



## Agricultural and Food Policy (4201-410)

# Introduction + Policy Setting and Policy Problems of the A-F Sector

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Daily, 14.15 – 17.30, HS 23

Lecture notes and further information:  
<http://www.uni-hohenheim.de/apo>



## LECTURE OUTLINE 1



- **Introduction**
  - Course Expectations
  - Role Playing Project
  - Lecture Topics
  
- **Policy Setting and Policy Problems of the A-F Sector**

## COURSE EXPECTATIONS



- *Your Expectations*
- **Objectives of the Module**
- *My Goals and Expectations*

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## OBJECTIVES OF THE MODULE



⇒ **On successful completion of the module students should be able to:**

- explain the reasons for government intervention in the agri-food sectors of several countries, and identify the policy objectives being pursued;
- analyse critically how policy programs affect agriculture as well as the domestic and world economy;
- evaluate the issues of producers, consumers, food safety, agri-environment, rural development and the impact of policy on agribusiness;
- understand that agricultural and food policy requires a knowledge of the overall nature of the problems being solved, the process of policy formulation, and the role of the various interest groups in the process.

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## LECTURE TOPICS



1. Policy Setting and Policy Problems of the A-F Sector
2. Essential Economic Tools for A-F Policy Analysis
3. Economic Foundations of Policy Intervention
4. Policy Analysis of General Policy Instruments
5. Policy Paradigms and Path Dependencies
6. The Political Economy of Agricultural Policy
7. Agricultural Trade and Trade Policy
8. Income Policy
9. Agri-Environmental Policy
10. Structural Adjustment and Rural Development Policy in Developed Countries
11. A-F Policy in Developing Countries
12. Nutrition, Food Safety and Food Quality

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## Policy Setting - What is Policy?



**Policy = course of action or guiding principle pursued by government.**

**Policy Program = set of rules and instruments used to implement a policy.**

**Policy Instrument = variables and parameters of a particular policy program.**

### Example:

- **Issue:** Nutrition for the poor
- **Policy:** Improve the health of the poor via nutrition
- **Programs:** Food stamps, school lunches
- **Instruments:** Eligibility, purchase rates

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## Policy Setting

### - What is Agricultural and Food Policy?



A-F Policy deals with a set of principles that guide government involvement in the production, marketing, and consumption of agri-food products and the conditions under which people live in rural areas.

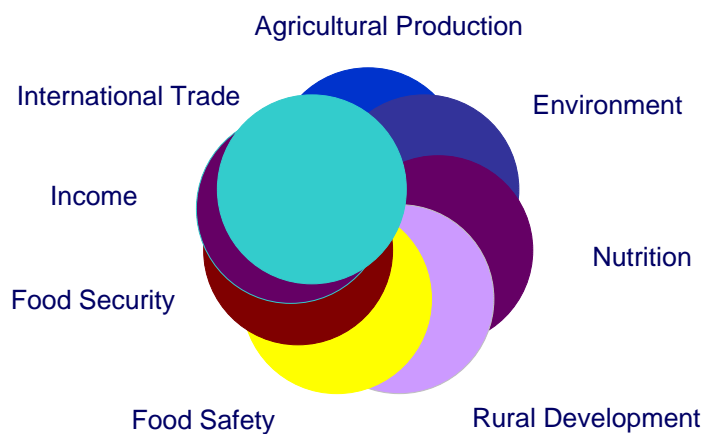
- Production is defined broadly enough to include the resources used in the production process;
- Marketing includes domestic and international aspects;
- Consumption encompasses the retail price, distribution, nutrition, and safety aspects of food.

⇒ Issues must be discussed with considering broader issues.

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## Policy Setting

### - What is Agricultural and Food Policy?



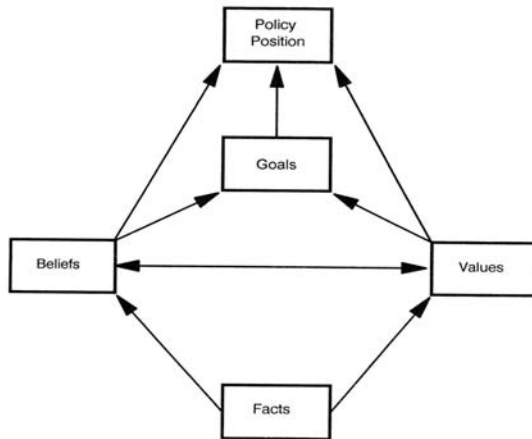
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## What Determines Policy Positions?

