

Presidential Address: Peanuts Envy?

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INTRODUCTION: THE PUBLIC INTEREST AND OUR PROFESSION

The opportunity to offer a presidential address is both inspiring and somewhat intimidating. It is an honor, and I am sure that my predecessors felt as I do a responsibility to make it worth your while. To some extent, works like these are as close as we come to an annual “state of the profession” assessment.

In pondering what insights I might offer about our current state, I refound a delightful interchange in the *Journal of Policy Analysis and Management* between David Beam [1996] and Roy Meyers [1996]. The exchange is about policy analysts being depressed and possible clinical remedies to cure this psychological malady. While depression may of course be a problem for some of us, I wonder if a different malady might not be a more widespread problem within the profession. In order to introduce the idea, some context will be helpful.

I have found myself thinking, for reasons that are only slowly becoming clear to me, about agricultural policy. It is not an area in which I normally work. There are of course many agricultural policies, but the ones that keep popping into my mind and intruding on other thoughts are the ones that most of us normally consider ill-founded: crop price supports, quotas, and the like.

I am aware that few people in the Association have any special interest in this area. Many analysts do work in the agricultural policy area. Largely due to historical circumstances, they usually meet in specialized associations like in agricultural economics. Be assured that I have chosen to discuss this policy area because I think it offers some lessons and raises some puzzles that are of general importance to us.

The title of my address refers to the envy that many like us—public policy professionals—have for the peanut lobbyists, who appear to be an unqualified, long-run success. They have been successful in promoting, protecting, and preserving peanut price supports over much of the century, including the most recent major farm bill, the 1996 Federal Agriculture Improvement and Reform (FAIR) Act.

Why envy this success? For one, we, the public policy professionals, have been arguing vociferously against the peanut lobbyists from the days of our profession’s

founding (measured from any point that you wish). The lobbyists, in devising their strategies, have had a perfectly clear view of whose interest they are supposed to be promoting: those of the peanut farmers. We, on the other hand, have a rare unity amongst ourselves that price supports in no way serve our client, the public interest.

But things go awry when we try to discuss strategy with our client. Mostly, we find our calls go unreturned. Sometimes we get confusing second-hand messages relayed from fellow analysts at other bureaus. They claim that our mutual client, the public interest, suggested strategies somewhat different from those discussed internally at our own home base. We go into battle convinced of our cause but without any unified plan of action. So we envy the clarity of the relationship between the peanut lobbyists and their peanut farmer clients.

In the end, the peanut lobbyists stand victorious. Their power and effectiveness humble us. We remain convinced, however, of the worthiness of our cause. I call the frustration that we feel about this situation, for short, “peanuts envy.” When these feelings persist and become part of our general attitude, they are the malady about which I earlier suggested concern.

I will return later to the alleged failure of the profession in my above illustration. Similar frustrations with the power of special interests of course occur in many other areas of policy as well. But for the moment, let us focus more carefully on the nature of the cast of characters in my illustration. For if there are to be any lasting lessons from this address, it is important that I clarify and that you accede to one crucial assumption: *Public policy professionals strive to promote the general welfare, or equivalently, the public interest.*

It is this concern that distinguishes us from the peanut lobbyists. It is neither the tools nor the techniques nor some interdisciplinary mixture of social science training nor the act of advice-giving. It is the difference in objectives. As a member of this profession, you believe your objective is to further that amorphous something we call the public interest. I make a point of this because in browsing through a number of introductory textbooks to the field of public policy, I found little reference to it.

We know that we may disagree on what this is in any specific instance. Even if we largely agree, we understand that our voice is one among many in a complicated policymaking process and that the larger process may reflect public-interest elements that we do not. Typically, we identify certain dimensions like efficiency, equality, liberty, or community in order that a policy’s consequences on these dimensions be recognized. I am simply observing that we choose and use criteria like these because we believe they promote the public interest. One of the most important parts of our common training is to explain that ethic to our students: that our professional responsibility is to work in service of the public interest. This ethic is the glue that joins our technical tools and training, and explains the strength of our professional bond.

Of course there often are public policy professionals who work for special interests. I hope that they strive mightily to encourage policies in which the special interest and the public interest coincide. I am sure that numerous graduates of our programs do this.

Thus we can distinguish between the goals of an organization and those of the individuals working within it. Indeed, some students of public choice theory believe that it is only a matter of degree that separates the special-interest rent-seeking of the peanut farmers from the rent-seeking of government bureaus. In this view, lobbyists and analysts are used by each organization as instruments to effect its goals, and they thus become suspect. I think differently. I think it profoundly wrong not to recognize the public-interest purpose and culture that bond the members of our profession.

