

# UC Berkeley

## Agricultural and Resource Economics Update

### Title

ARE Update Volume 6, Number 4

### Permalink

<https://escholarship.org/uc/item/0b66x90f>

### Authors

Alston, Julian M.  
Freebairn, John  
James, Jennifer S.  
[et al.](#)

### Publication Date

2003-04-01



## Incidence, Equity and Efficiency of Check-off Funded Research and Promotion Programs

by

*Julian M. Alston, John W. Freebairn and Jennifer S. James*

*Commodity check-off programs will generally have implications for consumers, taxpayers, and producers of related commodities, in addition to the producers of the commodity in question. This article addresses the relevant distributional issues.*

Agricultural commodity taxes, called “check-offs,” are used to finance promotion, research and other activities that can be regarded as industry collective goods. Check-off programs are made possible through the application of the government’s taxing powers to collect the check-offs, exemption of check-off programs from some anti-trust regulations, the use of government resources to develop and implement the programs and, in some cases, the provision of government funds to support them. These programs are important in the United States, spending upwards of \$1 billion annually, and controversial, especially in relation to generic commodity promotion.

In recent years, several lawsuits have challenged the constitutionality of the mandatory check-offs, and two of the cases went as far as the U.S. Supreme Court. In 1997, the Supreme Court ruled in *Glickman v. Wileman Bros. & Elliott Inc.* that federally mandated generic advertising for California tree fruits did not violate the First Amendment; but in 2001, the Court ruled in *United Foods v. United States* that the Mushroom Promotion Act of 1990 did violate the First Amendment and should be struck down. The fact that at least some people

affected by the programs believe that they do not receive net benefits, even if there might be net benefits in aggregate, is reflected in these past challenges and the ongoing litigation and disputes.

Previous studies have examined the net producer benefits from check-off programs, but more recently attention has turned to some harder questions, such as: “How closely do program decisions correspond to those that would maximize total net benefits for society,” and “how are the benefits and costs distributed among different groups in society?” The two elements are related, since distributional impacts determine incentives.

Distributional issues associated with check-off programs can arise for a number of reasons and take several forms. Once a check-off program has been voted in by an appropriate majority of a defined group of producers, participation is mandatory for all producers in the group, even those who voted against it because they expected to be made worse off under the program. Further, both the collection of the check-offs and the programs they fund have implications for the welfare of consumers, other producers, and taxpayers in addition to their effects on the

*Also in this issue.....*

### **Scale, Diversification and Economic Performance Agricultural Producers**

*by Catherine Morrison Paul and Richard Nehring.....5*

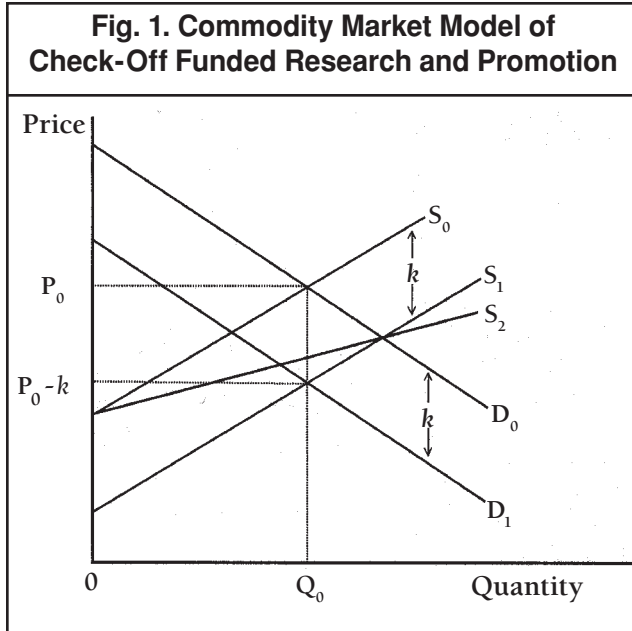
### **The Food Quality Protection Act and California Agriculture**

*by Sean B. Cash and Aaron Swoboda.....9*

*In the next issue.....*

### **Multifunctionality: Public Perspectives in California**

*by Rachael E. Goodhue, Guillaume Gruere and Karen Klonsky*



producers in the group, covered by the programs. As well as simple fairness or equity considerations, any resulting mismatches of the distribution of the benefits and costs among different groups can lead to a divergence between producer and national optimal choices, and hence efficiency losses.

### A Simple Model

A commodity-market model can be used to illustrate some key points about the ultimate distribution of the benefits and costs among different groups, after allowing for any price changes resulting from research or promotion, and the check-off used to finance them. Figure 1 depicts market quantity on the horizontal axis and price on the vertical axis. In the absence of any check-off program, demand and supply are  $D_0$  and  $S_0$  respectively. Suppose research causes the supply curve to shift down by  $k$  per unit, from  $S_0$  to  $S_1$ . A tax of  $k$  per unit, reflected as a shift in demand  $D_0$  to  $D_1$ , would exactly reverse the price, quantity and economic welfare impacts of the parallel research-induced supply shift. Hence, if a  $k$  per unit tax could finance a research-induced supply shift of greater than  $k$  per unit, there would be net benefits to producers, consumers and the nation as a whole. These net benefits would be shared in direct proportion to each group's share of the costs, and so the research investment that would be optimal for the nation as a whole would also be optimal for consumers and for producers. In this setting, if producers were empowered to set a check-off to

fund research, their incentives to maximize their own benefits would be exactly compatible with the national interest.