- A policy position indicates a conclusion as to what the role of government ought to be with respect to a particular problem or a set of circumstances.

### Factors influencing one's policy position:



#### Facts

= something known with certainty.

#### Beliefs

= what people think is reality.

#### Values

= conceptions of what should be.

#### Goals

= desired ultimate end results or objectives.

Source: Knutson et al., 1998, p.5

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## Factors influencing one's policy position

### FACTS

= something known with certainty.

- **Physical and biological sciences:**  
Facts are more readily determined and agreed, and causal relationships are more definitive than in social science.
- **Social science (such as economics):**  
Facts are more nebulous and causal relationships are less precise, less measurable, less readily agreed on and almost always subject to qualifications.

But: The inability to be definitive does not mean that economics is useless, that there are no observable facts, that economic explanations are useless, or that a knowledge of economic implications is meaningless.

**It means:** a need exists to identify, analyze, weigh, and evaluate economic facts, relationships, and impacts.

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## Factors influencing one's policy position



### BELIEFS

= what people think is reality.

- A belief involves mental conviction, acceptance, confidence, or faith that a proposition is true.
- Beliefs are not dependent on the intrinsic, objective truth of the proposition.
- Beliefs can be based on fact, partially based on fact or have no basis in fact.
- Many policy disagreements arise when beliefs are based only partially on facts. Such beliefs are not only a source of disagreement; they can also be deceptive (e.g. averages)
- Policy disagreements frequently have their roots in mythology or notions that are based more on tradition, values, or convenience than on facts.

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## Factors influencing one's policy position



### VALUES

= conceptions of what should be.

- They provide an image of what is good and right and thus specify that some things are better than others.
- Values indicate what is desirable and provide justification for proposed or actual behaviour.
- Values are influenced by beliefs and facts.
- Values also influence beliefs.

Example: the *agrarian ideology* and its associated *agricultural creed*  
⇒ can still be seen today, in the tendency to view farmers as a homogenous body having similar problems, justifying the need for a single national farm policy.

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## Factors influencing one's policy position



### GOALS

= **desired ultimate end results or objectives.**

- A goal is the purpose toward which an endeavour is directed.
- Choice of goals is influenced by a person's values and beliefs.
- Whether the inability to achieve a goal becomes a public issue depends on the importance attached to it, the influence of the group identifying with the goal, and the extent to which the goal is not being achieved under current gov. and private initiatives.
- Some important farmers goals:
  - Self-preservation and survival
  - Raising the standard of living
  - Ownership of farmland and the related property rights
  - Progress, efficiency, and productivity

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## Factors influencing one's policy position



### GOALS (contd.)

The goals of A-F policy are not solely the province of farmers

⇒ Goals of individuals and groups *other than farmers* have an increasingly important role in A-F policy decisions:

- Producing an ample *supply of food at reasonable prices* is a goal that has traditionally been used as a public interest justification for policies subsidizing farm prices and incomes.
- Expanding *agricultural exports* has been an increasingly important policy goal in many countries since the 1970s (due to balance of trade).
- *Removing hunger and malnutrition*
- *Maintaining health and reducing health hazards* is a goal that gives rise to policies and programs designed to protect the environment and ensure the safety of the food supply.
- *Preserving and allocating resources* such as land and water for future generations has become a major concern.

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## Policy Setting

### - How and why does A-F Policy change over time?



#### THE IMPACT OF TIME:

- Goals, values, and beliefs change over time, even some “facts”.
- The relative importance of individuals or groups influencing policy changes over time ⇒ change of policy goals.  
⇒ With some exceptions, A-F policies generally change constantly (typically slowly and only by incremental amounts).
- A-F policies and programs are intended to solve problems encountered in the production and marketing of ag. products.  
⇒ The policies and programs usually evolve gradually over years as problems become increasingly apparent and change in character.

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## Policy Setting

### - How and why does A-F Policy change over time?



#### Evolving policy problems in developed countries

- Until the 20th century:
  - Land abundant
  - Short of labour
  - Ag technology was labour intensive
  - Ag a major part of the economy.
- Developmental policy focus:
  - Technology
  - Land
  - Macro economic and trade policy

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## Policy Setting

### - How and why does A-F Policy change over time?



#### A-F Policy Focus in most western developed countries

- **Until the 1970s, centered around:**

- Effects of technological revolution
- Slow demand growth
- Low prices and incomes
- Exodus from rural areas

- **Today, centered around:**

- World food problem
- Farm and resource issues
- Consumer food problem
- Rural development

} = **Food and Agricultural Problems of Today**

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## Today's Food and Agricultural Problems



⇒ Food and agricultural problems can no longer be characterized in simple terms such as low prices and incomes.