Perhaps a good analogy is to the medical profession, in which each physician is trained to put the welfare of the patient before any other interest. Both physicians

and public policy professionals practice in many different organizational settings. Both groups have been experiencing change in the type of setting that is typical: physicians more likely to be in an environment of managed care, and public policy professionals more likely to be working in the private and nonprofit sectors. The different organizational settings vary in the strength of other incentives that can deflect us away from our professional duties, unless we resist them. An important quality dimension of the training at APPAM schools is how well we do at building this resistance in our students.

In short, while I am, in fact, quite modest about our (or anyone's) ability to fully identify and articulate the public interest, that does not stop me from focusing upon it and distinguishing between it and special interests. The importance to my address of your acceding to the public-interest objective will become readily apparent as I turn to its other themes, which involve our understanding and knowledge about the effectiveness of our profession. By effectiveness, I mean our ability to further the public interest. To reveal these themes, I return to agricultural policy.

AGRICULTURAL POLICY AND RECENT REFORMS

The record on policy changes in agriculture is more mixed and subtle than I have allowed to this point. It will be instructive to review several aspects of it, at a level of detail that I hope is just enough to raise doubts about whether envy of the peanut lobbyists is warranted.

The Case Against Agricultural Crop Subsidy Policies Is Compelling

I have referred somewhat easily to the lack of any public-interest rationale for peanut price supports, and this is true for most agricultural crop subsidy programs. However, there are other agricultural policies—particularly those intended to enhance productivity through research and development, as through the Agricultural Extension Service—that are at least defensible and perhaps quite successful by public-interest criteria. So let me clarify a bit more explicitly what criticisms I have in mind.

Primarily as part of the New Deal legislation following the Great Depression, policies of economic support for many agricultural crops were introduced. Most continue today, although they have been modified frequently over the years. Wheat, cotton, rice, corn, soybeans, dairy products, tobacco, sugar, peanuts, and other crops each have different support programs, although many have common characteristics. Direct U.S. governmental support for farm crops averages between \$10 and \$11 billion per year as of the mid-1990s, and this figure does not include indirect supports like the peanut program's supply restrictions that cost consumers many billions more.

Analysts of all persuasions agree that these policies are highly inefficient. Support prices above market-clearing levels result in consumers getting too little of the product, while at the same time farmers waste resources creating excess supply that then sits in costly government storage or is misallocated to low-valued uses. Regulations to restrict the excess supply by mandatory acreage set-asides simply induce inefficient production methods to raise yield on the planted acreage. This involves the overuse of pesticides and fertilizers that are the sources of a very substantial groundwater contamination problem.

Since none of this can be defended on efficiency grounds, are there other defenses? Several other policy goals of this legislation have been put forth as possible rationales for incurring the inefficiency. I mention them briefly.

One nonefficiency rationale is that the policies are an acceptable form of welfare (because they are not called welfare) to proud but poor farmers. However, the farmers receiving the subsidies have incomes higher than the U.S. average [B.L. Gardner 1992, B.D. Gardner 1995]. Very few of the subsidy recipients are actually poor, and the vast bulk of the subsidies go to farmers with incomes well above the U.S. average.

A second nonefficiency rationale, related to the first, is that the policies serve to stabilize farm income that would otherwise be grossly unstable. Even if the policies succeeded, it would be questionable whether such a high cost to the rest of us is justified by the benefit of stabilizing income for those whose average income is well above our own. Of the many empirical studies that have tested this stability rationale, however, the overwhelming consensus is that there is no such link [B.L. Gardner 1992]. Furthermore, the development of options and futures markets contributed greatly to reducing the uncertainty that farmers would otherwise bear.

A third nonefficiency rationale is that the subsidies are intended to preserve an American way of life, the small family farm. Whereas 30 percent of the U.S. population resided on farms in 1920, only 1.8 percent did so in 1992. Furthermore, most of the U.S. agricultural output now comes from very large farms. According to one estimate, the top 20 percent of U.S. farmers produce about 85 percent of all agricultural output [B.D. Gardner, 1995, p. 119]. Clearly these policies have not succeeded by this rationale either.

Many Crop Subsidy Programs Have Become Less Inefficient Since 1985

There may be no public-interest case for the continuation of agricultural crop subsidy programs. However, there has been some progress, and I think a growing amount of progress, in improving these policies over the past 10 to 15 years. There have been three major farm bills during this period: the 1985 Food Security Act; the 1990 Food, Agriculture, Conservation and Trade Act; and the 1996 Federal Agriculture Improvement and Reform Act.

