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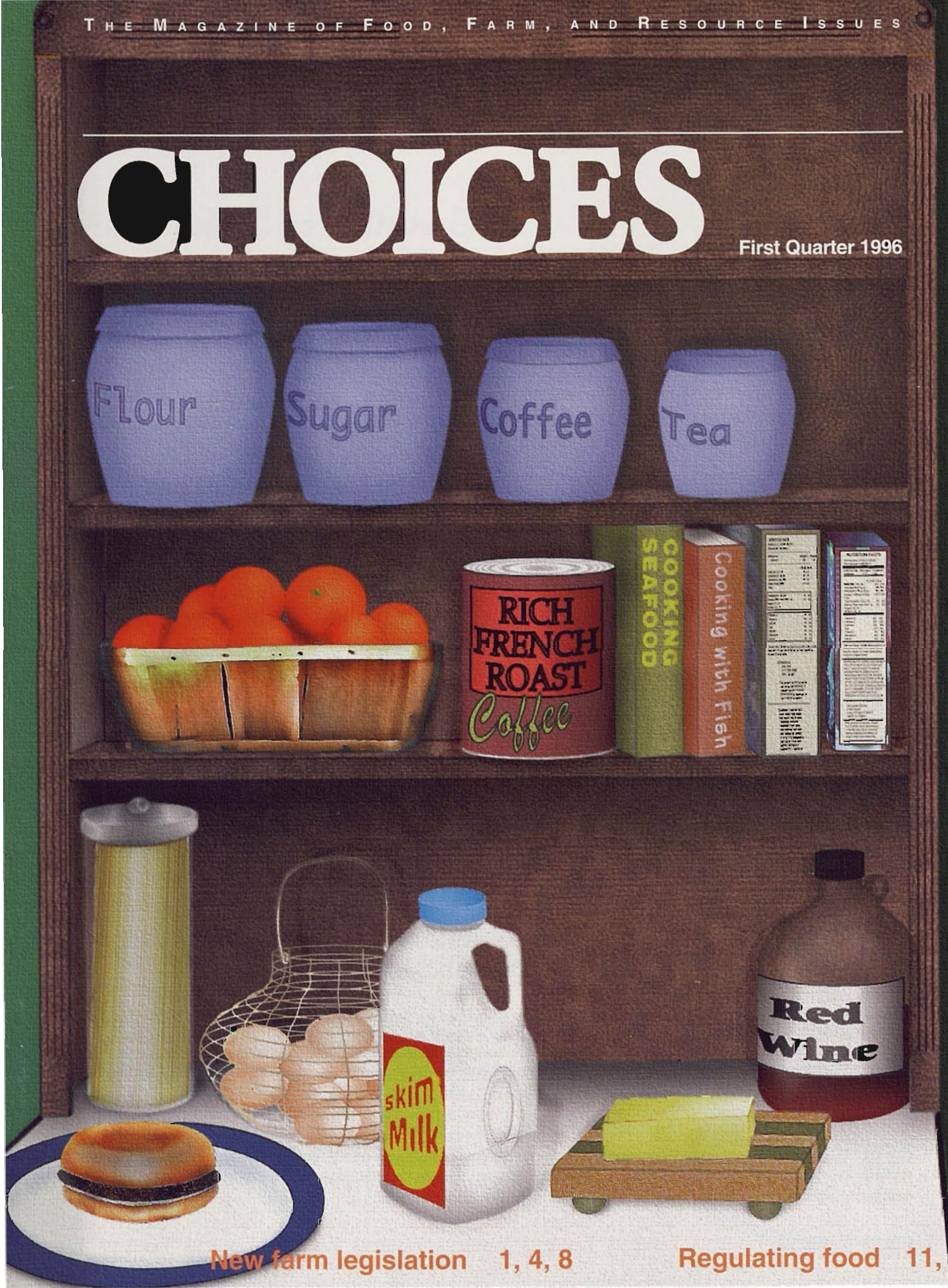
THE MAGAZINE OF FOOD, FARM, AND RESOURCE ISSUES

# CHOICES

First Quarter 1996




New farm legislation 1, 4, 8

Regulating food 11, 14

## Findings

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

- In descending order, the week of sale, type of melon, year, size, grade, and shipping container affect the price growers receive for their melons—says Tronstad.

