

**AAEA Institutional and Behavioral Economics Section (IBES)
Track Proposal
Montreal AAEA-RSS Meetings, 2003
Submitted by the IBES Executive Committee**

Gary Lynne, Chair (contact glynne1@unl.edu , 402-472-8281, 103B Filley, Univ. Nebraska, Lincoln, 68583-0922); Lindon Robison, Chair-Elect, Frederick Hitzhusen, Secretary; Sam Cordes and George McDowell, Members-at-Large

The theme of this IBES Track is *redefining the boundaries* by bringing attention to the interstitial areas... the areas where social science disciplines overlap in potentially very productive fields. We are especially intrigued with the future boundaries between and within such interstices. IBES is capitalizing on the unique opportunity due to AAEA and the Rural Sociological Society meetings being held at the same time in Montreal. We propose to help the search in the overlap with rural sociology, through an organized symposium of leaders in both fields exploring the new frontiers and boundaries co-sponsored with (preliminary) the Rural Sociological Society and with the AAEA Community Economics (CENet) Section. One especially new, interstitial field revolves around the construct of social capital, which is also co-sponsored with CENet. IBES also supports the two other Principal Paper proposals... one by the CENet Section and the other by the AAEA-RSS "summit" committee... on the shared theme.

We are not limiting ourselves to the social capital construct or the particular interstices with rural sociology and community economics, however, in that IBES sees how agribusiness and environmental economics will also be able to produce more and higher quality products with interstitial efforts. IBES is partnering with the Agribusiness Economics and Management (AEM) Section to bring the latest thinking in how business related institutions and organizations come into existence. Also, like did the Nobel Committee this year, IBES sees that the interstice between economics and psychology holds substantive potential. In this interstice, we explore more fundamental human nature. Does the current (agricultural) economics model of human behavior capture the complex motives and influences, such as self-interest; moral considerations; sentiments; and social/emotional dimensions of individual actions? We start down the path to answering such questions with the AAEA Principal Papers Session on experimental economics, which is co-sponsored by IBES and the Association of Environmental and Resource Economics (AERE). Connections with the socio-emotional goods are drawn.

The *redefining the boundaries* theme is also consistent with several of the IBES objectives (see Bylaws on the IBES website), especially these two:

d: Encourage AAEA members to explore and develop new tools of analysis and methodologies consistent with alternative theories that reflect the complexity of human nature and institutions.

e: Expand the capacity for interdisciplinary work and dialogue with other social sciences.

This IBES track will help in locating and developing the new interstitial ground.

AAEA Principal Paper Session
Institutional and Behavioral Economics Section (IBES)
Co-sponsored with the
Association for Environmental and Resource Economics (AERE)

Title: New Developments in Experiments for Agricultural Economics

Subject Codes: 1, 4, 6, 8, 13,14

Organizers:

Matthew Rousu, Research Economist, RTI International (mrousu@rti.org)
Jason F. Shogren, Stroock Distinguished Professor of Natural Resource Conservation & Management, University of Wyoming (JRamses@uwyo.edu)

Topics to be covered:

All three papers will discuss results from new experiments, with applications relevant to agricultural economists. One paper will investigate the value of information – specifically looking at the value of information from agribusinesses to consumers. Another paper will be an experimental test of the commitment cost theory – an important new theory of behavior in environmental economics, and important in explaining the socio-emotional aspects of how people view gains relative to losses. The final paper will explore the impact of alternative trading institutions on market outcomes.

Brief Rational for the Topics:

Experimental methods have increased in popularity in the general economics discipline, but the increase in popularity has been slower in agricultural economics. For an example, in 2001, 10.11% of the articles in the *American Economic Review* contained an economic experiment, while only 2.99% of articles in the *American Journal of Agricultural Economics* contained one. We believe this trend is in no way indicative of the relative importance of experiments for agricultural economics. Experiments can be just as valuable a tool in agricultural economics as they currently are in analyzing general economic issues. The goal of this principal session is to apply methods of experimental economics to some current issues in agricultural economics. This session should appeal to people in agricultural economics who work on issues related to industrial organization, behavioral economics, the impact or value of information, environmental economics, commodity markets, and those who do theoretical work that are interested in testing new theories.