Some analysts reported high hopes that the 1985 farm legislation would make a substantial break with the prior 50 years of crop subsidies. It was the middle of the Reagan revolution, with free-market ideology riding high. Federal deficits were high, the Gramm-Rudman-Hollings deficit reduction legislation was being debated, and federal outlays on farm programs had risen sharply from about \$2 billion at the start of the decade to \$19 billion in 1983. Nevertheless, the 1985 Food Security Act largely extended all of the agricultural subsidy programs, and federal payments soared to \$26 billion in 1986.

Yet amidst this extension were a few strange provisions that actually reduced inefficiency by a few degrees. There was a small reduction in a number of the support prices. The loan rates for cotton and rice (another form of price support) were set to move in relation to world price levels.¹ There were at least two provisions that worked to decouple partially the amount of income support received by a farm from that farm's production decisions.

One provision was to assign an unalterable yield number (a measure of the amount of crop produced per unit of land) to each farmer instead of using the farm's recent average. The higher the yield number, the greater the support payment. When based on the farmer's recent past yields, an incentive was created to make yields higher

¹ These are nonrecourse loans made in advance of the growing season, with the crop as collateral. Typically the government expresses its terms ("loan rates") in the form of a price per unit of the crop. The farmer can choose to turn over the crop as full repayment. When the loan rate is above the market price for the crop, this is precisely what the farmer does.

than justified by market crop prices (through overfertilization that exacerbates environmental problems from agricultural runoff). The use of the fixed number removed the inappropriate incentive.

The second partial decoupling in the 1985 Act was the so-called “50-92 provision.” A farmer with land eligible for support of a particular crop had only to plant that crop on 50 percent of the land to receive 92 percent of the deficiency payment. Thus there no longer any reason to use more than 50 percent of the land to grow this crop unless the market price or the loan rate for it exceeded short-run production costs. So the support price used to calculate deficiency payments no longer stimulated as much excessive production and inefficient land use.

The 1990 Act was similar in many ways to the 1985 Act. For the most part, it simply continued the historical system of subsidies. But like the 1985 Act, it also added several provisions that reduced the inefficiency of these subsidies. One was to extend the use of the “world price” benchmark for setting loan rates to a number of additional crops besides cotton and rice: soybeans, oilseed crops, wheat, and feed grains.

Another significant change was to further encourage land use in accordance with market signals. Until 1990, the amount of land used (with the fixed yield) to calculate deficiency payments was based on a five-year average of actual acreage used for the crop, and the farm was generally required to forego present and future support payments if other crops were harvested on it. The 1990 Act allowed up to 25 percent of the land base to forego support and to be used for any of a broad range of other crops (including other program crops), without affecting the size of the land base.² While the 1985 Act improved efficiency by allowing some land to be idled when it was economic, the 1990 Act improved efficiency by increasing land allocation to other more highly valued productive uses.

The most significant improvements were made in the 1996 FAIR Act. In honor of the paper’s title, I begin with the mighty peanut and mention two changes. One was that the support price was lowered by 10 percent, from \$678 to \$610 per ton. While still above the world price, which is closer to \$400, it reduced the underprovision to U.S. consumers and the misallocation of edible-grade peanuts to lower valued oil and meal.³ Second, the valuable quota rights entitling the farmer to sell for domestic consumption were made transferable within a state. This increases production efficiency because it allows lower-cost farms to displace the higher-cost ones that had been locked in previously.

The most significant efficiency-enhancing economic change in the 1996 Act, however, was the virtually complete decoupling of farm support programs from the actual production decisions of cotton, rice, wheat, corn, and other feed grain farmers. Those farmers who have participated in the support programs for these crops in past years are eligible to enter into seven-year production flexibility contracts. These contracts entitle them to receive a series of predetermined and declining payments based on their acreage and their historically fixed program yield, but farmers are free to use 100 percent of this acreage to plant almost any crop. Thus, farmers are relying much more heavily on market forces to guide planting decisions.

It remains to be seen how the equity or fairness aspects of this decoupling play out. The total amount of contract payments over the seven years was set to exceed somewhat the Congressional Budget Office (CBO) estimates of total payments if the

² Growing fruit or vegetables was not allowed, a provision that Gardner [1995, p. 143 n] attributes to the political influence of California fruit and vegetable growers.

³ The latter occurs when quota rights exceed domestic demand, and the excess high-grade quota peanuts are given to the government, which then has them crushed for the lower-valued uses.