- Today's food and agricultural problems are interrelated and have overlapping dimensions.
- Their importance shifts over time with the emergence of specific issues.
- All dimensions of the problems affect farmers and the conditions under which food is produced, marketed, and consumed.

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## Today's Food and Agricultural Problems



### THE WORLD FOOD PROBLEM

⇒ Perhaps the most complex of the major problems.

- true not only because its solution involves satisfying the nutritional needs of more than 6,4 billion people, but also because
- governmental systems, policies, and programs of the many nations of the world must be rationalized.

⇒ The world food problem has at least *3 major dimension*:  
distribution, trade, capacity

#### ▪ **Distribution:**

Reducing hunger and malnutrition is primarily a distribution problem.  
The cause of the distribution problem is low incomes – a lack of economic growth and development.

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## Today's Food and Agricultural Problems



### THE WORLD FOOD PROBLEM (contd.)

#### ▪ **Trade:**

- Keeping trade channels open has been a perpetual problem.
- Benefits of free trade to society as a whole are abundantly evident, *but*:
- from the perspective of an individual farmer the benefits of protectionism are equally clear.
- Policies designed to encourage domestic production frequently mean domestic prices above world prices, thus requiring imports to be restricted.

#### ▪ **Capacity:**

- was subject of several studies during the 1970s.
- Given favourable weather, agriculture has proved to have tremendous capacity to respond to market needs.
- But: Increasing concerns over competition for water supplies, and, in the longer run, the warming of the earth's atmosphere.

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## Today's Food and Agricultural Problems



### THE WORLD FOOD PROBLEM (contd.)

⇒ Expanding production is dependent on the existence of incentives or rewards to producers.

- In market-oriented economies, these incentives are higher prices and profits, and appreciation of asset values.

⇒ Farmers respond to profit incentives.

#### **But:**

It would be a mistake to leave the impression that the world food problem is simply a matter of supply and demand for food.

It is, in fact, much more complex:

Many of the complexities result from governments whose decision makers respond to immediate political pressures.

⇒ Domestic decisions of governments can affect farmers around the world, as well as related businesses, and consumers.

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## Today's Food and Agricultural Problems



### THE FARM RESOURCE PROBLEM

⇒ Multidimensional, making it difficult to treat from a policy perspective.

- Of particular importance is the increasing interrelationship between farm issues and resource issues.
- Virtually all resource issues directly impact farmer costs and, therefore, become part of the farm problem.

#### ***Primary dimensions of the farm and resource problem:***

Instability, excess capacity and fixed assets, diversity, resource scarcity, environmental externalities

#### ▪ **Instability:**

- Agricultural production is inherently unstable, largely because of relatively stable domestic needs interacting with production variability due to weather conditions, pests, and diseases.

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## Today's Food and Agricultural Problems



### THE FARM RESOURCE PROBLEM (contd.)

#### ▪ Instability (contd.):

- Supply and demand for farm products is sufficiently inelastic.
- ⇒ Unless buffered by government programs, farmers typically face a high degree of price and income risk.
  - But: government policies themselves can be a major source of instability in agriculture.

#### ▪ Excess capacity and fixed assets:

- Chronic excess capacity was the result of relatively high price supports and resource fixity.
- But: The more business-oriented farmers and segments of agriculture appear to be more responsive to market signals.

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## Today's Food and Agricultural Problems



### THE FARM RESOURCE PROBLEM (contd.)

#### ▪ Diversity:

- Agriculture has become highly diverse and is in transition from a family farm-based structure to a business-based structure.
- Differences in efficiency lead to income disparities.
- The result is that considerable stress is placed on smaller and moderate-sized family farms that try to make a living from farming alone.
- Survival in agriculture has become dependent on technical agronomic skills combined with business and financial management skills.

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## Today's Food and Agricultural Problems



### THE FARM RESOURCE PROBLEM (contd.)

- **Resource Scarcity:**
  - Competition for limited natural resources is increasing.
  - Traditionally, most of these competitive relationships have been handled by the market, by common law rights, by local government, or by state government.
- **Environmental externalities:**
  - Once thought to be source of non point pollution, agriculture experienced less stringent environmental regulations than did other industries.
  - But: This perspective highly changed!

