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# Dr. Andrew Schmitz

## Lifetime Achievement Award

Professor Andrew Schmitz (B.S.A., M.Sc., M.A., Ph.D., D.Litt.)—Andrew Schmitz is the Ben Hill Griffin, Jr. Eminent Scholar and a Professor of Food and Resource Economics, University of Florida, Gainesville; Research Professor, University of California, Berkeley; and Adjunct Professor, University of Saskatchewan, Saskatoon.

Dr. Schmitz is one of the most imaginative and prolific scholars in the agricultural economics profession, specializing in international economics, public policy, and welfare economics. His ideas have led to many significant publications and have spawned numerous research efforts on many new frontiers. His work has dealt with such diversified subjects as the distributional impacts of technological change, boom–bust cycles, and the impacts of environmental regulations. Publications he has authored or co-authored have won six major research awards from the American Agricultural Economics Association (AAEA) alone. In 1999, he received an Earned Doctor of Letters degree from the University of Saskatchewan. His infectious enthusiasm for agricultural economics and economics research has also profoundly influenced and inspired both colleagues and students.

Born and raised on a farm west of Central Butte, SK, Andrew Schmitz received his B.S.A. and M.Sc. degrees in Agricultural Economics at the University of Saskatchewan. He also received M.A. and Ph.D. degrees in Economics in 1966 and 1968, respectively, at the University of Wisconsin. His M.Sc. thesis won the best thesis award in agricultural economics from the Canadian Agricultural Economics Association; his doctoral dissertation won the University of Wisconsin's Harold Groves Doctoral Dissertation Award in Economics in



1968. He has won numerous awards, including an Earned Doctorate of Letters degree (University of Saskatchewan), and three Research of Enduring Quality awards from the AAEA.

In 1968, Andrew Schmitz was appointed an Assistant Professor of Agricultural Economics at the University of California, Berkeley, where he served as departmental chair from 1989 to 1994. He has held four different endowed Chairs: the Van Vliet Chair in Agricultural Trade, University of Saskatchewan; the George W. and Elsie Robinson Chair in Agricultural Economics, University of California, Berkeley; Chair, Center for the Study of Agricultural Law and the Environment (University of Saskatchewan); and currently the Ben Hill Griffin, Jr. Endowed Chair at the University of Florida. Since 1971, he has been actively involved in the ownership and operation of grain/cattle enterprises in Saskatche-

wan. His direct involvement in agriculture gives Andrew a keen interest and insight into many of the agricultural problems that have served as a basis for his research.

A crucial aspect of Dr. Schmitz's research is international marketing. He has written on the role of marketing boards, multinational grain companies, and state trading enterprises, including in-depth analyses of state trading enterprises in such countries as Bulgaria and Turkey. Andrew has been involved in many public policy debates in both Canada and the United States and has lectured worldwide on numerous economic issues. He has been a consultant to hundreds of private and public organizations, including many prestigious law firms, the Canadian and U.S. Departments of Justice, Agriculture and Agri-Food Canada, U.S. Department of Agriculture, and the World Bank. He also heads the annual June conference in Moose Jaw, SK, "Farming for Profit?" At the Moose Jaw conference he provides a forum for policymakers, academics, and farmers alike to discuss issues facing farmers today. He has just completed two books, one on the economic performance and future of the *Canadian Wheat Board* and one on *Agricultural Policy, Agribusiness and Rent Seeking Behavior*, University of Toronto Press. The basis of these books is the use of welfare economics to understand policy formation and rent-seeking behavior.

Dr. Schmitz is married to the former Helen Carole Anderson, and they have five children, Troy, Katrina, Andre, Evan, and Dean. Troy is a professor at Arizona State University. The others are pursuing careers in medicine and engineering. Dr. Schmitz gives a special thank you to his wife, Carole, for all her work and patience over the years, which helped make this award possible.