1990 Act had been extended. However, the pattern of payments was set to decline over time and, according to the 1997 *Economic Report of the President*, “once the 7-year payments run out, they are not expected to be renewed” [Economic Report of the President, 1997, p. 229]. I think the jury is still out on this aspect.

In sum, I hope I have conveyed some pattern of growing progress in rooting out and reducing the inefficiencies associated with agricultural subsidy programs. I now turn to our understanding of why and how this happened.

WHAT MAKES PROGRESS DIFFICULT BUT, AT LEAST TO SOME EXTENT, POSSIBLE?

To understand why and how this particular amount of progress occurred, I seek an explanation that combines three elements. The first element is a good understanding of microeconomics in order to retain clear focus on the public interest in efficiency and to evaluate how reforms affect it. The second element is a good understanding of the political and organizational forces that constrain and shape any reforms. The third element is an assessment of the influence (or lack thereof) of participating public policy professionals. I did not find any single explanation that truly combines all three elements, although I found several that consider more than one of them. I divide these explanations into two groups: those that emphasize the difficulties of making progress and those that suggest how progress was made.

Why Progress Is Difficult

It Is Not “Concentrated Benefits, Diffuse Costs”

Given the size of the farm population earlier in the century, the original adoption of crop subsidy policies may well have been explained by popular sentiment. However, the persistence of these policies throughout the 20th century requires a different explanation. Easily the most plausible, given the concentration and organization of growers who stand to benefit, is the political power of their interest groups relative to that of the diffuse consumers and taxpayers who bear the policies’ costs.

However, the standard concentrated benefits–diffuse cost theory just mentioned has a general and critical flaw. Ridding ourselves of the inefficiencies that make crop subsidies a serious public policy problem would have benefits that substantially outweigh the costs. Every economist and public policy professional has heard words like these: “If the benefits outweigh the costs, that means it is possible for the gainers to compensate the losers and still come out ahead.” Ever since I started teaching in public policy, twenty-five years ago, I have continued with words like these to my students: “In the public policy setting, your cleverness in structuring the distribution of benefits and costs from a proposed change will determine its political feasibility.” This is important advice, but it does not go far enough.

The flaw of the standard theory is that the inefficiency creates an opportunity for a change that will benefit the concentrated, special-interest group as well as the diffuse cost bearers. Since the gains from reducing the inefficiency exceed the losses, the special-interest group can formulate a proposal that more than compensates itself for making the change. That is, *it is in the self-interest of the crop growers themselves to propose changes that satisfy public-interest criteria.*⁴ Not only can they benefit, but they can avoid any opposition by structuring their proposal so that the current cost

⁴ To my knowledge, Becker [1983] was the first person to point this out in a policymaking context.

bearers gain as well. Therefore, their interests do not explain continuing inefficiency. Since this is the case, we must ask again: "Why do these inefficient policies persist?"

I will mention two lines of thought that provide some insight into this question. These lines of thought do not resolve the issue, but I hope that they help to motivate us to engage ourselves and our students with it. In retrospect, I have not done this sufficiently in my own courses (and that is why I have found agricultural policy questions intruding on my thoughts over the past six months). My guess is that I am not the only one to have underallocated teaching and research time to this question.

The Un-Credible Commitment

One pessimistic answer to the question why inefficiencies persist has been offered by Joseph Stiglitz [1998] with respect to artificially high milk prices, which were only modestly affected by the 1996 FAIR Act. A variety of policy provisions keep the price of milk substantially above competitive levels and inefficiently reduce the quantity of milk consumed. In principle, the provisions could be ended and dairy farmers more than compensated out of the gains to consumers.

Suppose the government proposes direct payments to the dairy producers (not linked to production) that leave them somewhat better off than under the inefficient policies. The dairy farmers object because these payments are visible, whereas those from the current policies that raise price indirectly are not. They fear that political pressure due to the visibility will lead to cuts down the road. In other words, the dairy farmers do not believe that the government's commitment to an efficient alternative is credible. The government has no way to guarantee the continuation of the new program.

Stiglitz considers a way around this objection. Suppose the government offers one lump-sum payment equal to somewhat more than the present discounted value of continuing current policies. The government does not have to make any future payments; it has solved its commitment problem. The difficulty with this, Stiglitz notes, is that the milk producers cannot credibly guarantee that they will not try to reinstitute price support policies in the future.

