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Regional Policies for Agriculture: The Effects and the Future

George E. Lee

UNIVERSITY OF CALIFORNIA  
DAVIS

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The Canadians in this audience and any others who have had even minimal recent contact with the Canadian media will be aware that the concept of region and a number of phrases relating to it, e.g., regional development, regional autonomy, regional resource use, etc., are currently both sensitive and critical issues in Canada today. It is probably correct to say that Canadians are hypersensitive to regional issues at this time. Therefore, the issues of regional agriculture policies takes on overtones that exceed the boundaries of the agricultural economist's traditional and ongoing concern for the income distribution and the general level of economic activity.

This setting gives rise to an immediate urge to discuss the problems of regional agricultural policy in terms of its short run payoff to given regions; or more broadly, into the calculation of the "game values" in terms of income levels, or worse yet, levels of direct and indirect transfer payments to a sector or a sector within a region. This urge will be resisted and this paper will focus on the more basic and underlying themes within the context of regional agriculture policy issues and general economic development in the whole of the economy.

#### The Setting of Canadian Agricultural Policy

The conventional wisdom concerning Canadian agricultural policy is that it has been developed to serve the needs of a sector that has sufficiently strong comparative advantage to be used as a development vehicle for the remaining sectors of the Canadian economy. This view

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is held most strongly in relation to the period of the "National Policy" (the last quarter of the nineteenth century) however, it is valid as well for the fifty years previous and the fifty years following this. While the latter twentieth century development of the Canadian economy is much less centered on, fed by and supported from the agricultural sector, the flavour of the role (at least until very recently) which agriculture occupies relative to the rest of the economy shows no major change.

A second and related characteristic and widely-held view of the setting in which agricultural policy operates is the consistent and pervading concept that the best of all agricultures for Canada can best contribute to the above role if it is allowed to function (or modified so that it will come to be able to function) as directed by the free and unconstrained direction of the competitive market. This of course does not mean that there have been or are no interventions on the part of governments. There were and are many. However, in almost all cases, these interventions were designed to be short run and to be steps which led to an agriculture capable of effective operation at some later date when the intervention vehicles could be removed. At that time, agriculture would then be the type of sector which could be termed efficient, adjusted, self-sustaining or more recently, able to meet the demands of the user pay principle.

At the same time, agricultural policy in Canada has had to reckon with and has been influenced by the twin characteristics of being embedded in a (relatively) developed economy that is both geographically and

politically (philosophically) diverse. We commonly recognize five political cum geographic regions in Canada. However, each of these in turn is an admixture of resource and institutional diversity. The differential effects of the pressures of adjusting to a developed-economy-engendered agricultural relative decline upon and among these regions has caused the development of political pressures for programs which ease the adjustment process.

An added complexity to the regional issues is the fragmentation of the institutional base at the farm level. Two organizations (Canadian Federation of Agriculture and the National Farmers Union) purport to be the national farm voice. However, the persistent development of an ever-increasing number of regional and commodity-based voices enforces the view that there is no central or collective will at the farm level. It appears there will not be one for some time to come.

At the legislative level, since agriculture under the B.N.A. Act is stipulated as both a federal and provincial responsibility, the voice of the collective government bodies in the agricultural policy debate is scarcely less ambiguous than is the farm voice.

An additional characteristic of Canadian agriculture that falls out of the above diversity is the fact that the policies that bear indirectly on agriculture also have strong regional differential impacts. Monetary policy as it operates through its impact on the exchange rate can cause gross regional disparities in the level of hidden taxes borne by regions dependent upon export markets as compared to areas producing for the domestic market. Fiscal and institutional

programs that effect labour or other selective input costs have a strong regional tax or subsidy like effect that bears differentially on regions of agricultural production depending upon the intensity of the use each is required to make of that particular resource. The extent of governmental support to the various modes of transportation is a further example of an indirect policy which bears heavily, but to a large extent is an unknown but certainly differential manner, upon regions of agriculture.

In this setting, if agriculture is to be a development tool, if it is to move to an unconstrained self-sustaining user pay position; if it is a declining industry in a geographically and philosophically diverse country; and, if it is to be administered by a complex federal-provincial collage of direct programs and indirect policies, then it is not surprising to find that it is difficult to define a Canadian agricultural policy in a precise and definitive statement. In this setting, it is not surprising to conclude that it operates by "muddling through" (Veeman and Veeman). In fact, muddling through seems not only appropriate as a description of the process of agricultural policy development in Canada, but unless a more narrowly defined objective can be found, it may also be an appropriate approach.

At the same time, a total acceptance of the muddling through concept with the acceptance of the marginal incrementalism and ad hoc adjustments which are part of this process places in severe jeopardy not only the approach, but also the viability of the agricultural economist as an agent in the whole policy process. This in itself, is not a key issue unless it can be demonstrated that the

profession can play a role that will result in an improvement in the policy process.

The question that must be faced by agricultural economists is "Can we do better?". Do we have a body of theory, a kit of tools or as a minimum a professional judgement that can lead to a better process and a better outcome?

