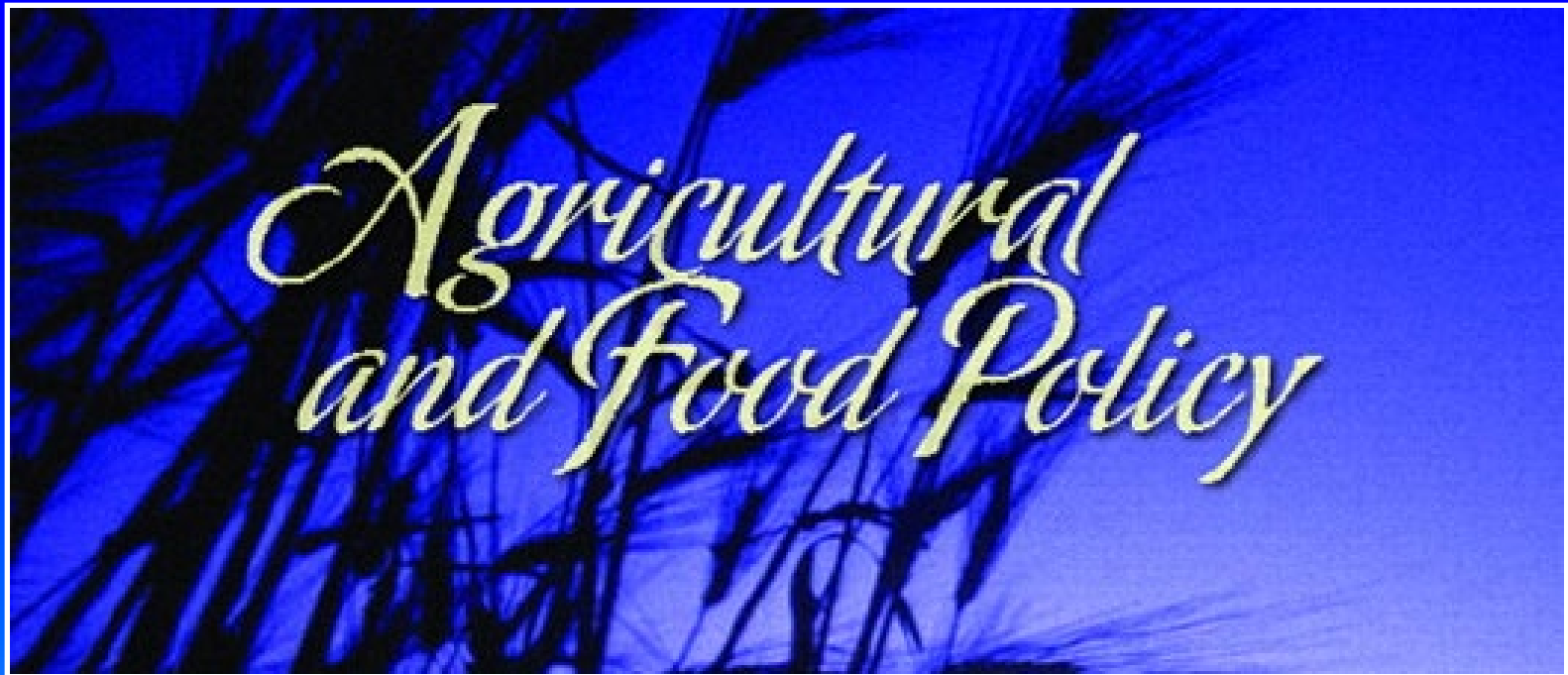


AGEC 429: AGRICULTURAL POLICY



LECTURE 2: WHAT IS AGRICULTURAL POLICY?

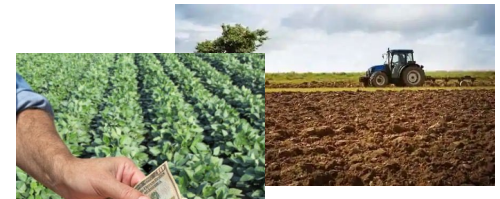
WHAT IS AGRICULTURAL POLICY?