Stiglitz leaves the example at this point. It is not clear to me that the problem he posed was insoluble. The U.S. government makes extremely credible commitments when it issues Treasury bonds, a commitment commonly judged more credible than any similar private commitment. The legislature could renege on them, but it and the world treat the probability of this as miniscule.

I think making a credible government commitment in the agricultural policy context depends upon the cleverness, imagination, and efforts of analysts or other interested parties. A somewhat similar problem arose in the context of the 1991 Clean Air Act amendments. In order to create a new market in pollution allowances, it was critical that the government issue known and credible allowance rights that apply over a long period. The ability to sell streams of allowances over time is crucial in order to get the utilities to invest in expensive but cleaner generating plants for the future. Based on the early success of this policy, the government's commitment clearly has been taken to be credible.

Perhaps something between a bond and an allowance could be credibly offered in the dairy case: long-term "rights" to fixed annual payments per farm, unlinked to actual production levels, and described as "dairy contracts" rather than "welfare." This is of course exactly what the 1996 FAIR Act accomplished for many other agricultural products, and the Stiglitz argument did not explain why dairy was an exception in terms of government credibility.⁵ Nevertheless, as we study the problem

of the persistence of inefficiencies, I think we would be very wise to pay attention to the problem of making credible commitments.

High Political Transaction Costs

A second way to explain the persistence of inefficiency, given the self-interest of all to eliminate it, is high political transaction costs.⁶ To make this point, let me contrast the consummation of an efficiency-enhancing agreement in the marketplace with a similar agreement through the political process.

In an unfettered marketplace, a landowner who believes that she can produce peanuts (or more peanuts) at a profit neither needs nor seeks the approval of any current peanut farmer. She simply starts producing peanuts. If she is correct and market demand is constant, there will be a commensurate reduction in production from the least efficient among the other peanut farmers. Under the peanut price support program, for the same efficiency-enhancing action to occur, the new or expanding farm would have to purchase quota rights from an existing farm that has them. This is in itself a significant extra transaction cost. If the quota rights are nontransferable, then legislation would first have to be passed to make them transferable.

The story does not end at this point. Suppose that, due to historical reasons, there is a concentration of quota rights in one county. Suppose further that, due to technical changes over time, the most efficient peanut acreage is no longer in this county. The county's peanut farmers may be happy to sell their valuable rights to farmers from other locales. However, there is a network of peanut distributors in the county who will lose substantial revenue if the quotas are transferred elsewhere.⁷ The distributors lobby their elected representatives to prevent the legislation that would make the quotas transferable.

I am not predicting who will win, but we all pay for the extensive and expensive negotiation costs. In a competitive marketplace, upstream and downstream interests that may be affected by an economic trade are not consulted. But in the political process, these upstream and downstream interests all have standing. Sometimes we may be glad for the results, if workers who will suffer unemployment win job retraining or relocation benefits. But other times high transaction costs will simply frustrate the attempt to remove the inefficiency.

It is even worse if we allow for bounded rationality in this setting of high transaction costs. There may be so many interests that it is difficult for anyone to see how to formulate a proposal that reasonably shares the gains from increased efficiency. As in the Prisoner's Dilemma, no one may know how to prevent a political coalition from falling apart. During the sometimes frenzied process of political negotiation, changes may be made that inadvertently worsen rather than ameliorate existing inefficiencies.

⁵ I believe the difference is the extent to which the support is direct or indirect. Before FAIR, the grains had been supported more by direct payments, whereas peanuts, sugar, and dairy primarily received indirect support in the form of higher consumer prices. In addition to farmers preferring to keep less visible indirect support, it is more difficult politically for the government to find revenue for compensation in return for ending indirect supports. The latter problem is just a government revenue problem, not one of making credible commitments.

⁶ An interesting short book with this general theme is Dixit [1996]. Dixit does not offer the specific line of reasoning suggested in the text, but his attention to transaction costs is similar.

⁷ They consider buying the county quotas themselves, but doing so would not be profitable.

Why Progress Is Possible

The difficulty of making a credible commitment and the existence of high political transaction costs offer rationales for the persistence of inefficient policies. But they do not then explain the source of the limited progress that I have described. How has this been possible? I offer three explanations.

Creative Packaging and Political Entrepreneurship

Gordon Rausser emphasizes creative packaging and political entrepreneurship. He describes agricultural policies as falling into one of two categories: PESTS, which is his acronym for the crop subsidy type that are inefficient and inequitable, and PERTS, which is his acronym for the socially productive ones like agricultural research that yield public goods. He believes that some PEST policies may have been continued as a quid pro quo for the expansion of PERT policies that raise agricultural productivity but threaten a loss of income to some farmers.⁸ This political insight influences his interpretation of some of the proefficiency changes as well as the prospect for future reforms.