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## Today's Food and Agricultural Problems



### THE CONSUMER FOOD PROBLEM

⇒ Historically, the influence of consumers on food and agriculture policy has ebbed and flowed.

**The primary dimensions of consumer food issues include:**

- **Nutrition**
  - Contemporary consumer involvement in food policy likely had its roots in the concern about poverty.
- **Price**
  - Real increases in food expenditures relative to income place visible pressure on consumers' budgets.
  - Thus, despite a low share of income spent on food, questions arise as to what can be done to reduce the price of food.
- **Safety**

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## Today's Food and Agricultural Problems



### THE RURAL DEVELOPMENT PROBLEM

⇒ Rural development has returned to the agriculture and food policy agenda with unknown strength and vigour.

#### Major dimensions of the rural development problem:

Infrastructure, health and education, selective migration, poverty, and farm labour

#### ▪ Infrastructure

Deterioration has occurred in the rural infrastructure of available services (e.g. quality of roads, bridges, and telephone service in truly remote areas).

#### ▪ Health and education

Deterioration in the quality of rural health and education has become a major concern as the per capita cost of providing these services has increased.

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## Today's Food and Agricultural Problems



### THE RURAL DEVELOPMENT PROBLEM (contd.)

#### ▪ Selective Migration

Migration of youth from rural areas to the city over several generations. ⇒ Results in a persistent decline in rural human resource capacity and leadership. ⇒ Results in a deterioration in the ability of rural governmental systems to solve problems.

#### ▪ Poverty

Some of the highest levels of poverty are found in rural areas. Delivery systems for federal social programs are geared to urban constituencies.

#### ▪ Farm Labour

Treatment of migratory farm labour has been subject of much federal and state policy.

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## Today's Food and Agricultural Problems



### Caution: THE SINGLE-PROBLEM TRAP

- It is all too easy to fall into the trap of treating each of the four agriculture and food problem areas separately (policymakers do this regularly by responding only to the issues of the moment).
- Reality suggests that the four areas are not mutually exclusive but, in fact, are *interrelated*.  
Example: Increasing world food demand affects the prices received by farmers, the cost of food, its availability to consumers, the availability of resources for future food production, and the economic health of rural areas.
- These interrelationships must always be kept in mind.  
In other words, *students of policy* must be continuously looking at causes and effects that extend beyond the immediate problem or policy alternative.

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## How and why does A-F Policy change over time? - Major Forces of Policy Change



### The major forces of policy change can be grouped in the following categories:

- Globalization
  - Technology
  - Food safety
  - Environment
  - Industrialization of the A-F sector
  - Politics
  - Unforeseen events
  - Instability
- ⇒ Many are the same forces that directly affect agriculture and its stakeholders, including farmers, agribusiness firms, food and fibre consumers, taxpayers, environmentalists, and others.

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## How and why does A-F Policy change over time? - Major Forces of Policy Change



### GLOBALIZATION:

- ⇒ The process by which economies, cultures, and political systems become increasingly interdependent.
- Requires that governments and economic agents must consider the impacts of policy changes on other countries, not just their own.
- Comes along with greater realization of the potential of trade and the high costs of protectionism.
- Led to trade liberalization, as trade must flow both directions.
- Agriculture in many countries depend on exports, exports depend on market access.
- ⇒ Policy decisions can no longer be made in a domestic vacuum.

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## How and why does A-F Policy change over time? - Major Forces of Policy Change



### TECHNOLOGY:

- ⇒ Technology has long been recognized as a major economic force affecting agriculture.
- In addition to incremental advances, major technological leaps have profoundly impacted agriculture (e.g. mechanization, hybridization, commercial fertilizer, and pesticides).
- Technological advances increase efficiency and expand productive capacity.
- Technology treadmill:  
Technology drives down prices => Farmers must adopt next technology or fall behind => Which further drives down prices
- Major technologies introduced in waves and usually highly controversial (most recent is biotechnology).
- Who benefits from technology?

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## How and why does A-F Policy change over time? - Major Forces of Policy Change



### FOOD SAFETY:

- Is becoming more pervasive and complex, as today it reflects consumers' demands in developed countries for more and different food products, with assurance of their absolute safety, along with wholesomeness and superior quality.
- Increasing use of chemicals in agriculture has led to new and greater food safety concerns (and has led to pesticide bans).
- Concerns increased with outbreaks of E.coli, Salmonella, BSE.
- More recently, terrorists threats on food safety (as a dimension of food security/supply).
- Perceptions of food safety are an important consideration, but: they are not necessarily the same worldwide.
- Food safety extends to environmental safety issues for soil, water, and air.