- Over the last thirty-one years, the combined real fee and nonfee costs of BLM grazing increased 17 percent for cattle permittees and 29 percent for sheep permittees—say Lambert and Shonkwiler.

- In Illinois, worker compensation and other state laws negatively affect expansion of agribusiness firms, and even current state-sponsored development incentives have little or even a negative effect on agribusiness expansion—say Vesecky and Lins.

- For the flour milling industries in Mexico, the U.S., and Canada, CUSTA and NAFTA have promoted plant consolidation, wider geographical location, and wider procurement of wheat—says Wilson.

- Fluctuating exchange rates increase the risks of doing business abroad, but various strategies including multinational vertical integration, shifts in product mix, and changing contract pricing strategies have proved successful for a Nebraska agribusiness firm that wholesales meat products to Japan—say Conley and Peterson.

- Sophisticated information requirements of the wheat processing industry create pressure to change traditional wheat grading systems, or risk price cuts and/or loss of market share, as demonstrated by Canadian durum sales to Italy—say Braga and Raffaelli.

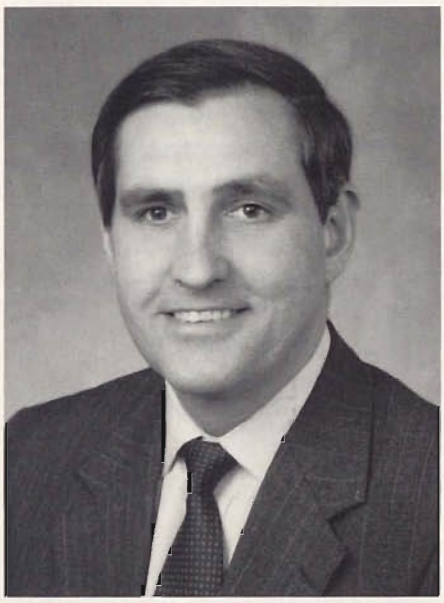
- Even though vine-ripe tomatoes supposedly taste better and cost more to produce and market than mature-greens, producers of vine-ripes do not receive significantly higher prices for them—say Bierlen and Grunewald.

- In Bolivia, policies to control hyperinflation and correct overvalued exchange rates resulted in real economic growth for the economy, including its agricultural sector, and increased agricultural export shares tenfold—say De la Barra, Marchant, and Isinika.

Findings are taken from recently or 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, Agribusiness—An International Journal*, and other journals that publish the research findings of agricultural and resource economists. Abbreviated citations are found on page 44.

ON OUR COVER—Food. New technologies and government regulations aim to protect our food supply, but protection adds to food costs, and often causes controversy. Authors in this issue assess food labeling and food safety regulations.

# *End of the "Agriculture Era"*



*J.B. Penn is senior vice president and head of the Washington Office of Sparks Companies, Inc., an agricultural information and consulting company. He has served as an economic consultant for fourteen years, focusing on economic policy developments.*

Washington's agriculture policy focus for the past eighteen months has been the farm bill. To the surprise of many, the final product will shift agricultural policy into a new era, end the long-enduring concerns about surpluses (and attempts to control them), and create a business-like focus on markets and growth. And, it probably is the last of the periodic farm bills, with their traditional commodity focus. Regardless of the bill's final particulars, the debate this time also produced something much more far-reaching. Arguably, it has produced the end of this country's "agriculture era," and signals the final unwinding of the long-standing but important "social compact" between agriculture and the government created in the 1930s.

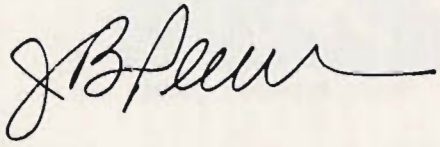
The debate last year came against the backdrop of the "Republican revolution," entirely focused on budget cutting with the ultimate objective of a greatly diminished governmental role in economic life. While the debate began with fundamental questions about farm programs, it resulted in greatly expanding recognition of many factors long known to the agriculture community but not reflected by the political process, thus enabling large federal support for the sector long after most real needs had ended.

Today, economic realities have become abundantly clear to the political process, with it recognizing that *(i)* a very small number of farms with an average net worth of around a million dollars markets most of the food and fiber; *(ii)* farming's role in the rural economies has come to be relatively unimportant in all but a few counties—those among the most affluent; and *(iii)* the farm population has become so small that the Census Bureau no longer enumerates it separately (for the first time since the founding of the country). In short, policy makers recognize that agriculture has "graduated" from a developing to a mature sector, now in little need of public support.