Agricultural policy is a subset of public policy directed primarily but not exclusively at the farm and agribusiness sectors of society.

Agricultural policy applies to two markets:

1. AGRICULTURAL _____ MARKETS

- Use of land and other natural resources
- Agricultural credit and finance
- Labor
- Industrial products



2. AGRICULTURAL _____ MARKETS

- Production
- Consumption
- Marketing
- International Trade



WHAT “SHOULD” AGRICULTURAL POLICIES BE?

Everyone involved in agriculture has his/her own idea of the answer to this question which is based on the interaction of *facts*, *beliefs*, and *values*:

_____:

- What is known with certainty.
- Describe what is (not what “should be”).
- There can be no argument.

_____:

- Describe what people THINK are facts.
- Unsupported opinions about what is.

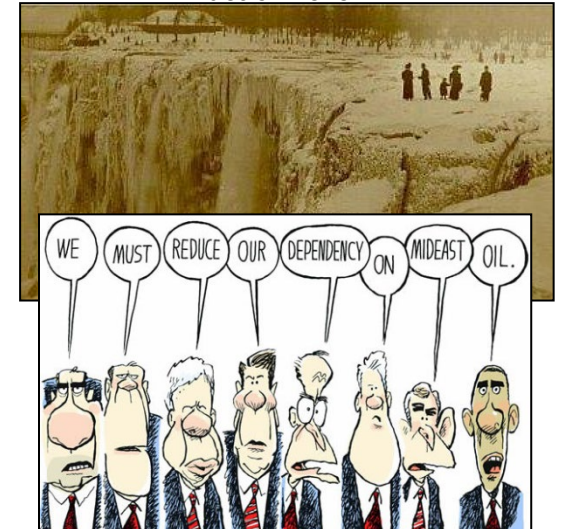
_____:

- Concepts/opinions of what “should be.”
- Implies a call for action to change something or the way things are done.

Niagara falls is located on the border between the U.S. and Canada on the Niagara River between Lake Erie and Lake Ontario.

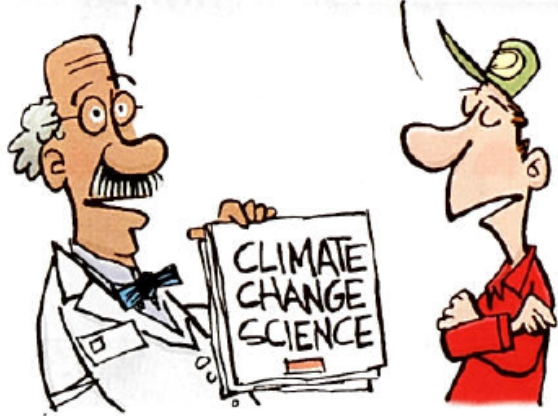


Niagara Falls froze over in the early 1900s:
Fact or Belief?



IT'S A
PROVEN FACT
NOW!

I DON'T
BELIEVE IN
YOUR FACTS!



FACTS ARE FACTS!
NOT A
BELIEF.

THAT'S YOUR
OPINION!



IT'S NOT AN
OPINION.
IT'S A FACT.

FROM YOUR
SIDE!



THERE ARE
NO SIDES!
JUST FACTS!

BUT I
DON'T
THINK SO!



JUST BECAUSE YOU DON'T
THINK IT'S A FACT DOESN'T
MEAN IT ISN'T!

WELL, I HAVE
MY SUSPICIONS!



ARGH!! IT'S USELESS
ARGUING WITH YOU!!

NOW, THAT'S
A FACT!



TRADITIONAL FARM VALUES

- Based on Traditional Farm Facts/Beliefs -

"Those who labor in the earth are the chosen people of God...."
Thomas Jefferson, Notes on Virginia (1785).



Farm “values” over the years have typically been based on the beliefs about agriculture asserted by Thomas Jefferson in his “Agrarian Ideology”:

THOMAS JEFFERSON’S AGRARIAN IDEOLOGY (Opinions)

1. Agriculture is the basic _____ of humankind.
2. Rural life is _____ to urban life.
3. A nation of small independent (family) farmers is the proper basis for a _____.

