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How Will Rural America, Agribusiness and Government  
Adapt to Structural Change? Implications for  
Government Programs

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HOW WILL RURAL AMERICA, AGRIBUSINESS AND GOVERNMENT ADAPT TO  
STRUCTURAL CHANGE?  
IMPLICATIONS FOR GOVERNMENT PROGRAMS\*\*

Dr. Marc A. Johnson\*

The roles of government are three: a) to design and implement social contracts for fairness and safety among citizens and secure commerce, b) to produce public goods for society in which capture of financial returns to investment are either difficult, expensive, or too exclusionary, and c) to otherwise assist the private sector in being sleek and competitive worldwide. Ease and low cost access to knowledge and commerce on the internet and easy mobility of capital and labor are making some governmental services less relevant. However, public goods are still public goods and social contracts are still an expression of culture, so governmental institutions will remain engaged. The key criterion to judge the effectiveness of governmental services will be: value added. An important element of context within which governmental programs will change is a society which is restless, untrusting, and tired of the pace of change. Groups are quick to promulgate, and large segments of citizens are quick to adopt, fear of change and questions of the definition of progress surrounding issues of genetic improvement, efficiently sized companies, and communication technologies.

To assist me in addressing a number of governmental programs across a broad spectrum, Time magazine's "winners and losers" dichotomy is used. A "winner" is an area of governmental programs which likely will grow in importance; a "loser" is an area which likely will decline. Items mentioned are in three categories: a) economic policy, b) producer and consumer protection, and c) information and marketing.

### Economic Policy

Winner: Monetary policy. Stability of the general economy is essential to a stable commercial environment. Control of stable interest rates, inflation, and growth through monetary policy mechanisms have proven effective since 1979. The farm crisis of the early 1980's was the price paid for undisciplined monetary policy prior to 1979.

Loser: Fiscal policy. A large tax reduction is proposed. Tax cuts in 1964 and 1982 proved to have substantial economic stimulus value. However, the focus of tax cuts seldom dwells long on economic purpose, but focus shifts quickly to engineering income distribution.

Winner: The Freedom to Farm mechanism. Decoupling farm payments from specific commodity production allows producers to try new crops, rotate crops, and seek income more creatively in the market place. The mechanism itself permits a risk control mechanism through enterprise diversification.

Loser: Commodity price supports and loan rates. We have learned in the last two years that weak international markets are a disaster for domestic farm prices. We learned in the early

1980's that high loan rates encourage production but locked commodities in storage, and encouraged the rest of the world to clear land for competitive grain production. Commodity price supports and high loan rates distort the market and imperil U.S. competitiveness.

Winner: Farm income support. Farm business survival and food security are social contract issues for policy resolution, independent of commodity markets. Governmental policies and programs will be active in this area.

### Producer and Consumer Protection

Winner: Courts and Mediation Services. Contract law is well established and enforcement through the courts will be active in disputes between participants in the food chain. Mediation services will be enhanced to reduce litigation time and cost.

Loser: Administrative Contract Protection. Administrative contract law protection would create a new bureaucracy, invite disputes, and yield uneven enforcement, and results would end up in the courts anyway.

Winner: EPA and FDA. The interests of consumer protection and production protection will converge. Consumers, as a population, want a clean environment, safe food, and protection from errant genetic experiments. Producers want a consuming public which is confident that their food comes to them in a safe and environmentally responsible manner. Compromise for practical regulation is a growth enterprise which will build the reputation of the food system.

Loser: Comprehensive inspection. These services are expensive and less than effective.

Winner: HACCP. Hazard analysis at critical control points follows total quality management principles aimed at zero defects. Establishing safety systems with monitoring at critical process points focuses on prevention. Self regulation, once HACCP systems are in place with quality control staff, are reinforced by the extreme cost of product recalls and public relations if the system fails.

Winner: Private risk management tools. The marketplace is flexible and efficient in creating risk management tools useful for producers and agribusiness if public bodies don't preempt the market. Futures markets, contracts, insurance, partnerships, diversification, and mergers are among many private forms of risk control.

Loser: Public risk management tools. Public institutions, by the procedures of changing laws and regulations and lacking price incentives, are not flexible to provide variety or responsiveness of risk management tools. Regionalism and income distribution, again, enter into political determinations of risk management tools.