Agriculture already was entering a new era—hastened by increasingly favorable market conditions—with new trade agreements that promise expanding market access, and extensive structural changes that have been ongoing within the sector. It is continuing to shift from the past focus on farming, production, supply and commodities to business, markets, products, processing, and adding value. The environment created by the new legislation will accelerate that shift and alter both the focus and content of future agriculture policy.

The ongoing two-year debate and the law it produces will have even more far-reaching effects. Consider that virtually all of the public support for agriculture, not just the farm programs, is predicated on "helping farmers," or focused around farms and farmers. With already declining public funding, the new business orientation heralds even greater declining public attention for those issues and portends less and less support for nearly all of the institutions built around agriculture. Smaller and declining funding, along with changes in the sector itself, suggest that many of those institutions (and the functions they provide) will cease to exist or be changed drastically. The U.S. Department of Agriculture is perhaps a prime example. A large bureaucracy, with its state and county presence across the country, is hardly necessary to mail checks to farmers twice a year. Research and extension services and the land grant university system have been facing enormous challenges for more than a decade, and that debate, already underway, becomes much more immediate now. Many of the agriculture professions—including agricultural economics—and their professional associations must ask anew the question of who their customer/client base is, and what services are needed.

The challenge is to insure that the adaptation process keeps pace with shifts in the system served so that changes can be incremental. The alternative is to ignore the new environment and thus force the inevitable changes to be more monumental and less constructive.



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**David Orden** is associate professor of agricultural and applied economics at Virginia Polytechnic Institute and State University. He is currently chair of the International Agricultural Trade Research Consortium. His recent research has focused on trade and agricultural policies, and his recent publications include a chapter on the NAFTA agricultural negotiations published in *The Political Economy of American Trade Policy.*

**Robert Paarlberg** is professor of political science at Wellesley College, and faculty associate at the Harvard University Center for International Affairs. He has conducted extensive research on the Uruguay Round trade negotiations, and his most recent publication is *Leadership Begins at Home: U.S. Foreign Economic Policy After the Cold War.*

**Terry Roe** is professor of applied economics at the University of Minnesota, and director of its Center for Political Economy. His research interests include endogenous growth, health and environmental economics, and applied general equilibrium modeling.

**Carl Zulauf** is an agricultural economist at The Ohio State University. Zulauf is an award-winning teacher. His recent research focuses on agricultural policy and futures markets. In 1985, Zulauf was a Congressional Fellow in the office of Senator John Glenn.

**Luther Tweeten** is Anderson Professor of Agricultural Economics at The Ohio State University. He is former president and a Fellow of AAEA. He has emphasized regional, national, and international development, policy, and trade analysis in the books and articles he has authored or coauthored.

**Paul B. Thompson** is professor of philosophy and of agricultural economics at Texas A&M University, where he is also director of the Center for Biotechnology Policy and Ethics. He is the author of *The Spirit of the Soil: Agriculture and Environmental Ethics.* He serves on the U.S. Department of Agriculture's Agricultural Biotechnology Research Advisory Committee.

**Jean Buzby** is a research specialist with the University of Kentucky. She is stationed at the Economic Research Service to perform research on food safety issues using contingent valuation and cost-of-illness methods.

**Tanya Roberts** is a senior economist with the Economic Research Service. She currently works on assessing risks from pathogens, improving data on pathogens throughout the food chain, and estimating the costs and benefits of pathogen control options.

**Scott Rozelle** is assistant professor in the Food Research Institute at Stanford University, and is senior policy advisor to the China Center for Agricultural Policy, one of China's lead-

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**Mark Rosegrant** is a research associate in the International Food Policy Research Institute. His main research interests include analysis of source of agricultural productivity growth, dynamic supply response, modeling of Asian and global food markets and trade, agricultural investment and pricing policy, and irrigation and water resources policy.

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**Michael Boehlje** is professor of agricultural economics at Purdue University. He was a member of the faculty at the University of Minnesota, and served as head of the department from 1985 to 1990. Prior to moving to Minnesota, he was professor of economics and assistant dean of the College of Agriculture at Iowa State University.