Alternatively, if research causes a pivotal supply shift, from  $S_0$  to  $S_2$ , the total research benefits are only roughly one-half of those from the parallel shift. The consumer benefits are the same as from the corresponding parallel shift, while the producer benefits are smaller and could even be negative. In this setting, consumers would receive more than their "fair" (i.e., proportionate) share of benefits, whilst producers would receive less than their "fair" share of benefits and would therefore opt to fund less than the national optimum quantity of research. Thus, the nature of the research-induced supply shift is an important determinant of the distribution of benefits relative to costs and the compatibility of producer group incentives with the national interest.

The same model can be used to consider the impacts of check-off funded promotion that increases the demand for farm outputs, by simply interpreting  $S_0$  and  $S_1$  as the supply curves with and without the collection of a check-off, and  $D_0$  and  $D_1$  as the demand curves with and without the effects of promotion funded by the check-off. The incidence of a parallel increase in demand is identical to that of a check-off. In this setting a check-off is fair, in the sense that program benefits are distributed in proportion to costs of the check-off, and efficient, in the sense that the producer optimum coincides with the national optimum. As in the case of the research-induced supply shift, however, if the promotion expenditure results in a non-parallel shift in demand, the benefits would no longer be distributed in proportion to the costs. For a pivotal shift, producers would receive more than their "fair" share of the benefits, creating an incentive to set a higher check-off rate and do more promotion than the quantity that would maximize national net benefits.

### Extensions to the Simple Model

The model in Figure 1 assumes an undistorted market. Various studies have shown how the total benefits from research or promotion and their distribution between producers, consumers and others will be affected by market distortions resulting from farm commodity programs, environmental externalities or the exercise of market

power by agribusiness firms. In many situations, market distortions do not affect the total benefits, but do change the distribution of benefits from research or promotion, creating a divergence between producer and national incentives. In extreme cases, distortions may be primary factors. For instance, each U.S. state would be a price taker in the domestic and international markets if we had free trade in milk and dairy products. Then milk promotion conducted under state orders could not be profitable for producers because it would have no effect on price. Profitable promotion is made possible by the existence of trade barriers that allow markets to be separated both geopolitically and by end-use, thereby giving producers in a state the collective power to influence price through promotion. But producer profits in this setting might come partly or entirely at the expense of consumers, taxpayers or both.

Other further distributional issues arise when we partition the total net benefits into elements accruing to final consumers, market intermediaries, farmers and suppliers of agribusiness inputs. Further, check-off funded research might cause factor-biased technical change from which farmers may receive more or less than their fair share of the benefits, depending on the direction of the bias. For these reasons, a producer group might choose a different mixture of spending among different types of research and promotion, and a different total amount of spending, than the mixture and total that would maximize total net benefits for society.

We can also disaggregate benefits and costs among producers of the same commodity, who might not all be covered by a check-off program. For instance, producers who do not adopt the new technology resulting from check-off funded research will not benefit but they will help pay for the research; and they may lose even more, if the research results in a lower price for their product. Similarly, when commodities are differentiated in space, time and quality, the impacts of promotion may vary among producers covered by a program, depending on the nature and timing of promotional effort. For example, check-off funded promotion might enhance demand for one market segment at the expense of another. In some programs, considerations of impacts across heterogeneous producers might give rise to a sacrifice of efficiency for equity

**CHECK-OFFS-** *Continued on page 4*

## An Update on the Legal Front

by  
John M. Crespi  
Kansas State University

Benjamin Franklin wrote “in this world nothing is certain but death and taxes.” If Franklin were farming today he might have quipped “death, taxes and commodity promotion litigation.” In the Summer 2000 issue of *ARE Update*, I wrote an article entitled, “Get Ready for More Commodity Promotion Litigation.” Nearly a year later, the Supreme Court ruled in the *United Foods* case that the generic advertising and promotion program for mushrooms was unconstitutional because, unlike the 1997 *Wileman* tree-fruit case, the mushroom industry was not regulated enough. In *Wileman*, the U.S. Supreme Court ruled that generic promotion for tree fruit was fine because that industry was already heavily regulated so the fruit growers whose free-speech rights were impinged were a bit like homeowners complaining about airport noise after they had built their house next to the runway. However, mushroom producers faced no other regulation in their industry, so their complaint about the free-speech infringement carried more weight in determining its constitutional validity. With these two cases, the legality of a program may hinge upon whether or not an industry is highly regulated. Recently, however, defenders of the programs have tried a new argument.

In June 2002, a U.S. District Court judge in South Dakota, ruled that the beef check-off program was unconstitutional. In October 2002, a U.S. District Judge in Michigan, likewise ruled that the pork check-off program was unconstitutional. Both judges followed the high court’s rulings in *United Foods*, but what was different in these was the government’s argument. Rather than basing its case only on the degree of regulation in the industry, the government argued that the promotion program did not infringe on an individual’s free speech because the speech is not being made by an individual—the promotion is government speech. Although the argument carried little weight in those decisions, in November 2002, a District Court judge in Montana, ruled that the beef check-off “creates programs where the government utilizes private cattlemen to disseminate a single message, a message prescribed by Congress and the USDA.” In other words, the government is making the speech through the cattlemen not for the cattlemen. Unsurprisingly, all of these cases are being appealed. If this new government speech argument is upheld, the U.S. Supreme Court has likely not heard its last commodity promotion case.

in the choice of the mix of research and promotion programs (i.e., accepting a lower total benefit in exchange for a more equitable distribution of benefits).