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## How and why does A-F Policy change over time? - Major Forces of Policy Change



### ENVIRONMENT:

- ⇒ Environment is now a well-established and major consideration in policy development.
- Water and air quality
  - farm concentration; chemical usage
- Conservation
  - soil and land use; water; endangered species
- Env. issues in ag. production are getting increasingly complex and enmeshed with other issues and policies: e.g. food safety, biotechnology, globalization, trade policy
- Major additional aspect: how to deal with limited resource issues?

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## How and why does A-F Policy change over time? - Major Forces of Policy Change



### INDUSTRIALIZATION:

⇒ reflects a wide variety of changing conditions in the A-F system

- Agriculture continues to be more and more vertically and horizontally integrated.
- Industrialization is a pervasive force driven by basic economic forces in response to clear consumer demands for high and uniform food quality, assurance of food safety, and price competitiveness.
- Structure of farming has changed
  - from many small farms to few larger farms
  - from on-farm consumption to off-farm sales and exports
- Effects on survival of traditional family farms
- Effects on rural communities

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## How and why does A-F Policy change over time? - Major Forces of Policy Change



### POLITICS:

- Farm and food policies are made through the political process
  - Farm programs are (largely) implemented through the political process or bureaucracy
- ⇒ Politics play the critical role in determining the policies adopted and the programs chosen to implement them
- Myth: declining rural population has diminished farmers' political influence
  - Farmers are now a minority, leading to a different approach to influence politics
    - Must form coalitions on particular issues
    - Political diversity, work through different parties
- ⇒ Political Economy of A-F Policies

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## How and why does A-F Policy change over time? - Major Forces of Policy Change



### UNFORESEEN EVENTS:

- If we knew what they were, they wouldn't be unforeseen...
- But: history clearly reveals that unforeseen events occur from time to time of sufficient magnitude to cause major changes in the course of political, economic, and even technological events.
- Such events may e.g., alter global trading patterns, stimulate or dampen global growth, observably alter consumer perceptions, etc.
- Food safety (Avian flue, BSE, foot-and-mouth disease, etc.)
- Epidemics
- Changes in climate/weather patterns

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## How and why does A-F Policy change over time? - Major Forces of Policy Change



### INSTABILITY:

- ⇒ In the past, price and income instability were main justifications for farm programs.
- Fluctuations are inherent in an agricultural sector with little government intervention, because both supply and demand for farm products are highly inelastic:
    - in the short run, both producers and consumers are not very responsive to changes in price;
    - as a result, either supply or demand shifts can be expected to result in proportionately larger farm price changes.
  - Variability in supply
    - Weather, insects, input response
    - Production response lags
    - Affects production outside a country, export demand

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## How and why does A-F Policy change over time? - Major Forces of Policy Change



- ⇒ The forces of policy change result in a number of policy issues.
- ⇒ While the need to change policy is extensively debated in farm organizations and by politicians, rarely are either the nature of the problem or the specific goals fully discussed.
- ⇒ This may be the reason why policy changes often do not have their intended consequences.
- ⇒ Additionally, the nature of the problem, or at least how the problem is perceived and what is considered to be important, changes over time.
- ⇒ Most crucial step in prescribing policy is a *correct diagnosis of the problem and its causes*.
- ⇒ Let's have a look at the characteristics of agriculture in developed countries.

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## A-F Policy - Characteristics of agriculture in developed countries



- Demand growth for food is slow.
  - Income elasticity is slow and falling.
  - Slow population growth.
- Supply growth is brisk
  - Rapid technological change
  - Incentives provided by governments
  - Structural change
- Declining real prices for ag. products
- Number of farms has declined and farm size has increased
  - Who is a farmer
  - Large discrepancy on the distribution of income
  - Separation between landowners and farm operators
- Despite the consolidation of farm operations net farm income continues to fall
- ⇒ The economic difficulties of agriculture have been identified as the **“farm problem”**

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## A-F Policy - The “farm problem”



