Supply Chain and Economic Effects of Regulations

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David P. Anderson
Professor and Extension Economist
Livestock and Food Products
Overview

- Defining the Issue
- Types of Regulations
- Costs and Benefits
- An Attempt at Analysis
“The Cost of Excess Regulation”
Defining the Issue

“I shall not today attempt to define the kinds of material I understand to be embraced within that shorthand description, and perhaps I could never succeed in intelligibly doing so. But I know it when I see it...”

Supreme Court Justice Potter Stewart
Jacobellis v. Ohio, 1964
Reasons for Regulation

• Market Rules of the Road
• Resolve Market Failures
  – Public goods
  – Externalities
  – Market Power
• Protect Consumers
  – Health and welfare
Sources of Regulation

- One or More Segments of Industry See a Need
- Established Bureaucracy Interest
- One or More Segments of Society See a Need
  - Growing source
  - Interest group pressure
- Non-government Regulation
Types of Regulations

- Farm Programs
- Risk Management
- Conservation and Environment
- International Trade
- Marketing
- Credit
- Food and Nutrition
- Food Safety
- Antitrust
- Labor
- Transportation
- Land Use
- Feed Additives
- Animal Health
New Types of Regulations

• Animal Welfare
  – Activist driven
  – Science based?

• Process Certification or Verification
  – Sometimes a choice whether to participate or not
Other Issues

- Are we Seeing the Cumulative Effects of a lot of, Seemingly, Small or Insignificant Regulations?
- Unintended Consequences of Other Policies or Regulations
  - Ethanol and Renewable Fuels
Costs

• Difficult to Quantify
  – Paperwork, hassle, time lost
  – How do you value your time?
  – What $ do you put on it?
  – Is it a $ expense or do you just have to work harder for what’s left over at the end of the year and accept a lower rate of return

• Are There Environmental Compliance Costs on a Rancher’s Financial Statement?
Costs

• Incidence of Costs
  – Many of the costs of regulation fall disproportionately on one segment

• Who Pays the Costs?
Benefits

• Don’t Forget That There are Often Benefits
  – I’m Guilty

• Are there Regulations that Cause Costs for Which There Are No Benefits?
  – Or benefits < costs

• Incidence of Costs and Benefits
  – Who pays what and who gets the benefits
Past Literature

- Disappointing
  - Not very useful, difficulty with "excess"

- Many Studies on Individual Reg’s
  - Cost industry $XXX, XX lost jobs, cost focused
  - Lobbying, COOL for instance

- HACCP
  - Economic effects shown to include fewer firms, loss of small packers

- No Follow-up on Actual Effects
  - Move on to next issue
  - Never know if it was correct
Analysis

• Econometric Model of Industry
  – Inventory, Production, Demand, Imports
  – Equilibrium displacement model

• Small Effect of Cost Increases on Production
  – If quantify cost of regulation, then project impacts of cost of regulation

• Inelastic Demand and Supply
  – Increase in costs results in relatively small production decline
  – Small production decline yields larger price increase
Two Scenarios

• Increase Costs by 1 percent
  – Cost increase assumed

• Eliminate Public Land Grazing
  – Lose about 25 percent of U.S. ewe flock
Estimated Short Term Impact of Cost Increase

Mature Ewes
Production
Imports
Lamb Price

Percent Change

-0.3
-0.2
-0.1
0
0.1
0.2
0.3
0.4
0.5

Estimated Short Term Impact of Cost Increase
Estimated Longer Term Impact of Grazing Loss

Percent Change

-30  -20  -10   0    10    20    30    40

Mature Ewes  Production  Imports  Lamb Price

Estimated Longer Term Impact of Grazing Loss
## Implications of Regulation Level

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“...Cattlemen have witnessed a ... proliferation of regulations, which producers claim have hampered efficiency and increased costs to consumers...the beef industry and entire food industry may be suffering from regulatory overkill...”

W.R. Poage, Chair, House Ag Committee Impact of Government Regulations on the Beef Industry, 1979
Conclusion

• I Don’t Know
  – Costs of excess regulation
  – Demand growth?
• Great Need for a Lot More Research
  – The effects or costs of regulation