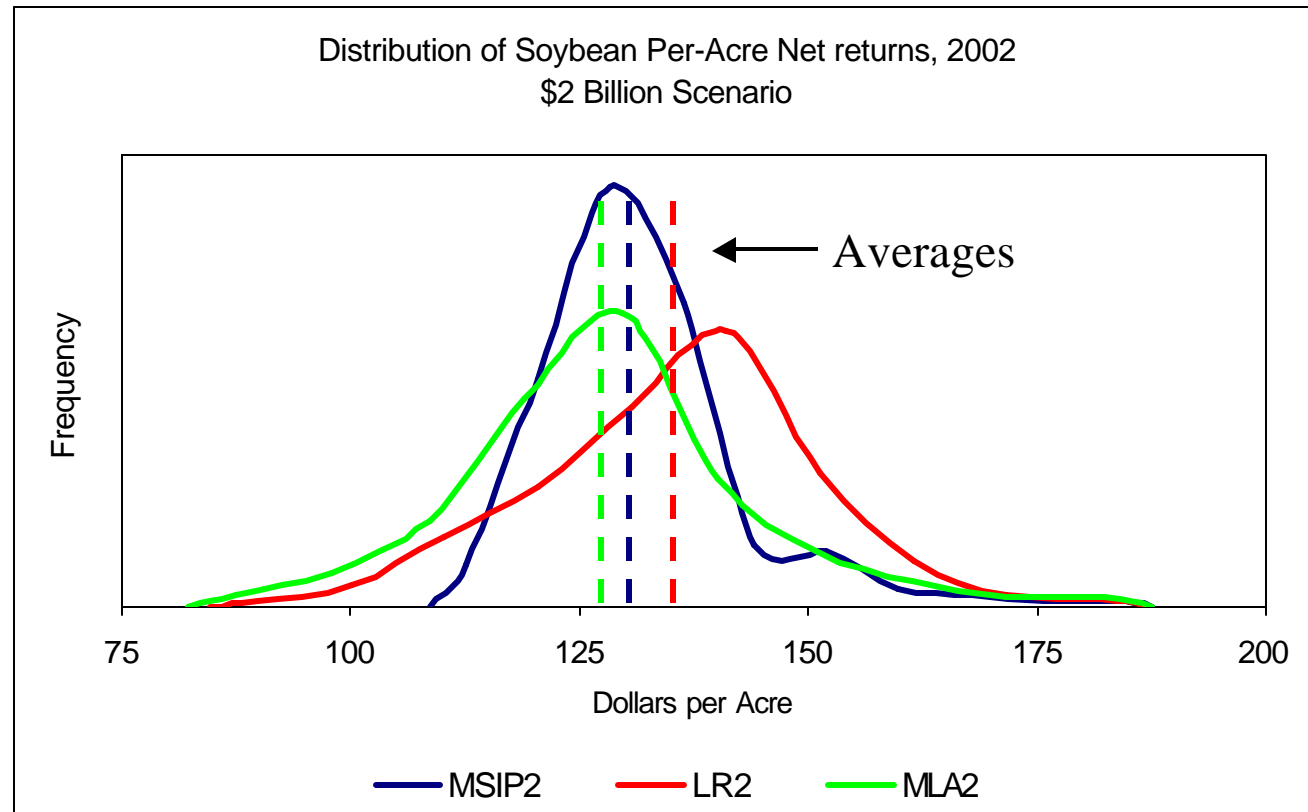
Distribution of Sorghum Returns, \$2 Billion Scenario

- Returns average \$132 under MSIP2 and \$135 under LR2. Average is \$128 under MLA2.
- SIP reduces more of the downside risk in returns.



Distribution of Soybean Returns, \$2 Billion Scenario

- Returns average \$132 under MSIP2 and \$135 under LR2. Average is \$128 under MLA2.
- SIP reduces more of the downside risk in returns.



Summary Points

- The results of the analysis are not "universal"
 - They are influenced by baseline characteristics such as
 - Loan rates adjusting after 2001
 - Relative price/loan rate relationships for different crops

- With that in mind, the results of the \$2 billion scenario generally hold for the other two as well, just at different magnitudes.

