

When Government Politicizes Agriculture

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I. Introduction

Food is as basic to humans as air, water and shelter. So everybody in this planet is a food consumer. Since there is a big demand for food (the bigger the population, the bigger the demand), there is a big incentive for farmers and other food producers to grow more food, both for their own household consumption and to produce a surplus to be sold to various consumers and make a profit.

If food producers and consumers are left on their own, they should be able to adjust among themselves. If food prices are high because there are too many consumers and there are just few farmers, all other things being equal, some of the consumers will be encouraged to take up farming and become food producers too, and pretty soon, food prices can go down as food supply expands. If food prices go down so low to unprofitable levels, some farmers will stop producing and find other work, and the resulting food supply reduction will result in upward adjustment in food prices, and the dynamics between food production and food consumption continue.

Of course the harvested and milled food not reach the consumers on their own. There are people who transport and distribute such harvested and processed food from producers to consumers, the food traders. Then there are also people who help producers and distributors improve their productivity and reduce crop damage and food spoilage, the agricultural scientists and food technologists. So food trading, food processing and food science are also important aspect in the food production-distribution-consumption cycle.

Society should be fine in this scenario as there is a role for everyone. The industrious will eat and prosper, the lazy will go hungry.

The entry, however, of people who are neither producers nor traders or scientists to intervene in the cycle, will result in distortion in food prices, if not occasional disruption of food supply and distribution. These are the government food and agriculture bureaucrats, politicians who introduce and create laws in agriculture intervention, as well as ordinary criminals. The bigger the number of this group of people, the greater the distortion in food prices and/or higher taxes to be taken from the pockets and savings of ordinary citizens.

There are many forms of government intervention in agriculture that affect the behavior of producers, traders and distributors, scientists and innovators, and consumers. Such interventions can be called “politicization of agriculture” because there is heavy involvement of politics and the State in an otherwise non-political sector where both food producers and consumers, with the intercession of traders and distributors, can interact freely if they were left alone.

II. The 13 sins of State intervention in agriculture

The huge food price spikes that the world recently experienced have been blamed by a number of observers and public policy makers as due to “market manipulation” and “market failure”. Hence, existing government regulations, taxation and intervention should be retained, if not expanded, in agricultural production and distribution.

Below are a some political interventions practiced by governments in many countries around the world. The “farmers” being referred in the foregoing discussions refer to both small and big/commercial farmers.

1. Subsidize farmers to produce more food for “self sufficiency”. The goal is self-explanatory and this is pursued by many governments around the world. The subsidies are in various forms: direct money transfer, credit support, farm machineries or farm animals, seeds and fertilizer support, a proposed governments R&D for a “Second Green Revolution”, and so on.

2. Subsidize farmers to produce less food in times of bumper harvest. The goal is to stop prices from going too low that will make farming unprofitable, which might prompt some farmers to stop farming and move elsewhere. This is done by a few governments of rich countries.

3. Impose high tariffs to food imports. The twin goals are (a) protect local farmers from foreign competition and discourage plenty of food importation even if food prices abroad are cheaper than those locally-produced, and (b) raise tax revenues for the State.

4. Subsidize farmers to produce more crops for bio-fuels. The goal is to reduce dependency on fossil fuel and help “fight global warming”, although this helped divert crop production away from food . A number of governments of developed economies are doing this.

5. Have an agricultural price insurance for farmers. When the price of certain agricultural commodities declines in the future, farmers will get a subsidy. The goal is to prod farmers to continue producing certain crops even when it may look unprofitable to do so in the near future.

6. Impose “community preference” for imported food. This is setting high health and sanitation standards, animal welfare and labor standards, for imported food products; otherwise, the tariff will be very high. The goal is to compel food exporters from abroad to keep up with rich country (particularly European) standards.

7. Subsidize poorer consumers by selling them cheaper food. The goal is to give the poor some “safety nets” and prevent any social upheaval, and this is being done by many governments in poorer countries. At the international level, there is “Food Aid” done by the UN’s World Food Program (WFP).

8. Nationalize and centralize importation of certain food products through a State-owned enterprise. The twin goals are (a) to eliminate those “greedy” private traders and importers, and (b) the State can corner and monopolize some price difference between cheaper imported price and higher local price, helping raise the State coffers.

9. Institute an “agrarian reform” with no timetable. The goal of this forced land redistribution program is to break huge landholdings and give land ownership to small and landless farmers, thereby help ensuring social equity in rural areas.