A related issue is the distribution of benefits and costs among producers of different commodities. In some cases, the different commodities may be covered by a single check-off program (as in the California Tree Fruit Agreement, covering peaches, plums and nectarines) and in some other cases by competing programs (as in the beef and pork industries); and in other cases again, some commodities may be covered while others are not (e.g., comparing poultry versus red meat). In any of these instances, cross-commodity impacts imply divergences between the incidence of costs of a check-off and the benefits from research or promotion. Accordingly, incentives of managers of check-off funds will diverge from the interests of the broader society. In previous work we suggested that beggar-thy-neighbor elements could lead to excessive investments in generic commodity promotion. Similar results might be expected when R&D has a beggar-thy-neighbor element, whilst the converse will be true when we have positive technology spillovers from one commodity to others.

### Conclusion

Commodity check-off programs have implications for the welfare of consumers, producers and taxpayers in addition to their effects on those producers who are allowed to vote on the programs. The distributional outcomes have implications for both fairness and efficiency. If the producer group that comprises the constituency of the check-off program bears a larger (smaller) share of the costs than the benefits from a check-off funded activity, then the check-off program is likely to undersupply (oversupply) that activity from a national perspective.

The distribution of the benefits and costs of check-offs and check-off funded programs will coincide under some conditions but an exact coincidence seems unlikely. Producers' share of program benefits depends crucially on the nature of the supply or demand shift induced by research or promotion, which is inherently difficult to identify. Further, many commodity markets are distorted in ways that influence the distribution of the benefits from research or promotion.

What are the public policy implications? We have identified many ways in which check-off programs might be expected to fail to achieve a hypothetical social optimum, but that is not a sufficient basis for criticizing or condemning the programs. The more relevant issue is whether check-off funded programs are better than a realistic alternative. One realistic alternative is no programs; another is a modified check-off program. Producer groups can and should be expected to maximize their own benefits from check-off programs. The challenge, then, is to design the enabling legislation and operating rules so that producer and national interests more closely coincide, which cannot be done without considering the distributional issues discussed here. Even if the programs can be structured to assure compatibility with national interests, however, they may remain controversial if there are perceived distributional inequities or inefficiencies among producers within an industry. A good example is the issues that have led to the recent litigation over mandated generic promotion programs.

*Julian Alston is a professor in the Department of Agricultural and Resource Economics at UC Davis. He can be reached at [julian@primal.ucdavis.edu](mailto:julian@primal.ucdavis.edu). John Freebairn is a professor in the Department of Economics at the University of Melbourne and can be reached by e-mail at [jfreebairn@unimelb.edu.au](mailto:jfreebairn@unimelb.edu.au). Jennifer James is an assistant professor of agricultural economics at The Pennsylvania State University, and can be reached by e-mail at [JJames@psu.edu](mailto:JJames@psu.edu). Both Freebairn and James received their doctoral degrees from the Department of Agricultural and Resource Economics at UC Davis.*

# Scale, Diversification and Economic Performance of Agricultural Producers

by

*Catherine Morrison Paul and Richard Nehring*

*Various factors, including production scale and diversification, off-farm employment, innovative adoption and other farm and farmer characteristics, determine farmers' economic welfare. A recent study analyzes the impact of such factors on the performance, and thus the potential competitiveness, of different types of U.S. farms.*

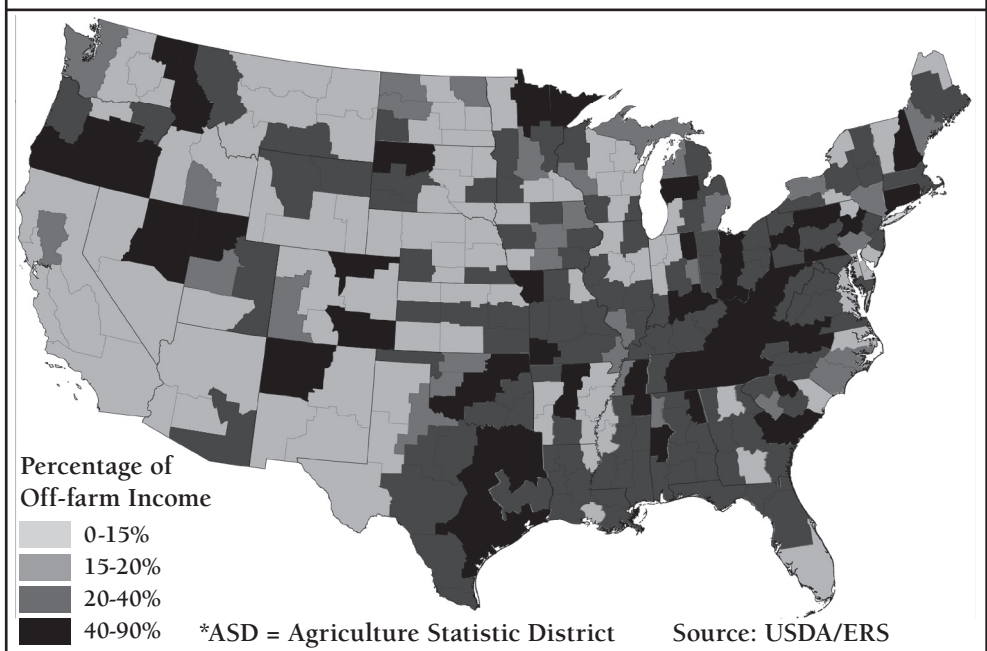
U.S. farm size in acres has been increasing in the past two decades; farms in major agricultural regions grew by about 17 percent between 1980 and 2000. Agricultural production is also highly and increasingly concentrated in large farms, with “large” and “very large” family farms (see Table I for a definition of terms) making up only eight percent of all farms in 1998, but accounting for 53 percent of agricultural production. The USDA documents that these large farms were profitable in 1998, although farms in most smaller typology groups reported insufficient income to cover expenses. Such patterns suggest that significant scale economies exist in modern agriculture, and that this technological reality is putting critical pressure on the small family farm.

