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MARKETING ORDERS — WITH PRODUCTION CONTROLS

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John Moore in an article on marketing orders in *Michigan Farm Economics* showed that only 40 percent of the fruit and vegetable marketing orders lasted more than five years and that 60 percent lasted four years or less. Despite this spotty record marketing agreements and orders have performed a useful marketing function and are still acclaimed as a means of improving and stabilizing incomes of growers of many commodities. The evolution in thinking in this development appears to be as follows:

For much of our history it was assumed that supply and demand determined price and that the individual farmer could do very little about it. In the late nineteenth century and early twentieth century, cooperatives were pushed as one method of doing something about prices.

This was followed by attempts to improve price by a series of actions including: voluntary grading, packing, and selling programs; adoption of marketing orders to enforce participation; and combining advertising, promotion, and research with orders. Then came an attempt to strengthen farmers' bargaining power.

Finally, after all of the above failed to solve the problems of low prices in agricultural industries, supply and demand was discovered again as a principal if not the principal fact, and supply control is being advocated along with the above as the means of attaining higher farm incomes.

In other words, we have gone in a complete circle with one difference—the feeling today that regulation of price through supply or other means is a proper function of the political power, whereas formerly this was not so.

Supply control combined with marketing agreements means a completely different marketing institution from the one we have known under the term marketing agreements or orders. The suggestion of national rather than local or regional coverage for market orders also changes their nature as well as their effect on individual growers and production areas. Rather than being termed marketing agreements these institutions might better be known as national commodity trusts, or federal commodity marketing quotas or national commodity monopoly.

In the fruit and vegetable industry, land and other resources suitable for production are for practical purposes unlimited, and the production of a commodity can fluctuate widely. Prices may average \$1.00 one year and 60 cents the next. Seasonal prices may start at \$1.00 early in the season and be 50 cents later. The result is that frequently part of the product is left unharvested. This disaster comes to individual growers who misjudge the market or who encounter unfavorable growing conditions or follow poor management practices. However, the industry as a whole and the majority of the growers in it remain healthy, and net incomes to vegetable growers over a period of years equal or exceed those for farmers generally.

Commodity marketing agreements or orders have been used widely in the fruit and vegetable industry in an attempt to reduce the variations indicated above. So far their success has been uncertain.

The earlier discussions of marketing agreements without supply control have adequately covered their possibilities. Any price improvements that might occur from such orders are frequently offset through increased plantings or production. The benefits of such orders in the dairy industry were apparently more consistent than in the fruit and vegetable industry.

After successive efforts at controlling grades and packaging, advertising and promotion, and insuring compliance of all growers through marketing orders, we have been forced to recognize the necessity of supply control in improving prices. We reclaim land, extend credit, furnish information on how to increase production, and then expect a program of marketing orders to correct the resulting problems. This is too much to expect of any one program.

You may ask what we are waiting for if we have finally decided that supply control is needed. I will devote the remainder of my time to a discussion of the weaknesses of this approach.

All of the suggested controls have one thing in common. They assume that the market does not and will not work unless some outside force is applied. After looking at the elasticity of supply and of demand and at market performance, particularly in the 1930's, we are convinced that the situation is hopeless.

Controls are based on the assumption that farmers, if left alone, will not adjust production in response to price. This is not so. They adjust wherever they are allowed to do so—perhaps not as rapidly as desirable but this is human nature. It seems to me that we have been out of adjustment since about 1930 but we have been encouraged to forget the problem and let the government take care of it by price supports and other measures.

Fifteen or sixteen years ago many were sure that the potato industry was doomed unless drastic supply controls were enforced. Ten years ago after a costly failure to enforce governmental production controls, potato production was finally left to the judgment of potato growers. The results—good years and bad years, some failures and some successes, but certainly no catastrophe. The efficient and better managed operations have realized profits.

If we are to allocate productive resources by other than market means, what means are we to use? Even Willard Cochrane's certificate system gets back into the market after the certificates are first issued. Presumably some historical base will be used for the original distribution of production bases, after which some method of transfer would be allowed. These certificates will undoubtedly be a windfall to present farmers and a cost to all succeeding farmers and to consumers. Certainly any added income will be capitalized rather quickly into their value.