Winner: Worldwide labor protection. Child and adult labor protection standards enforcement will increase worldwide as consumers become more conscious of the way people are treated who produce their products. This governmental enterprise will grow in the U.S.

Loser: Immigration control. The holes in the immigration sieve at U.S. borders will enlarge to meet the increasing demand for processing and distribution labor. Social programs will catch up to the new immigration stream recognizing the needs of education, health care, and family services.

### Information and Marketing

Winner: Pre-technology and public good research. Basic biological, chemical, engineering, and economic sciences, including genomics, will remain (some would say, move back) to the public sector. The large biological companies are finding the length of time to discovery to be too long and risky for commercial success. Research for which economic returns are not capturable include such work as the environment, food safety, climate change, public policy, and others.

Winner: Public education and extension. Public education at land grant universities and other public universities will remain the primary source of graduates and new scientists. The undergraduate function will keep a land grant university in every state. Extension will remain important but its functions will diverge. In production and processing agriculture, extension will provide deeper scientific and economic education and be responsible for democratizing knowledge flow across the spectrum of firm size. In youth, community and family areas, extension will be an important education partner with service agencies across the rural-urban divide.

Loser: Service and support programs. Governmental service and support programs will find it difficult to be as responsive to change and provide confidential services as private sector service firms. Farms, cooperatives, and other agribusinesses have shown an increasing willingness to pay for expertise to provide specific answers to specific issues. Providing descriptive studies and general recommendations no longer provide sufficient added value to retain their demand.

Loser: Micromanagement of research and education. Finely tuned, governmental management of specific research and extension projects, plans of work, and resource allocation are no longer required to protect the public interest or to assure proper focus. As science becomes more fundamental and extension more scientific and locally specific, oversight agencies will not maintain qualifications to judge appropriateness of programs. Scientific peers and local clientele will provide these judgments more effectively. State governments invest more in base funds for research and education than the federal government does in land grant universities; management and control can shift to the states.

Winner: Market news. Unbiased sources of market news will continue to have important roles providing comprehensive information about the marketplace and democratizing access to this information across the spectrum of firm size.

Loser: Descriptive studies. Descriptive studies of general interest do not add value to decision-makers.

Winner: Hard core price and statistical analysis. Hypothesis testing analysis results in very useful information on causation of price and margin changes, policy impacts, and intervention effectiveness, e.g., environmental or food safety interventions.

Winner: Collaboration and Merger. Merger of research and education entities connects the continuum of generation and dissemination of knowledge. Collaboration among research and education governmental agencies builds synergies, stimulates knowledge growth, reduces duplication, and reduces overhead and transaction costs. Collaboration among public and private entities strengthens technology transfer and the feedback between commercialization of technology and pre-technology science.

### Conclusion

The roles of government and the private sector are clarifying. Government policy processes generate agreements on social contracts and tools to implement these contracts. Government programs for the generation and dissemination of knowledge can contribute to international competitiveness for private sector firms of all sizes. Government programs for consumer and environmental protection can have major benefits for the confidence consumers have in the production and agribusiness sectors. The private sector is taking over the roles of product development, commercial services, and risk control.