In addition to the apparent importance of scale economies, product diversity (scope economies) seems to contribute considerably to farms' economic performance. *The Family Farm Report*, for example, states that: “...diversification is a significant factor explaining differences in the level and variability of income between higher and lower performing small farms. Financially successful small farms tend to be more diversified.” The report also documents that production of multiple outputs is most prevalent for high-sales farms, and that diversification affects input mix as well as economic performance. The largest farms, however, tend to specialize in livestock.

Off-farm employment is another form of expansion in the scope of revenue-producing farm operations that is especially feasible in urban-influenced areas. The USDA reports that non-farm income sources now dominate net farm income in the U.S., and also finds that “farm households relied heavily on off-farm jobs,” with 55 percent of all farm households reporting that either the operator, spouse or both worked off-farm to increase “total operator household income.” Nationwide patterns in off-farm employment (the ratio of off-farm income/total income) are shown in Figure 1.

Economic performance of U.S. farms has also been increasingly influenced by technical change. In particular, enhanced cost effectiveness from the adoption of inputs such as genetically modified (GM) seed may improve farms' competitiveness. Rapid adoption of transgenic crops suggests that this innovation has been beneficial to farmers. But

**Figure 1. The Importance of Off-farm Income by ASD\*: 2001  
(Off-farm Income/Total Income)**



**Table 1: Definition of Terms****Farm Typologies****Small Family Farms (sales less than \$250,000):**

1. **Limited-resource.** Any small farm with: gross sales less than \$100,000, total farm assets less \$150,000, and total operator household income less than \$20,000. Limited-resource farmers may report farming, a nonfarm occupation, or retirement as their major occupation.
2. **Retirement.** Small farms whose operators report they are retired (excludes limited-resource farms operated by retired farmers).
3. **Residential/lifestyle.** Small farms whose operators report a major occupation other than farming (excludes limited-resource farms with operators reporting a nonfarm major occupation).
4. **Farming occupation/lower-sales.** Small farms with sales less than \$100,000 whose operators report farming as their major occupation (excludes limited-resource farms whose operators report farming as their major occupation).
5. **Farming occupation/higher-sales.** Small farms with sales between \$100,000 and \$249,999 whose operators report farming as their major occupation.

**Other Farms**

6. **Large family farms.** Sales between \$250,000 and \$499,999.
7. **Very large family farms.** Sales of \$500,000 or more.
8. **Nonfamily farms.** Farms organized as nonfamily corporations or cooperatives, as well as farms operated by hired managers.

**Economic Terms**

**Scale economies:** Given scale economies the average cost of production decreases as farm size increases. The existence of scale economies suggests that farms can achieve lower average costs by becoming larger.

**Scope economies:** Given scope economies it is cheaper to produce several outputs on one operation than it is to produce each output in separate operations. The existence of scope economies suggests that farm households can achieve cost savings by diversifying into production of multiple commodities or part time off-farm employment.

**Input jointness or production systems:** Input jointness suggests that the adoption of certain technologies, such as GM corn, requires the concomitant use of several inputs (i.e. GM seed, alternative pesticides, custom labor and specialized application machinery), rather than simply the purchase of new seeds.

**Technical efficiency:** The ratio of current to maximum possible or “best practice” production, the latter representing fully efficient production practices.

**Cohort:** Individual observations grouped on the basis of geographic location and type of agricultural activity.

*Source: USDA, Economic Research Service*

GM adoption may also augment the importance of production systems; i.e., there may be linkages (input jointness) between adoption of these seeds, and the use of particular pesticides, labor practices or machinery for tilling.

These production relationships largely determine how efficiently farms of different sizes and with different output and input mixes might be producing. However, specific farm/farmer characteristics may also affect performance. The USDA identifies key dissimilarities in hours worked, age, education, debt and management methods of farmers that affect overall agricultural productive performance and the benefits obtained from innovation, and thus are important to recognize for effective policy implementation. Some types of farmers may simply be producing in a technically inefficient manner, which will affect their competitiveness.

**Data and Overall Findings**

We used USDA farm-level survey data to quantify these kinds of factors underlying the economic performance of U.S. farms. The data include 20,810 observations, across 5 years (1996-2000), for farms in ten midwest states, on farm outputs, inputs and characteristics. Using such a detailed micro level dataset allows us to represent multiple revenue-generating activities (or “outputs”), a variety of inputs used for farm production, and specific farm household characteristics.

