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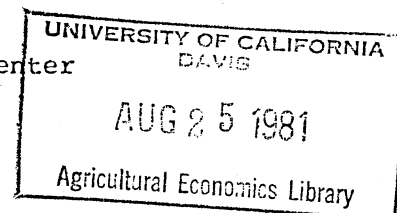
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AGRICULTURE

1981

notes

Industry Banquet, Jervay Athletic Center
AAEA, Clemson University
Monday evening, July 27, 1981
Gary Seevers, chairman



THE SCARCITY SYNDROME, by Don Paarlberg,
(don't exceed half an hour)

- I. Greetings. Industrialists and academics good for each other.
- II. Two projections are offered for U.S. agriculture in the years ahead, the Surplus Scenario and the Scarcity Syndrome.
 - A. The Surplus Scenario (fading but still strongly held by some groups).
 1. Too many resources committed
 2. Inability to withdraw resources
 3. Overemphasis on technology
 4. Highly competitive nature of the industry
 5. Inability of price to allocate resources
 6. Supported by a body of thought
 - a) Treadmill
 - b) Overproduction trap
 - c) Scholarly studies of the 1960s showing that if commodity programs were dropped, net farm income would decline by one-third.
 - i) Actually, when we dropped them, net farm income rose.
 7. The surplus assessment says agriculture is prone to:
 - a) Overproduction
 - b) Low prices
 8. So need for strong government role in pricing and production of farm products.

B. The Scarcity Syndrome (growing; becoming the conventional wisdom).

1. Overseas needs

- a) Population
- b) Rising incomes
- c) Upgrading diets
- d) Inability of foreign nations to supply needs
- e) Hence heavy draft on U.S.

2. Limitations on U.S. capacity (impressive list)

- a) Retired acres in use
- b) Cropland paved over. 3 million acres.
- c) Erosion
- d) Gasohol
- e) Research lags and productivity tapers off.
- f) Climatic changes
- g) High energy costs
- h) Environmental restrictions
- i) Water
- j) Implicit or explicit in many research studies
 - i) "It will help arouse interest in the problem"

C. An aside: Should we rate research?

GI. (good intent)

SS. (support of sponsor)

PG. (professional guidance)

WG. (without guile)

X rated. (none yet)

- i) May suggest this to Ed Schuh

III. Examination of Surplus Scenario

A. Great reservations as to past and prospective validity

1. "Surplus" of the Depression.

a) The mindset: price was low so there must be a surplus.

b) Production first 5 years of depression

2% less than preceeding 5 years.

2. "Surplus" result of price policies.

a) Fundamental economics

b) Cotton:

	<u>1928-30</u>	<u>1976-77</u>
U.S. prod.	14.4	12.6
Foreign prod.	12.2	49.2

3. "Surplus" assessment became self-fulfilling.

a) Assessment appeared to have been validated.

4. Problem was not a surplus of commodities;

it was a dearth of money.

IV. Examination of the Scarcity Syndrome

A. Similarly what the public now sees as the high price of food is

not the consequence of a dearth of food;

it is the result of an excess of money.

a) This provides the mindset.

b) Production 1978-80: 6% above 1975-77

c) Error comes from trying to use commodity programs

to deal with problems caused by inept fiscal and monetary policy.

B. The surge of exports beginning in 1972 was not the time when overseas population first began to grow; it was the time when we dropped production controls and began pricing our export crops competitively.

C. A look at the evidence offered in support of the assessment that our productive capacity will be strongly challenged.

a) Retired acres: 127 million more; 25% increase

b) Paving over: 675,000. 2 tenths of 1 percent.

c) Erosion

d) Gasohol. Wipe out \$500 million in loans of \$525 million.

e) Research. Count only traditional. One fifth of one third of the total

i) productivity continues to rise.

f) Climate. Can't tell.

g) High energy cost. Agriculture efficient.

h) Environment. Cries denote alarm, not injury.

i) Water. Real problem.

D. Great reservations as to the new conventional wisdom.

1. Trend in real farm prices.

a) After decades of decline might check the rate of decline, level off, or rise slightly.

E. The Scarcity Syndrome could become self-fulfilling in the form of a cheap food policy.

1) Fundamental economics

2) The techniques are known

3) Some countries have done it.

V. Surplus Scenario and Scarcity Syndrome seem totally different.

Yet they have identical central themes.

A. They abstract from the influence of price.

B. They call for a strong role of government

1. Surplus scenario: boost price, cut back output, surplus disposal.

2. Scarcity syndrome, the ultimate package: hold down price,
allocate supply, subsidize production.

VI. Interestingly, the Congress in its present deliberations is demonstrating grave doubts about both the surplus scenario and the scarcity syndrome.

A. Moving away from production control.

B. Greater reliance on price.

C. Barriers to export embargoes.

D. Closer to market orientation than any previous time in the past 50 years.

1. The real progress began when I left government.

E. A prediction. Will come out with:

1. Very little restrictions on output.

2. Loans mostly at market-clearing levels.

3. Avoidance of cheap food policy.

4. A few commodities will resist the trends toward market orientation.

F. By market orientation I do not mean the kind of markets we once had,
or the kind of market portrayed by its adversaries.

I mean the kind of market that intelligent people are
able to develop in the modern day.

1. Marketing orders, good market surveillance,
reasonable reserve policy, good outlook work.

G. Fashionable in some circles to malign the Congress
for its inept farm legislation.

Appropriate to applaud the Congress when it moves perceptibly
in the direction of programs with better economic content.

Applause for the Congress is now more appropriate
than is criticism.

In summary,

There is nothing endemic or structural in agriculture
that leads it to persistent maladjustment.

If we have chronic surplus or continuing shortage, it will be because,
with inept price policy, we have brought it on ourselves.

This seems unlikely to happen. The Congress appears to be
rejecting both the Surplus Scenario and the Shortage Syndrome.
By increments and with noteworthy exceptions, it moves toward
market orientation.

This is a vindication of representative government.

I am happier about farm policy than ever before in the past 50 years.