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*“Knowledge  
for Life”*



# ROLES OF GOVERNMENT:

- **social contracts**
- **public goods**
- **assist private sector**

**CRITERIA FOR SUCCESS:**

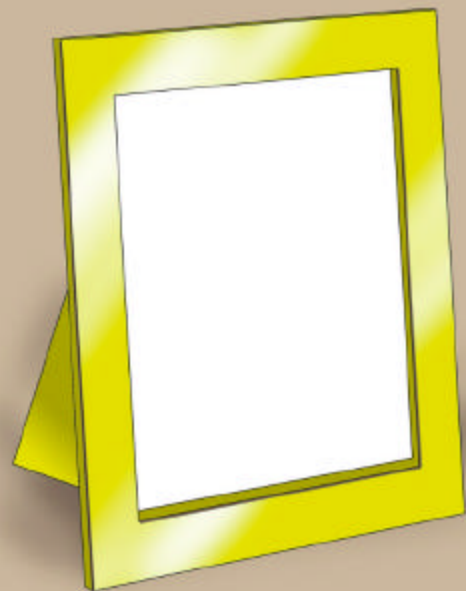
**VALUE-ADDED**



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for Life”*



# Winners



# Losers



**Economic Policy**

**Producer and  
Consumer Protection**

**Information and Marketing**



*“Knowledge  
for Life”*



**Monetary  
Policy**

**Winner**

# Loser





Freedom to  
Farm  
Mechanism

**Winner**

# Loser







Farm  
Income  
Support

**Winner**



Courts  
and  
Mediation  
Services