PROPOSED PAPERS, PRESENTERS, DISCUSSANT, AND MODERATOR

Paper #1

“Valuing information: The public good value of information from agribusinesses on genetically modified foods.”

Wallace E. Huffman
Charles F. Curtiss Distinguished Professor
Department of Economics, Iowa State University

Matthew Rousu *
Research Economist, RTI International

Jason F. Shogren
Stroock Distinguished Professor of Natural Resource Conservation and Management
Department of Economics and Finance, University of Wyoming

Abebayehu Tegene
Program Leader and Agricultural Economist, Resource Economic Division
ERS, U.S. Department of Agriculture

* Matthew Rousu will present this paper

Paper # 2

“Testing the Commitment Cost Theory using Experimental Economics”

By Jayson Lusk
Department of Agricultural Economics, Mississippi State University

Paper #3

“Impacts of Alternative Trading Institutions and Methods of Delivery on Laboratory Market Outcomes”

By Dale J. Menkhous**
Department of Agricultural and Applied Economics, University of Wyoming

Owen R. Phillips
Department of Economics and Finance, University of Wyoming

Chris R. Bastian
Department of Agricultural and Applied Economics, University of Wyoming

** Dale J. Menkhous will present this paper

Discussant
John A. Fox

Moderator
Jason F. Shogren

Valuing information: The public good value of information from agribusinesses on genetically modified foods

By Wallace E. Huffman, Matthew Rousu, Jason F. Shogren, and Abebayehu Tegene

Companies advertise to influence consumer behavior to increase demand for their products, hopefully increasing demand enough to recoup the cost of advertising and increase profits. This is the purpose of most advertisements, public relation campaigns, and press releases issued by companies. Agribusiness companies that advertise information on genetically modified foods are no different. In fact, many of the leading biotechnology companies have formed a coalition called the Council for Biotechnology Information. This coalition was designed in large part to counteract the negative information on agricultural biotechnology being disseminated by environmental groups.

There is another purpose for advertising however, and that is to educate consumers. Advertising has the benefit of bringing more information to consumers. Most major companies contribute to charities and try to “give back” to the society. Accurately informing consumers is an easy way of helping society, and it has a low or zero marginal cost to companies that were planning to advertise anyway. In fact, drug makers often boast that their advertisements on new drugs help inform consumers of new treatment options that they would otherwise not know (Steyer, 1999). The value of the information by companies has yet to be analyzed however, which is the purpose of this paper.

Information from companies has value to consumers if the information changes consumer purchases. Since the consumer has more information, the new consumption bundle makes them better off than the consumption bundle they were purchasing before receiving information. But not all people would view this information as positively as the companies do. For example, environmental groups that oppose GM foods are likely to say that industry information is misleading. These groups would indicate that any change in behavior due to industry information results in lower overall consumer welfare. The companies, however, do not see things this way. Any change in behavior, to them, must be the result of the consumer being more informed – hence the consumer is better

off. Companies would view their information as a public good. Because the content of their information is not valued by everyone, it is impure public good.

We use data from experimental auctions with adult consumers in the Des Moines, IA and St. Paul, MN areas to examine this issue. Consumers bid on GM-labeled and plain-labeled food products using the random nth-price auction, with different consumers receiving different information treatments. We find that the average public good value of information from agribusinesses is approximately 4 ½ cents per person, for each product that could be genetically modified. We also examine how social capital affects how an individual values information from agribusinesses. The potential aggregate value of information from agribusinesses is over \$2.9 billion annually. With a value this large, agribusiness companies can boast that their information not only helps their bottom line – but by providing information they are making consumers better off. This large public-good value of information from agribusinesses practically vanishes however, in the presence of neutral or verifiable information by a third party. When a third party source of information on genetic modification is presented to consumers at the same time – their reliance on the agribusiness information decreases. This indicates an additional value to verifiable information, in addition to accurately informing consumers and helping adoption rates of new products (Rousu et al. 2002, Huffman et al. 2002).