#### Awards and Honors (Excluding Undergraduate)

- Master's Thesis Award for the best thesis in Agricultural Economics in Canada, 1964
- Harold Groves Doctoral Dissertation Award for the best thesis in the Department of Economics, University of Wisconsin, for the period 1967–1968; submitted in the Irving Fisher Award competition
- American Agricultural Economics Association Award for Best Published Research, 1970 (*The World Sugar Economy*)
- American Agricultural Economics Association Award for Outstanding Article in *American Journal of Agricultural Economics*, 1970 ("Mechanized Agriculture and Social Welfare: The Case of the Tomato Harvester")
- American Agricultural Economics Association Award for Best Published Research, 1978 ("Storage and Price Uncertainty in International Trade")
- American Agricultural Economics Association Award for Quality of Communication, 1979 ("International Trade Arrangements")
- Western Agricultural Economics Association Award for Best Published Research, 1980 ("Consumer's Surplus, Price Instability, and Consumer Welfare")
- American Agricultural Economics Association Award for Best Published Research, 1981 (*Grain Export Cartels*)
- American Agricultural Economics Association Award for Research of Enduring Quality, 1981 ("Mechanized Agriculture and Social Welfare: The Case of the Tomato Harvester")
- Special Recognition given to Andrew Schmitz as "An Outstanding Contributor," in *Agricultural Economics and Agribusiness*, 2nd ed. Gail L. Cramer and Clarence W. Jones, eds. New York: John Wiley and Sons, 1982
- The 1983 J. C. Snyder Memorial Lecture at Purdue University ("North America's Agricultural Trade and the Policy Debate")
- Fellow of the American Agricultural Economics Association, August 1985
- George W. and Elsie M. Robinson Endowed Chair in Agricultural Economics, University of California, March 1986–June 1994
- The 1986 Anderson Scholar Lecture at

- Ohio State University (“Grain Cartels and Agricultural Trade”)
- Outstanding Graduate Award, College of Agriculture’s 75th Anniversary, University of Saskatchewan, Saskatoon, July 1986
- Van Vliet Endowed Chair, University of Saskatchewan, 1986–1988
- American Agricultural Economics Association Award for Research of Enduring Quality, 1987 (“Concept of Economic Surplus”)
- Fellows Address, American Agricultural Economics, 1989. (“GATT: The Role of Special Interest Groups”)
- American Agricultural Economics Association Award for Research of Enduring Quality, *Applied Welfare Economics and Public Policy*, Upper Saddle, NJ: Prentice Hall, 1994
- Ben Hill Griffin Endowed Chair and Eminent Scholar, University of Florida, June 1994
- American Agricultural Economics Association Waugh Medal and Lecture, August 1995. (“Boom-Bust Cycles and Ricardian Rents”)
- American Agricultural Economics Association, Babcock, B. and A. Schmitz, “Look for Hidden Costs: Why Direct Subsidy Can Cost Us Less Than a ‘No Cost’ Trade Barrier.” *The Best Of Choices 1986–1996*, July 1996
- L. Tweeten Distinguished Lecture at Ohio State, 1996 (“Canada-U.S. Trade Disputes”)
- The 1996 M.L. Wilson Distinguished Lecture at Montana State, April 4, 1996 (“Grain Marketing and Trade: Where Are They Headed?”)
- 1996 Invited Lecture, “The Adaptation of New Technologies in Agriculture,” 100th Anniversary, University of Vicosa, Brazil
- Earned Doctor of Letters degree, University of Saskatchewan, 1999
- Outstanding Publication Award, The Saskatchewan Book Writers Guild, January 2001. (Canadian Wheat Board: Marketing in the New Millennium)
- Member of National Research Council Food Safety Committee, National Academy of Sciences. July 2000–present

## Directions in Policy Analysis

**Andrew Schmitz**

It is an honor to receive the Lifetime Achievement Award from the Southern Agricultural Economics Association (SAEA). Even though I spent much of my career on the west coast at the University of California at Berkeley, the annual SAEA meetings and the *Journal of Agricultural and Applied Economics* have been important in my professional development. I have received excellent comments from papers I have given at these meetings. Also, my professional contacts through the SAEA meetings have been invaluable. The SAEA and its members continue to make outstanding contributions to the economics of agriculture, especially in the South.

I was asked to give some brief comments on future policy directions and limitations of past policy analysis. I am excited to do so, especially in view of our recent textbook, *Agricultural Policy, Agribusiness, and Rent-Seeking Behavior* (Schmitz, Furtan, and Baylis). Since arriving at the University of California at Berkeley in the late 1960s where I began my career, I started doing work in the policy field, including my work with Just and Hueth on applied welfare economics (Just, Hueth, and Schmitz). In addition, I have enjoyed working in the policy field because of my direct involvement in farming in California, Iowa, and Saskatchewan.

