THE IMPACT OF DEREGULATION IN AGRICULTURE: COMMENTS*

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The organizers of the conference are to be commended for scheduling this important session on the "Impact of Deregulation on Agriculture."

Comments on the Meekhof Paper.

Mr. Meekhof presented a good discussion of the effects of deregulation on energy, pesticides and credit. He documents concisely what happened when the U.S. abandoned its "system of organized waste" of energy, partially deregulated petroleum prices and permitted energy prices to rise significantly to better reflect the relative world scarcity of liquid fuels. Mr. Meekhof tells us that the price increases resulting from decontrol have also "spurred the potential development and widespread use (emphasis supplied) of alternative fuel sources such as biomass, coal and shale liquids, and solar devices. I submit that it may be premature to make such a claim. But that is a small, arguable point.

Mr. Meekhof tells us that many analysts believe that a threefold increase in natural gas prices is possible by 1985. This, he reports, could cause about a 70% increase in the price of anhydrous ammonia and raise corn production costs by about 15¢ per bushel by 1985. Mr. Meekhof cites several good reasons why natural gas prices may not record a threefold increase by 1985. His reasons convince me that the "many analysts" he refers to may be overestimating the rise in natural gas prices in prospect during the next few years -- especially since there appear to be some impediments to accelerated decontrol of natural gas prices.

Mr. Meekhof describes the familiar story of how regulations have increased the time required to introduce new pesticides into the market and reduced the number of products introduced. His

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prognosis is that pesticides will continue to be reviewed and further restrictive actions are likely. Then, however, he makes this significant observation: "However, some of these (restrictive) activities have already slowed down, and they will probably be less vigorously pursued in the coming years. The EPA is relying more on informal negotiations with chemical companies to voluntarily withdraw uses with questionable safety aspects." These seem to be important developments. I wish that he had told us more about them.

Comments on the Ford Paper

I think that we have a better idea of the scope and purpose of the USDA's work on deregulation after hearing Mr. Ford's comments.

Mr. Ford provided me with copies of issue papers which formed the basis for some of his remarks. My comments are based partly on those issue papers.

Food Safety. This is doubtless one of the most complex and controversial of the deregulatory issues. The concerns regarding food safety are very sophisticated. There is concern over whether a particular chemical when eaten over a lifetime will increase the incidence of cancer in the Nation, whether the migration of a few parts per trillion of a particular chemical used to make a food package into the food itself will be harmful to the health of consumers, and the extent to which the Delaney clauses have become unworkable because of technology that permits detection of extremely minute traces (a few parts per trillion) of a chemical. Mr. Ford has given us a greater appreciation for the food safety issues. The working groups within the USDA and elsewhere in government who are examining whether and how food safety laws and regulations should be changed have a complex and important task before them.

Grain Inspection. Recently a substantial cut was made in the Federal Grain Inspection Service (FGIS) and the financing of grain inspection services by user fees was increased. The Washington staff of the FGIS was reduced by 77 people, the field office staff was cut by 262 people and five regional offices were closed. The issue paper I examined indicated that these reductions were made partly because of an "industry perception that the FGIS was overstaffed, unresponsive, costly and that it conducted programs beyond the intent of its legislative authority." I could not determine from the issue paper whether the "industry perception" regarding the FGIS accurately reflected the actual performance of the organization. One hopes that appropriate benefit-cost calculations were made before the FGIS was cut since, as Mr. Ford knows, the USDA's grain inspection activities were expanded just a few years ago to deal with some very substantial problems.

Agricultural Marketing Service (AMS) Regulations. The issue paper that I received from Mr. Ford regarding the AMS indicates that the Agency attaches importance to regulations that improve the quality, accessibility and timeliness of market information used by private decision makers. This in my opinion is a highly defensible priority.

The AMS issue paper also contains a key sentence which says "...agricultural regulations can be categorized according to whether they correct economic inefficiences or address inequities in the distribution of rewards." Clearly many agricultural regulations were designed originally to do one or both of these things. Marketing orders, for example, were designed to do both. Moreover, the price discrimination provisions of certain marketing orders can be regarded as mechanisms which "address inequities in the distribution of rewards" by increasing producer incomes. Now emerges a dilemma: How does one justify such dual-purpose regulations when there are no longer many inequities in the distribution of rewards to correct? Can such regulations be justified by their contribution to efficiency alone?

