Neil E. Harl on

Nine Principles and Three Questions for Thinking About Agricultural Overproduction

This article is adapted from summary and closing comments by Professor Harl at a recent conference in Plymouth, England, co-sponsored by the Comité Européen de Droit Rural and the American Agricultural Law Association in collaboration with the Agricultural Law Association of Great Britain.

We have serious problems of overproduction in the world, and the problems will likely grow worse. Indeed, the problems may become substantially more serious over the next two or three decades. Biotechnology promises to produce a number of developments that will increase output or decrease cost or both. It promises to revolutionize two areas—human medicine and agriculture. In all likelihood, agricultural output from new technology in the next few years will increase at twice the rate of recent time. In the United States, the domestic demand for food increases only a little faster than population. That increase has been less than one percent per year in recent years.

We should never forget that overproduction in basic foodstuffs should not be viewed as the greatest concern of the human family. As we look at the broad sweep of history, adequacy of foodstuffs has been a far greater concern. Overproduction is now burdening all of our countries and we must double and redouble our efforts to ease budgetary impacts. But the great challenge is in developing strategies for managing the blessings of overabundance.

The problems of overproduction, great as they are, pale by comparison with problems of widespread food shortages, starvation, and malnutrition. It is the paramount obligation of the agricultural sector to see that foodstuffs are produced in quantities adequate for the needs of the human family. The great problem today in terms of world hunger and malnutrition is the lack of effective demand in an economic sense by those suffering from the effects of food shortages, not the lack of food in the world.

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Nine Planning Principles

I would offer to you for reflection nine points expressed in the nature of principles to guide an overall planning effort, dealing with agricultural overproduction.

1. Overproduction is likely to occur if producers are assured a price for their products above fair market value. With a high price assured, producers are willing to produce more than consumers are willing to demand. In actuality, producers produce more and consumers demand less than would be the demand-supply relationship at fair market value. This principle knows no national boundaries.

2. Limitations on production are necessary as surpluses arise as a result of the price assured to producers being above fair market value. This is as true in Italy as in the United States; as true in Canada as in Denmark; and as true in England as in New Zealand.

3. Producers have an almost infinite capacity to circumvent limitations on production. Cleverness is not confined to the British or the French or the Dutch.

4. Absent distortions in price from price support programs, the lowest-cost producers will ultimately prevail. This is disturbing to those who would like to influence the structure of agriculture through economic intervention. Even with price support programs, producers with the greatest profitability have the greatest capacity to acquire land and other means of production and so will ultimately prevail unless rigorous and complete limitations are imposed on expansion.

5. The most efficient allocation of resources occurs when farmers produce for the market rather than for government payments. This is important and worthwhile dictum even for those of us who honor and respect the market even though we do not always “worship at that shrine.”

6. In every country, whether it is the United States, the United Kingdom or otherwise, consumers pay two amounts for food: (a) the amount paid at the store or other point of purchase, and (b) the amount paid through taxation to assist in stabilizing the agricultural sector. In some countries, intervention efforts influence price with more exacted from the consumer than would otherwise be the case. In others, the price of foodstuffs is relatively lower with a greater part of farm income coming from government payments. The total cost for food can only be ascertained by taking both amounts into account.

7. It is more expensive (from the standpoint of expenditure of public funds) to maintain farm income, in the face of inelastic demand for farm commodities, if price is permitted to drop to low levels. In that situation, relatively less comes from consumers and relatively more comes from the government. This is a lesson learned by the United States in the 1930’s and is being relearned today. Solutions are less costly to government that involve limitations on production with accompanying rises in commodity price.

8. Diverting land from production to deal with overproduction tends to encourage a higher price for land and, consequently, greater use of non-land inputs. This is a subtle result of land diversion programs but with profound implications for the environment as heavier use is made of commercial fertilizer and chemicals and other manufactured inputs.

9. As we evaluate alternative solutions for dealing with overproduction (in a sector with inelastic demand and so many producers that no single producer can influence price with output decisions) it is clear that a global approach is needed if the downsizing of agricultural sectors is to be rational, equitable, and effective. A coordinated international ef-

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fort is needed to harmonize policies affecting agriculture and the demand for food with particular attention to: (a) trade limitations, (b) conservation and environmental policies, (c) Third World debt problems, (d) Third World development efforts, and (e) policies relating to food security and necessary reserve stocks.

Three Questions for Economists

Finally, I would raise three questions for further consideration, perhaps at future conferences or in the journals.

1. Should we be making a greater effort to decouple income support for farmers from production? We know that raising price to farmers to influence farm income distorts resource allocation with incentives provided to farmers to overproduce. Decoupling, however, is not likely to be easily accomplished. Farmers tend to want to "earn" their income and severing the connection between income and level of production is not in accord with that desire.

2. Should we be less protective of the development of agricultural lands for nonfarm residential or other nonfarm uses when agricultural production is in global surplus? Housing costs and other development costs could be reduced if restrictions on land development were eased and a greater supply of land were to be made available for development. Although the economic effects on farm program costs would not be large, the trend would be to reduce production and lower the costs of government farm programs.

3. Can we continue to cope with the rapidly escalating complexity of the legal structure needed to implement programs to deal with overproduction?

To the extent that we depart from market determinations, the legal structure must answer five important questions for the law to serve as a partial or total substitute for market forces.

—What is the appropriate scope of the regulation—should it be a wheat program, a cereal grain program, or a total program of land use (limiting the production of one crop may tend to increase production of another unless that is precluded)?

—What criteria should be applied—should the objective be economic efficiency or should other goals be included or even be dominant?

—At what level should limitations be imposed—a local level, national level, or the level of a group of countries?

—Over what planning period or "planning horizon" should farm program decisions be made?

—What means should be utilized to implement intervention programs—quotas, land diversion, subsidies, or a combination?

It is important to note that resource allocation stemming from operation of the market answer all five questions automatically.

A substitute system is necessarily complex and generally grows more complex over time. I fear the awesome complexity that will be needed to implement intervention programs as economic pressures build within a country.

In the past decade, the United States has experienced the blowing of the winds of deregulation as efforts have been made to reduce the level of government regulation in several sectors including transportation, communication, and finance, to mention three of the major targets for deregulation efforts. Much of the impetus has come from the belief that deregulation improves efficiency and thus benefits consumers with lower cost goods and services.

It has been a stated objective of the current administration in the United States to do the same for agriculture. Ironically, the U.S. Government is more deeply involved now in agriculture in terms of influencing decisionmaking than in any time in the past half century. At least for the United States, complete deregulation now would probably lead to short-run economic disaster.

It is well to remember, however, that we can depart from market solutions only with political support. If we lose that, the market approach will prevail.

In Conclusion

We should not forget or lose sight of the role agriculture has played in economic development. Originally, all of us were involved in food production. Then it was 80 percent, then 60 percent, then 40 percent, and now much less than five percent in some countries.

The reason we have the standard of living we now enjoy is because agriculture needs fewer resources. So we can fly to the moon, engage in medical research, and do all manner of other interesting things because agriculture no longer commands much of society's capital and most of its labor. That has been an immensely important factor in economic development. While the contributions of agriculture to economic development will not be as dramatic over the next half century as over the past 50 years, the question of agriculture's contribution to a higher standard of living is not likely to be insignificant in many countries.