

Essential vs. non-essential goods

With the appearance of the COVID-19 virus in the US and its rapid spread around the country, personal protective equipment including, ventilators, testing equipment and supplies, electronic thermometers, N-95 face masks, and a host of other essential supplies needed to protect people from and treat people with the coronavirus have been in short supply. In many cases the needed supplies must come from abroad because production has been shifted to countries where manufacturing costs are lower than they are in the US.

This has resulted in increased calls to redevelop the production capacity for these products in the US so that in an emergency like the current one we will have the ability to ramp up production to meet the needs of US residents.

The concern about maintaining a domestic production base that can provide the country with the products that are essential to our response to a crisis like the current one reminds us that we are not unlike residents of other countries. In our case, it is the need for medical supplies. For others, it is the need for food.

Reflecting on our own concerns, can help us understand why most countries prefer to grow their own food even though it may be more expensive than importing.

To understand this, we want to turn the pages of history back almost two-and-one-half centuries to Adam Smith's magnum opus, "The Wealth of Nations." Even though Smith's worldview was less than egalitarian than ours—he considered English workers to be of a different race than the gentry and owners of production facilities—he recognized that there was a minimum set of goods that were required so that the race of working men could reproduce themselves and provide workers for the next generation of factory workers. This set of goods he called "necessaries"—the necessities we talk about in contemporary economic parlance. Necessaries are distinguished from luxury goods. Without these necessities, life for the masses becomes tenuous at best.

Central to those necessities is food. Leaders in developing countries do not want to have to depend on the vagaries of world markets for a class of products that is responsible for the well being of their people. They willingly enter world markets when local production does not meet demand but remain committed to producing as much as they can locally.

Returning to the current situation in the US, domestic producers are trying to gear up to be able to meet the immediate need for essential medical equipment and supplies in the absence of the ready availability of these goods in the world marketplace. Scaling up from very low-to-zero US production levels has resulted in long wait times for basic supplies that can test and protect people and save lives. The question has been raised as to why we have allowed ourselves to be at the mercy of overseas producers for essential medical supplies. The concern has become louder as people are dying because we lack the essential testing materials and protective equipment that are critical to address the physical needs generated by the current pandemic.

If we let price determine where we produce luxury goods and a crisis like the coronavirus occurs and shuts off the supply of these luxury goods, the consequence may be some inconvenience, but no one dies, at least physically.

With goods that fall in the "necessaries" category, the consequence of collapsed markets and delays in ramping up production is catastrophic, and people die because we do not have enough products and equipment to serve the needs of the medical community and the general public.

If multiple countries maintain a base capacity to produce the basic necessities required to serve the needs of their people in the event of a catastrophic event, not only are their own people safer, those in other producing countries are safer as well because in aggregate no one is dependent upon a single source for the critical products. In addition, countries that do not have the local capacity to produce their own high-tech medical equipment and supplies are better served if there are multiple production facilities in multiple countries.

Trade rules have been developed in a way that opens up markets for low-price producers of goods and services. And, that model works well for run-of-the-mill products. But for products that can make the difference between life and death, we need to develop a different set of rules, where the primary criterion is not cost, but resilience.

For technical goods like medical supplies and equipment, the goal would be to maintain multiple centers of production so that a crisis in any one or even multiple countries does not bring the whole supply network to a halt.

For food, resilience means in-country production wherever possible as well as a residual supplier. The desirability of local production goes a long way toward explaining why US exports of grains, which are staples for large share of the world's population, have failed to grow and achieve the long-term prosperity for grain farmers promised by policymakers and farm legislation since the mid-1970s.

Whether we are talking about food or medical supplies, the goal of the international trade regimen ought to be to encourage the development of resilient systems that can provide the necessities for life in the midst of an extended catastrophe. For non-essential goods, let the buyer beware.

Policy Pennings Column 1025

Originally published in MidAmerica Farmer Grower, Vol. 37, No. 271, May 1, 2020

Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.

Email: hdschaffer@utk.edu and dray@utk.edu; <http://www.agpolicy.org>.

Reproduction Permission Granted with:

- 1) Full attribution to Harwood D. Schaffer and Daryll E. Ray, Agricultural Policy Analysis Center, Knoxville, TN;
- 2) An email sent to hdschaffer@utk.edu indicating how often you intend on running the column and your total circulation. Also, please send one copy of the first issue with the column in it to Harwood Schaffer, Agricultural Policy Analysis Center, 1708 Capistrano Dr. Knoxville, TN 37922.