**Winner**

# Loser





EPA  
and  
FDA

**Winner**

# Loser







**Winner**



Private  
Risk  
Management  
Tools

**Winner**

# Loser





Worldwide  
Labor  
Protection

**Winner**

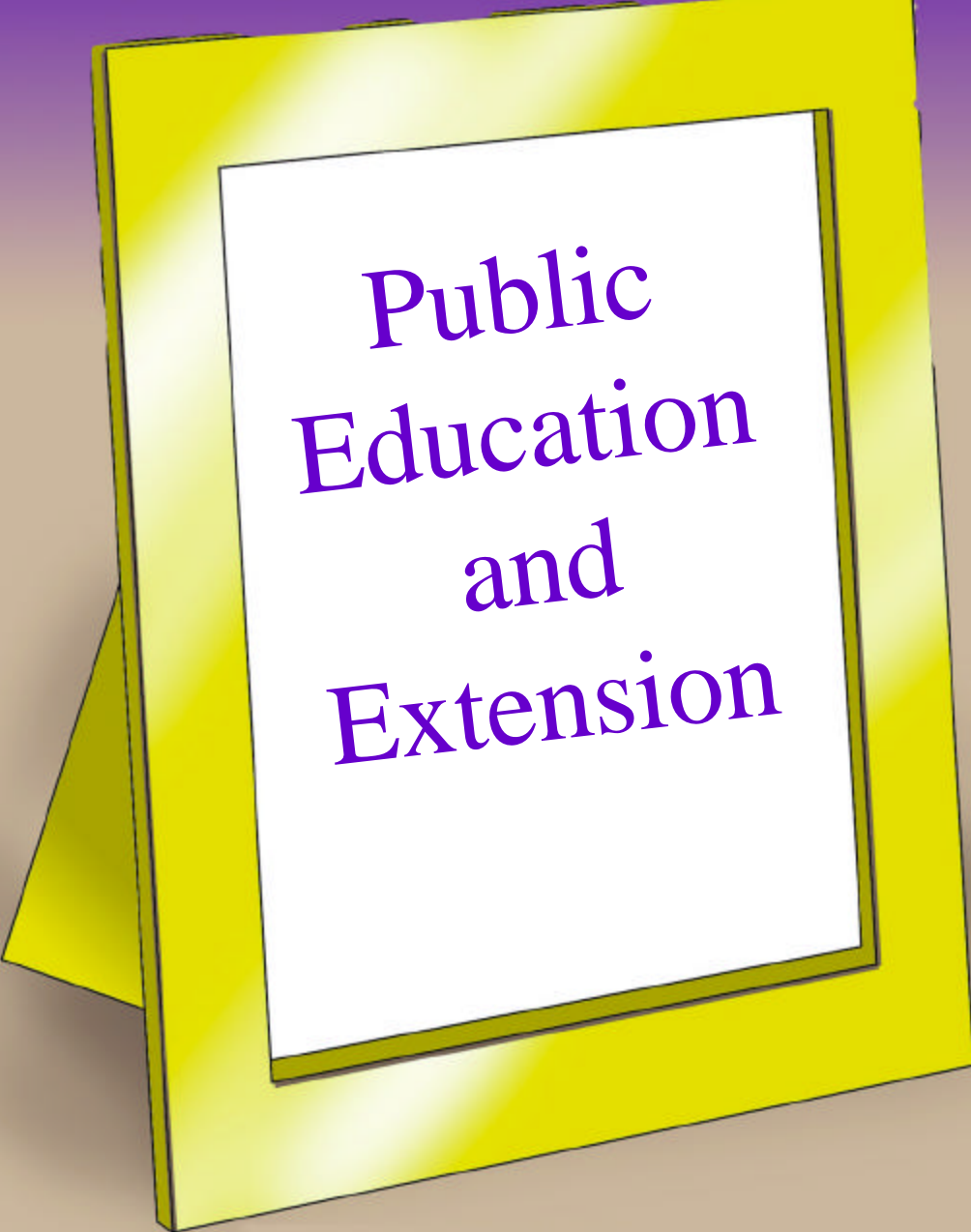
# Loser





Pre-  
Technology  
and  
Public  
Good  
Research

**Winner**



Public  
Education  
and  
Extension

**Winner**

# Loser



# Loser





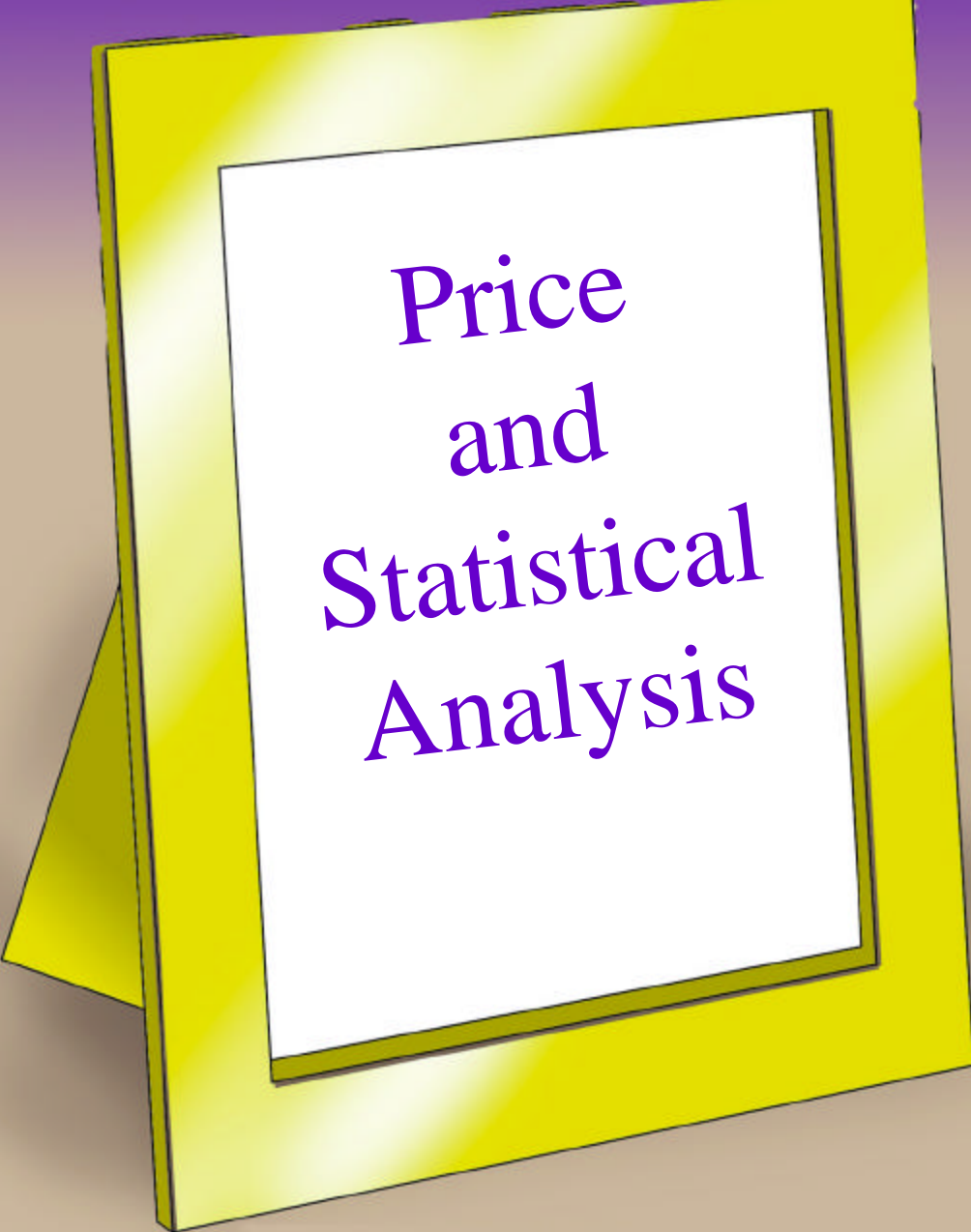
Market  
News

**Winner**



# Loser





Price  
and  
Statistical  
Analysis

**Winner**



Collaboration  
and  
Merger

**Winner**

# Conclusion

## Clarifying Roles for Governmental and Private Sectors





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