References

- Huffman, Wallace E., Matthew Rousu, Jason F. Shogren, and Abebayehu Tegene. “Negative Information and Resistance to Adoption of New Technologies: The Case of GM foods.” Manuscript, Iowa State University (2002).
- Rousu, Matthew, Wallace E. Huffman, Jason F. Shogren, and Abebayehu Tegene. “The Value of Verifiable Information in a Controversial Market: Evidence from Lab Auctions of Genetically Modified Foods.” Staff Working Paper, Iowa State University, Department of Economics Series, Paper #3, (Feb 2002).
- Steyer, Robert. “Do Drug Ads Educate or Mislead Consumers?” *St. Louis Post-Dispatch* (June 20, 1999). <http://www.rpi.edu/~woodhe/docs/other/tvdrug1.htm>

Testing the Commitment Cost Theory using Experimental Economics

By Jayson Lusk

One of the primary uses of experimental economics since its inception in the mid-1900s has been to test economic theory. Experiments provide a way to tightly control decision-making and incentives such that hypotheses can be clearly tested without the confounding influence of extemporaneous factors, which are often problematic in non-experimental data. Experiments have been used to test of predictions of competitive markets, tenets of expected utility theory, auction theory, and game theory (e.g., Smith; Kahneman, Knetsch, and Thaler; List and Lucking-Reiley; Goeree and Holt). Despite the increased use of experiments in the general economics literature, applications in agricultural economics are sparse. Further, experimental applications in agricultural economics are often limited to valuation issues (Fox et al.; Lusk et al.; Shogren and List) and have not involved tests of economic theory per se. The proposed research seeks to illustrate the use of experimental economics to test predictions of the “commitment cost” theory proposed by Zhao and Kling (2000, 2001).

Commitment Costs Theory

Zhao and Kling (2001) contend that compensating variation may not always be equivalent to willingness-to-pay (WTP) because most valuation exercises force participants to make a commitment before they might otherwise choose to do so. The theory is derived from the assumption that individuals have a degree of uncertainty about their valuations for a good. In a dynamic context, people must be compensated if forced to make an early commitment because they have given up the option to alter future purchase decisions. It follows that WTP is a function of compensating variation and the level of commitment costs. Similarly, equivalent variation may not be equal to willingness-to-accept (WTA) and, in a dynamic context, buyers might require compensation to give up their good because they have forgone future selling opportunities. The commitment cost theory stands in stark contrast to other theories explaining the WTP-WTA divergence, such as loss-aversion, which potentially results from individuals valuing losses more than gains. Analytical results from Zhao and Kling (2000) and discussion in Zhao and Kling (2001) suggest the following hypotheses: the difference between WTA and WTP should decrease as subjects are: 1) more certain of a good’s value, 2) expect that less information can be gathered about a good in the future, 3) are more impatient about buying/selling, and 4) expect that reversing the transaction becomes easier.

Experiment

We propose to test the commitment cost theory by conducting two-period auctions. Randomly recruited subjects will participate in either a WTP or WTA auction. For each auction type, several treatments will be conducted to test the theoretical predictions outlined above. The base-line treatment (in the WTP case) will involve subjects bidding in a two-period auction for a coupon with an uncertain value, which can be redeemed by the auction winner at the end of the experiment. The degree of uncertainty can be varied across auction periods to test whether WTP and WTA converge when uncertainty is decreased. The second theoretical conjecture, from above, can be tested by conducting a one-period auction and comparing results with the two-period auctions. Relatively straightforward procedures can also be used to test predictions 3 and 4 outlined above.

Discussion

The results of this paper should be useful to agricultural economists in a number of ways. First, the research will illustrate how economic experiments can be used to test important predictions of economic theory. Second, many agricultural economists are interested in valuing environmental amenities, novel goods, lotteries, and risk reduction. Providing evidence on the validity of the commitment cost theory should assist researchers in determining whether current valuation practices should be altered to incorporate the cost of commitment.

References

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- Kahneman, D., J.L. Knetsch, and R.H. Thaler. “Experimental Tests of the Endowment Effect and the Coase Theorem.” *Journal of Political Economy*. 98(1990): 1325-48.
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- Zhao, J. and C.L. Kling. “A New Explanation for the WTP/WTA Disparity.” *Economics Letters* 73(2001):293-300.
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Impacts of Alternative Trading Institutions and Methods of Delivery on Laboratory Market Outcomes

By Dale J. Menkhous, Owen R. Phillips, and Chris R. Bastian

Abstract

Recent structural changes in U.S. agriculture have resulted in substantial changes in the way prices are established. Tighter vertical linkages between segments of the food system are becoming more common, with resulting changes in price discovery under alternative pricing mechanisms. A variety of issues have arisen due to these changes. Most basic among these is how market outcomes (prices, quantities traded, earnings distributions and total surpluses) change under the alternative trading institutions and methods of delivery. How market outcomes from alternative pricing mechanisms compare with those from the competitive model is important in assessing performance. Empirical analyses of these and related issues have been limited in part by available methodologies. The use of laboratory experiments can provide the controlled setting to obtain data to investigate the effects of the changing market environment in the U.S. food system. This paper focuses on an investigation of impacts of alternative trading institutions and methods of delivery and the applications of laboratory markets.

