

Discussion of Outlook and Projections

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The three papers presented in this session focus on various aspects of outlook and projections, an important component of the discipline we call agricultural economics. For example, Christ describes the objective of econometrics as “the production of quantitative economic statements that either *explain* the behavior of variables that we have already seen, or *forecast* (i.e., *predict*) behavior that we have not seen, or both” [Christ, p. 4]. Most agricultural economists are more careful to distinguish between predictions and projections. Indeed, someone has said that “fools predict the future, while economists make projections.”

Authors Cothorn and Luby discuss short-run, intermediate-run, and long-run aspects of outlook projections. Quance et. al., with their focus on 1985 and 2000, appear to adopt the time-frame interests of most economists in making projections:

- 1) Short enough to generate and hold reader interest, i.e., within the current life expectancies of most readers;
- 2) Long enough that most professional colleagues will forget the details of the projections; and
- 3) Long enough that any observed inaccuracies can be dismissed as short-term aberrations on a long-term trend.

The paper by Quance, Plato, and Smith considers a range of scenarios for United States and Western agriculture in 1985 and 2000. Apparently scenario construction has become as popular in

Washington, D.C. as have lowering expectations and keeping your options open in Sacramento. Indeed, we might classify the authors of this paper in an emerging subset of our dynamic profession: scenario economists, or if you prefer, economic scenarists.

The approach advocated by the authors of examining a “range of possible outcomes rather than a series of single points through time” appeals to this reviewer, who values such studies based on their contribution to policy decision-making. In point of fact, however, the paper does not follow this approach; two series of point estimates are made within the Supply-Demand Management or Unfolding Scenario. After placing considerable emphasis on the other three quadrants as depicting the relevant range of policy perceptions, they are not further considered in the quantitative portion of the paper.

This analysis contains a fundamental limitation facing most analysts in making long-term projections: the necessity to extrapolate values outside the data range used to estimate the structural coefficients. The resulting projections are in some instances difficult to accept, e.g., 1985 producer beef prices of \$103 per cwt (in “real” 1974 dollars).

Several apparent inconsistencies exist in the authors’ empirical results. For example, aggregate output is higher in the year 2000 under the “scarcity” bound than under the “overproduction” bound. And projected U.S. outputs of corn, wheat, and soybeans in 1985 and 2000 are greater under “scarcity” than under “overproduction”. At the same time, farm prices and incomes are much higher under the scarcity bound than under the overproduction bound. These findings imply that prices and incomes will not be inversely related to commodity supplies in the target years, a conclusion that most economists will find difficult to

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accept. And the percent of U.S. real per capita disposable income spent on food is projected to be higher under "overproduction" than under "scarcity". This anomaly is recognized but not explained or rationalized in the paper. Perhaps we should all hope for food scarcity as defined by the authors.

Notwithstanding these anomalies in the empirical results, the conditions described under the high demand-low supply scenario seem more plausible at this time than the low demand-high supply depiction. As a public policy-maker, however — considering (among other things) the degree of urgency we should assign to preserving prime agricultural land — I would feel more comfortable using the study's results if the authors had spelled out each scenario's assumptions more explicitly.

Cothorn's paper focuses on marketing outlook information from four perspectives: requirements for a successful outlook program, criticisms of current outlook programs; potential regionalization of public outlook efforts; and the welfare impacts of outlook programs.

In the interests of brevity, I will focus my comments on the fourth issue, i.e., the incidence of costs and benefits of agricultural market information, including public outlook programs. This issue is becoming increasingly important as penetrating questions arise about future funding of market information programs. For example, we are currently attempting to measure the benefits and beneficiaries of the California Federal-State Market News Service. This issue is not a new one; in 1974 Moulton, Levinson, and Thomas concluded that the direct benefit-cost ratio for Market News could be derived; that its value exceeded one; and that it was impossible to empirically measure benefits to consumers and non-market users. Although they also concluded that it was not feasible for California to initiate a user fee absent a similar policy at the Federal level, this question remains a budget policy issue in Sacramento.

Because the relationship between benefit and costs of market information programs (including Outlook) will likely receive increased future scrutiny at both State and Federal levels, I encourage our profession to develop improved methodology, and conduct empirical research, to measure the public and private benefits of market information. Relevant issues include identification of primary and secondary beneficiaries; user fee

alternatives; and impacts of market information on various-sized firms, on overall market competition, on market price stability, and on efficiency of total resource use.

I respectfully disagree with Cothorn that public input is necessarily more important for medium-range outlook than for short-term or long-term outlook. In general, the public sector should be most concerned about long-run resource allocation issues, leaving many of the shorter-term decisions to the private sector. Public support of economic outlook or projections should tend to follow this general distinction.

Although it is an integral part of his paper's title, Cothorn only briefly discusses market price instability, and its relation to market information and outlook. In my judgment, the instability issue facing U.S. agriculture is extremely important, and our profession should be devoting more resources to its analysis. Agricultural commodity markets likely will tend to be more unstable during the next 30 years than they have been during the past three decades; the incidence of resultant benefits and costs deserves further economic research.

The Luby presentation provides a private-sector perspective of outlook information uses and needs. It identifies the complementarities, as well as some incompatibilities, between public outlook work and corporate business projections. Several interesting questions arise: Is market information that is good for Oscar Mayer also most appropriate for the Midwest hog producer, the Western cattle feeder, and the general public interest? Could we justify public expenditures for outlook information if we were not concerned about the relative bargaining position of farmers and the buyers and sellers with which they deal? If relatively large firms directly benefit from public outlook programs, should they pay a user fee? Because they are substantial taxpayers, should they be treated any differently than smaller firms? These are knotty policy issues for which I have no ready answers.

A theme throughout Luby's presentation is the need for better data and more timely dissemination of more precise estimates. Few, if any, of us would quarrel with those suggestions. His suggestion of providing confidence limits with point estimates has considerable merit, and coincides with the scenario-building approach advocated by Quance.

To conclude, the role of information, including projections and outlook, will continue to be an important issue in agricultural commodity marketing. Shubik, for example, defines information as the key variable in defining levels of market competition. The agricultural economics profession has a central role to play in 1) making projections and providing outlook information; 2) identifying methodology to improve projections and information dissemination; and 3) analyzing the benefits, beneficiaries and costs of public and private information systems.

References

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