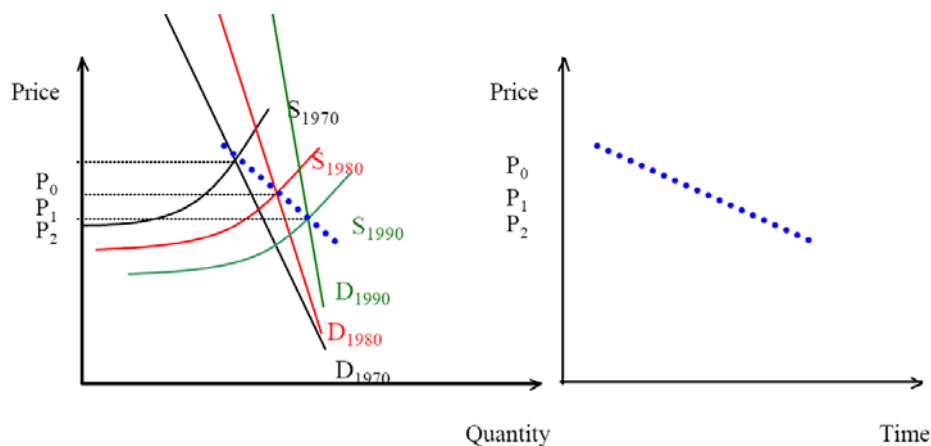
- Theodore Schultz (1945) identified the farm problem with both “the *low earnings* of most farm people and the great *instability of income* from farming”
  - How can we explain the farm problem from an economic perspective, i.e.: How can we integrate the following 3 patterns:
    - High productivity growth in agriculture
    - Low incomes in agriculture
    - Instability of agricultural income
- ⇒ Let’s have a look at:
- Inelastic supply and demand that grow at different rates
  - Asset fixity
  - “Disequilibrium” in farm incomes compared to non-farm incomes

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## Consequence of Inelastic Demand and Supply: Declining Real Prices



⇒ Declining commodity prices can be explained by inelastic demand and supply.



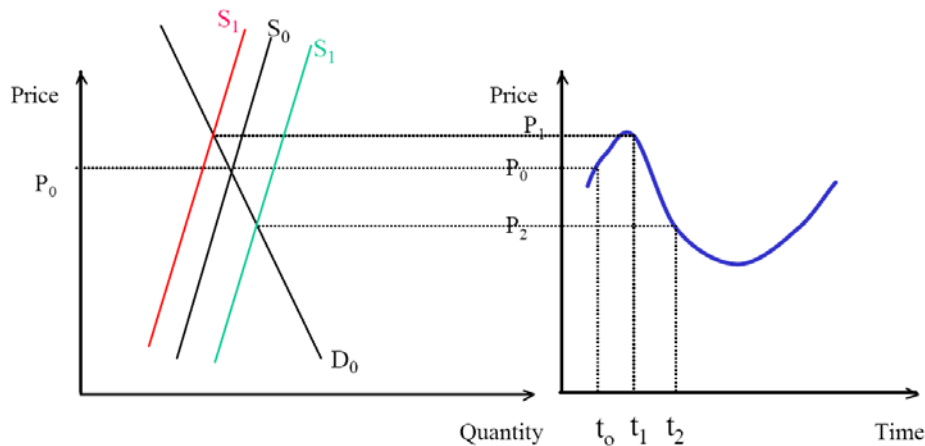
- Technological change is shifting the supply curve to the right
- Income and population growth shift demand curve to right

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## Consequence of Inelastic Demand and Supply: Instability



⇒ With inelastic demand and supply relatively small transitory output and demand shocks can cause substantial price fluctuations.



- The shocks can either be from supply or demand sides
- Supply shocks can involve a grouping of droughts across several regions

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## The “farm problem” - Why might farm income be low?



But: Do declining commodity prices imply declining farm income?

⇒ There is no empirical work establishing commodity price trends as a cause of farm income trends.

- Low farm incomes relative to non-farm incomes should not be primarily a matter of relative farm and non-farm commodity prices, but rather of factor market conditions.
- Farm income depends on factor incomes or returns to land, labour, and capital (real assets: equipment, buildings, and other materials).

⇒ Have to look at factor markets to determine why farm incomes may be low relative to non-farm incomes.