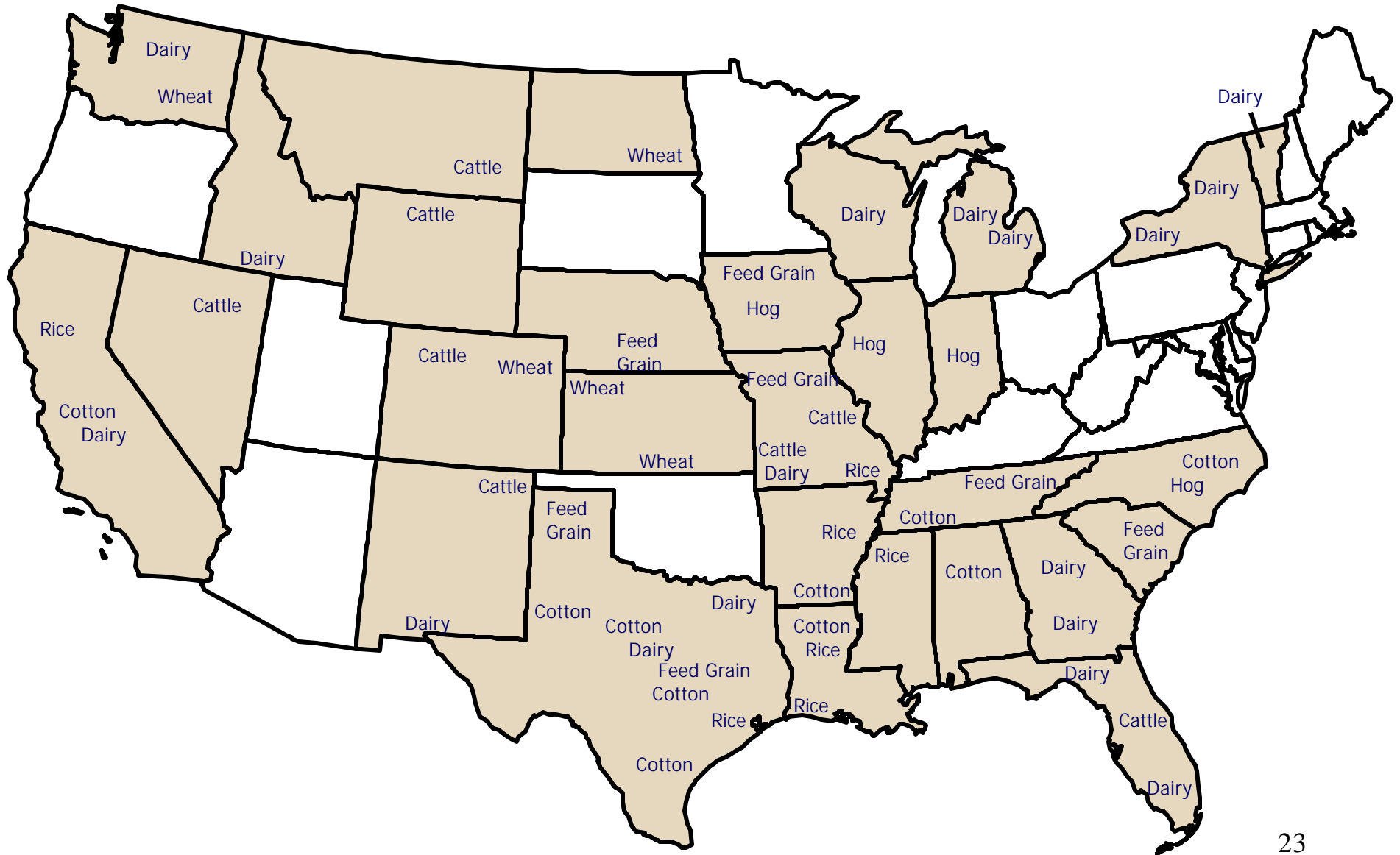
- Acreage Impacts
 - Small in the aggregate.
 - MSIP shifts acreage from soybeans into other crops.
 - Soybeans, cotton, rice gain acreage under LR.

