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# Eliminating Roadblocks to Greater Productivity - Government

by
Ronald D. Knutson
Administrator, Farmer Cooperative Service
U. S. Department of Agriculture
Washington, D.C.

The author outlines three steps the government should pursue in helping to improve productivity in the food industry. The three areas government could be effective are: deregulation, removing barriers and research.

The importance of productivity in today's political economy should not be underestimated. All economic forces appear to be pushing up food prices. Continual higher fuel costs push farm production, processing, heating, lighting and transport costs upward. Secondary effects of higher fuel prices extend to costs of fertilizer and packaging.

Department of Agriculture efforts to encourage full production have been thwarted by bad weather. We are beginning to feel the effects and costs of environmental programs overcompensating for past mistakes.

Labor attempts to keep up with the rapidly rising cost of living by demanding wages that anticipate further inflation.

All the while, productivity lags. President Ford's economic message suggests pressure will intensify for increased productivity. After all, this seems to be one of the few ways we can fight inflation without risking a recession. Pressure for increased productivity will increase as the economy slackens, costs rise, and profits fall.

What can the government do to increase productivity in industries?

Three general categories of actions government can take are to: (1) make sure none of its programs contribute to the problem; (2) create an environment that removes barriers to increased productivity; and (3) foster the development of productivity increasing technologies.

## Deregulation

The most immediate action government can take is to make sure more of its programs are not inhibiting productivity increases.

For a number of years, the Department of Agriculture was riddled with a combination of contradictory programs having productivity enhancing and suppressing effects. Land retirement programs designed to limit production are an example of counterproductive programs.

One of the Department's programs attacked in recent years as counterproductive is marketing orders. These orders exist for milk and several fruit and vegetable products. For milk, the orders set producer prices. For fruits and vegetables, they contain provisions regulating the quality and flow of products to market.

Since the early 1970's, the Department has taken a staunch position against

marketing orders that control the absolute level of marketing. Over time, the Department has been increasingly concerned about the consumer impacts of marketing order provisions. Policy questions today involve weighing the favorable effects of orders on increasing the uniform quality and stable flow of products to market against the orders-price-enhancing effect.

Tendencies to overregulate business are not limited to the Department of Agriculture. In fact, I would argue that the Department has done a better job of adjusting its programs to increase productivity than most other government agencies.

Overregulation of transportation is an example of particular significance to the food industry. In the case of trucks, new regulated carriers are not granted licenses to operate if an existing carrier will suffer a loss of business. Rate structures established by ICC rapidly become outdated and act as a barrier to adjustments in competitive forces. The system lacks incentive for maximum use, existing capacity, and rapid turnaround of equipment. Rail cars spend an undue amount of time empty in transit to their owner.

Since 1967 rail rates for fruits and vegetables have increased more than 50 percent. Yet it takes longer to move these products from the West Coast to New York City than it did 20 years ago. Regulation has demonstrated an inability to come to grips with the problem of ensuring an efficient transportation system. I suspect this isn't the only case of overregulation. It could likely be found also in the Federal Trade Commission, Tariff Commission, Federal Power Commission, Federal Communications Commission and so forth.

Overregulation is not limited to the Federal establishment.

Deregulation in the wholesale and retail fluid milk industry by state governments is long overdue. Latest tabulations indicate that 18 states still have legislation on the books that enables regulating wholesale and/or retail milk prices. In 18 additional states practices processors and retailers use in merchandising milk and its products are extensively regulated. In each case, the demonstrated effect of these regulations has been to retard innovation, encourage collusive activity, and thus raise prices. Enough barriers to competition exist without the contributions of government.

Today the costs of environmental regulations are more apparent than ever. We appear to be somewhat more willing to consider those costs in promulgating environmental regulations. The frenzy associated with the zero tolerance movement of the late 1960's and early 1970's appears to have subsided.

Yet environmental pressures will continue. The extent to which the resulting regulations reflect economic as well as social costs and benefits will depend on how good we are at providing the needed input.

We need to sharpen our pencils, our techniques of analysis, and our knowledge of alternatives being proposed. A close working relationship between business and the research community is an essential ingredient to improved analysis and decisions.

## Removing Barriers

If it has the will, government can be instrumental in removing barriers to increased productivity that exist in the private sector. In my opinion, a three-prong program is needed: first, a method must be established for identifying where barriers to increased productivity exist. Two years ago, I served on a task force to identify opportunities for increasing productivity in the food industry. I was impressed by the list developed for each major agricultural commodity. I therefore, don't view

the development of ideas as a major problem.

The problem is in the second step--getting the ideas implemented. Innovations do not occur automatically. There is always resistance to change. The change may adversely affect labor. The benefits of change may not go where action is required. For example, railroads will not likely initiate renovations if retailers are the prime beneficiaries and transport rates are fixed. In any event, someone must be responsible for initiating projects identified as having a high payoff.

But even this may be insufficient to bring about change. The greatest barrier, in my opinion, exists because of the adverse impact technology has on labor. The result is organized resistance to innovation by labor's representatives.

I suffer from no illusions about the difficulty of accomplishing change where organized labor is involved. When I went to the Commission on Productivity I thought I knew all the arguments that would put labor down. I found that labor representatives had not only thought through the arguments but also the answers. I also found that they had more political clout than either government bureaucrats or business. I found a reluctance on the part of anyone to really challenge labors position.

Labor must be compensated for hardships resulting from technological change. Yet experience indicates agreement on the appropriate compensation does not come easy. Therefore I see the need for a third step.

If we are really concerned about productivity, more emphasis needs to be placed on productivity bargaining. This concept can be applied in a number of ways. One proposal involves employer identification of barriers to increased productivity imposed by technological change or labor contract restrictions. With the demonstration of substantial cost savings and without resolution in the regular negotiation process, the dispute would be subject to arbitration. Arbitration would be designed to reach a solution that fairly compensates labor for losses due to technological change while allowing the innovation to take place. If such a program were instituted, public programs probably would be needed to retrain displaced employees.

Research

The third major action government can take to ensure opportunities continue for increased productivity in agriculture involves expanded support for research with a productivity orientation. The Department of Agriculture and the Land-Grant University system have developed a reputation for having the best agricultural research establishment in the world. The vast majority of this research is oriented toward providing a continual infusion of new technology into agricultural production, processing, transportation and retailing.

In recent years, however, appropriations for agricultural research have not kept up with inflationary pressures. Instead, Department of Agriculture resources have been shifted to consumer welfare programs to the extent where more than 65 percent of the USDA budget now falls in this category. The states have experienced similar pressures. This trend toward reduced levels of publically supported research must be reversed if we are to fulfill consumers' desires for an ample supply of food at reasonable prices. But we can't just ask for more resources. We must see that we are efficiently utilizing existing resources. Are we putting our resources into areas where potential gains in productivity are the greatest? Are we employing our resources with the necessary critical mass to get the job done? Maybe even more important do we have the delivery system to get the results of our research implemented? It is my impression that we have done a pretty good job of getting production research implemented. I'm

not as confident with respect to processing, transportation and research of either a technical or economic orientation. In marketing the researcher may need to work more closely with firms in developing technologies. More importantly he may need to assume more responsibility in getting it implemented. This may call for a restructuring of extension-research responsibilities in the marketing area.

## Concluding Remarks

In the final analysis, productivity is fostered by economic stability. Consistent advances in productivity are more easily attainable if the plan is consistently operating at or near full capacity. Cycles of inflation and recession accelerate the need for governmental aids to increase productivity. We are in such a period.