The outputs from the farms surveyed are corn, soybeans, other crops and animal products (dairy, livestock), as well as income generated from off-farm employment. The inputs are labor, fuel, fertilizer, seed, feed, capital (machinery and structures), land, other livestock-specific materials, other crop-specific materials and other general expenses. Farm and farmer characteristics include farmer age, education, debt/asset ratio and the proportions of land rented to others and devoted to GM (corn and soybean) crops.

These data are summarized in Table 2. They are grouped on the basis of farm typologies, which we have divided into four primary types or cohorts: residential farms (typologies 1-3), very small family farms (typology 4), higher sales small family farms and large family farms (typologies 5-6), and very large family and “corporate” farms (typologies 7-8). Operators of small farms tend to be the oldest, with the least education, but have the lowest debt-asset ratios and the least rented land. They also have the second highest (after residential) ratio of off-farm to farm business income,

and appear less likely to plant GM corn but about as likely to plant GM soybeans as farmers in other typologies.

For the outputs, our estimates show significant scale and scope economies. This supports the notion that not only the scale of production, but also output diversification (expanding the portfolio of commodities produced, and particularly increasing the amount of livestock production), contributes to performance. However, revenue from off-farm employment tends to combat the cost disadvantages of small-scale production, implying that the increasing prevalence of off-farm income for small farmers improves their competitiveness. Off-farm employment also significantly affects input use; it augments the productive role of labor by 21 percent and doubles the importance of fuel. Our measures also indicate that animal outputs require the largest input “share,” with corn second, and soybeans third.

For the inputs, we find that input mix affects economic performance, and is more fixed within cohorts, and in the short run, than across cohorts, and in the long run. That is, in the short term input rigidities due to lack of mobility, or limited potential to adapt production systems because of past (“sunk”) investments, may inhibit the performance of some types of farmers. Expansion in the scale of production combined with input mix adaptations, as well as output diversification, is most likely to enhance competitiveness.

The largest input share or contribution is that of labor when off-farm income is recognized; the value of labor on the farm in terms of its contribution to farm revenues is larger than its opportunity (market) cost. This is also true for seed, although not for land, capital (machinery) and livestock inputs. Overall, off-farm income is a key contributor to farm revenues. Seed, feed and specialized crop expenses (largely pesticides) seem the most important drivers of overall farm productivity, perhaps because they are the variable inputs that determine the productivity of the other more fixed inputs—particularly land.

**Table 2: Summary Statistics, 2000, Averages**

		All Farms	Residential	Small Family	Large Family	Very Large & Corp.
<b>Revenues</b>						
Farms		3,638	883	200	1,533	1,022
Corn	\$ <sup>1</sup>	24,765	4,202	2,665	52,819	143,391
Soybean	\$	17,877	4,332	3,814	36,779	93,030
Other crop	\$	29,855	3,476	5,106	40,456	303,127
Animal	\$	43,683	5,428	6,100	50,811	483,217
Off-farm	\$	26,941	36,742	13,510	14,133	9,540
<b>Expenses</b>						
Labor	\$	24,481	29,597	17,213	30,080	83,716
Fuel	\$	2,609	660	1,118	5,011	14,101
Fertilizer	\$	10,775	2,367	2,303	21,850	60,135
Seed	\$	4,840	955	1,380	9,333	30,025
Feed	\$	14,609	2,120	1,816	15,548	165,875
Animal inputs	\$	8,651	737	1,149	5,892	120,251
Crop inputs	\$	6,245	1,416	1,290	12,220	36,769
Other inputs	\$	12,694	4,317	5,237	21,564	71,158
Machinery/Structures	\$	12,547	3,878	5,565	23,383	63,513
Land	\$	34,411	13,808	17,660	64,722	133,209
Age	Yr	53.7	53.7	61.41	51.99	48.65
Education	( <sup>2</sup> )	2.57	2.65	2.19	2.46	2.88
Debt/Asset	%	12	8	5	14	19
Rented land	% <sup>3</sup>	47	35	17	52	51
GM corn	% <sup>4</sup>	30	21	21	30	32
GM soy	% <sup>5</sup>	58	58	63	56	61

<sup>1</sup> inflation adjusted

<sup>3</sup> rented land as a % of acres operated

<sup>4</sup> biocorn acres as a % of total corn acres

<sup>5</sup> biosoy acres as a % of total soybean acres

<sup>2</sup> 1=no high school,

2=high school/equivalent

3=some college

4=4 year degree,

5=graduate school

Source: USDA, Economic Research Service

We also find farmers' measured technical efficiency to be high, at 93-94 percent of their “best practice” potential, and that this does not vary significantly by type of farm. The only significant performance impact of farm or farmer characteristics is that higher debt is counter-productive; a high debt/asset ratio implies reduced competitiveness. Generally, economic performance is more closely tied to output scale and



diversity and input mix than to technical inefficiency, or to farmer traits such as age or education.

### Differences across Farm Typology and Time

If our economic performance measures are broken down by farm type, we find slightly larger potential scale and scope economies, and lower efficiency, for small family farms than for other farm types. Recognizing off-farm income increases measured scale and technical efficiency, especially for small family farms. In addition, scale economies appear to be decreasing, and efficiency increasing, over time. These results suggest that farmers are, as a group, taking advantage of the potential to reduce costs through expansion of scale, output diversification, substitution toward more cost-effective input mix and technical efficiency.

