

# HOW WILL PRODUCTION, MARKETING, AND CONSUMPTION BE COORDINATED?

## From a Processor's Viewpoint

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The more I have dealt with the specific subject of how will production, marketing, and consumption be coordinated, the more concerned I have been about whether or not we might be willing to state specifically what we mean by coordination. It would be very easy to slip into the who would do the coordination rather than how. I do not believe that I can keep them separated all the way through but let us look at two questions on how.

1. Are we dealing with the subject of how changes in products will be coordinated? That is, how will our system make changes that will reflect an increase in demand for one product and a decrease in demand for another?
2. Are we talking about how quantity changes, quality changes, changes in time, or changes in place will be made? For example, are we speaking about how the system will coordinate a desire for more or less, etc.?

For me, it is very difficult to think in terms of any other coordination than through the free enterprise competitive system. No one of us would classify the agricultural industry today as a perfectly competitive system. However, some commodities act more competitive than others, and some segments of the industry act more competitive than others.

Departing slightly from the perfect competition model in which consumer demands are relayed perfectly through the system, I would like to stress a different point of view. Many economists have assumed that there is a demand for products, that this can be measured easily, and if the system were working, could be relayed to the farmer for the production of the raw materials. Here I would like to point out that demand is not automatic. One of the roles of the processor has become creator of demand or identification of a changing demand. In fact, the truly successful marketing person of today is one who does create new demands or identifies changes that are taking place in the system. Demand can be created by marketing new

products, old products in new ways, or attracting consumers who previously did not use this product.

Economists generally recognize the first two as truly the role of the innovator, and to a certain extent have accepted this as a legitimate role. Some of the methods used to compete in the market have been criticized severely by economists and others in roles of authority, and supervising agencies. Advertising has been classified as an unnecessary expense or an economic waste. Some of it undoubtedly is between competitors. However, if any of you believe that lamb prices would remain the same as they are today if lamb was never featured in chain stores, I believe you have not been close to the lamb market. If any of you believe that consumers are ready, willing, and wanting the quantities of beef that have been marketed the past year without the effort going behind it to call it to consumers' attention, I believe you have not delved completely into the coordination of the system.

When I pick up the paper on Wednesday evenings or Thursday mornings, or look through one of my wife's magazines and see the coupons available or the torn pages where she has removed them, I am made aware of the many efforts being made in the market place to compete for the dollars from her budget. How many of you were aware that more boys and girls need to be cleaner and, therefore, there was a good market for *Soaky* in all cartoon shapes and more recently in a monster series? From this innovation in packaging, I believe more soap goes down the drain now than previously, as I know a few kids who took baths without the soap ever getting wet before this innovation. Therefore, as I see it, part of the coordination of production, marketing, and consumption is the creation of demand to keep this product competitive if it is economically sound to do so.

Thus, the role of the processor has become a dual role—to pass on to the producer the “natural” wants and desires of the consumer, and also to create *new* demands. I would suggest that the “demand creation” role is becoming more dominant in light of the increased amounts of money being devoted to advertising and packaging, the greater emphasis on volume, and the tendency toward larger product lines.

To the consumer this all means a wider selection is available, to the processor it means more equipment and people are needed, and to the farmer it means some adjustments will be necessary.

Now by adjustments I do not mean to imply the farmer will have to adjust to something distasteful on his part; rather some will be

quite pleasant and allow him greater planning and more efficiency. For instance, I believe an increasing part of the "coordination" will be through contractual agreements. For while vertical and horizontal integration have been discussed quite a bit, more and more big businesses obviously are using their capital to diversify into industries outside of their own field rather than through some form of integration. At the same time, greater control over quantity and quality is necessary—the result will be the greater use of contracts. These contracts are likely to be short-term and there will be quite a bit of competition among producers and processors to get various types of contracts. But once the contracts are set, each can go to work on what it can do best until the next contract time.

As stated previously, I believe production, marketing, and consumption should be coordinated by a competitive system. This will mean that we cannot have monopoly in any part and still have a well-coordinated system. As I look at the different segments, I am getting concerned in several areas. One of these is that the farmer *production* phase is now the most monopolistic of any of the segments. I realize that the agricultural teaching programs have long said that farmers are at a disadvantage because farming is a competitive part of the economy. However, if we look closely now, with the aid of government, many commodities in it have the characteristic of a monopoly. If many of the practices currently in use at the producer level and by organizations of producers were even thought of at other levels great investigations and publicity and charges and trials would come of it. By continually listening to this voice, agricultural economists generally have begun to believe that they are the protectors of the farmer. From what are farmers being protected? Might agricultural economists better be protectors of the free enterprise system?

Another great concern that I have at the present time is that in the past, government generally was neutral, objective, fair, and followed a policy of treating all alike. It could be characterized as a referee in a great ball game of free enterprise. Today it appears to me that many times the "referee" knows who should win the game and has made a determined effort to see that particular group win. The decisions to assist in some agricultural programs appear sometimes today not to be made on an economic basis, but on some political basis. As a recent example, how many of you heard that the President said to the Secretary of Agriculture, "Prices of cattle should be higher—do something." Cattle prices rose. Is this agricultural policy and coordination? I am concerned about the desire of some in the Department of Agriculture to win rather than to be fair.

I have another concern for policy makers in general, not just

agricultural policy people. I think the American public has a growing tendency to accept two standards of right and wrong. This is shown by the fact that it is all right for one group of farmers to bind together and use force and coercion to disrupt the market. Is it wrong for others to even talk about collusion? It is also all right for labor to sign one agreement with large companies and another agreement with very small companies. Should they not have the same concern for all members? Why should we have two standards? It is all right for a farmer to make \$10 per head on cattle. It is greedy for a packer to make \$1 per head. Do you have biases? Do I have biases? I think this is a great danger in policy making. At other times agricultural policy men tend to ignore some of these things dictated by politics under the guise (or rationalization) that they are short-term. They spend their time on subjects of long-term interest—so long in fact that they are of interest only to the policy analysts themselves.

Let us return again to the question of how should production, marketing, and consumption be coordinated. I believe it should be coordinated through a competitive system giving free information to all who want it, allowing the freedom of initiative to prevail so that without unscrupulous acts, those who do the best job will get the job and be rewarded.



PART IV

*Extension Programs in  
Public Policy*

