

Other industries have the tools needed to manage excess capacity

A recent issue of Business Week contained a news report that caught my eye. The article noted that “factories are awash with excess capacity” and that the capacity utilization rate in manufacturing was only 72.5% during April 2003. In response to slackening demand, CEOs have continued to lay off workers and idle plants to increase their profits or at least reduce their losses. When demand and prices are down, manufacturing industries do not hesitate to idle some of their productive capacity.

Companies in the manufacturing industry are able to gauge their production levels by watching inventory levels. When the levels begin to creep up they fine tune production levels to control the amount of product on the shelf. The other way they determine whether to produce an item or not is to use just-in-time production methods where production going out the door is determined by orders coming in the door.

By way of contrast, individual farmers are not able to watch their inventory in the same way as industry. Besides that, a decision by an individual farmer to reduce production does not have a significant impact on total national/world production. If a farmer idles some acres, that farmer bears all the loss with no chance to enjoy any gain from reduced stock levels. Absent government acreage reduction programs, the rational decision of a given farmer is to produce a crop on all possible acres.

Given the seasonal nature of crop production, crop farmers do not have the luxury enjoyed by many industries of just-in-time production. The farmer cannot wait and see what the crop looks like in Brazil or Nebraska before making planting decisions. The farmer cannot wait to see if Taiwan increases its imports of U.S. grain or if China needs to cover a short crop. If farmers do not plant the crop within a six week or so window, then the choice is to wait until next year. Just-in-time production is not a possibility for spring and fall cropping patterns in temperate zone agriculture.

Despite the factors that limit an individual farmer’s ability to gauge production to ever changing supply and demand levels, the present agricultural policy is designed to ensure full production year after year. Farmers are expected to do what no other industry does. They are expected to produce at full capacity all of the time. In the present climate, any suggestion of allowing the Secretary of Agriculture to function as the CEO of Agriculture and set production levels is met with stiff resistance, while the industrial sector sets production levels day in and day out.

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