The paper details laboratory experiments in economics, with emphasis on market experiments. Specifically, two elements of pricing/exchange are investigated – the method of delivery and trading institution. Pricing can be forward or spot and the trading institutions studied are double auction, English auction and private negotiation. Relevant previous research and economic theory are discussed, along with the experimental designs and laboratory procedures.

Among those laboratory trading environments investigated, the English auction resulted in prices converging to the highest levels. English auction prices were about 12 percent higher than the next highest price, from the double auction spot market, and 29 percent higher than

prices from private negotiation trading. The double auction market, both forward and spot delivery, and private negotiation forward trading yielded prices closest to the predicted competitive equilibrium from the experimental supply and demand conditions.

Units traded converged to the lowest levels in private negotiation trading, also resulting in the lowest total surpluses. Units traded in private negotiation spot are more than 25 percent below that in double auction spot trading. Total surpluses in private negotiation trading are 85 to 90 percent of the predicted total. Relative to their counterpart, sellers fared best in the English auction and buyers best in private negotiation spot trading.

Spot delivery and the associated risk of inventory loss places the seller at a bargaining disadvantage relative to buyers in private negotiation trading. The results of the laboratory experiments indicate a loss of about 40 (54) percent of seller surplus from double (English) auction spot to private negotiation spot.

Finally, in this and future inquiries, laboratory methods seem particularly well suited. Much of the data needed for a traditional analysis are not generally available. Even if data provided from private negotiations were available, correctly specifying the econometric model would make reliable estimation difficult. A strength of laboratory methods is the controlled environment in which the experiment is conducted. This allows the investigator to isolate the effect of a particular variable of interest. The drawback of experimental economics is the laboratory markets are simple constructions that cannot explain the impact and interaction of numerous changes.

-----Original Message-----

From: Anthony Fisher [mailto:fisher@are.berkeley.edu]

Sent: Sat 10/26/2002 4:40 PM

To: Jason F. Shogren

Cc: fisher@are.berkeley.edu

Subject: AAEA session proposal

Dear Professor Shogren,

On behalf of the Association of Environmental and Resource Economists (AERE), I strongly support the proposal for a principle paper session on new developments in experiments for agricultural economics. The proposed papers will constitute a very valuable introduction for many in the agricultural and resource economics community not yet familiar or comfortable with the design and execution of experiments, as opposed to the conventional approaches to gathering data in economics.

Experimental methods are becoming more prominent in economics, but not yet, or to the same degree, in agricultural economics, despite the fact that many areas of the discipline could benefit from the introduction and use of these methods. The just-awarded Nobel Prize in Economics to Vernon Smith, specifically for his pioneering work in experimental economics, represents a recognition by the economics community of the importance of this approach. This alone would in my judgment assure a great deal of interest in the proposed session, and a sizable audience.

Please let me know if there is anything else I can do to further support the proposed session.

Sincerely,

Anthony Fisher, AERE President-Elect

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AAEA Organized Symposium #1 in the IBES Track

**Co-Sponsored with the Community Economics (CENet) Section and (preliminary)
the Rural Sociological Society**

Title: Redefining Their Boundaries: Conversations Between
Agricultural Economists and Rural Sociologists

Subject Codes: 18, 22 (really across the whole spectrum from 1-21: Exploring theory
and methodology, experiences, next steps)