TRADITIONAL FARM VALUES

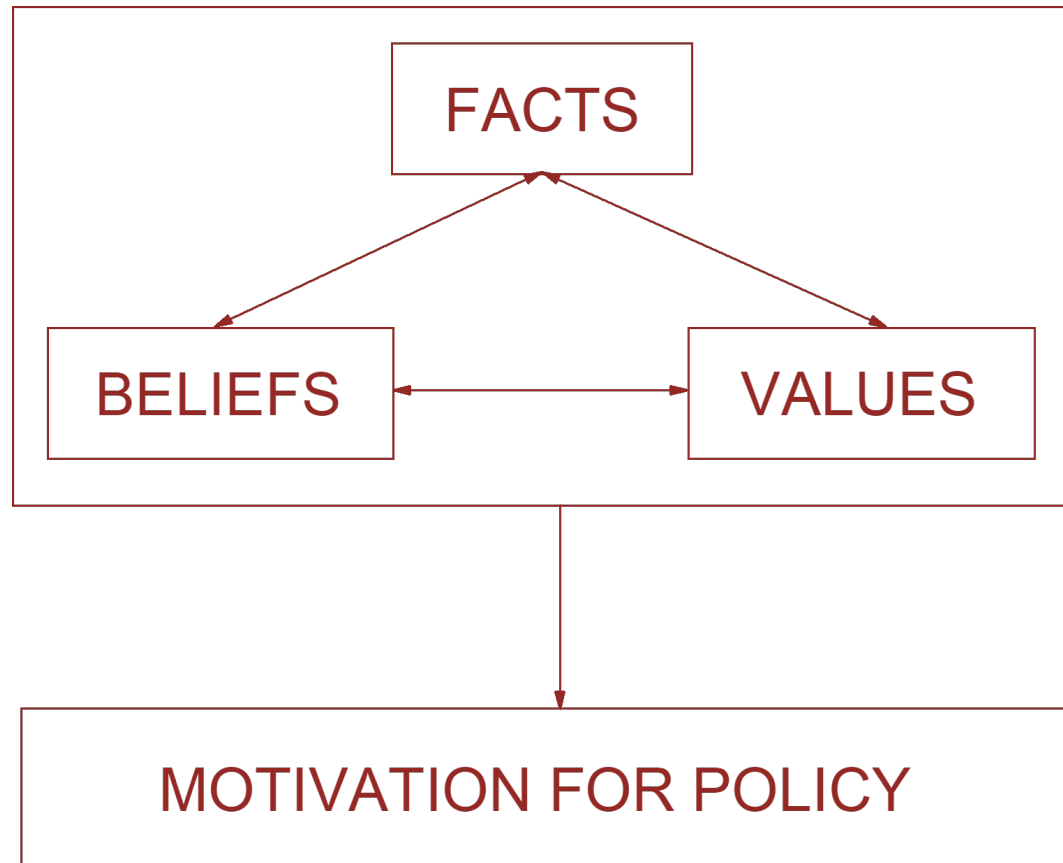
How do farmers think things “should be” in agriculture?

Examples of traditional farm values:

- Farmers' income should be on a par with non-farm income.
- Farmers should be able to own their own land.
- Farming should be efficient and productive (publicly provided infrastructure, new technology development, etc.).
- Farmers should have adequate and equal access to education and training.
- Agriculture should be treated and protected as a vital national security industry.
- Farmers should not have to face unreasonable marketplace uncertainty.

INTERACTION OF FACTS, BELIEFS, AND VALUES

Facts, beliefs, and values interact to provide motivation for the formulation and implementation of agricultural policy by the government.