Distinguishing farm types provides few additional insights about differential performance. Farms in the upper level typologies (generally larger size) seem to require almost as many inputs for a given amount of output production as do family farms, when income from off-farm activities is recognized and all other factors are held constant. We also find falling input use for a given output level in some years, consistent with technical progress, although not in 1999 (and essentially constant in 2000). One interpretation of these patterns is that the mixes or values of outputs and inputs differ for farms in the larger typologies and over time—that larger farms produce higher-valued outputs and inputs, using higher-quality and higher cost inputs, including more livestock, less “other” crops and more machinery.

This seems consistent with the evidence. Input “shares” or contributions are notably higher for feed, capital, and animal and other specialized inputs, and lower for labor for farms in the larger typologies. This supports the notion of varying input mix across cohorts, even if inputs are quite fixed within cohorts. The contribution of labor seems also to be decreasing over time, along with that of seeds and specialized crop inputs, and the roles of energy, fertilizer, and capital seem to be increasing. These patterns suggest that movements toward greater capital-intensity, lower labor-intensity and more animal-output intensity enhance performance.

Output mix across cohorts does not appear as variable as for inputs, although corn and livestock proportions are higher and off-farm income lower for the larger farm typologies. Also, inputs devoted to soybean production are somewhat greater, and to “other”

crops lower, for the large than small family farms. The output patterns over time are even less definitive, although input shares devoted to corn and animal production seem to be dropping slightly, and those to soybeans rising.

Finally, the (small positive) cost-savings impacts of planting GM corn are somewhat less substantive for farms in the larger as compared to the smaller typologies. The estimated impacts of planting GM soybeans are more variable across typology, year and specification, but all have a negligible (in magnitude) measured productivity effect.

### In sum

Both scale and scope (diversification) economies appear to have central roles in explaining productivity patterns of U.S. agricultural producers. Inputs seem less joint across cohorts, but not within cohorts; input mix varies across cohorts, and somewhat over time. Although rigidities within cohorts may exist due to production systems, greater shares or intensity of capital and animal-oriented inputs, and animal output, seem related to greater economic performance.

Further, off-farm income appears empirically as well as anecdotally to be an important aspect of farm households’ economic performance and economic viability, especially for small farms that are near urban areas. This seems the primary route to the success of small farm households in the future, given the cost-savings associated with growth in scale of production (consolidation) and diversity (especially large-scale livestock production) that reduce small farms’ competitiveness.

*The views presented here are those of the authors, and may not be attributed to the USDA.*

#### For More Information the Authors Suggest:

Offutt, Susan. 2002. “The Future of Farm Policy Analysis: A Household Perspective.” *American Journal of Agricultural Economics*. 84(5):1189-1200.

USDA/ERS 2001a. *Structural and Financial Characteristics of U.S. Farms: 2001 Family Farm Report*, Robert A. Hoppe, ed., Resource Economics Division, Agriculture Information Bulletin No. 768.

USDA 2001b. *Food and Agricultural Policy: Taking Stock for the New Century*. Report. September.

Catherine J. Morrison Paul is a professor of agricultural and resource economics at UC Davis. She can be reached by e-mail at [cjmpaul@primal.ucdavis.edu](mailto:cjmpaul@primal.ucdavis.edu). Richard Nehring is an economist in the Natural Resource Economics Division, Economic Research Service, U.S. Department of Agriculture. He can be reached by e-mail at [rnehring@ers.usda.gov](mailto:rnehring@ers.usda.gov).

# The Food Quality Protection Act and California Agriculture

by

**Sean B. Cash and Aaron Swoboda**

*The Food Quality Protection Act (FQPA) of 1996 was the most wide-reaching revision of federal pesticide law in twenty years. Many of the FQPA's impacts are yet to be felt by California farmers. In seeking to further protect consumers, the FQPA will pose new challenges for California agriculture. The changes that may occur may be quite expensive, and perhaps counterproductive from the perspective of consumers' health.*

The Food Quality Protection Act (FQPA) was unanimously passed by Congress in 1996 and hailed as a landmark piece of pesticide legislation. It amended the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), and the Federal Food, Drug, and Cosmetic Act (FFDCA), and focused on new ways to determine and mitigate the adverse health effects of pesticides. FQPA is different from past legislation; it is based on the understanding that pesticides can have cumulative effects on people, and that policy should be designed to protect the most vulnerable segments of the population. Recent research at UC Berkeley has investigated some of the impacts that FQPA's provisions—many of which have yet to be fully implemented—may have on California growers and consumers.

## FQPA's Main Provisions

The publication of the National Research Council report *Pesticides in the Diets of Infants and Children* showed that pesticide residues have disproportionate effects on children. Children eat and drink more as a percentage of their body weight than adults; they also consume fewer types of food. These dietary differences account for a large part of the exposure differences between adults and children. The committee also found that pesticides have qualitatively different impacts on children because children are growing at such a rapid pace. This concern for the differential impact pesticides have on children is reflected in regulatory changes required by the FQPA. For instance, the "10X" provision of the FQPA requires an extra ten-fold safety margin for pesticides that are shown to have harmful effects to children and women during pregnancy.