Rausser believes “one of the major messages is that policies can be packaged so vested interests may acquiesce to one policy in exchange for another” He cites approvingly the political entrepreneurship that emerged in the 1985 and 1990 farm legislation that resulted in increased land-use flexibility to farmers and greater reliance upon market price signals to influence the choice of what crops to plant. The lower support prices and loan rates in these acts make farmers worse off, but the increased planting flexibility makes them better off and makes the entire package feasible. More political entrepreneurship, as well as creative packaging, may make alternative, more efficient programs of wealth transfer feasible.

The Power of Ideas

Might not the progress be explained by the same “power of ideas” argument that has been offered as explanations for other policies, like the 1980 passage of trucking deregulation and the 1986 tax reform? It is true, I believe, that ideas matter. From the work in support of this theory we gain an appreciation of the incredible variety of sources of ideas, as well as how they sometimes gain popular currency independently of the political process itself [a very good early reference is Lynn, 1978]. For example, Martha Derthick and Paul Quirk [1985] convey the idea that a general disposition in favor of free market competition helped to make the legislation possible. If trucking is a textbook case of a naturally competitive market, so is agriculture. Perhaps a modest modification of the “power of ideas” theory to account for a more stubborn sort of problem might suffice to explain limited progress.

The Power of Hard Work by Public Policy Professionals

The trouble is that even in the case of trucking deregulation, the power of ideas does not suffice. As Dorothy Robyn [1987] has argued, the legislation was unlikely to have been successful without the sustained effort and method of organization of the public policy professionals involved. *The quality and quantity of analytic resources matter,*

⁸ Farmers who are late adoptors or nonadoptors of the new technology will lose, and for those farming crops with highly inelastic demand, even efficient adoptors will have reduced revenue.

and it is surprising to me that we have so few studies with evidence on this subject.⁹

One of the more interesting aspects of the trucking deregulation effort was the formation of an ad hoc coalition by the deregulation analysts and those on the political front line. The coalition members included representatives of every administration office contributing to the analytic effort, staff representatives from congressional committees, and representatives from major proderegulation interest groups. While Congress was deliberating the reform, about 30 members of the coalition met once a week to communicate and coordinate. This ensured that collectively the analytic offices covered the range of issues that arose without unnecessary duplication and that their responses were communicated through politically effective channels. Thus we learn from Robyn something valuable about the relationship between the organization of analytic effort and its effectiveness.

Public Policy Professionals Respond to the Complexity of Achieving Public-Interest Reforms

Let me try to sum up what I take away from this very quick review of both difficulties and sources of progress. Progress is retarded by the complexity and difficulty of formulating public-interest policies that have sufficient political support. But this is precisely the reason why a profession like ours exists. Yes, there are factors beyond our control that bear heavily on actual outcomes: the general political climate, the ideas that have popular currency, the constellation of particular interest groups, the occupants of key political positions. But in addition to all of these factors, the degree of progress is a function of the quality and magnitude of work of public policy professionals.

I would like to understand better how public policy professionals can and do confront the political and organizational forces that make rooting out inefficiency difficult (as in agricultural policy). It is interesting that many of the valuable contributions addressing this point in any policy area are from those with Ph.D.s in public policy.¹⁰ These studies are helpful for improving the work of an individual analyst, whereas Robyn's addresses the organization of analysts to achieve efficiency gains.

Why emphasize the point that the quality and magnitude of analytic effort matters? I believe it is too easy for us to ignore the effects of our own efforts by blaming the result on others. By blaming something that we cannot control, we avoid honest self-evaluation. In order to understand the effects of our actual efforts, we have to understand what the outcome would have been without our efforts. What do we know about our own effectiveness? This is the final question that I will comment upon in this address.

EVALUATING THE AMOUNT OF PROGRESS

We have seen that over the past 10 to 15 years there have been some substantial accomplishments in reducing the amount of inefficiency associated with agricultural policy. We have also seen that the existence of strong special interest groups is not by itself a factor preventing or slowing progress. Rather it is the complexity of identifying a public-interest improvement that has sufficient political support. Wrestling with this complexity is the job of public policy professionals. How well have we done?

⁹ Beryl Radin [1997] also called attention to this in her 1996 APPAM presidential address.