Summary Points

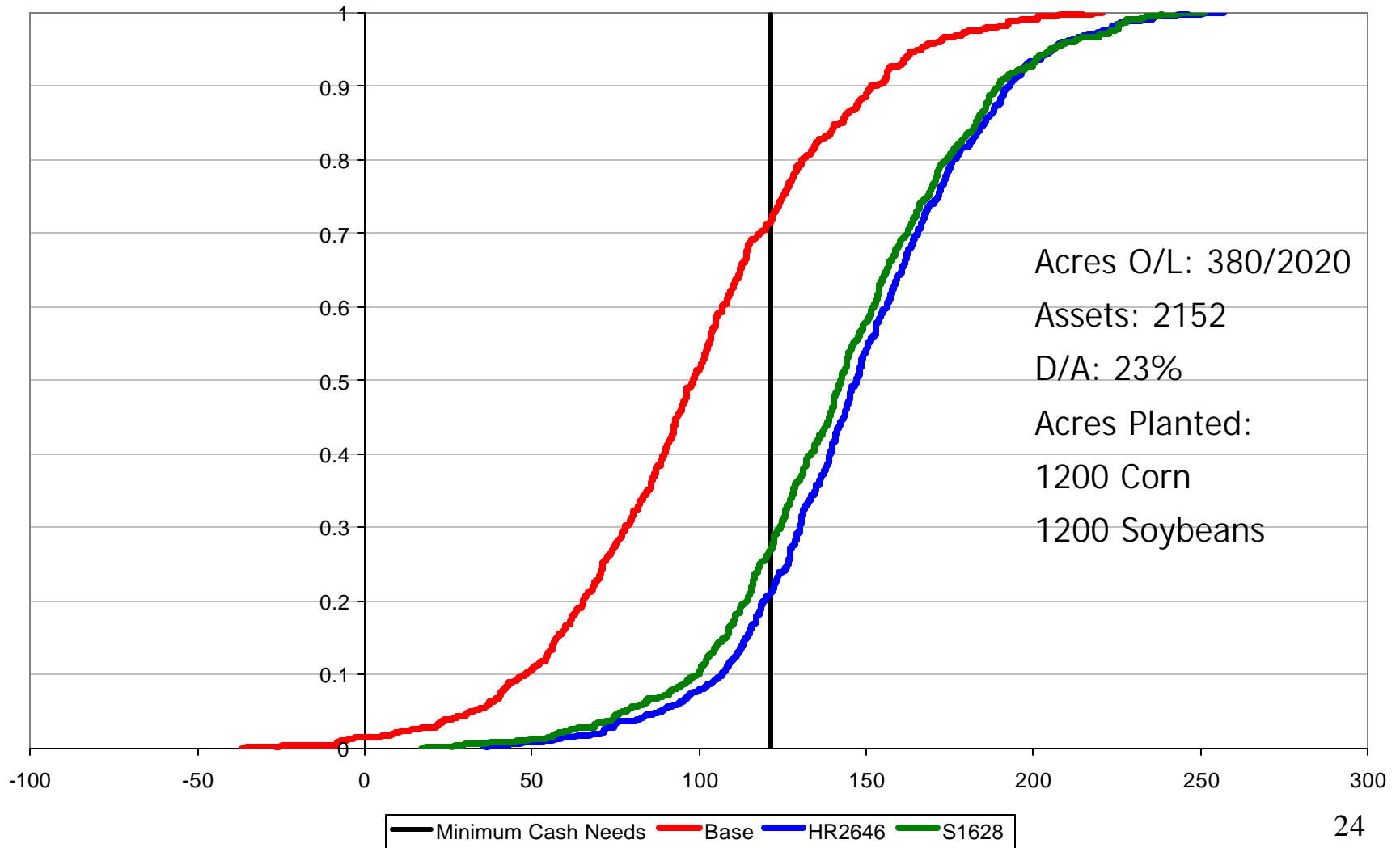
- Relative to MLA and LR, MSIP reduces the variability per-acre crop returns.
 - LR and MSIP increase the variability and upside spending potential of government outlays
 - Under LR and MSIP, there are higher probabilities that outlays exceed \$15 bil. However, MLA gives a better chance of producing outlays above \$10 billion.

