

Policy Pennings by Dr. Daryll E. Ray

Concreteness is often misplaced

The President of the United States recently released his budget for the coming fiscal year. The deficit, not including the costs of maintaining the military in Iraq and Afghanistan, runs to \$521 billion. That number got me to thinking again about the World Bank report that projected that the people of the world would enjoy a benefit of \$514.7 billion in the year 2015 if the nations agreed to adopt a given set of trade liberalization policies.

In 2000 we had a budget surplus of \$236 billion and rising. The ten year projected budget surplus ranged between \$837 billion and \$1.873 trillion. It seemed like the federal budget deficit was a thing of the past. The talk was that of allowing you, the taxpayer, to keep more of your money and thus the two tax cutting packages. September 11 happened and at the same time the dotcom bubble burst and the economy began to take a tumble. Unforeseen costs were incurred and the federal budget was suddenly back into the red.

It the last column we talked about the fallacy of composition, reminding ourselves that the income benefits that accrue to one farmer who increases production may not be there when all farmers increase production. This week, the problem I have written about in the first two paragraphs illustrates what Alfred North Whitehead called the fallacy of misplaced concreteness. In projecting a budget surplus of \$837 billion or even \$1.873 trillion, one has to make a number of assumptions about future events like the rate of growth of the economy, whether or not there is a war, changes in the cost of medical care, and on and on the list goes. The fallacy of misplaced concreteness comes in when one forgets about the uncertainty behind the numbers and treats the projected surplus as if it were real money in the bank. That is, we treat the projection as being much more concrete than it really is.

If we could be so far off on the U.S. budget which is so much closer to us than the elements of world trade, how secure is the \$514.7 number? Can it vanish in the wind of unforeseen events like a war or an economic downturn? Is the \$514.7 number subject to the fallacy of misplaced concreteness? After all the number represents a mere 1.3% of the projected global economy in 2015. The answer is an unqualified YES. The fact is that the \$514.7 number appears to be much more concrete than it may be in reality.

In previous columns we have identified a number of assumptions that may not turn out to be true at all. The first assumption is that there is no such thing as involun-

tary unemployment. Tell that to the Levi plant workers whose jobs have been shipped out of the U.S. Likewise, the \$514.7 in economic gain is contingent upon the European Union not making any changes to stem the loss of over 60% of its production of wheat, rice, oilseed, sugar, and other grains. Similarly, to achieve the gain, China would have to allow the loss of 40% of its wheat and other grains production and over three-quarters of its soybean production. The numbers in the report are in part contingent upon the European Union's and China's willingness become massive importers of foodstuffs.

To treat the \$514.7 as an absolute certainty is to engage in the fallacy of misplaced concreteness. I would argue that we should treat the World Bank report as a useful contribution to a discussion of the issues surrounding the liberalization of global trade, particularly as it pertains to agricultural trade. Properly analyzed, the report forces us to look at a number of issues that must be answered during the discussion of trade liberalization policies:

- What will happen to the millions of peasant farmers in countries like China if China were to become a food importing country? Are the financial adjustment costs of this displacement accurately reflected?
- What will happen to the hundreds of thousands of small farmers in places like the European Union if three-quarters of agricultural acreage is no longer used to produce crops? Or is it just assumed that gainful employment will be available for all?
- Given the uncertainties of the current geopolitical scene, is it realistic to believe that countries will voluntarily become dependent upon imports for the most vital of all goods – food?

All this is to remind us to be careful to watch out for the fallacy of misplaced concreteness. We must remember that economic models like the one used to produce the World Bank report may be most valuable not for the answers they give, but for the questions they raise. In that sense their report has been of benefit to all of us.

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