¹⁰ In addition to Robyn [1987], some examples are Foster and Hahn [1995] and Hausker [1992] on the realities of achieving efficiency gains in air pollution markets, Mendeloff [1979, 1986] and Viscusi [1983] in the area of occupational safety and health, and Friedman and Weare [1993] on practical obstacles to more efficient utility rate designs.

I wish that I could provide a good answer. At this point the best that I can do is to offer a crude guess, and some suggestions for further research that might shed light on this as well as many other policy areas. In my crude guess I use the logic of benefit-cost analysis and begin with benefits. Numerous past studies have estimated the dead weight losses associated with our agricultural subsidy programs. I believe a rough, order-of-magnitude figure before the 1996 FAIR Act would be \$10 billion per year. I have not seen any calculation for the reduction in this caused by the efficiency-enhancing provisions of FAIR. However, my educated guess is that this would be roughly \$1 billion per year.¹¹ This reduction in inefficiency is the benefit of the legislation.

It could be that public policy professionals deserve full credit for this achievement.¹² It is they who have been advocating decoupling, it is Congressional Budget Office (CBO) analysts that produced the crucial estimates that were used in Congress to shape the political agreement; and it is analysts who point out the benefits of making quota rights transferable. However, suppose we only give them credit for half: \$500 million per year. The costs of all of the public policy professionals who work in this area could not possibly be as high. Even if we used the full-time equivalent of 200 professionals per year with generous support, this would only cost something like \$30 to \$40 million. That is in the range of a 15:1 benefit-cost ratio. Should we judge these public policy professionals as failures because \$9 billion of inefficiency remains?

I am of course aware that my crude calculations are no substitute for careful study. A careful study, among other things, would measure the amount of public policy professional effort on the design and effects of agricultural subsidy policies. It would account for the ebbs and flows of this effort that correspond to the legislative cycles. It would also account for the accumulation and timing of the efficiency gains achieved. But I think even my crude calculations help to make the point that we have not thought very carefully about our own effectiveness. And I think they suggest one approach to measuring our effectiveness that, at least in some cases, could be illuminating.

There are many other approaches that we can use to learn about our own effectiveness. I am urging that more attention be given to studies that focus on one policy area.¹³ I think that what we particularly lack are studies that try to isolate the effects in one policy area of public policy professionals as a whole, that is, more than one individual analyst, and typically more than those from one agency. I understand how difficult this can be, although I am not sure that it is more difficult than many policy-analysis tasks. I also know how creative members of this profession can be when they set their minds to it.

These studies should be both qualitative and quantitative. I have already mentioned one qualitative study, Robyn's work on trucking deregulation, as one example that

¹¹ Total receipts for the grain crops are in the \$40 to \$50 billion range. One 1995 study reported that 41.9 percent of these receipts come from direct or indirect government support, implying total transfers in the \$17 to \$21 billion range [Gardner 1995, p. 231]. The deadweight losses that I have seen cited for different commodity programs have been in the range of 10 to 30 percent of transfer payments, which is \$1.7 to \$6.1 billion for the grains. I believe the FAIR Act removes the most important sources of inefficiency for these crops, so that an estimate of a \$1 billion reduction in the deadweight loss is probably conservative.

¹² Many people work to produce the legislation as a whole, but I am focusing solely on the efforts to reduce inefficiency. It is like asking what the 1996 legislation would have looked like if, say, all public policy professionals packed their bags after the passage of the 1990 legislation. To give analysts full credit for the actual achievement is equivalent to assuming a simple renewal of the 1990 legislation without them (or equivalently, a modified package that has offsetting efficiency consequences).

¹³ Radin [1997] also urges this.

illuminates the effects of public policy professionals as a group. If I think about a qualitative study that might be interesting for my agricultural policy example, I am drawn back to a point I mentioned earlier. The agricultural analysts are almost all trained in agricultural economics programs, not in APPAM schools. My hypothesis is that as a group they are strong on economics but weak on politics. It would not surprise me to learn that the progress from 1985 to the present might have been greater and occurred sooner if the group had an APPAM-level of political skill with which to start. Experts on the politics of using analysis could certainly examine this issue through interview studies of the agricultural analysts involved.

There are other quantitative types of studies that would be very useful to have. In particular, I think there are policy areas where there are multiple outcome observations each associated with a particular analytic or managerial effort. I am suggesting that there may be cases where we can estimate a production function in which the number, organization, and perhaps strategies of public policy professionals are included among the dependent variables.

In the agricultural policy area, there have been some important quantitative studies that explain the variation in subsidy per crop as a function of economic conditions and interest-group political strengths. With some modification and additional data gathering, it might be possible to build on these to address the effectiveness question I have raised. The dependent variable would be a continuous efficiency measure, like the change in deadweight loss per crop caused by new legislation.