Thus far this paper has dealt with what is. In the next part, an attempt is made to come to grips with the beginnings of a process that will allow our profession to do better.

#### The Essence of the Agricultural Policy Question

It is my opinion that the essence of the problem of agricultural policy analysis by the agricultural economist, be it regional or national policy that is being analyzed, is the question of the framework of the analysis which is to be undertaken. I question the adequacy of the framework(s) which is (are) cast up by the conventional wisdom which I have attempted to summarize above. The conventional framework leads to one of the following two points of view.

The first is that the long standing and much discussed goal of a viable and independent market oriented agriculture can be used as a signal to suggest that the majority of agricultural policy issues can be analyzed within the framework of the neoclassical market-oriented theory that conforms so closely in evaluation criteria to the purported goal of the Canadian Society.

The second point of view is that the complexity of our agriculture and the multiplicity of goals amongst the components of the agricultural

system requires a political economic framework with only passing reference to marginality conditions and much more emphasis on political compromise as a goal identification and evaluation procedure.

The case which will be argued here is that it is likely that both of the above frameworks are inadequate. The fundamental reason why I consider these frameworks to be inadequate, is that through their use, we have not come to be able to understand the agricultural industry supply response in a manner which has enabled us as economists to offer adequate prescriptions for policy which result in other than short run and largely static solutions to the control of the supply of agricultural products. In a nutshell, the physical scientist has been able to remedy the "food problem", but the agricultural economist has not provided effective solutions to the "farm problem".

The evidence for this statement is that agricultural policy in Canada has not been translated into programs or actions that bear in any meaningful manner on either regions or on agriculture as a sector. This does not imply that there have been no attempts at regional or total sector policy. However, the bulk of interventions have been either interventions in the cost or efficiency of a resource, e.g., experimental stations to change the effectiveness of land in producing a chosen commodity, legislation to establish transportation (grain), costs, institutions to modify the cost of farm credit, etc., or interventions to modify the price and sale conditions of a particular commodity, e.g., boards for marketing milk, wheat, eggs, and deficiency payments of one sort or another.

This phenomenon is most certainly the result of a synthesis of the neoclassical micro theory and the political economy approaches. Neoclassical theory can deal most effectively with an input or an output. Fragmented political pressure bears on resource cost or product price as the most easily definable and quickly grasped "bad guy" in the system.

Since a region is only a small subset of the total agricultural mix of inputs and products, neither regional or sectoral problems of agriculture are adequately dealt with under the isolated input or commodity approach.

An important outcome of the emphasis of interventions by government into the aspect of resource use has led to an exaggeration of the supply problem in agriculture. This phenomenon can be described in the following manner. Piecemeal concern with the supply of, the quality of, or the full use of, a particular resource invariably leads to the uncovering of a process by which that resource can come into use in agricultural production. I will use an extreme example. Range land in Southwestern Saskatchewan was found to be submarginal for grain production and essentially zero rent producing land even for cattle grazing. It was initially leased out at a very minimal charge. Over the past eighty years, improvements in water supply, grassland technology and similar changes in institutions which gave rise to "commons" type grazing privileges in government owned pastures have lead to a viable beef cattle enterprize in the area. This enterprize can exist on very low returns because it is extremely low cost, most of the input cost is



government owned land that rents at a cost substantially below the current cost of private land. In other words, the intervention by government in various manners lead to the establishment of an agricultural enterprise in the region. However, in those periods when the amount of beef demanded rises beyond that quantity which can be produced by this and similarly adapted areas increases in beef production are called forth based on resources which have far differently structured opportunity and market costs. In short, the intervention into the usability of one resource makes it more difficult for changes in the amount of product which can be produced to occur smoothly. It creates discontinuity in the product supply curve and thus exaggerates the income changes in both the up and down phase of changes in product demand.

Changes in institutions or rules which modify product price also create difficulties for a smoothly working change in amount supplied. Price levels that are stabilized for any length of time (no matter if the stability is market or governmentally initiated) become capitalized into input prices and cause pain when they do change.

In other words, government intervention in its conventional form does not lead to a situation in which the industry can at some point "go it alone". This is entirely removed from the conclusion of whether government intervention is good or bad in itself. At issue is the concept that government intervention can lead to a stand alone agriculture. My conclusion is that it will not do so under either resource or commodity manipulation.

This is a severe statement and should not and, I am sure, will not go unchallenged. It requires not only defence, but will not be taken seriously unless some alternative is put forward.

A substantial, but not complete, search of the literature for kernels of thought which might offer amendments to our approach to enable us to deal with the agricultural supply phenomenon have lead to the following. There are three concepts or approaches which I believe may enrich our thinking. The first is the analysis by Robinson (1958, 1972) which suggests that the economist has overlooked a significant difference in the structure of primary resource based industries. She suggests this has caused us to misuse our analytical tools. The second is that developed by Briemyer (1962, 1977) who attempted to apply Robinson's concepts to agriculture in the United States. The third is from a recent address by Winch (1977) who offered a new twist to the economics vs political economy argument. The first of the three is in my view an attempt to modify the classical theory. The second is an attempt to determine that agriculture is becoming industrialized and therefore, Robinson's arguments are irrelevant and the third is a fresh approach to dealing with the problem via institutional means. I will ellaborate on all three.