When I ask these questions I imply of course that commercial farmers who sell products under marketing orders are no longer an economically disadvantaged group. I conclude this from Bruce Gardner's findings. Gardner reported that "Commercial farmers and their families are not an economically deprived group. Their combined farm and off-farm incomes average more than twice the amount of the average income per family in the United States (2, p. 7)."1/

I am pleased that Mr. Ford could share with us information on the latest USDA initiatives regarding Federal marketing orders for fruits and vegetables. The transmittal of the report of the study team to the Vice President, the identification of certain problem provisions in the fruit and vegetable orders, and the announced plan to develop new policies for administering the orders represent important first steps. We look forward to additional initiatives by the USDA in this important area. It may be useful to consider the implications of the dilemma described above as the subsequent initiatives are undertaken.

1/ The context suggests that Gardner regards commercial farmers as those with sales of $40,000 or more per year.

Implications of Deregulatory Initiatives

I will raise a few questions and make a concluding observation on deregulation of agriculture in my remaining comments.

As our speakers suggested, regulations affecting agriculture are receiving additional scrutiny under the President's Regulatory Reform Program. For example, the Office of Management and Budget (OMB) in implementing the President's Executive Order on Regulatory Reform, has said that major regulations proposed by government agencies should be accompanied by a regulatory impact analysis which shows that (1):

- There is adequate information concerning the need for and consequences of the proposed action.

- The potential benefits to society from a proposed regulation outweigh the potential costs.

- Of all the alternative approaches to the given regulatory objective, the proposed action will maximize net benefits to society.

I believe that the criteria in the OMB directive provide a useful way to view proposed regulations. These criteria doubtless will produce fewer and better quality regulations. But how does one operationalize the criteria when dealing with complex regulations of the type described by Mr. Meekhof and Mr. Ford.

There are ways to make a "first cut" identification of regulations that are most likely to satisfy the criteria. A regulation is most likely to meet the criteria if there are "externalities" and "public goods" involved. When externalities exist, costs are imposed by market outcomes upon persons who are not directly involved. "Public goods" are products or services that can be cheaply appropriated by many. Private, profit seeking firms often have little incentive to produce items possessing the characteristics of a "public good."

Thus, EPA regulation of environmental damage from feedlots and pesticides might be justified because of externalities. Fruit and vegetable marketing orders might generate high quality statistics that are "public goods." Labelling regulations for food products also might provide useful "public goods." However, economic regulations are multi-faceted. Thus, a marketing order may provide information which is a "public good" but also restrict supplies, which may be an economic "bad". Also, a labelling requirement may provide information which is a "public good" while discouraging use of new technology, as was apparently the case with the labelling requirements for mechanically deboned meat.

How does one deal with the problems created by the multi-faceted character of regulations? Will it be necessary to rely almost exclusively on judgements based on unquantifiable considerations to determine whether a regulation produces net benefits for society? Are there ways that costs and benefits for complex regulations affecting agriculture can be quantified? I hope that Mr. Ford and Mr. Meekhof will comment further on these complex questions.

Gardner (2, p. 129) observes that de-regulation of farm commodity markets will be strongly resisted by producers. He reports that this is partly because producers discount the chances that private-market institutions would assume some of the risk-mangement services that are now being provided by government. Thus, he argues, it is important for the government to avoid overregulating the institutional innovations that are presently occurring in forward pricing, contracting, insurance, risk-sharing, and marketing of farm products and that the ban on trading in commodity options should be relaxed.

Gardner's comments raise broader issues. First, his comments suggest that it is more feasible to avoid putting bad new regulations into effect than to eliminate regulations which have undesirable characteristics. This has obvious implications for regulatory policy. Second, it is important to avoid regulations that interfere with the ability of producers to deal with the important new risks they face because of their closer association with the nonfarm economy. These points can hardly be overemphasized.

References

1. Executive Office of the President, Office of Management and Budget, "INTERIM REGULATORY IMPACT ANALYSIS GUIDANCE," memo issued on June 13, 1981.

2. Gardner, Bruce L., The Governing of Agriculture, Lawrence, Kansas: Regents Press of Kansas, 1981.