

# FEDERAL MARKETING PROGRAMS: POLICY ISSUES, OPTIONS & CONSEQUENCES

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Policy issues related to federal marketing programs are numerous. This discussion is limited to a short list of issues that illustrate the range in contemporary concerns of farmers, policy analysts, educators, and policy-makers. These concerns have surfaced as part of the broader "deregulation" environment within the federal government.

## Criterion for Evaluating Marketing Programs

A variety of criteria have been employed to evaluate the effects of federal marketing programs depending on the purpose of the assessment and who is sponsoring or conducting it. Criteria commonly used include program effectiveness in achieving legislative goals, presence or absence of externalities, consumer costs, government costs, equity, and efficiency.

The Task Force on Regulatory Relief, headed by Vice President Bush, has placed primary emphasis on economic efficiency as a criterion for evaluating government regulations, including some agricultural marketing programs. The 1981 directive to the USDA for a review of fruit and vegetable marketing orders specifically requested that the review "...focus on the program's effects on economic efficiency, costs, and productivity." (5, p.ii)

Application of the economic efficiency criterion requires estimation of net social benefits of programs. Difficulties obtaining reasonable cost estimates and measures of benefits are obvious; quantitative estimates are scarce, and frequently it is even difficult to identify the incidence of costs and to whom benefits may accrue.

A serious consequence of emphasizing economic efficiency in evaluating programs is that primary program goals may be overlooked. The objective of many marketing programs is not to achieve economic efficiency, but rather to deal with perceived market imperfections. For example, the stated goal of the Agricultural Marketing Agreement

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Act of 1937 in establishing marketing orders is to improve the orderliness of marketing systems.

Such a goal is not readily definable in terms of economic efficiency. The 1981 review of fruit and vegetable marketing orders pointed out that "The declaration of emergency and the general policy expressed by Congress in the passing of the act clearly indicate that the statute was intended primarily for the economic benefit of producers of farm products." (5, p.5) If the option of applying net social welfare analyses to all federal marketing programs were adopted, ignoring those criteria which do not fit into that mold, the consequence may be elimination of a number of federal marketing programs.

### **User Fees for Information**

This section draws heavily on a recent paper by Jesse, Johnson, and Paul presented at the 1982 AAEA meetings. (3, pp.6-10) An information system for agricultural marketing is comprised of two parts. The first is the data system which provides a statistical set describing the population of interest. The data system provides numbers put together in a way to meaningfully describe the items of interest, e.g., the number of cattle on feed, the acreage planted to corn, or irrigated acreage. The USDA Statistical Reporting Service reports and the Agricultural Marketing Service Market News programs provide the basic data system for agriculture, from production through marketing.

According to Jesse, Johnson, and Paul, "The second component of the information system is the inquiry system, which uses as one of its major inputs the output of the data system. By applying market theory and appropriate statistical methods, the inquiry system transforms the data into information, . ." (3, p.7) It provides an explanation of the meaning of the data in a context useful for managerial and policy decisions. USDA's Economic Research Service (ERS) is a basic component of the agriculture inquiry system through its Outlook and Situation reports, and its research publications covering a wide range of agricultural marketing and other topics.

Three particularly important characteristics of information pertain to uncertainty, nonrivalry, and nonappropriability or nonexcludability. Jesse, Johnson, and Paul argue that information has value only in the face of uncertainty; it is characterized by nonrivalry, i.e., the consumption by one person does not at the same time deny its availability for consumption by another; and it is nonappropriable, i.e., there exists no mechanism for protecting the property rights attached to providing information. Thus, information possesses the basic characteristics of a "public good".

They go on to argue that economic theory indicates that "pricing a public good such as information, by the market mechanism results in the sub-optimal production of that good." (3, p.9) Hence, charging user fees for information has serious implications, particularly since perfect

knowledge is crucial to the decision making process that leads to optimal resource allocation in competitive market theory.

Imposing user fees on information publications of the USDA will not necessarily reduce the amount of information, but will limit the distribution of information by raising the transactions cost. Smaller firms are likely to be most affected by increased transactions costs and may forego the added burden created by user fees. This implies that the quality of their decisions may suffer, putting them at a competitive disadvantage in the marketplace.

Particular concern might be raised about the policy of imposing fees for written reports, but not for electronically disseminated information. The rationale for free electronic dissemination is that it goes primarily to news services that commercially distribute market news to a large number of recipients. With increased availability of individual computers and teletype receivers, particularly for larger, better financed operations, this rationale should perhaps be scrutinized. Perhaps an appropriate policy would be to provide electronic dissemination at no charge to wholesalers of information, but not to final users such as individual farms and marketing firms. Alternatively, a fee for all electronic receipt of market news would not represent a significant cost to wholesalers for each retail outlet they serve.

