China and the United States: Much of Farm Policy Is Consumer Policy

When most people hear the term "farm policy," they think of commodity programs that support crop prices or incomes for farmers. But over the long pull, such commodity programs comprise a small portion of farm policy. In the larger context, farm policy is really "consumer policy."

It is consumer policy because the overarching objective of U.S. farm or, more correctly, agricultural and food policy is to ensure the availability of ample food at reasonable prices. Not only is that true in this country, it tends to be true for other countries as well, providing their terrain, climate, and water supply will support activity remotely resembling domesticated crop or livestock production.

In the U.S., the major means of achieving the plentiful food objective was though distributing land to early settlers, investment in experiment stations, extension services and student education at Land Grant colleges and universities, as well as the creation of institutions to reduce farmers' cost of securing operating and long-term capital.

If you think about it, each of these and similar publicly supported initiatives reduces the price, increases the quantity and/or improves the quality of INPUTS used in agriculture. Land, technologies embedded in new seed varieties or other new or improved factors of production, and even the cost of capital are, indeed, inputs to the agricultural production process.

Even though these policies—many of which continue to this day—are directed toward agricultural inputs, they result in increased output, that is, ample quantities of food at reasonable—some would say subsidized—prices. Viewed that way, commodity programs are spring chickens compared to these longstanding output-enhancing farm, or again I would say, consumer, policies. In fact there would be no need for commodity programs if these consumer policies hadn't been so successful.

Outside the U.S., when economic development becomes an important priority of a country, so does pursuing a farm/consumer policy aimed at increasing agricultural productivity. The specifics of the policy depend on the opportunities and challenges of the country.

As we have recently written, Brazil, for example, is in the position of still having large quantities of unsettled land that can economically be brought into production. The Brazilian government is using tax incentives to encourage land settlement, investing in output-increasing research, setting up rural credit systems and improving communication and transportation infrastructure.

As we turn our focus to China, we find that she, too, is focusing much of her farm policy on increasing the quantity and quality of agricultural production, lowering production costs, improving the efficiency of the agricultural inputs and making infrastructure improvements.

China's "Governors' Grain Bag" Policies

In a March 2000 Economic Research Service report on China (WRS-99-4), the United States Department of Agriculture (USDA) lists eleven policy objectives of the "governor's grain bag responsibility system." Five of the eleven policy objectives identified in the USDA report are focused on increasing the production of agricultural commodities. These objectives include: increasing the grain area, increasing the supply of chemical fertilizer, raising yields, and increasing grain production all with an eye focused on increasing China's grain self-sufficiency.

The report covers crop years through 1998. In the four years from 1995 to 1998 the grain area increased from 110.1 million hectares to 113.8 million hectares; the use of fertilizer increased by 23%, yields increased from 4.24 mt/ha (metric tons/hectare) to 4.50 mt/ha. With increased yield and planted area, nationwide grain equivalent production increased from 467 mmt in 1995 to 512 mmt in 1998. Grain self-sufficiency went from 96.7% in 1995 to 100% in 1997 and 1998.

Four of the policy objectives in the governor's grain bag focus on issues of stability and distribution of grain within the country so that Chinese consumers will have adequate access to a reliable supply of food at stable prices. Policies to achieve those objectives include maintaining ample grain stocks, stabilizing grain prices¾both within and across years, enforcing inter-province grain transfers and ensuring grain supplies to cities.

The last two policy objectives of the governor's grain bag ensure governmental control of the external grain trade: raising government agencies' share of commercial stocks and retaining the government's control over grain imports and exports.

Transitioning Farmers to Other Employment

The large number of farm workers in the traditional farming areas of eastern China is a remnant of the way farms were previously organized in China. Thus, a major challenge for China is how to transfer labor that becomes redundant after the adoption of modern technologies. That process is well underway. In 1952, 80% of the national labor force was in agriculture. By 1999, less than half were employed on farms, with most of the movement to the rural industry sector.

But as Fan Shenggen, a research fellow at the Washington, D.C.-based International Food Policy Research Institute and his colleague Zhang Xiaobo, have written, more labor movement will be required: "all that is needed to make China's farms a highly productive growth sector is increased rural investment and more policies encouraging labor movement to rural enterprises, urban

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industry or services."

In January 2000, China People's Daily cited Chinese Minister of Agriculture Chen Yaobang as saying that China will accelerate reform by developing rural enterprises and strengthening agricultural infrastructure. Chen called for more efforts to promote the industrialization of animal husbandry.

Western Development

Similar to Brazil, the development of additional agricultural land and is also an issue in China. The western region of China has been described as "barren, remote, poor, large, valuable and beautiful." It lacks a transportation network and its economic and social development lags behind other parts of the country but it has vast stretches of land comprising 56% of the country's land mass.

On June 19, 1999 Chinese President Jiang Zemin called for the development of this western region. The flurry of activity that ensued is reminiscent of Horace Greely's advice to his New York readers, "Go west, young man, go west." China Daily has devoted a major portion of its online coverage to the Go West campaign (www.chinadaily.net/highlights/west/index.html). The campaign seeks to improve the area's infrastructure, attract foreign investment, improve the agricultural capacity of the area and one would suspect provide employment for displaced agricultural workers from China's eastern areas. There is also an emphasis on accessing the natural resources of the region including natural gas.

Every western province has recently benefited from substantial infrastructure investments including billions of dollars worth of highways, railways and airports.

To attract foreign investment in the region, on October 20-22, 2000 a trade show entitled "Forum of the West" was held in the capital of one of China's western provinces. More than 200 multinational companies attended the show. China Daily reported that on the first day of the show 23 contracts were signed with multinationals involving projects involving a total investment of $1.46 billion. China Daily also reported "that more than 80 of the world's top 500 companies have either made investments in or set up business offices in western China."

Just as has been the case historically in the U.S., much of China's farm policy is really consumer policy aimed at ensuring an ample supply of food at reasonable prices.

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