In other policy areas, the existence of variation across cities or states may make this approach easier. For example, state public utility commissions (PUCs) vary in the efficiency of the electricity prices they set. There are quite a number of different ways that this can be measured, from yes-no availability of certain efficiency-enhancing options like time-of-day pricing and interruptible rates, to broader measures like actual marginal costs of service. My hypothesis is that the number and organization of public policy professionals on the PUC staffs, relative to the size and number of utilities that they are responsible for regulating, affect the degree of efficiency in electricity service.

I know many of you are interested primarily in issues of public management. The “new public management” includes an emphasis on identifying the customers of the agency and striving to create better value for those customers. Economists call that efficiency, and my general question applies here as well: How much do we know about the effectiveness of new public managers? There might be a number of opportunities, by using the variation in a manager’s training across comparable positions in different cities or states, to see if new public managers create more value than other public managers.

Finally, I know that my examples have focused upon efficiency enhancements as a public-interest objective. I was, of course, deliberately picking examples in which the objective is relatively clear in order to concentrate on the determinants of effectiveness. I believe that we can study our effectiveness with respect to other public-interest objectives as well. One that comes to my mind is the equity of educational spending across states, where again I believe that the degree of equity is likely to be a function in part of the public policy professionals who have worked to influence it.¹⁴ A similar hypothesis could be studied with respect to the equity as well as efficiency of jury service.

¹⁴ A recent study that explains differences in the degree of educational spending equality across states as a function of court-ordered reforms is Murray, Evans and Schwab [1998].

CONCLUSIONS

I will conclude this address by summing up briefly what I see as the three broad general issues that I have raised for your consideration.

First, let us acknowledge and even take pride in the public-interest objective that is such an important part of the bond that holds us together. Of course it is a subtle and rich concept, and not one that readily identifies the appropriate public policy action. Perhaps that is why some textbooks and, I fear, our curricula may have shied away from its use. But there is no other explanation for why we use the evaluative criteria that we do. We do more than offer advice to anyone who wishes to influence public policy for any purpose. To be clear about this, you have only to contrast the objectives of special interests like the peanut lobbyists with those of our profession. No matter what else we may consider, we strive to contribute to the public interest. It is, I believe, critical to make sure that recognition of this continues to be a central part of the professional training we offer, and a responsibility that we gladly accept.

Second, I have contrasted two different ways of reacting to public policies that seem both persistent and not in the public interest. One way I have referred to as peanuts envy, in which we lament the power and success of interests that appear to impede wiser and fairer policies. I have urged, and tried to identify a basis for, a more constructive reaction. Recognizing that gross inefficiency is often a major part of the situation that we wish was different, I have pointed out that there is no inherent reason why the powerful special interests should necessarily oppose such a change. Indeed, it is in their interests to seek it as well. Policy improvements are possible, and in the area of agricultural policy that I have identified, we have begun to make them. There is no profession better qualified than this one to identify, design, and create feasible improvements in these situations. Therefore let us take the presence of such situations as a spur and challenge to use and heighten our professional skills in order to effect improvements. Let others waste their time on peanuts envy.

Third, let us recognize that we have a lot yet to learn about the effectiveness of our profession and how to improve it. Most of our efforts along these lines have been directed at the level of individual analyst or manager. Some very good efforts have been made to understand the influence of social scientists more broadly. However, there is a level in between these two that has been relatively unstudied. This level is about the collective influence of public policy professionals within one policy area. In the case of agricultural policy, I have considered both the timing and the amount of constructive reform. I have speculated that the special strengths in economics of agricultural analysts may have come at a cost of too little attention to political and organizational skills, so that only in recent years has the group begun to acquire the well-roundedness necessary for effectiveness. The economist within me is also insistent that the sheer number of public policy professionals working in this complex area ought to help explain the timing and degrees of progress. Thus I think both qualitative and quantitative studies can instruct us on how to improve our collective effectiveness within areas.

I am glad that the problem of seeking the public interest in agricultural policy kept intruding itself in my thoughts, for that intrusion enabled me to speak to you today. It caused me to review, rethink, and try to present in a provocative and interesting way, who we are, what we do, how we do it, and how we might do it better. I know that we have a long way to go in overcoming the problems with which we are confronted. I suggest that we conclude in the usual APPAM way: by going out and about our business of getting these jobs done. Thank you for the honor of allowing me to serve as president of this great organization during the past year.

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