

Lecture XIII: PERTs, PESTs and Rent Seeking

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1 PERTs and PESTs

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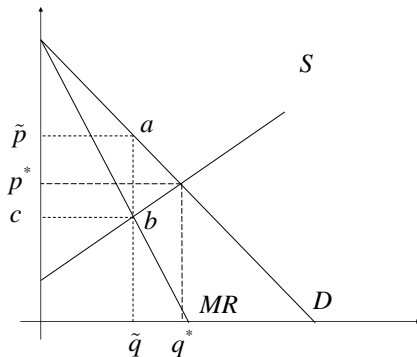
- Rausser, G.C. 1982. Political Economic Markets: PERTs and PESTs in Food and Agriculture. *American Journal of Agricultural Economics* 64(5): 821–833.
- The most common and durable source of factions has been the various and unequal distribution of property A landed interest, with many lesser interests, grow up of necessity in civilized nations, and divide them into different classes, actuated by different segments and views. The regulation of these various and interfering interest forms the principal task of modern legislation, and involves spirit of party and faction in the necessary and ordinary operations of the government....

PERTs and PESTs, Why?

- The inference to which we are brought is, that the cause of faction cannot be removed, and that relief is only to be sought in the means of controlling its effects. (J. Madison, *Federalist Paper*, No. 10)
- "... Madison was instrumental in designing checks and balances making it costly for any interest group, majority or minority, to use the political system to redistribute wealth and income in their favor."
- Our government was designed to "... increase the costs faced by those seeking to redistribute wealth and income."

PERTs

- “Most economic analysis of public policy concentrates on allocative consequences of market failure.”



PERTs Defined

- “As Arrow has shown, a complete set of risk markets represents a sufficient condition under which a market equilibrium is a Pareto optima.”
- “Moreover, general equilibrium formulations with incomplete markets have demonstrated clearly that market failure is a fact of life.”
- “... a government wishing to intervene to correct market failures must design a set of rules to reduce transaction costs of the private economic system.”
- “Policies resulting from this type of governmental intervention will be referred to as *political economic resource transactions* or *PERTs*.”
- “The net effect of PERT policies is to increase the size of the pie.”

PERTs in Agriculture

- “The transactional cost reduction view of governmental intervention has a long history in U.S. food and agriculture.”
 - immobility of farm resources
 - excessive market value of middlemen
 - inadequate return on invested capital
 - unacceptable uncertainty

PERT – Analysis

- “Government intervention is introduced to provide a remedy of such problems through collective action.”
- “Much of this literature is based on the presumption that governmental intervention in some broad sense improves efficiency.”
- “This positive-sum game view of governmental intervention also presumes a political economy which improves the allocation of resources.”

PESTs

- “This dichotomous treatment of resource allocation and wealth distribution has been challenged in some recent theoretical literature by a negative sum or, at best, a constant sum game view of government intervention (Tullock).”
- “Government policies are not introduced to improve efficiency but, rather, to redistribute wealth from one group in society to another.”
- “... a crude predatory theory of the state is advanced in which government is simply a gigantic transfer mechanism for redistributing wealth and income.”
- “ Government policies based on this perspective will be referred to as *political economic-seeking transfers* or *PESTs*.”

PERTs and PESTs in Agriculture

- “In the case of U.S. agricultural economy, we have a long history of both PERT and PEST policies.”
 - Morrill Act (1862) – Land Grant Universities
 - U.S. Department of Agriculture (1862)
 - Hatch Act (1887) – Experiment Station/Agricultural Research
 - Smith-Lever Act (1914) – Extension

U.S. Agricultural Agenda – Beginning of Twentieth Century

- Agricultural Agenda early 1900s
 - easy money created by federal action – Federal Reserve Act of 1913
 - government funds for farm mortgages – Federal Farm Loan Act of 1916
 - government guarantees of farm commodity prices.

Pigouvian Taxes