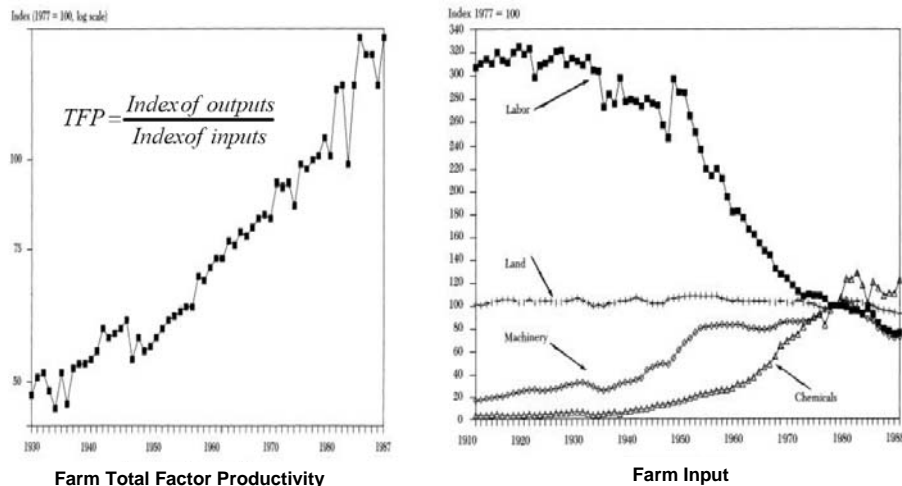
- Models explaining factor incomes:
  - Relationship between technical change and factor demand
  - Supply response of factor owners

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## The “farm problem” - Why might farm income be low?



Relationship between technological change and factor demand



Source: Gardner (1992): *Changing economic perspectives on the farm problem*.  
Journal of Economic Literature, 30, March, pp. 62-101

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## The “farm problem” - Why might farm income be low?

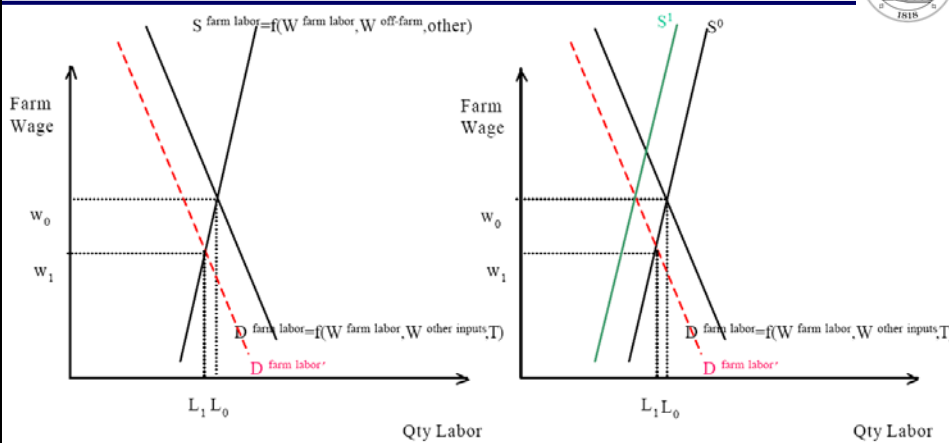


Relationship between technological change and factor demand

- Econometric work on factor demand and technical change, together with the data on trends in input use, suggests that the income problem should be a labour-income problem.
- ⇒ Labour is the only input category with significant downward trend over a long time period.
- The driving force in the model remains technical change
- Even with technological progress in both farm and non-farm sectors (hence general economic growth), the farm problem persists because of Engel's Law insures slow growth of demand for food as compared to non-food commodities.
  - ⇒ unless the outflow of labour from farming is fast enough
- ⇒ Have a look at factor supply of the factor “labour”

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## Why might farm income be low? - Factor Market “Disequilibrium”



- The demand shift  $\downarrow w^{farm}$  and  $\downarrow$  labor income
- Farm wages decline relative to rest of economy
- Factor mobility means that labor should leave ag, then non-ag and ag wages would equalize
- Why doesn't the supply curve shift up so that factor returns become equal between farm/non-farm?

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## The “farm problem” - Reasons why farm factor supply will not adjust



Two main views explain the lack of factor mobility:

- Neoclassical view:
  - short run *adjustment costs* (especially for labour movement);
  - in the long run wage differences between sectors may be due to *skill differences*, *age differences*, and *non-pecuniary preferences* (primarily applies to labour)
- *Asset fixity* and irreversibilities in agricultural investment:
  - The farmer makes a decision to make an investment by comparing expected returns to cost of acquiring the asset ( $VMP > AP$ )
  - Farmer will continue to be committed to use the asset until the expected return falls below the salvage value (If  $AP > VMP > SV \Rightarrow$  *resource trap*)
  - fixed asset theory might help to explain why farm resources, including labour, can become trapped in agriculture leading to overcapacity and low returns.