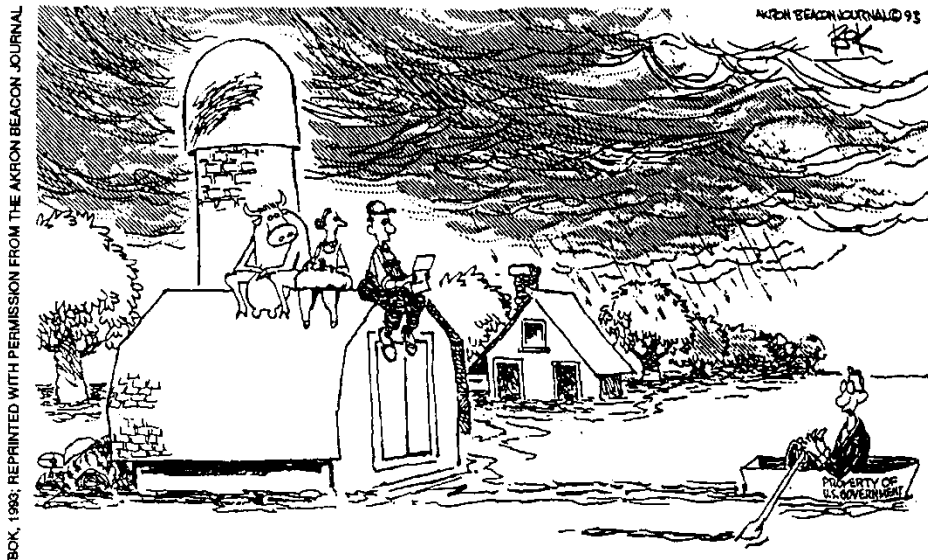
FACT, BELIEF, OR VALUE?

Can You Tell the Difference?

- ___ 1. If the people had all the facts about any particular problem and really understood them, their decision in regard to what ought to be done to solve it would be almost unanimous.
- ___ 2. People should not be permitted to smoke in public places.
- ___ 3. We need to support farm incomes with agricultural policy to make it possible for more young people to stay in farming.
- ___ 4. The national debt is already at the danger point and under no circumstances should it be increased.
- ___ 5. In an unregulated market, prices are set by the free forces of supply and demand.
- ___ 6. Taxes are now too high and should be reduced.
- ___ 7. "Those who labor in the earth are the chosen people of God."
- ___ 8. The government already has intervened in many spheres of the economy and certainly could curtail rather than expand its activities.
- ___ 9. The government already has intervened in too many spheres of the economy and certainly should curtail rather than expand its activities.
- ___ 10. Food prices are escalating because of the strong and growing demand for corn for ethanol production.

Why Does the Government Become Involved In Influencing Agricultural Markets, Prices, Incomes, etc.?

- Individuals and groups can formulate their own policies based on their own values to achieve higher prices, incomes, etc. So why does the government become involved?
- Why don't people just work together and solve their own problems without the government?



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"LOOKS LIKE A DISASTER RELIEF CHECK, CROP LOSS COMPENSATION, AND A FINE FOR DISTURBING A WET LAND."



ANY CAMPAIGN CONTRIBUTIONS, I MEAN "COUPONS", TODAY?...

Why Does the Government Become Involved?

General Intervention Motivations

1. Market Imperfections or Failures

Market prices or costs do not reflect true scarcity values due to imperfections in output, input, or financial markets.

- *Externality: An externality exists whenever the welfare of a firm or household is directly affected by the actions of others.* The costs or benefits are not reflected in market prices so the market behavior and decisions of those creating the externalities do not take their effects into account.



Why Does the Government Become Involved?

Two Types of Externalities

Negative Externalities

Economic activities that impose NEGATIVE effects on an unrelated third party. Such effects can arise either during the production or the consumption of a good or service.

- **___ pollution** from burning fossil fuels. This activity causes damage to crops, buildings, and public health.
- **___ pollution** by industries that adds effluent, which harms plants, animals, and humans.
- **_____ pollution** during the production process, which may be mentally and psychologically disruptive.

Positive Externalities

Economic activities that impose POSITIVE effects on an unrelated third party during either the production or the consumption of a good or service.

- **Beekeeping** - beekeepers produce honey but farmers benefit from the pollination.
- **NOT driving under the influence of substances** keeps you safer when you drive and makes other drivers safer and may even save lives.
- **Inoculations** keep you healthy but also keep others from getting sick and makes your whole community more healthy.