The FQPA has also resolved the "Delaney Paradox" created by the Delaney Clause of FFDCA. Prior to FQPA, the Delaney Clause prohibited the use of any carcinogenic pesticide that became more concentrated in processed foods than the tolerance for the fresh form. This was supposed to protect consumer health, yet it had the paradoxical effect of promoting

other non-carcinogenic pesticides that created other (possibly more serious) health risks for consumers. FQPA standardizes the tolerances for pesticide residues in all types of food, and looks at all types of health risks.

The federal Environmental Protection Agency (EPA) must now ensure that all tolerances are "safe," defined as "a reasonable certainty that no harm will result from aggregate exposure to the pesticide." Historically, pesticide exposure was regulated through single pathways, either through food, water or dermal exposure. Now the EPA must consider all pathways of pesticide exposure, including cumulative exposure to multiple pesticides through a common mechanism of toxicity. This means that even though pesticides may be sufficiently differentiated that they are used on different crops to control different pests, they can have similar health effects on people. The result is that in some instances, pesticide tolerances for seemingly different insecticides must be regulated together based on their cumulative effects.

## The Costs of Banning Organophosphates

When FQPA was first signed into law, 49 organophosphate (OP) pesticides were registered for use in pest control throughout the country, and accounted for approximately one third of all pesticide sales. OP insecticides are highly effective insect control agents because of their ability to depress the levels of cholinesterase enzymes in the blood and nervous system of insects. It has been suggested that while dietary exposure to a particular OP may be low, the cumulative effects of simultaneous exposure to multiple OP insecticides could cause some segments of the U.S. population to exceed acceptable daily allowances. Reducing the risk from these aggregate effects is specifically addressed in the FQPA and is one of the reasons the EPA has chosen OP pesticides for the first cumulative risk assessment.

Due to their popularity and widespread use, many in the agricultural community are worried about FQPA implementation resulting in increased

**Table 1. Price and Production Changes from Organophosphate Ban**

Crop	Percent Change in Price	Change in Production (tons)	
		California	Rest of U.S.
Alfalfa	0.93	-184,845	48,783
Almond	0.48	-1,356	n/a
Broccoli	16.0	-111,285	2,083
Carrots	>0.01	-5	-3
Cotton	1.69	-1,148	-19,214
Grapes	0.05	-999	-265
Lettuce, head	0.36	-12,778	-3,864
lettuce, leaf	0.46	-1,510	-148
Oranges	0.32	-40,517	-28,137
Peaches/ Nectarines	0.32	-1,561	-2,016
Strawberries	0.26	-508	-743
Tomatoes, fresh	0.03	-388	-223
Tomatoes, Processed	0.16	-10,849	114
Walnuts	0.58	-1,091	n/a

restrictions on OP pesticides. By the time EPA released the *Revised OP Cumulative Risk Assessment* in 2002, 14 pesticides had already been canceled or proposed for cancellation, and 28 others have had considerable risk mitigation measures taken. Risk mitigation may include:

- Limiting the amount, frequency, or timing of pesticide applications
- Changes in personal protective equipment requirements (for applicators)
- Ground/surface water safeguards
- Specific use cancellations
- Voluntary cancellations by the registrant

Economic theory suggests that these increased restrictions and cancellations from the eventual implementation of FQPA will result in a reduced supply of commodities currently relying on OP pesticides for pest control. This will result in higher prices for consumers and a lower quantity sold. In order to estimate the possible welfare effects on the state of California, UC Berkeley researchers have conducted a study on the effects of a total OP pesticide ban on 15 crops. The estimated price and quantity changes are presented in Table 1.

Results of the economic analysis suggest that the total loss to producers and consumers in California from banning all OP use will be approximately \$200 million. There is significant uncertainty, as the final level of OP restrictions are uncertain; this is only an order of magnitude estimate of the effects. However, these effects only represent about two percent of the total revenue generated by the 15 crops studied in California. While the overall effects seem small, they may be more intense in some segments than others. The researchers found that the degree of impact rests on the effectiveness of alternative pest control strategies producers have to choose from when faced with an OP ban. In some cases, OP pesticides have no close substitutes, and cancellation will have larger effects. For instance, the losses in broccoli, one of the crops most sensitive to an OP ban, are driven by the lack of an alternative insecticide to treat cabbage maggot.

### Prices and Nutrition

As illustrated above, it is generally true that removing a pesticide from the production process will result in an increase of the price of the treated commodity. If consumers respond to the increased prices by reducing consumption of the affected fruits and vegetables (and perhaps shifting consumption to less nutritious foods), they may suffer a loss of health benefits associated with the change in consumption. Scientific evidence suggests a protective effect of fruits and vegetables in prevention of cancer, coronary heart disease, ischemic stroke, hypertension, diabetes mellitus, diverticulosis, and other common diseases. The level of protection suggested by these studies is often quite dramatic. A recent review of several studies found that “the quarter of the population with the lowest dietary intake of fruits and vegetables compared to the quarter with the highest intake has roughly twice the cancer rate for most types of cancer.”

Negative health outcomes from a change in dietary behavior may offset direct health benefits of a pesticide ban such as reduced exposure to carcinogenic residues on produce. A recent study investigates the possible magnitude of such offsetting health effects. Using data on what over 18,000 people eat and previous findings on how people respond to changes in the price of fruits and vegetables, the authors simulated some of the health effects of a small increase in produce prices. Specifically, they examined the

effects of a one-percent increase in the price of broad categories of fruits and vegetables on coronary heart disease and ischemic stroke, two of the most common causes of death in the United States. The results are reported in Table 2.