### **Rent-Seeking Behavior and Public Choice**

Relatively little attention has been paid to public choice theory and its application to agricultural policy analysis. Applied Welfare Economics (e.g., Just, Hueth, and Schmitz) has generally been accepted as an appropriate framework for conceptualizing and quantifying the impact of farm programs. However,

this methodology falls short in explaining why countries adopt certain farm programs. It is my contention that policy formation is generally the result of special interest groups lobbying politicians for support. This was well documented in a recent book by Schmitz, Furtan, and Baylis, in which we compared farm programs in the United States and Canada. Using the rent-seeking framework, it is easy to see why massive subsidies were given to U.S. farmers under the 2002 U.S. Farm Bill and why little support was given to Canadian prairie grain and oilseed producers.

### **The New Institutional Economics (NIE) and Vertical Markets**

Although a great deal has been written on the NIE using examples outside of agriculture, little of the NIE has been applied to the changing structure of U.S. agriculture. Firm concentration is increasing and so has the degree of vertical and horizontal integration. For example, two of the large U.S. sugar producers in Florida are now fully integrated from production through to the marketing of refined sugar (Schmitz and Moss).

Policy should be discussed within the context of vertical market structures. In this context, it is easy to see why processors, for example, have lobbied for programs that are output increasing. Likewise, this is true for farm machinery manufacturers and fertilizer companies. For instance, machine companies strongly opposed the 1983 U.S. payment-in-kind program. Also, a vertical market structure framework is needed as a basis for general equilibrium policy analysis. (Just, Hueth, and Schmitz).

### **Multinationals**

Much of our policy research does not take into account the fact that a large percentage of international and domestic trade is affected by multinationals lobbying for certain policy outcomes. For example, large amounts of soybeans that are exported from Brazil are in processed form. However, the processing in Brazil is done by multinationals such as Cargill, Ltd. Such firms lobby for free trade in soybean products.

Consider the case of U.S. sugar policy. Flo Sun, Inc. is a large sugar producer in both Florida and the Dominican Republic. A percentage of the exports from the Dominican Republic receives preferential treatment in that the quota rents go to the Dominican Republic. Therefore, Flo Sun, Inc. tries to maximize profits from production in both Florida and the Dominican Republic. To do so, it lobbies the U.S. government to set optimal import quotas on imported raw sugar.

Then there are the cases of ownership by Cargill, Ltd., a world modern beef packing plant in High River, AB, Canada, and the ownership by IBP of both a feedlot and packing plant in Brooks, AB, Canada. These companies play a major role in keeping the border open between the United States and Canada in the U.S. ruling favoring Canada in both the dumping and countervailing beef cases that the United States launched against Canada in the late 1990s.

The early trade theory assumed that capital was internationally immobile. As a result, welfare analysis from policy changes has been straightforward. However, in the presence of multinationals, policy analysis is much more difficult partly because data on them are very difficult to obtain.

### **Policy Switching**

Our profession has not paid enough attention to policy switching where the possibility exists that one program in existence could be replaced by another or completely eliminated. A case in point is the peanut program where, under the 2002 U.S. farm program, production

quotas were replaced with deficiency payments. Was this an improvement in economic efficiency, or did it add to resource use inefficiency?

Consider the case of the U.S. sugar program, which hinges largely on import quotas that restrict the importation of sugar (Schmitz et al.). What would happen if this import quota policy were replaced with a deficiency-type scheme? Can farmers' income be maintained when policies are switched in favor of these programs that are more efficient? In the case of sugar, using deficiency payments allows users to buy sugar at the world price, rather than at the higher internal U.S. price.

Also, why are tariffs used to protect import producers when deficiency payment schemes could be used to achieve the same result while at the same time efficiency is increased? For example, in the case of citrus, why not replace tariffs with deficiency-type price support schemes?

### **The Compensation Test, Pareto Principle, or Neither**

When doing policy work, we often fail to point out whether or not policy changes can meet the compensation test, the Pareto test, or neither. If the compensation test is met, there is only a potential improvement in welfare since the actual losers do not have to be compensated by the winners. Under the Pareto test, compensation has to be paid so that no one loses from the change in policy. There are examples of policy change where the compensation test was met. In the case of the mechanical tomato harvester introduced in California, farmworkers were not compensated for their losses but the harvester was introduced anyway (Schmitz and Seckler). Another case was the removal of the CROW Transportation Subsidy in Canada. There were significant efficiency gains. However, farmers were not compensated for their losses; hence, the compensation test was met but the Pareto test was not. As pointed out by Schmitz, Highmoor, and Schmitz, farmers were undercompensated by the removal of the CROW to the tune of at least Canadian \$10 billion.