10. Impose price hike ban or price control on certain commodities. The main goal is again, to prevent “greedy” producers and traders from exploiting the poor consumers.

11. Impose rice “export ban” at the height of high world rice prices. The goal is to keep local prices from rising further when some of local output will be diverted for the world market.

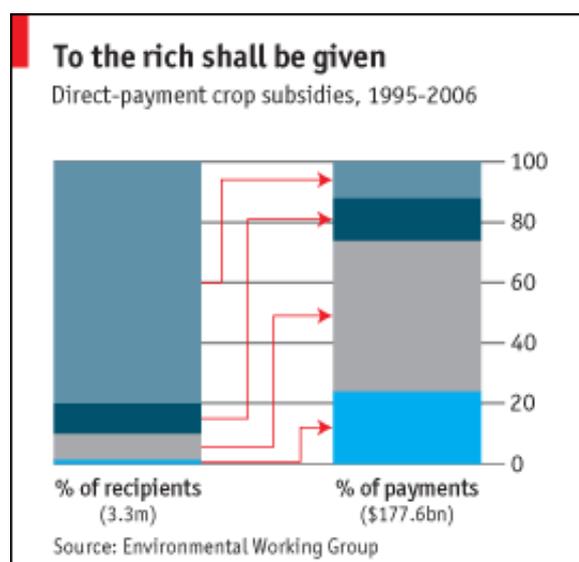
12. Impose land conversion ban. The goal is to retain existing rice lands and prohibit their conversion into non-rice or other non-agricultural land use either by the existing or new landowners, hoping that there will be no reduction in rice production or other important food crops.

13. Impose “GM ban” or non-production, non-importation of genetically-modified (GM) vegetables, fruits and other crops. The goal is to prevent possible outbreak of “Frankenfoods” and their projected long-term negative effects on human health.

III. Why such interventions are misguided

The rationale for such public policies appear laudable, but the implications on the behavior of producers and consumers are not. Such policies do not result in more food for more consumers at more or differentiated price levels. Instead, such impositions and politicization of farming and farm consumption have negative consequences. Below are some of these bad results.

First, subsidizing farmers may encourage some of them to continue farming not because they like doing it and they are earning from it, but because they are getting endless subsidies which makes farming “profitable”. Such redistribution of money from consumers and taxpayers to farmers is not simple, the procedures can be bureaucratic that will require lots of paper work. Thus, farmers who want to get the various subsidies have to devote time and resources away from farming and into submitting documents and papers in their respective governments’ agriculture ministries and agencies. This could be the main reason why the big farmers are the main beneficiaries of the expensive subsidies program, as shown in this chart below.



Source: The Economist, May 22, 2008,
http://www.economist.com/world/na/displaystory.cfm?story_id=11412562

The chart above shows that from 1995 to 2006, around 2 percent of US farmers received nearly 25 percent of total subsidies. In contrast, around 80 percent of US farmers received around 12 percent of total subsidies.

In addition, maintaining food “self-sufficiency” policy invites agricultural protectionism in order to shield local farmers from foreign competition, which may turn them off from continued farming, which can result to “food insufficiency” someday. Some countries produce particular agricultural commodities more efficiently than others by virtue of their geography (wide flat lands, few mountains, lots of lakes and rivers, away from usual typhoon path, and so on), soil condition, conservation practices and entrepreneurial spirit of farmers, etc. Hence, it will give justice to local consumers to allow them to avail of cheaper food from countries that have such natural and social characteristics. Also, a good example of what food autarky can do is North Korea.

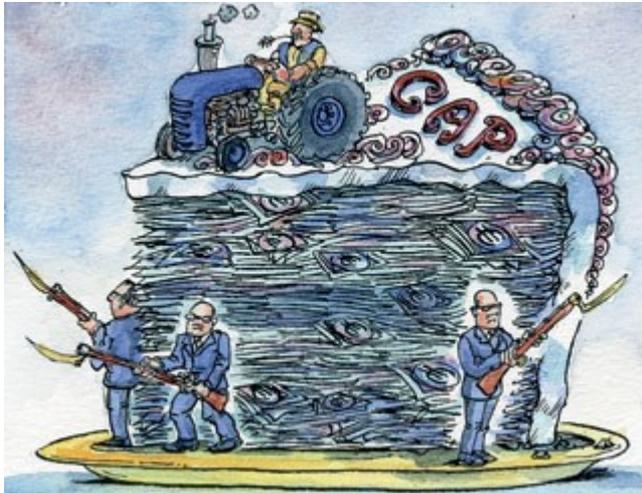
Second, encouraging farmers to produce less food when they are capable of producing more, prevents local food prices from falling, which should have benefited consumers. This perverse use of taxpayers money for subsidies, then making the same taxpayers pay more for food that could have been made available at a lower price, is insensitive public policy.