Another area of uncertainty is the cross elasticity of both supply and demand for farm products. Under market agreements with or without controls we are presumably talking of one commodity in each agreement. We know very little about the effect of controlling one commodity on the price and production of another. Controlling tobacco and leaving resources formerly used in tobacco production to add to the problems in other commodities may be quite a different matter from covering all commodities. If we had the time we might profitably speculate on the effect of commodity by commodity control of all farm products. We should have more information on this area since the use of this means of solving the over-all farm problem might be quite different from that for solving the tobacco farmer's problem.

Production control of tobacco, which has no close substitute, might have quite different effects from the control of Brussels sprouts with no controls on substitutes such as broccoli, cauliflower, and cabbage.

Controls must be based on some assumption about supply and price relationships and must have a goal of some level of prices. The price goal presumably is the "fair" price. Anything lower is too low and anything higher is too high. You might ask, fair for whom—the farmer, the consumer, and which farmer or consumer? I am told some corn growers can make a profit by growing corn at 60 cents per bushel. Others cannot make a profit at \$1.20. Which of these is "fair," or do we split the difference? The same applies to milk, beef, or other farm products. How would you like to be on the "fair" price board?

The market price seems to have merit since it is based on the combined judgments of buyers and sellers.

One program of supply management, the tobacco program, has been in effect for several years. Grower support has been almost unanimous, prices have been kept high, and tobacco consumption has continued to expand. But even here some disturbing signs are appearing. Our share of world trade in tobacco is declining and seems destined to decline further. Even worse, our efficiency in production does not appear to be increasing nearly as rapidly as in Rhodesia and elsewhere. Tobacco production bases have been capitalized at a high rate, and acreages for individual growers are frequently small and inefficient. The effects of controls on other crops such as cotton and wheat have not been as well received by growers and have other defects.

Finally, as you no doubt have realized, I favor decentralized decision making over centralized—the impartial decision of the market to political decision by the government. I have not mentioned the freedom of the individual and the inevitable consequences of the assumption of increasing responsibility for decision making by the government. I still have faith in individual responsibility and decision making and believe taking this away results in a net loss to society. Certainly our system, with its admitted faults, has given our farmers a greater material wealth than is enjoyed by those in places where central direction has been the accepted method of organization. Our farmers have also been given the less tangible but nonetheless real values of being an independent and respected citizen.

Political decision making provides no assurance that decisions will be left to the farmer, i.e., the minority group. Certainly, this has not been so in Russia and in other countries where farm policy is determined by political means. We might well be reluctant to accept a complete system of political control of our farm prices. We might eventually find ourselves with neither high incomes nor freedom of choice.

I believe that marketing agreements with controls will make positive adjustment more difficult, will slow down rather than speed up adjustment, will further complicate management decisions, and will focus our attention on scarcity rather than abundance. In addition, the apparatus for administering any such program would be tremendous.

To the extent that this program is successful in raising prices, it will encourage resources to remain in agriculture that would otherwise have left it and will further encourage resources outside of

agriculture to come into it. The free market system at least operates in the direction of removing resources from agriculture under conditions of low prices, as well as into agriculture with high prices, even if slowly. I submit that the market system is no more brutal than the control system.

The difference between the controlled market and the competitive market system is only that the margin between success and failure may be set at a slightly different point. You cannot eliminate the borderline cases, i.e., those who are in the gray zone between success and failure, in any business or profession by any scheme of control or subsidy. These are really the problem cases, and I suspect that any control program may increase the width of this border through its indication to the marginal farmer that something is being done to help him. This raises a false hope in most instances, and in my opinion, nothing is so pathetic as the person who is motivated by a false hope.

On the positive side I would recommend further improvement in our outlook and marketing information, greater flexibility and competitiveness in our markets, and more training among our farmers in agricultural policy and in making decisions in these and other areas, and then allow the farmers to decide who leaves and who remains in farming. In the final analysis, under any program, resources must move out of rather than into farming if adjustment is to be achieved.

PART IV

*International Trade and
American Agriculture*