**Table 1.** Tenure of Operators of Iowa Farmland, 1982 and 1997

Tenure	Percentage of Farmland	
	1982	1997
Operated solely by owner	54.1	30.8
Operated by owner with help	0.09	7.8
Operated under cash-rent lease	21.1	34.9
Operated under crop-share lease	21.1	23.7
Operated under other lease agreement	1.0	2.8
All others	2.7	0.00

Source: Pieper and Harl.

Of course, there are policies that meet neither of the above criteria. Although the work in this area is still preliminary, it appears that the 2002 U.S. farm program is a case in point. However, this outcome would be consistent with rent-seeking behavior where inefficiency considerations seem to play a minor role.

#### Land Ownership and Decoupling

The ownership of farmland by those currently farming has decreased over time (Table 1). In Iowa, for example, the percentage of farmland that was cash rented increased from 21.1% in 1982 to 34.9% in 1997 while the percentage under crop-share lease increased from 21.1% to 23.7%. At the same time, the percentage of land operated solely by the owner decreased from 54.1% to 30.8%. As a result, if land values go up because of farm programs, many of the benefits likely will not flow to producers. Landowners who do not farm likely will capture a large share of the benefits on the land they own (Schmitz and Just, in press).

U.S. farmland prices have risen significantly since 1985, after dropping sharply for the previous 5 years. Along with rising land values, there has been a steady rise in net farm income, including government payments. Also, as farm income has been rising, so have cash rents in parts of the United States, which reached an all-time high in the spring of 2002. Interestingly, this rise in farm income and cash rents has occurred as commodity prices have reached record lows. These observations call

into question whether farm programs have truly moved toward the decoupling that has been intended (Shalit and Schmitz).

Farm programs generally cannot be decoupled from production and they contribute to the high price of farmland. According to Schmitz and Gray (p. 474),

When comparing U.S. and Canadian real-estate values, we see that in the 1990s land prices increased in Montana and North Dakota but remained relatively constant in Saskatchewan (in some areas of Saskatchewan, land values have fallen sharply). Since input costs, crop yields, and crop prices are similar in the three regions, the remaining explanation for the difference in land values is government policy. The producer subsidies for grain and oilseed production are much higher in the United States. Many of these subsidies are not decoupled, which explains partly why U.S. land values remain high (the old saying still remains: Many of the benefits of farm programs get capitalized into land values).

Under the 1994 General Agreement on Tariffs and Trade, support programs have to fall within the green-box category, which are programs deemed to affect neither production nor trade. Examples of such programs are decoupled farm programs that do not distort production and trade. Policies that are truly decoupled are more efficient than traditional price support policies. Yet, in reality, can farm programs be decoupled from production? In a recent paper (Schmitz and Just, in press), the authors argue that it is virtually impossible to decouple farm programs from production. This is the case even for direct payments, which are very different from market price support mechanisms. Direct payments are increasingly replacing market price supports in regions such as the European Union.

#### Quantitative Impacts

What is surprising is how little we know about the efficiency and distributional aspects for any given policy set. Although quantitative studies exist, though scarce indeed, these generally focus on specific commodities such as

sugar and wheat. However, what about commodity programs in aggregate? For example, very little data exist that compare the 1996 U.S. Farm Bill with the 1990 U.S. Farm Bill. One study by Gardner estimates, using welfare analysis, that the 1996 U.S. Farm Bill is more efficient, but this was not collaborated with additional studies by other analysts. Then there is the problem of failing to realize the connection between efficient redistribution of income and efficient resource use brought about by policy change. If a policy is efficient, it is generally neither trade distorting nor production distorting. As a result, the associated Harberger dead-weight triangles are small. However, this cannot be the case for any inefficiency policy. There are cases where authors conclude that policies are inefficient and are associated with large changes in distribution of income, yet they estimate that the Harberger triangles are small indeed. But this cannot be the case.

### Law and Economics

Many of the documents written in Washington, DC are by lawyers. This is especially true for trade law and for guiding principles underlying the World Trade Organization. Economists fail to realize that, although their economics may be correct, it may have little meaning from a legal perspective. This is especially true in countervail and dumping duty cases between the United States, Canada, and Mexico. Also, for example, the definitions of green-box and amber-box categories are spelled out by lawyers, but do not have an associated rigorous counterpart. This leads to the concern that the United States contends that U.S. farm programs fit the green-box category, yet from an economic perspective it is difficult to conceptualize how some of the U.S. farm programs are decoupled from production.

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