Third, as discussed above, food protectionism penalizes consumers, including many farmers themselves who experience crop damage or small harvest (due to strong typhoons, pest or insect attack, prolonged drought, civil conflict, etc.). A better option is to cut, if not abolish, those tariffs on food products, have full free trade in food and other commodities and services. Producers of food-surplus countries will benefit through higher income, while consumers of food-deficient countries will benefit through lower price.

Fourth, encouraging production of more bio-fuels through additional government subsidies has contributed to the recent food price spikes, even if at a minor level. Farming for bio-fuels production should be profitable because of high demand for the product; if this is so, then there is no need for subsidies.

Fifth. encouraging farmers to continue producing particular commodities even if their prices have gone down (due to improved productivity, due to big harvests abroad and imported cheaply, etc.) to non-profitable levels is not good. Taxpayers should be spared from shelling out more money for price differential subsidy. With current high prices of many food products, farming is becoming more profitable. But when governments maintain, if not increase, various farm insurance and price subsidy, this means those governments have no intention of allowing cheaper farm production in the future.

Below is an illustration of how State officials – EU officials maintaining the Common Agricultural Policy (CAP) – are guarding the interest of some protected farmers who are guaranteed of high incomes through various subsidies, including agricultural price insurance.



Source: The Economist, May 22, 2008,
http://www.economist.com/world/europe/displaystory.cfm?story_id=1141312

Sixth, those strict health, sanitation, environmental, animal welfare, and labor standards were imposed by farm lobbies and bureaucracies of rich governments, not so much by consumers. If some rich consumers want this strict regulations, they can do so by demanding proper labeling and purchasing only those products (local or imported). Poorer consumers who may not be too strict with those standards and just want cheaper and safe food, need not be forced to pay the high standards, expensive food. If food products are unfit for human consumption, then they should be banned, not over-taxed to make them expensive for all consumers.

Seventh, giving poor consumers highly subsidized food on a regular, continuing, and non-emergency situations is creating a “moral hazards” problem. Instead of moving somewhere where they can produce food or live in food-surplus places where they can have access to cheaper food, many poor consumers remain in dense sections of cities and exert political pressure by virtue of their big number as a voting bloc to local and national politicians.

Delivery of highly-subsidized food should be done only in emergencies, like people and communities battered by strong typhoons, or displaced by strong earthquakes, volcanic eruptions, tsunami, pest and disease outbreak, other natural calamities. Or displaced by big fires, civil conflict, other man-made calamities. The purposes are to break “moral hazards” problem, limit use of taxpayers’ money to emergencies, encourage individual responsibility, and discourage endless dependence. Politicians who indirectly encourage dependence and dole-out mentality will also be taught some lessons.

Eighth, nationalizing and centralizing importation of certain food products through State-owned enterprise/s is creating and perpetuating monopolies. Where there are monopolies, there are wastes and inefficiencies as the monopolists are not afraid of competition, they only have to pamper the egos of the politicians and regulators who retain the monopolistic market structure and/or give them endless annual subsidies. The risk of abuse by a monopoly, say cornering a big price margin between cheaper imported price and higher local price, is greater than under a competitive system where some firms can easily underprice their competitors and still make enough profit, forcing the other traders and firms not to make huge price margin. The consumers are the clear winners in a competitive set-up.

Ninth, the institution of an “agrarian reform” with no timetable will create uncertainty in land ownership and hence, result in agricultural under-investment. Many medium-sized and big or corporate landowners who do not have enough political connections to the dominant political parties will hesitate further development and expansion of their agricultural plantation because it will certainly attract the attention and invite possible harassment by the agrarian reform department or ministry for forcible land redistribution at nominal compensation to the original landowners.

Original timetables for stopping the forcible land redistribution program should be kept, not extended. This way, agri-businessmen and entrepreneurs who can introduce more modern, more efficient farming technologies and management will end their wait-and-see attitude and pour their talent and resources if they need to. Corporate farms on huge commercial operation to cater to huge and diversified markets and consumers will not hesitate getting the services of top-notch soil scientists, horticulturists, animal scientists, plant geneticists, other science and technology personnel, to further improve farm productivity and reduce crop losses. Small farmers holding small tracts of land even organized under cooperatives, are less likely to embark on such high-cost, high-tech farming business model.

