THE MAGAZINE OF FOOD, FARM, AND RESOURCE ISSUES

CHOICES

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Findings

What agricultural and resource economists are finding about food, farm and resource issues.*

- Federal crop insurance increases rather than decreases farm chemical use, in contrast to what policy makers concerned about water quality, wildlife kills, and health and safety hazards had hoped — say Horowitz and Lichtenberg.
- Terminating farm subsidies may cause the rural economy to suffer, but it also may expand some rural manufacturing and extractive industries, and the gains in the urban economy outweigh rural losses — says Kilkenny.
- Adoption of semi-dwarf wheat varieties with high grain yields has been slow in some developing regions because they produce little of the needed straw — say Traxler and Byerlee.
- Water-supply option contracts, sold by farm holders of water rights, can in many cases ensure urban water supplies during drought years at a lower cost than purchase of water rights, and still maintain the agricultural production base — say Michelson and Young.
- Net increases in farm income from government policies go to landowners rather than farmers — say Kuchler and Tegene.
- The value of forests for multiple uses (for timber, recreation, grazing, etc.) may be increased if different forest areas each produce one product (only timber or only recreation, for example) rather than if each forest area is managed for multiple uses — a finding in contrast to the prescriptions of the "new forestry" — say Vincent and Binkley.
- The most favorable policy for major environmental problems like NIMBY (not in my back yard), LULU (locally unwanted land use) and facilities citing is one which compensates the victim for accepting the undesirable impact — says Geaun.
- In contrast to the conclusions of many scientists, greenhouse gas abatement policy to slow global warming and improve society's welfare should proceed slowly and become more stringent only in the future as the warming problem worsens — say Falk and Mendelsohn.
- Soil erosion from farms, and particularly low-wealth farms and farms in developing countries, may be greater during times of financial stress — say Ardila and Innes.

*Findings are taken from soon-to-be published research in the *American Journal of Agricultural Economics*, *Journal of Agricultural and Resource Economics*, *Review of Agricultural Economics*, *Journal of Agricultural Economics Research*, *Journal of Agricultural and Applied Economics*, *Agricultural and Resource Economics Review*, *Land Economics*, *Journal of Environmental Economics and Management*, and other journals which publish the research findings of agricultural and resource economists. Abbreviated citations are found on page 29.

ON OUR COVER—Artist Rini Twait portrays an idyllic rural scene with wildlife, livestock, forests, crops, and us—the users of the land—in colorful harmony, perhaps the way it was once (at least in our minds) and our hope for the future. Key articles in this issue discuss the economics and the ethics of land and natural resource use.

Guest editorial: NAFTA, public education, and policy gaps

G. Edward Schuh, Dean and Professor, Humphrey Institute of Public Affairs, University of Minnesota

The ongoing saga of NAFTA and the misinformed public debate about its possible effects reflect badly on the state of knowledge of our citizens about international trade issues. Clearly, some of the opposition to this proposed initiative in economic integration comes from those who have strong vested interests in the outcome of the Agreement. The sugar producers and the Florida citrus industry come to mind. However, much of the remaining debate reflects both a lack of knowledge of some of the critical issues and an important gap in the policies we use to promote economic adjustment within our economy.

One of the serious gaps in our knowledge is the failure to recognize that trade liberalization is its own reward. The countries of Latin America, who tried for so long to develop their economies behind protectionist barriers, have finally learned this important lesson. Countries as disparate as Argentina, Chile, and Mexico have unilaterally lowered their barriers to trade, having painfully learned the lesson that protectionism leads to lack of efficiency, loss of vigor in their economy, and economic stagnation. This country seems destined to still learn that lesson—painfully.

Another gap in our knowledge, and this one often is a problem with economists as well, is the failure to recognize the dynamic effects of trade liberalization. Most assessments of the effects of NAFTA are made from static models. These models fail to take into account the effects of trade liberalization on economic growth and the effect this growth has in expanding the demand for traded goods and services. Economists refer to some of these effects as general equilibrium effects, but the issue goes far beyond that, to include induced changes in technology and in human capital. These dynamic effects can be expected to literally swamp the static effects usually identified as the benefits of trade liberalization.

Still another gap is the failure to recognize that wage rates are not the only determinant of the cost of production and international competitiveness. The productivity of the labor is also important. Hence, high-wage labor may in fact be low-cost labor, while low-wage labor may in fact be very costly labor. The bottom line on this issue is that high-wage U.S. labor tends to compete very well with low-wage labor in other countries, largely because its productivity is so much higher. The efficiency of our transportation and communication systems is also important in making us more competitive.

The important policy gap is the failure of this country to develop adequate adjustment policies in those cases in which the comparative advantage associated with trade liberalization lies with other countries. Positive adjustment policies, which would help labor to adjust to alternative employments and which would help private firms to develop alternative economic activities, would go a long way toward helping alleviate the political pressures against trade liberalization.

Finally, we generally fail to recognize how trade liberalization can help this nation to be more competitive in international markets. By helping us to lower our own costs of production, trade liberalization enables us to compete more effectively with producers in other countries. An important example of this is the increase in costs the continuing protection of the U.S. steel industry imposes on the rest of our economy.

The bottom line is that Congress should ratify the NAFTA, not as a favor to Mexico, but because it is in our own best interests. Protecting our economy will not raise the standard of living of our citizens. The only way we can do that is to invest in the human capital of our citizens and thus raise the productivity of our labor force.

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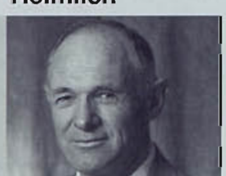
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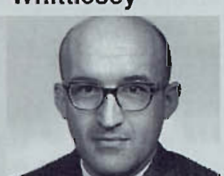
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