- At the national level, "countercyclical" nature of MSIP provides greater downside protection on net returns.
 - **This may not hold for farm level results. A number of local factors come into play.**

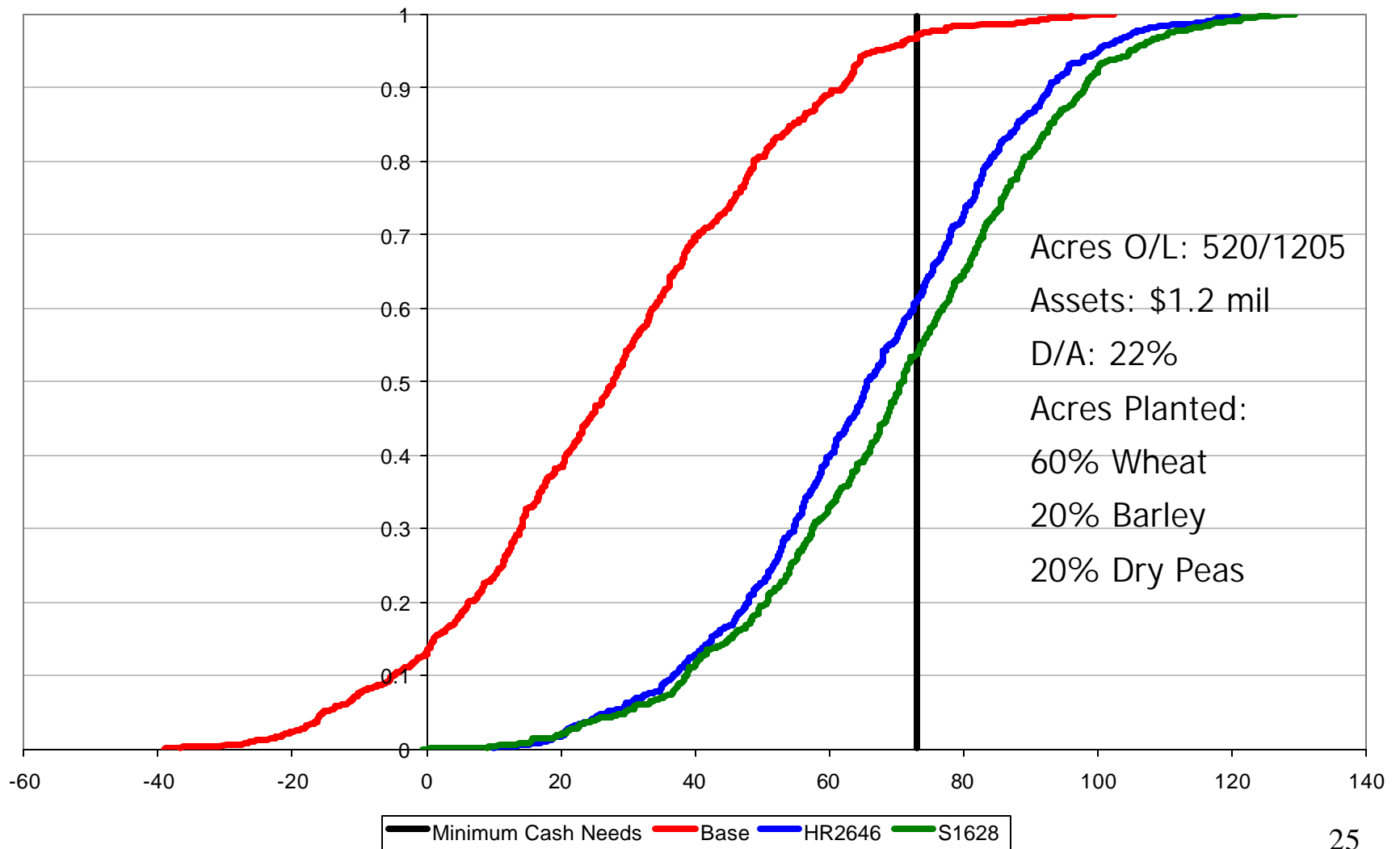
National Farms



CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the IAG 2400 Representative Grain Farm



CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the WAW1725 Representative Wheat Farm



Federal Policy Analysis: Requests to FAPRI FY 2001 & FY 2002

July 2000

- Representative Charles Stenholm

The 1-2-3 Scenarios: An Analysis of Safety Net Alternatives

October 2000

- Senator Tom Harkin

Expected supply responses of competing exports and consequent price impact if the new farm bill included a mechanism that would withdraw land from production