For a one percent increase in the average price of all fruits and vegetables, the simulations indicate an increase of 6,903 cases of coronary heart disease and 3,022 ischemic strokes. In order to offset these 9,925 cases in a population of 253.9 million people, a pesticide action would have to prevent one in 25,580 cancers. This is almost four times as protective as the mean risk of pesticide uses that were banned between 1975 and 1989. Although these results can not be applied directly to most individual pesticide bans—which typically only affect the price of a few crops—the study shows that pesticide regulations that reduce relatively small risks at high cost may actually have a negative impact on overall consumer health. Furthermore, the research also suggests that low-income consumers may be the hardest hit by the negative health impacts of price-induced dietary changes.

### Conclusions

The Food Quality Protection Act is a wide-reaching law that will have a large impact on California agriculture in the coming years. While an increased awareness of the effects of agricultural chemicals on vulnerable groups—especially infants—is a welcome addition to the nation's pesticide laws, regulators need to take into account the potentially high costs of additional pesticide bans on both producers and consumers. These costs can be measured not just in dollars, but also in dietary changes that may have negative health consequences. In implementing the regulations required by the FQPA, EPA should keep in mind that this most recent overhaul of the pesticide laws specifically grants the agency discretion in setting standards when use of the pesticides prevents other risks to consumers or avoids “significant disruption in domestic production of an adequate, wholesome, and economical food supply.”

We are among those who, everything being equal, would prefer to consume fewer pesticide residues in our own diets. Yet too narrow of a regulatory focus that ignores economic responses and countervailing health risks is misguided, as the net effect of public

**Table 2. Cases of Heart Disease and Stroke Induced by 1% Increase in Price**

Disease	All Fruits	All Vegetables	All Fruits & Vegetables
Coronary Heart Disease	1,442	2,951	6,903
Ischemic Stroke	744	1,482	3,022
Total	2,186	4,433	9,925

Source: Cash, Sunding, and Zilberman. *Health Trade-offs in Pesticide Regulation*, 2002. Results reported are the simulation means from a series of Monte Carlo trials (n=100,000).

health would be negative. This point is especially salient when one considers that certain pesticide uses have been canceled by the EPA on the basis of consumer risks that were less than one in a million over a lifetime of exposure. Ultimately, other less costly interventions such as labeling requirements and food preparation education campaigns may prove to be more effective means of achieving consumer safety in regards to agricultural chemical use.

#### For More Information the Authors Suggest:

- S. Cash, D. Sunding, and D. Zilberman, “Health Tradeoffs in Pesticide Regulation,” working paper, UC Berkeley Department of Agricultural and Resource Economics, October 2002.
- U.S. Environmental Protection Agency Web site, “Food Quality Protection Act of 1996” background materials (<http://www.epa.gov/opppsp1/fqpa/>).
- “Special Focus: Food Quality Protection Act (FQPA),” *Choices*, third quarter 2000: 18-32.

Sean Cash is a Ph.D. candidate in the Department of Agricultural and Resource Economics at UC Berkeley and can be reached at [cash@are.berkeley.edu](mailto:cash@are.berkeley.edu). Aaron Swoboda is a Ph.D. student in the ARE department and can be reached at [swoboda@are.berkeley.edu](mailto:swoboda@are.berkeley.edu). This research received funding in part from the California Department of Food and Agriculture and the Giannini Foundation of Agricultural Economics.

# Giannini Foundation of Agricultural and Resource Economics Update

Co-Editors: Steve Blank, Richard Sexton,  
David Sunding and David Zilberman

Managing Editor and Desktop Publisher: Julie McNamara  
UC Berkeley Liaison: Amy Stewart

**ARE Update** is published six times per year by the  
University of California Giannini Foundation  
of Agricultural Economics.

Domestic subscriptions are available free of charge  
to interested parties. International readers are  
encouraged to view the **ARE Update** online.

To subscribe to **ARE Update** contact:  
Julie McNamara, Outreach Coordinator  
Department of Agricultural and Resource Economics  
University of California  
One Shields Avenue, Davis, CA 95616  
E-mail: [julie@primal.ucdavis.edu](mailto:julie@primal.ucdavis.edu)  
Phone: 530-752-5346

Articles published herein may be reprinted in their entirety with the author's or editors' permission.  
Please credit the University of California Giannini Foundation of Agricultural Economics.

**ARE Update** is available online at: [www.agecon.ucdavis.edu/outreach/areupdate.htm](http://www.agecon.ucdavis.edu/outreach/areupdate.htm)

*The University of California, in accordance with applicable Federal and State law and University policy, does not discriminate on the basis of race, color, national origin, religion, sex, disability, age, medical condition (cancer-related), ancestry, marital status, citizenship, sexual orientation, or status as a Vietnam-era veteran or special disabled veteran. The University also prohibits sexual harassment. This nondiscrimination policy covers admission, access, and treatment in University programs and activities. Inquiries regarding the University's student-related nondiscrimination policies may be directed to Student Judicial Affairs Director Jeanne Wilson, 308 North Hall, 530-752-1128.*



**Visit our Web site at:**  
<http://giannini.ucop.edu>

---

One Shields Avenue  
Davis, CA 95616