- *Public Goods: Goods that individuals can consume without paying a price (like **air**, **scenic views**) or goods that private firms will not produce because they cannot capture the full returns from their investment (like **interstate highways**, **national defense**, **lighthouses**, **the internet**).*

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2. Market Allocations are Unacceptable to Society

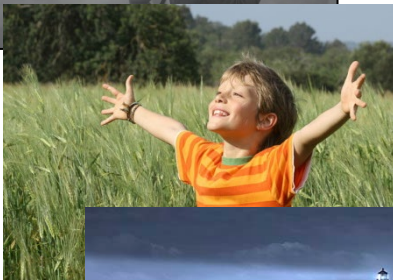
Market-determined allocations of resources, income, and output are deemed unacceptable by society. That is, social valuation does not equal market valuation of resources and outputs.

Why Does the Government Become Involved?

General Intervention Motivations

So why do governments intervene in markets?

Because of the perceived benefits to society, the need for goods and services that will not be protected or provided by the market, or the failure or inability of the market in distributing income, producing desired goods, or achieving other politically/socially desirable outcomes.



Why Does the Government Become Involved?

Why Don't People Just Get Together and Solve Their Own Problems Without the Government?



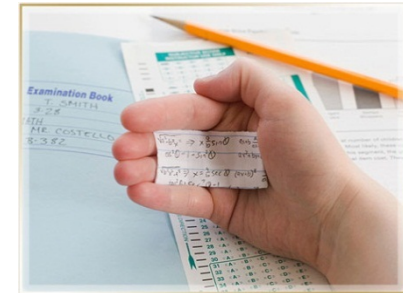
1. Free Riders and Cheating

“Free riders” do not pay the cost of making changes but want to enjoy the benefits



<https://criticalcommons.org/Members/AdrianFohr/clips/advertising-and-the-rationality-assumption-1/view>

“Cheaters” try to get around rules to benefit from the fact that others are trying to follow the rules.



<https://www.youtube.com/watch?v=oOK5VRehEHg>

2. The Fallacy of

What's good for *one* individual in a group is not necessarily good for *all* individuals **and vice versa**.

3. Diverse of Many Agricultural Groups

What benefits producers may not be what benefits processors, wholesalers, retailers, consumers, or others.

Why Does the Government Become Involved?

Fallacy of Composition Examples:

Example #1:

Each brick in that building weighs less than a pound. Therefore, the building weighs less than a pound.

Example #2:

Hydrogen is not wet. Oxygen is not wet. Therefore, water (H₂O) is not wet.

Example #3:

Your brain is made of molecules. Molecules do not have consciousness. Therefore, your brain cannot be the source of consciousness.

Example #3:

If one farmer increases production, the price will not drop and he will make money. So if all farmers increase production, price will not drop so all farmers will make money.

MORE FACT, BELIEF, OR VALUE!

Can You Tell the Difference?

Try these on your own. The answers are on the next page.

NO PEEKING!

- ___ 11. Our defense capability is already more than needed and, therefore, can be cut.
- ___ 12. What you and I decide to eat is not the government's business.
- ___ 13. Scientific investigations have shown that those who have a history of cholesterol problems must monitor and control their cholesterol intake.
- ___ 14. What is advantageous to one individual may be disadvantageous to another.
- ___ 15. What goes around, comes around.
- ___ 16. We have become a government of special interests.
- ___ 17. Public issues often are debated in terms of the symptoms rather than the actual problems.
- ___ 18. The family farm has served Americans well and, therefore, must be preserved.
- ___ 19. We are depleting our groundwater supply; therefore, we must find another way to ration it.
- ___ 20. Because of the growing cost of imported oil, we must establish policies to facilitate the development of a biofuels industry.

MORE FACT, BELIEF, OR VALUE!

Can You Tell the Difference?

Answers.

I SAID NO PEEKING!

VALUE11. Our defense capability is already more than needed and, therefore, can be cut.

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