- Commission on 21st Century Production Agriculture

Assess the implication of a counter-cyclical payment option based on a national gross income level formula

November 2000

- Senator Larry E. Craig, Senator Max Baucus,

Representative Mike Simpson and Representative Earl Pomeroy

for Nat'l Assoc. of Wheat Growers - Creating a counter-cyclical farm program

January 2001

- Representative Doug Bereuter
Farmers insurance storage program
- House Committee on Agriculture
Realigning national loan rate for grain sorghum based on feeding value

May 2001

- House Committee on Agriculture
Analysis of the safety net (TSN) farm program option

July 2001

- House Committee on Agriculture
Analysis of the draft farm bill concept paper

July 2001

- House Committee on Agriculture
Analysis of two counter-cyclical programs triggered when prices or revenues fall below targeted levels. Each was further analyzed four ways: two loan rate for soybeans (\$4.92 and \$5.26/bu) and two budget levels (\$30 and \$40 billion) over a 10-year period. – **9 options included**

Counter Cyclical Programs (CCP) Options

Option A: (Price-based, \$30 billion, \$5.26 soybean loan)

Option B: (Price-based, \$40 billion, \$5.26 soybean loan)

Option C: (Price-based, \$30 billion, \$4.92 soybean loan)

Option D: (Price-based, \$40 billion, \$4.92 soybean loan)

Option E: (Revenue-based, \$30 billion, \$5.26 soybean loan)

Option F: (Revenue-based, \$40 billion, \$5.26 soybean loan)

Option G: (Revenue-based, \$30 billion, \$4.92 soybean loan)

Option H: (Revenue-based, \$40 billion, \$4.92 soybean loan)

A ninth policy option, '96 Bill, was included and assumes continuation of the 1996 farm bill with AMTA payment rates in 2002-2007 fixed at their 2001 levels.

August 2001

- House Committee on Agriculture

Analysis of H.R. 2646, The Agricultural Act of 2001

September 2001

- House Committee on Agriculture

Analysis of the effect of the Kind Amendment on family-sized grain farms in the Midwest

November 2001

- House Committee on Agriculture

Analysis of whole farm budgets for conventional tillage vs. no-till or minimal till farming in the Midwest

- Senate Committee on Agriculture, Nutrition & Forestry Majority Staff
Analyses of numerous alternative dairy counter-cyclical programs

- Senate Committee on Agriculture, Nutrition & Forestry Majority Staff
Analyses of several alternative target revenue and loan rate options.

November 2001

- Senator Blanche L. Lincoln

Break-even loan rate for rice to affect S. 1628 benefits

- Senator Blanche L. Lincoln

Impacts of payment limitations, farm size, marketing loan eligibility and base/yield updating for rice

December 2001

- Senate Committee on Agriculture, Nutrition & Forestry Majority Staff
Analysis of S. 1731

- Senate Committee on Agriculture, Nutrition & Forestry Majority Staff
Substitute amendments to S. 1731

- Senate Committee on Agriculture, Nutrition & Forestry Majority Staff
Alternative loan rates, AMTA rates, and target prices for rice

- Senate Committee on Agriculture, Nutrition & Forestry Majority Staff

Alternative levels of target price for rice

December 2001

- Senator Thad Cochran

Alternative specifications for the farm savings account in the Cochran/Roberts Amendment

- Senator Thad Cochran

Alternative loan rates and AMTA rates for break-even analysis

January 2002

- House Agriculture Committee Majority Staff

Implications of the current Senate farm bill dairy provisions

February 2002

- Senate Agriculture Committee

Domenici Dairy Amendment to S. 1731

- Senate Agriculture Committee

Modified Domenici Dairy Amendment to S. 1731

April 2002

- House/Senate Conference Members

Dairy policy option for the 2002 Farm Bill Conference

May 2002

- House and Senate Ag Committees

Preliminary analysis of the Farm Security and Rural Investment Act of 2002

August 2002

- Senators Tom Harkin and Kent Conrad

Policy implications of the recently released U.S. proposal for the WTO agricultural negotiations

September 2002

- Representative Larry Combest

Conduct an analysis of the corn and sorghum loan rates using the National Grain Sorghum Producers methodology