Rationale: The symposium title embellished only with the words “agricultural” and “rural” is taken from the title of a book by the economic sociologist R. Swedberg (Princeton University Press, 1990). The book highlights the actual content of interviews with leading thinkers in economics (e.g., Becker, Akerlof, Williamson, Arrow, Schelling, Sen, Solow, others) and sociology (e.g., Coleman, White, Granovetter, Melser, Bell, Stinchcombe, Sorensen, others). Swedberg (1990, pp. 4-5) notes the early alienation and radical separation between the two disciplines tracing back to the 1890’s (especially at the 1894 meeting of the American Economics Association when the boundaries were quite clearly drawn), and, based on the interviews, suggests a different future... “that the interaction and communication between economists and sociologists is finally increasing.” This Symposium focuses attention on the productive interstices between the two disciplines, especially as they pertain to agricultural, natural resource and rural issues. It will operate as a Panel, with two agricultural economists and two rural sociologists raising key issues while drawing on main themes in the 1990 book; with substantive time (about one-half the allotted time) left for audience participation helped by the moderator; and, with Professor Schmid also serving as an integrator of key ideas.

Organizers: Gary Lynne (glynnel@unl.edu) and Lindon Robison (robison@msu.edu)

Moderator: A. Allan Schmid

Presenters:

Agricultural Economics

Daniel Bromley, U. Wisconsin
Otto Doering, Purdue University

Rural Sociology

Michael Bell, U. Wisconsin
Sally Maggard, CSREES, USDA

AAEA Organized Symposium #2 in the IBES Track
Co-sponsored with the Community Economics (CENet) Section and
(preliminary) the Rural Sociological Society

Title: A Case Study in (Rural) Socio- (Agricultural) Economic Research: Measuring Social Capital in PlaceX

Subject Codes: 21

Rationale: This Symposium represents a case study in enhancing interaction and building communication paths between agricultural economists and rural sociologists. This case study was initiated by an interdisciplinary team who obtained "seed money" from the USDA - National Research Initiative competitive grants program. A primary purpose of this exploratory study was to determine the feasibility and limitations of using the contingent valuation to measure social capital within a community context. This organized symposium will focus on the conceptual components, the primary data collected, and preliminary empirical results.

The symposium is organized as a Panel, with Moderator Hitzhusen starting the session by first asking each Panel Member a question(s) regarding each of several general topic areas. Questions posed to Robison will help set the stage, lubricating the dialogue with the audience on the language of social capital, the framework and key definitions. Questions posed to Bishop and Lynne as economists, Ryan and Allen as sociologists, will help the dialogue with the audience on how to interpret this language and framework from the perspectives of the contingent valuation approach; behavioral economics premised on both egoism-hedonism and sympathy-empathy-altruism motives driving social capital; and the notion that social capital is also about community solidarity, and not solely about the pursuit of individualistic interests. Questions posed to Cordes and Schaffer will help the audience focus on how a USDA-NRI funded project of this nature can be developed; organized and operated; especially focused on the extent to which the team converged to a common methodology and theory. Dialogue with the audience will be started immediately, as the moderator sees fit to ask and answer questions of both audience and panel members.

Organizers: Sam Cordes and Vernon Ryan (scordes1@unl.edu ; vryan@iastate.edu)

Moderator: Frederick Hitzhusen

Panel (and general areas to which the moderator will direct questions):

L. Robison, Mich. State: "Social Capital as Sympathy"

R. Bishop, U.Wisc. "Contingent Measurement of Social Capital's Value"

G. Lynne, Univ. Neb. "Sympathy as a Motive for Social Capital"

V. Ryan and J. Allen, Iowa State and Univ. Neb. "Community Solidarity"

Sam Cordes and Ronald Schaffer, Univ. Neb. and (retired) Univ. Wisc.

"Working at the Interstice of Ag Econ and Rural Sociology: The Process"

October 31, 2002

Dear Institutional and Behavioral Economics Section Chair:

As the RSS Program Chair I would like to thank you for working to plan joint sessions of mutual interest to AAEA and RSS members for the 2003 meetings in Montreal.

At this time I would like to express our interest in jointly sponsoring with AAEA the two sessions you have proposed. Please submit abstracts and other requested information for your panel to RSS by Jan. 17 for formal review, following the instructions to be posted on the web site www.ruralsociology.org. Formal acceptance of your proposal must await that review, but on behalf of RSS I want to express support for panels such as you have outlined to me.

Sincerely,

Laura T. Raynolds

October 31, 2002

Dear Gary Lynne,

This is a letter of endorsement of IBES's Track Proposal "Redefining the Boundaries" for the AAEA-RSS meetings in 2003 from the Community Economics Section (CENet) of the AAEA.