The main thrust of the Robinson concept is that the British and American tradition in economics has never dealt effectively with the manner in which price directs the level of production in primary production. Those types of products which are produced from resources which are naturally available (as opposed to produced resources) and

are, therefore, available in an arbitrary quantity as well as products produced from resources which are acquired through use, e.g., skill developed through learning by doing, tend to be produced to the limit of the supply of resources available. In my words, the inputs have no definable supply curves, therefore, the products produced have no definable supply curve. In this setting price in the market determines income levels, but not quantity supplied. This she compares with industrial production where price determines the quantity of product supplied, but through the action of alternative use of resources, when price falls it has little other than very short run impact on income levels.

When this concept is applied to regions of agriculture in Canada, there are many who are quick to point out that supply does change dramatically for many agricultural products. To this, I would agree but I would also add that the aggregate supply of agricultural commodities does not change rapidly except from natural causes such as weather.

I believe much thought and work should be applied to the Robinson concept to determine if it can provide insights into the agricultural supply dilemma.

Breimyer in his earlier article (1962), divided the United States agricultural system into three "economies". These differed in the degree to which they met the characteristics of primary vs industrialized production systems. He saw the trend towards the industrialization of agriculture as the solution to both the food and the agricultural problem. He foresaw the time when continued increase in the use of non farm inputs together with improvements in the marketing system

would allow the farm producer to be as responsive to supply and as controlled by competitive forces as the best of the industrialized sector.

In his more recent paper (1977) Breimyer suggests that current commodity shortages cause him to reconsider the trajectory he saw earlier. Off-farm inputs are not unlimited in supply. Farm land is still without opportunity cost and comes back into relatively more use as off-farm input prices rise. The additional message given in this later article is the need for agricultural economists to pay more attention to the economics of the extractive industries as they bear indirectly on food supply issues.

The third concept which I wish to bring into this analysis and which I believe goes a long way towards making operative the seminal ideas of Robinson and Briemyer is the one developed by Winch (1977).

In his paper, Winch identifies the need to analysis the economic system in terms of the economic power of groups in the economic system. He analyses the change in power structure that has occurred as our societies have evolved from static to market-oriented-developing to our current stage of mixed economic systems. It is exciting to attempt to incorporate the three economies of agriculture, the industrial economy, the extractive economics and the consumer groups from Briemyer's article into the power group analysis of Winch.

Winch suggests that an analysis of the market alone in the current system offers little in the way of understanding the current market which is, and, possibly always was to some extent, only a simulation of the group conflict resolution that is the true basis of income distribution

in an economic system. To tinker with the market is only to tinker with the simulator. This, in no way, changes the reality of the power groups who control the production and distribution process.

Winch suggests that any lasting solutions to policy in a market economy must reconcile a just price, an efficient price, and an equilibrium price. In the absence of power, our neoclassical theory provides the solution. Dwelling only on power (institutional economics), leads to solutions without efficiency. We need a reconciliation of power and efficiency.

The solution offered is that of decentralizing authority. Rather than market directed efficiency or countervailing power induced compromises Winch suggests structures to obtain socially acceptable decentralized decisions. He offers the cross-section-of-society board of governors approach as a possible solution. This consists of reasonable persons making reasonable decisions out of context of their own self-interest.

The most shocking aspect of the Winch solution is that it requires that the self-interest solution of each of the power groups (the aspect that the economist has been most equipped to determine) is played down. In fact, he suggests it must be left out of the analysis and replaced by the concept of group or social acceptability. This will make agricultural economists very uneasy.

The whole of the approach suggested here could probably be dismissed as academic day dreaming except for one thing. The deliberations on food policy, agricultural policy and agricultural development that have gone on in Canada for the past year as symbolized by the Government-

industry-consumer strategy conferences of December, 1977, January and February, 1978 may in fact, be attempts by the agricultural system to implement a version of the Winch solution.

Could it be that the agricultural economists' search for a policy analysis framework will only bear fruit after that framework has been put in place by more practical minds?

#### Summary and Conclusions

I began this paper by alluding to the critical issue of regional issues in Canada today. The calculated "game values" of regional policies are the sensitive issues. Canadian agriculture is by nature complex and resists analysis based on straight forward economic or institutional frameworks. Programs based on government intervention into single resource or commodity supply or price, do little to lead to long run solutions. Government interventions in an attempt to create an "interventionless" agriculture, appear doomed to failure.

In searching for a more comprehensive framework for dealing with this question, concepts relating to the character of the structural differences in parts of our economy together with concepts of how these structurally different sector could be analysed as a whole, were examined.

A reason for the lack of effectiveness of our traditional frameworks was found in the literature and a hypothesis is advanced that the policy development process is undergoing a change that the profession of agricultural economics has not yet become aware of.

## Footnotes

George E. Lee is professor and Head of the Department of Agricultural Economics, University of Saskatchewan, Saskatoon, Saskatchewan Canada.

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