

Farmers produce but consumers are typically in charge

As we wind down the weekly writing of this agricultural policy column, we are concluding our work with a series of columns highlighting the concepts/principles that have driven our analysis over the last 22 years.

The first idea we have tried to impress on our readers is that consumers ultimately rule the marketplace. Economists call that consumer sovereignty which means that consumers determine what is produced. With an insufficient number of people willing to purchase a given product, it disappears from the marketplace.

Some products may have national appeal and can be purchased in most places in the US. Other products like lutefisk have a limited temporal and regional appeal—the Upper Midwest and scattered Scandinavian communities elsewhere around the country from December through January or a little later. Grits may have penetrated Upper Midwest markets, but we have yet to see lutefisk offered in Knoxville, Tennessee grocery stores.

The decision of whether to offer grits and lutefisk is driven by consumers.

The difference between a command economy and a free market depends on who makes the decision as to what is produced. In a command economy, the manufacturer decides what to produce while it is the consumer who drives production decisions in a free market.

For instance, consumer sovereignty was ignored in East Germany when 3.7 million Trabant automobiles were sold over the 30-plus years before the fall of the Berlin Wall. But once consumers were free to choose the more available higher quality cars produced in West Germany and elsewhere, the manufacturer, VEB Sachsenring, went out of business.

If farmers want to move beyond self-production, within ecological limits—you are not going to produce cotton in North Dakota—they have to respond to consumer needs and wants. Over time, the technology used in agricultural production has changed significantly not only in the machinery used, but in the product that is grown. In this shift, consumers have benefited from better quality products and lower costs.

Much of the time, the changes have attracted little resistance from consumers. In some cases, the changes have not been accepted without some level of controversy. In our time writing this column, we have covered many of these controversies. The four primary areas that have engendered most of the controversy involve the use of one or more of the following technologies: farm chemicals, genetic technology, animal treatment, and the prophylactic use of antibiotics.

There are cases where there is a public health issue at stake and state or federal agencies have taken the issue out of the hands of individual consumers and issued regulations. States have banned or limited the sale of raw milk that can contain germs like Brucella, Campylobacter, Cryptosporidium, E. coli, Listeria, and Salmonella that can cause serious illness and death. The federal government undertook the banning of the prophylactic use of medically important antibiotics in the production of meat to preserve their use in the treatment of disease in humans.

Sometimes a group of farmers take it upon themselves to produce a product that is acceptable to a smaller group of consumers. Organic production is the response of some farmers to the needs of consumers who have preferences that may not be shared by a large portion of the community. Organic farmers limit the kinds of chemicals and seeds, in particular GMOs, that can or cannot be used in crop production and the feed that can be used in animal production.

There are also technologies that fall by the wayside. Initially, the genetically engineered gene rbST was introduced into the dairy industry to increase the production of milk. Studies of the effect of the use of rbST on the health of dairy cows were mixed, but these were enough to generate significant public controversy. In this case, the effective decision on the widespread use of rbST in dairy cows was not made by a governmental agency, as in the case of the sale of raw milk, or a smaller group of producers like we see with organics; it was made by the intermediate consumers, major grocery chains and milk product brands with some wording added to the product package: “Our farmers pledge not to treat their cows with rbST. There is no significant difference between milk from rbST-treated and non-rbST-treated cows.” The gain of the use of the technology was marginal and not worth the hassle to the intermediate consumers.

While farmers are often caught up in the controversies that may be generated by the introduction of new production technologies, it is important for them to be patient with consumers, because the ultimate factor is what consumers want to buy. We can see this on the egg shelf of grocery stores. Consumers sometimes fall into two groups, those for whom the technology is a problem and those for whom it is not. There are very different items that coexist on the same grocery shelf. For instance, some labeled eggs sit on the shelf beside generic eggs at double or triple the generic price. In this case, both sets of consumers get what they want from the market.

In a market that spans the globe it is important that farmers don't belittle the preferences of consumers whether they are domestic or international.

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