The Community Economics Section is delighted to endorse Organized Symposium #1 "Conversations Between Agricultural Economists and Rural Sociologists." This session compliments the Principal Paper session proposed by CENet member John Halstead. Many of our members collaborate with Sociologists and other social scientists. The topic is of mutual interest.

We are also happy to endorse the IBES track's Organized Symposium #2 "A Case Study in (Rural) Socio- (Agricultural) Economic Research: Measuring Social Capital in PlaceX." A couple dozen CENet members are engaged in a cross-section study of community networks, and we are very interested in the results of your case studies. Institutional and social structures condition all relations, including economic relations (financial intermediation and exchange, for example). This forward-looking research contributes to our profession's ability to understand the important social structures.

We look forward to attending the IBES sessions in Montreal. Thank you for this opportunity to state our support for your efforts to enhance the value of the meetings to the full spectrum of members of our profession.

Sincerely,

Maureen Kilkenny
2002-3 Chair
Community Economics Section (CENet) of the AAEA.

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AAEA Organized Symposium #3 in the IBES Track
Co-sponsored with the Agribusiness Economics
and Management (AEM) Section

Title: Institutions and Organizations in an Economic System: Strategic Response of One to the Other

Subject Codes: 1, 8

Rationale: Institutions delineate the parameters of an agribusiness' competitive space. As a consequence, institutions fundamentally affect which strategic alternatives are, as well as are not, available to an organization's management. As an analyst, one can presume, like most Neoclassical economic theory, stable institutions, or one can presume, like most Austrian and Institutional economic theory, evolving institutions. The implications of these presumptions are profound. If institutions are towering mountains resistant to change, then it is reasonable to presume the existence of stable, equilibrium market outcomes. If institutions resemble rolling stones gathering no moss, then it is reasonable to presume a dynamic continuum of change and evolution in market settings. Descriptions of and prescriptions for agribusiness management are quite different under these two conceptualizations of institutions.

The purpose of the session is to examine these traditional, opposing views given pragmatic evidence and other theoretical models suggest a dynamic tension between organizations and the institutional environment. That is, we can consider the theses of Douglas North (Institutions, Institutional Change, and Economics Performance) and Neil Fligstein (The Architecture of Markets) wherein the institutional environment confers norms of conduct on firms and is, in turn, socially constructed by economic interests, such as rent-seeking by firms and rulers. By having a better understanding of how institutions come into existence, are perpetuated and are terminated, agribusiness researchers may be able to enrich their analysis of agribusiness management issues. Likewise, a better understanding of the firm-level behavior with respect to institutions will inform the field of institutional economics.

Organizer: Gary Lynne, Univ. Nebraska (glynne1@unl.edu)

| **Moderator:** Fabio Chaddad, Department of Agricultural and Resource Economics,
Washington State University

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This symposium will have *three* brief presentations *strictly limited to 15-minutes each*, and each addressing 1) central research issues/questions, 2) initial thoughts/ research/ insights into these issues, and 3) the substantive questions/issues that need to be discussed. This leaves 45-minutes for dialogue. After the speakers have finished, Professor Chaddad will offer opening comments; ask questions of the speakers and the audience; and otherwise stir the give-and-take in an active dialogue on these issues:

1. Strategy, Structural Change, and Austrian Economics

This paper uses the language of strategic management, organizational sociology, and Austrian market processes to model institutionalization/de-institutionalization processes. Complexity theory "closes" the analytical gaps in subjective behaviors central to Austrian economics. An agent-based model of institutional rule-following and rule-creating in response to the search for economic rents within competitive markets also is presented.

Randall Westgren, Agricultural and Consumer Economics Department, University of Illinois

2. Institutional Legitimacy

This paper looks at the role of the broad social environment in granting legitimacy (or revoking it) to an institution or organizational form (e.g., land grant colleges, cooperative extension systems, agricultural coops, commodity promotional boards) on a normative, cognitive, and regulative basis. The author then addresses the question, "How can these constructs be operationalized in ag economics / agribusiness research?"