### **Fruit and Vegetable Marketing Orders: Volume Regulations**

Since the early 1970s increased attention has been focused on fruit and vegetable marketing orders, particularly those that use volume regulations to temporarily or permanently withhold produce from primary market channels. There are several mechanisms for accomplishing such quantity restrictions. (5)

The economic rationale used to support volume control programs “. . . lies in the incompleteness of information, the uncertainty of prices and outputs, and the failure of the private sector to develop stabilizing institutions.” (2, p.6) French’s contention is that this set of characteristics “. . . may result in sub-optimal resource allocations, highly variable returns, average returns to growers of perennial crops that are depressed for extended periods, and occasional devastating losses. Volume control programs have the ambitious and sometimes unrealistic goal of preventing these conditions. The fact that they may also endow particular groups of farmers with unintended monopoly gains is a major consideration in evaluating net social benefits.”

French further argues that volume control programs affect social welfare by altering market structures and market stability. Since structural changes incorporate monopoly elements which decrease economic efficiency, the only way volume control programs can enhance social welfare is through stabilizing primary product market prices. However, determining who gains and who loses from a particular stabilization program can be exceedingly complex.

French classifies the various methods of volume control as pure stabilization, which regulates quantities so as to cut off both the peaks and troughs of supplies; and monopoly stabilization, which cuts off only the peaks. Pure stabilization requires that quantities held back in one period be returned to the market in another. Monopoly stabilization allocates excess supplies to other markets or permanently removes the excess product from the primary market.

Pure stabilization is generally thought to have positive efficiency effects. "But under monopoly stabilization, the efficiency effect is positive only if gains from stabilization are sufficient to offset the dead weight loss from monopoly control." (2, p.7) It is evident that theory alone cannot determine the welfare benefits of volume control programs. "Although a sound theoretical framework is essential, final policy conclusions are determined by what is known or believed about the magnitudes of the supply, demand, and distribution parameters. (2, p.9)

Irrespective of the difficulties involved in appraising the net welfare effects of volume controls, OMB apparently has decided that net effects are usually negative. Under the Agricultural Marketing Agreement Act of 1937, the Secretary of Agriculture is assigned responsibility for approving or disapproving regulatory recommendations submitted by marketing order administrative committees. But OMB has recently taken on oversight responsibility, and, to the chagrin of producers, has overturned USDA decisions approving the use of volume controls.

OMB's assumption of oversight has sparked heated debate concerning jurisdictional authority over marketing order decisions. OMB has justified overriding USDA on the grounds that USDA decisions were inconsistent with Executive Order 12291 (Feb. 17, 1981), which requires, in part, that "Regulatory action shall not be undertaken unless the potential benefits to society for the regulation outweigh the potential costs to society." (4, p.13193) Producers have argued that the secretary's decisions are final. The USDA has remained silent on the issue.

Executive Order 12291 has the effect of making economic efficiency, or net social welfare, the sole criterion in implementing marketing programs. As noted earlier, economic efficiency may be inconsistent with the stated congressional objective in the marketing program enabling legislation, which for marketing orders is to promote orderly marketing.

The recent overturning by OMB of USDA approval for establishment of a reserve pool for the 1982 red tart cherry crop was especially controversial. Use of the red tart cherry order has been consistent with French's "pure stabilization" use of volume controls. Indeed, the 1981 review team report concluded ". . . that these provisions have had a stabilizing influence on the affected markets. Unlike price discrimination provisions and producer allotments, reserve pools have a sym-

metrical effect on price variability — price run-ups are damped by release of pools in short crop years, and price drops are damped by pool storage.” (5, p.41)

The wisdom of OMB’s decision to disapprove the tart cherry reserve pool is further drawn into question by the subsequent purchase under the Section 32 program of \$3 million worth of cherries to provide relief to the distressed cherry growers. This purchase represents a much more direct and costly form of government involvement in the marketing system than establishment of a reserve pool under the order.

### **Dairy Marketing Orders: Reconstituted Milk**

A widely-debated issue concerning dairy marketing orders has been order pricing of concentrated milk products that are subsequently reconstituted as fluid milk. Pricing milk for constituent products (butter and nonfat dry milk) at manufacturing milk price levels would permit reconstituted milk to sell at a substantial discount to fresh fluid milk in deficit markets distant from surplus milk producing regions. This could jeopardize the classified pricing system used in federal milk marketing orders. Hence, raw milk for use as reconstituted milk is priced as milk for fluid use, effectively eliminating any competitive advantage.

The reconstituted milk issue illustrates the fragile nature of the classified pricing system. If stringent regulations like classified pricing are to remain effective, then continual regulatory adjustments are necessary to deal with industry developments that may alter the way a marketing system operates.

Proponents of allowing reconstituted milk to be priced according to its manufactured components argue that existing marketing order regulations are preventing adoption of a technology that could allow significant cost savings to consumers. But many proponents are philosophically opposed to the use of orders, and may see the reconstituted milk issue as a way to undermine the classified pricing system.

The effects of directly or indirectly eliminating classified pricing may indeed be reduced prices to consumers (as well as to producers). However, great uncertainties arise in attempting to fully trace through the effects. Babb and others argue that “. . . any substantial change probably would be inconsistent with relying on the use of fresh milk to satisfy food consumption. Therefore, changes in the pricing of reconstituted milk could require wholesale changes in marketing patterns that would redistribute the income among processors, producers, and consumers in uncertain ways. When the potential benefits and costs of a proposed change are highly uncertain, marketing orders, like most institutions, are slow to change.” (1, p.45)

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