Pictures below show some modern tools being used and practiced in commercial farming, like a tractor for huge farm lands and laboratory growing and testing for some crops.



Photos sources:

(left) <http://www.fotosearch.com/NGF004/72768195/>

(right) <http://www.fotosearch.com/DGV639/1357037/>

Tenth, imposition of price hike ban or price control will discourage continued expansion and innovation in farming practices and technologies. A stab at good profit due to innovation will encourage more ambitious farmers and agri entrepreneurs to endlessly improve their farming practices. Consumers will benefit with better quality crops, more diversity in food supply, and affordable food prices. Farmers who do not innovate on their practices will not be able to adapt to changes in consumer preferences, pest and insect evolution, and other factors.

A good price, including a higher price for certain crops when supply elsewhere has decreased and demand has increased due to various reasons (population increase, change in consumer taste and preferences, etc.) is a good incentive for farmers to continue their profession, to embark on more farming innovation.

Eleventh, land conversion ban meant to discourage or stop conversion of rice land, corn land, other agricultural land to non-agri uses (residential, commercial, industrial, golf courses, theme parks, etc.) will result in sub-optimal land use, if not idle and non-utilized land in some areas. A farmer can have many reasons for quitting farming after some time, the same way that an urban professional can have many reasons to try farming as a new profession, whether part-time or full-time. Consider for instance a farmer who is ageing and sickly, none of his children is interested in farming, and he needs money for his or one of his children's healthcare, he has to sell his rice land. Or the farmer has to leave his place to follow a loved one (a child who migrated elsewhere, a new spouse, a sickly sibling or relative somewhere, and so on), the reasons and circumstances can be unlimited.

The “quitting” farmer’s decision to sell or lease his land to other people who may not use the land for food production purposes should be respected, not curtailed. Curtailing a farmer’s right to do what he wants for his property is a violation of the “rule of law” and disrespect of private property rights. Besides, such land conversion ban policy will only encourage further corruption in government, with the land regulatory personnel turning a blind eye to land conversions in exchange for bribes or other favors.

Twelfth, rice export bans by some governments have worsened the difficulty of net rice importing countries through even higher rice prices. Global supply is disrupted. Although it is possible that local prices in a rice-exporting country will increase if there is no export ban, it should be considered too that some farmers there will be encouraged to produce more because there is an opportunity to earn higher. Rice export ban therefore, kills an opportunity for some farmers to earn more by producing more.

And *thirteenth*, banning genetically-modified (GM) food is killing consumer choice. Some “natural” food requires plenty of pesticides and insecticides sprayed on them to minimize or stop crop damage due to pest and insect attacks. Their GM counterparts require very little or none at all, of those pesticides and insecticides because a part of those crop variety’s genes have been modified to include genes of other crops that certain insects and pest find foul and non-edible.

With proper labeling as “natural” or “GM1”, “GM2” and so on, consumers should be left whether to choose which of those available food products they will buy and patronize given their specific nutritional preferences, health needs, budget, and so on.

IV. Concluding Notes

Commodities that experience huge price spikes are often those that are least-traded. Rice that is traded internationally is only about 6 percent of global food production. So when certain countries experience supply shortfall for whatever reason/s, the leeway for emergency supply from imports is small, resulting in huge price spikes and hence, economic difficulty for poorer consumers of those countries.

Free trade, very little or zero tariff and non-tariff barriers, is the best antidote to huge price spikes of certain commodities that experience sudden increase in demand and/or sudden supply disruptions elsewhere. Food producers will have more incentives to produce more to supply the output gap anywhere in the world.

Finally, there is no substitute to allowing the individuals – food producers, traders, processors, consumers – do what is good for them and their family. Various government intervention in agricultural production and distribution is creating more problems than solutions.

It should be problematic for the different Agriculture Ministries or Departments and related government agencies around the world to be told to discontinue doing those forms of interventions because they were created mainly to implement those interventions and politicization of agriculture. Short of abolishing these departments and sparing the pockets of taxpayers from maintaining huge agriculture bureaucracies and huge subsidies, those agencies can be shrank to very lean offices that get activated only during emergencies and catastrophes.