Peter O. Foreman, Department of Business Administration, University of Illinois

3. Product Attribute Legitimacy

This paper examines the process by which product attributes can be introduced, adopted and institutionalized within a market setting. Government imposed grades and standards, retailer requirements for production practices, marketing ploys to create perceived product differentiation are all manners by which a given product attribute can become legitimized. Market outcomes, i.e., legitimized attributes and who gets to introduce and define a given attribute, is determined by the institutional setting. In other words, this paper examines a specific case of the generalized truth: understanding the institutions greatly facilitates ones understanding of how markets perform.

James Sterns, Food and Resource Economics Department, IFAS/University of Florida

AAEA Organized Symposium #4 in the IBES Track Co-sponsored with the Food Safety and Nutrition Section

Title: Unintended Impacts of Contracting in Agriculture

Subject Codes: 8, 13

Rationale: The industrialization of the food system is proceeding at a rapid rate. Under the new supply chain models of the organization of the agricultural-food system, contracting is a means for making the system consumer-driven. The most common theoretical justification for the increase in contracting is provided by the motivation to minimize transaction costs. However, the theory behind contracting is woefully inadequate to address the complete set of economic and social issues important to society. The terms of contracts not only establish the “prices” growers receive for their product, but they are also important determinants of the ability of growers and processors to manage the production process and share risks. Hence, contracting is restructuring long-standing systems and incentives that have long motivated the players in the agricultural and food system. Secondary impacts of contracting on public goods, such as food safety, the environment and social capital are still not well understood. Moreover, the inevitable variety of community responses will result, not from the obvious market implications of contracting, but rather from the magnitude of the secondary, or “unintended” impacts. In an environment with such fundamental change, it is difficult to course the direction of the future.

The purpose of this proposed organized symposium is to broaden the discussion of contracting in agriculture to, first, consider the secondary, or unintended, impacts that have been partially observed to date as a result of increased contracting in agriculture. Secondly, the purpose of the symposium is to consider alternative frameworks that will allow us to better understand these fundamental changes and their impacts on human behavior, institutions, and quality of life. It is only through a comprehensive evaluation of contracting, implemented through an integration of frameworks, that the broad social implications of contracting can be fruitfully examined. The joint meetings of the AAEA with the RSS provide with an excellent opportunity to look more comprehensively at this looming social issue.

Organizers:

Mary Ahearn (mahearn@ers.usda.gov) and Jim MacDonald
Economic Research Service – USDA

Moderator:

Mary Ahearn, Economic Research Service

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This symposium will have three very brief presentations (5-10 minutes each), followed by comments from two discussants (5-minutes each), with the main focus an extended dialogue with the audience about these issues:

1. Contracting and Mechanisms for Change

This presentation will identify the terms of contracts, the characteristics of institutions through which they are implemented, the spatial concentration of contracting, and other factors associated with contracting that result in the greatest structural change in agriculture and some rural communities.

Rick Welsh, Clarkson College (presenter) and Mary Ahearn, Economic Research Service

2. Contracting and Traceability: Implications for Food Safety and the Environment

This presentation will identify how contracting has, and potentially can further, alter the food safety and environmental externalities associated with agricultural production. In addition, it will provide a framework for addressing and preventing negative externalities, through analysis of traceability systems.

Jim MacDonald, Economic Research Service

3. Community Impacts and Community Responses of Contracting in Agriculture

This presentation will identify how contracting has impacted social capital and community structure in communities in which it has become a common agricultural practice. In addition, it will review past and potential community responses to contracting.

Don E. Albrecht, Dept. of Rural Sociology, Texas A&M University

Discussants:

John Allen, Professor of Rural Sociology in the Department of Agricultural Economics and Director, Center for Applied Rural Innovation, University of Nebraska-Lincoln

Alan Randall, Dept. of Agricultural Economics, Ohio State University

Dear Gary,

The Food Safety and Nutrition Track is honored to co-sponsor your symposium proposal: Unintended Impacts of Contracting in Agriculture. Our Track is very interested in research on contracting. This is one mechanism that the food supply chain actively uses today to deal with food quality and safety issues - from farm to slaughterhouse, from packer to grinder, and even from hamburger patty producer to fast food chain. Furthermore, one of the speakers will be directly speaking about food safety issues in contracting. We hope this is just the first of our joint ventures in AAFA.

Sincerely,
Tanya Roberts, Chair
Food Safety and Nutrition Section

For economics of food safety research, see ERS website:
www.ers.usda.gov/Emphases/SafeFood/

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