

Developing an Alternative to the Chicago School

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Chicago School

- **Basic theoretical concepts:**
 - **Self-interested behavior results in economic gain**
 - **Government intervention results in an economic loss**
- **Economic decisions are based on this model, irrespective of empirical data**

Results of Chicago School

- **Farmers face oligopolies on the farm supply side and oligosponies on the farm product sales side**
- **Widening of income gap in the U.S. and around the world**
- **Resource depletion**
- **Increased pollution of air, land and water**
- **People become commodities**

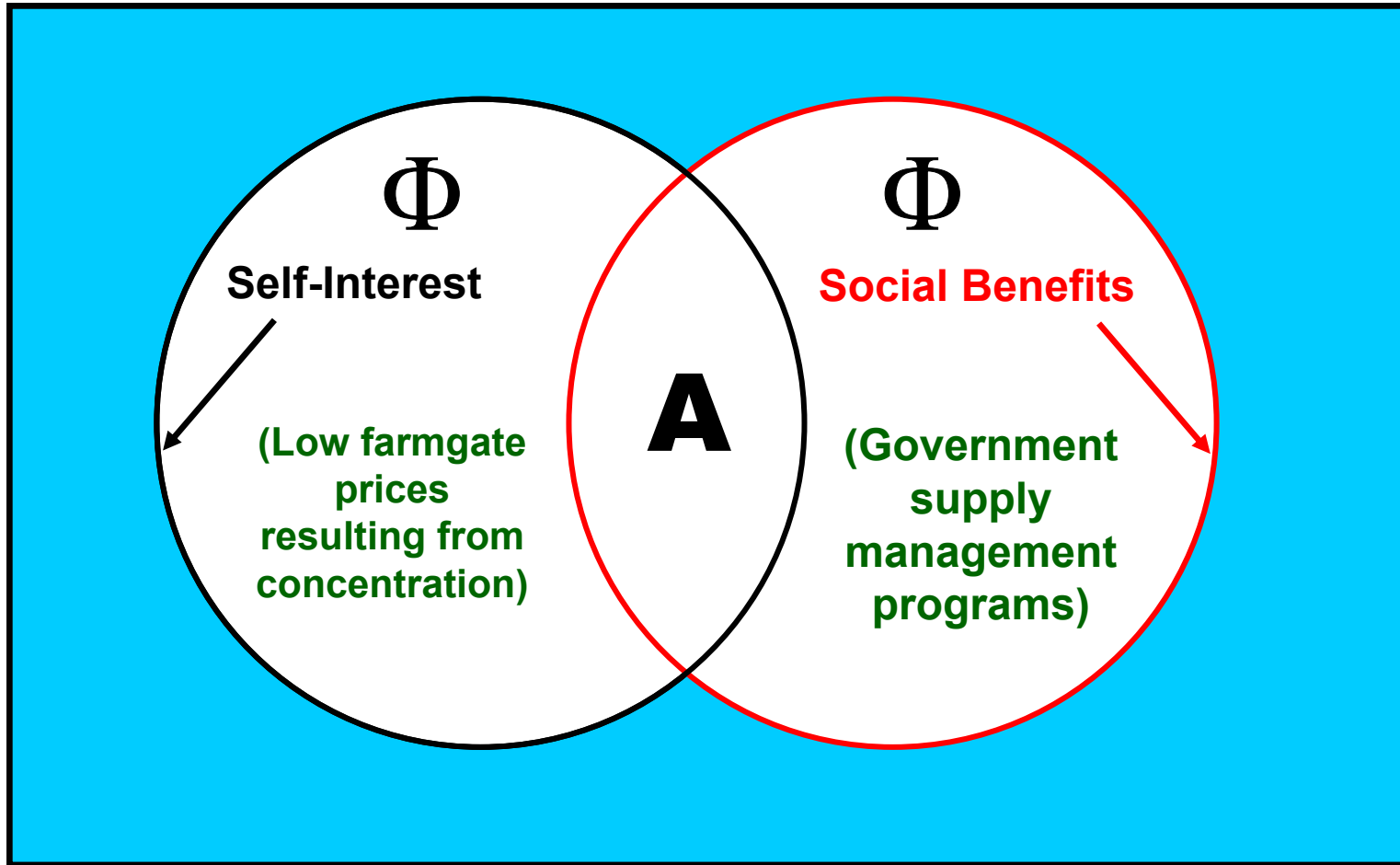
Diagram of Argument



For their argument to work all events in which people operate on the basis of self interest (**A**) must result in a gain in social benefits and

All events in which people operate on any basis other than self-interest (**B**) must result in a loss in social benefits.