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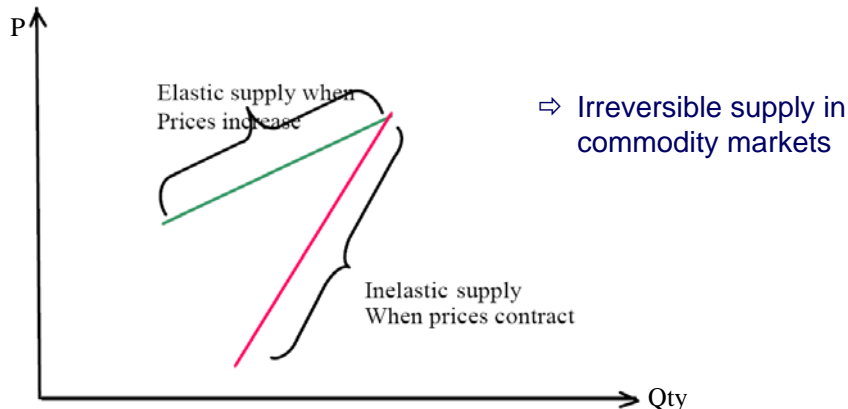


## The “farm problem”

### - Reasons why farm factor supply will not adjust



- Once resources/assets become fixed in the industry owners will experience low earnings or capital losses
- But: how does it come that new investment is made?
- Observe periods with commodity prices sufficiently high  
⇒  $VMP > AP$  ⇒ Investment, but the underlying tendency soon reasserts itself



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## The “farm problem”

### - Does it still exist?



But: Theories of asset fixity and other market imperfections have grown out of vogue.

- Lack of empirical evidence supporting the theories
- Producers/labours should be able to anticipate eventual underlying tendencies

So, what explains chronically low farm wages?

- Differences in skill levels
  - Temporary foreign workers
  - Large majority of farm operators work in non-farm employment
- ⇒ The return of human capital for farmers does not show up what the wage rate is.
- ⇒ Farm/non-farm income comparisons are fraught with difficulties (e.g. observe business unit/farm, not household).
- ⇒ Does a sector wide farm problem still exist?

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## So what is the farm problem?

### - Old Farm Problem versus New Farm Problem



#### OLD FARM PROBLEM:

- **Chronically low farm prices and income**
  - can be seen as a symptom of the problem of chronic excess capacity;
  - off-farm income has become a significant component of total household income.
- **Reduced farm numbers**
  - is this really a problem?
  - Despite political rhetoric to the contrary, it may be a positive sign of adjustment to a more efficient and competitive agricultural system.
- **Financial stress**
  - cannot be considered to be a general agricultural problem.
- **Market power**
  - the “villain theory.” But: Agribusiness is an integral part of the industrialization process that is occurring in agriculture.

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## So what is the farm problem?

### - Old Farm Problem versus New Farm Problem



#### NEW FARM PROBLEM:

- **Instability**
  - inherent in agriculture.
  - It results from the interaction of a highly inelastic supply and demand.
- **Diversity and changing farm structure**
  - Farms cover a wide range of sizes operating under substantially different conditions with various levels of dependence on agriculture.
- **Food security**
  - is an important dimension of the world food problem.
  - Little danger that in developed countries consumers will experience a food shortage, but the world perspective on this issue is significantly different.
- **Resource scarcity and agricultural externalities**

Farm programs may be viewed both as a contributor and as a policy tool for dealing with resource problems.

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## A Word of Caution



- Any casual observer of agriculture needs to be cautioned against getting swept up in current events.
- Agriculture is sufficiently unstable that the minute one gets swept up in conditions of surplus, a production shortfall creates deficits or a military conflict creates uncertainty over food supplies and needs.
- Policies must be sufficiently flexible to deal with both, the long-run trends and the short-run aberrations. This requires a careful matching of policy solutions with problem causes.

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## Review and Discussion Questions



1. What is Agricultural and Food Policy?
2. Which factors influence one's policy position. Explain briefly.
3. We examined four problems that are generally seen as the major food and agricultural problems of today. Please describe and briefly explain each of the problems.
4. A-F Policy changes steadily over time. What are today's major forces for policy change. Explain each force briefly.
5. The farm problem is generally identified with both "the low earnings of most farm people and the great instability of income from farming". Please explain and discuss the farm problem from an economic perspective. In your answer you should especially address:
  - Why supply and demand are inelastic and what the consequences of the inelasticity are.
  - The theory of asset fixity.
  - Finally discuss briefly if the farm problem still exists for farms in developed countries.

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