Diagram of Argument



Chicago Requirements I

- **For all to benefit:**
 - **Perfectly competitive marketplace**
 - **Each person in the world would have to be equally willing and able to “compete”**
 - **Individuals would not have agency (willingness) to maximize anything but personal utility/firm profits**

Chicago Requirements II

- **For all to benefit:**
 - **All self-interest would have to focus on both long and short term**
 - **All persons would have equal resources at the beginning**
 - **The set of self-interested behavior and social benefits would have to be identical**

Chicago Assumptions

- **The economic system is a natural, predetermined, inevitable process like gravity—not a social construct**
- **All types of products and services respond similarly to economic forces**

Progressives' Response

- **Present data which refutes the Chicago School expectations**
 - **Price elasticity of supply and demand**
 - **Aggregate supply response**
 - **Benefits of supply management**

Response of Policy Makers

- **Rejection of policy prescriptions of progressives**
 - Not because they have data to the contrary
 - But because of Chicago School theory which says government intervention results in an economic loss
 - Don't confuse me with the facts. I've already made up my mind!

Keynesian Era

- **It wasn't always this way**
 - **Ag Economists like Earl Heady**
 - **Crop agriculture is not like other sectors**
 - **Government intervention could correct market failures**
 - **Increase demand**
 - **Manage supply**

What Happened?

- **Neo-liberal response to Keynesian consensus of Post-WWII era**
 - **University of Chicago philosopher-economist Friedrich von Hayek and his students like Milton Friedman**
 - **Neo-liberals understood the importance of ideas**
 - **Used their agency to develop think tanks like the Heritage Foundation, the American Enterprise Institute and the Hudson Institute**
 - **Institutionalized their beliefs under Thatcher in Britain and Reagan in the U.S.**

An Opportunity

- **Progressives can use their agency to develop an alternative model**
 - **Need to understand the importance of ideas**
 - **There is a growing consensus about need to invest in and market progressive ideas**
 - **Some of the preliminary work has been done by people like economists Amartya Sen and Joseph Stiglitz**

A Starting Place

- **Look at basic paradigm**
 - **A. Self-interest → economic gain (good)**
 - **B. ∴ Government intervention → economic loss (bad)**
 - **As we saw before, these two statements do not necessarily have the same truth value.**

Model of Human Behavior

- Self-interested behavior **may** result in **economic, ecological and social** gains.
- Non-self-interested behavior **may** result in **economic, ecological and social** losses.

- Self-interested behavior **may** result in **economic, ecological and social** losses.

Enron

- Non-self-interested behavior **may** result in **economic, ecological and social** gains.

Oxfam

- There are a lot of grey areas in all of the above. That is to say a given action may result in some gains and some losses at the same time.

Burden of Proof

- Under the suggested paradigm
 - When the IMF wants developing countries to privatize activities like public water systems, they would have to prove, beyond a reasonable doubt, that the private operation of such a system would result in **social and ecological** as well as to economic gains.
 - Social and ecological measurements would be given equal weight to economic issues.

Issues That Make a Difference

- **Human behavior – actual not idealized**
- **Basic set of rights – Is there a right to food . . . Etc.?**
- **Focus of economics: scarcity or scarcity and plenty**
- **Reintroduction of “value” back into economic thought**
- **Initial and impacts on distribution of resources**

Build on Current Knowledge

- **There will still be a market economy**
 - It's a question of what the rules are
- **Economists will still need to look at maximization and minimization issues**
 - May maximize food access as well as profit
 - May minimize resource depletion
 - There may be different constraints

APAC Mission

- Conduct **sound** and **timely** research and educational programs that
 - Evaluate the **effectiveness**
 - And **equity**
 - Of agricultural policies
 - Foster an understanding of the nature of crop agriculture

Policy Analysis Needs of 21st Century

- **Require, not only, the ongoing analysis of policy impacts on:**
 - **Price, production, acreage, etc**
- **And the use of robust economic models of the U.S. agricultural sector**
 - **POLYSYS**

Policy Analysis Needs of 21st Century

- **It also requires a holistic vision that includes issues that have been ignored by mainstream economists:**
 - **Distributional issues**
 - **Concentration both on and off farm**
 - **International impacts of various policy prescriptions**
 - **Ecological issues, and**
 - **Sustainability**

Policy Analysis Needs of 21st Century

- **Much of this work is presently being done by APAC and a host of others in a variety of disciplines**
- **Like others we have done our work in relative isolation**
- **We need to work collaboratively crossing institutional and disciplinary boundaries**

APAC's Objectives

- **Link up with other researchers**
 - **Cross disciplinary work**
 - **Collaborative style**
- **Incorporate the insights of others into our analysis of distributional, concentration, international, ecological and sustainability issues**
- **Incorporate concepts beyond the Chicago School into our analysis**

Burden of Proof

- **Such a starting point changes the locus of the burden of proof**
 - Today the burden of proof is on those who support social intervention in the marketplace to prove that self-interested behavior results in social losses
 - The defenders of self-interest only have to raise reasonable doubt about the cause of a social or ecological ill to win the argument.
 - That is why we hear so much about things like the Asian Crisis