MARKETING ORDERS — WITH PRODUCTION CONTROLS

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This discussion is devoted primarily to the use of production or marketing controls and only incidentally describes the role of marketing orders in this context. The discussion of marketing arrangements is confined to marketing orders. It seems to me that if anything substantial is to be done to improve farm prices and income through this general route, marketing orders and not marketing agreements will be the means by which this objective is achieved.

Because of the compulsory nature of orders, the commodities to which they may be applied have been specified by law. The Secretary is not restricted to a given list of commodities when entering into marketing agreements.

Under federal programs involving use of marketing orders, milk is the only case in which provision is made for the setting of prices to producers as such. For commodities other than milk, the law provides for the setting of volume or quality controls or both to affect prices.

THE NEED FOR SUPPLY CONTROLS

Price prospects for the future in many segments of agriculture seem dim indeed unless effective action is taken to limit the rate of growth in farm output. The programs that we now have, I believe, simply are not adequate to deal effectively with the size and form of emerging agricultural problems. We should recognize that the dynamic changes in American agriculture in relation to farm markets are greater than present programs were designed to handle. The demand for most major farm commodities is growing fairly steadily in close relation to population growth. The pressures which are building are primarily on the supply side, resulting largely from the rapid adoption by farmers of output-increasing technology. This technological revolution imposes great hardships on farmers who are not in a favored position, often for reasons beyond their control. Current prices simply are not low enough to check output expansion so it balances the growth in demand. Those farmers with relatively easy access to financial resources and ideas can still increase profits by continued expansion of output.

I look upon supply controls, in whatever form they may take, as a necessary precursor to gradual improvement in prices or even to maintenance of present price levels in most farm commodities. Since population is growing, in the long run we will need increases in production of most commodities. Marketing quotas or supply controls, then, would permit increases in output and marketings—but increases which are more orderly or sensibly related to market needs than the existing unorganized arrangements.

Excessive growth in output seems inevitable even under rather depressed farm prices during the next several years. The important question to me, therefore, is whether the social costs of subjecting farmers generally to the economic wringer of a prolonged period of unplanned agricultural adjustment are greater than the costs to a relatively few farmers of imposing restraints upon aggregate output. I know of no precise and practical scientific way of measuring these costs. Some of the opposition to action based on the so-called "American way" and our "free enterprise system" seems to stem from a desire to preserve economic power for those already favored.

I would argue that the social costs probably are great enough to warrant some modest limitations in aggregate output expansion. I would argue further that: (1) we have effective ways for minimizing the restrictions to which individual producers would be subjected and (2) public costs in terms of level of efficiency and rate of innovation could be rather low indeed.

I also believe from a practical standpoint that in today's world, public programs probably could not raise farm prices by very much in a short while even if we had supply controls. This is because consumers simply will not allow use of public powers to this extent. Farmers are not sufficiently numerous or politically powerful to impose their will upon the general public. When people suggest that supply controls can achieve a great and rapid increase in farm prices, they are talking nonsense.

The real price issue is between: (1) farm prices at current levels or perhaps a little above with some hope of maintaining a reasonable relationship of farm prices to those in the rest of the economy or (2) continued weakness in farm markets and little hope for future price improvements.

As we consider these two alternatives we should keep in mind that the farm price-cost squeeze will continue into the future unless some effective steps are taken. Many reputable economists have argued and, I agree, that chances are unlikely that we can eat our way out of our surplus problem, that the foreign market will expand sufficiently to solve the American farmer's problems, or that expanded industrial use of farm products will help a great deal. If something is to be done to improve prospects during the next ten years, it will have to be done on the supply side, and this, to me, means some form of supply control.

PRODUCTION OR MARKETING CONTROLS

Those who agree that excessive farm supplies are pressing on farm markets have had a long-standing debate about which approach is likely to be more effective in dealing with the farm problem: (1) limitations on marketings or (2) restrictions on production, either direct or indirect. I would argue that for the most part, the answer is clearly in favor of marketing controls; but at the same time, I would add that in some areas and under some circumstances production or resource controls of one form or another would not only be useful, but perhaps necessary. To me the choice rests largely on grounds of precision and democracy.

A given set of acreage limitations has little likelihood of achieving the desired marketing consequences. Consequently, I would suggest that those production control programs which rely on acres or cow numbers or possibly taxes on fertilizers or machinery are unnecessarily crude tools to achieve given output consequences. Estimation of the market needs for particular commodities and translation of them to individual producers in the form of marketing quotas or allotments makes considerably more sense to me. This, in turn, would permit individual producers to manage the productive resources available to them in the best way they can to achieve most efficiently the approved output level. Some escape valves may be needed. But I would contend that marketing quota procedures permit much more freedom for individual producers to make on-the-farm management decisions and interfere less with the efficient use of farm resources than do the resource-control type of programs. I contend that farmer decisions, based on proper market information, are much superior to intervention and supervision by some agency in determining how resources should be used on individual farms.

MARKET RIGHTS

Existing markets will continue to grow. The real question, then, is how market rights will be allocated initially and how slowly expanding demands can be distributed among producers who desire to supply the market. As previously indicated, an effective program to restrict expansion in output of a commodity will involve the establishment of rights to the market, which has been limited in a way that presumably will protect the interests of the group as a whole.

Many commodities and services are now subject to controls involving market rights. Noteworthy illustrations are: (1) limitations in the number of taxicabs allowed in a city, (2) output limitations in the petroleum industry, (3) use by doctors, dentists, and lawyers of legal instruments which imply market rights, (4) use of franchises by businesses, and (5) the closed shop. All of these are illustrations of the recognition of market rights in various aspects of modern economic life. Consequently, we should not be shocked at the suggestion that agricultural programs might use devices to allocate market rights among producers.

Even within agriculture, market rights have been recognized. Our acreage allotment programs implicitly involve certain rights of producers. Such rights are tied to the land although security of tenure in these rights has never been clearly established. The value of such rights, of course, is well known. The question, therefore, is not whether market rights should or should not be recognized. They already exist in considerable degree. The significant question is how they should be further implemented and recognized in programs to manage the supply of farm products.

Many economists who favor farm programs for checking the growth in output think that such programs should contain provisions for rather easy transfer of producer bases or rights in the market. These economists believe this is one way by which efficient use of farm resources can be achieved through time as demand changes and new technology is adopted. Under acreage allotment programs, market rights have to be transferred with the land and any value they have is attached to the land. But if market rights are separated from the land and transferred without restriction, we might depend upon the relatively free market in marketing quotas or producer bases to do the allocation job. However, the conviction is fairly widespread that under this scheme of things the usual inadequacies of the free market would apply to allocation of market rights among producers. Those who follow this line of reasoning point out the need for a high degree of supervision with certain restrictions on the extent of ownership and also the need for quota holders to meet certain performance standards. Another suggestion is that the administering agency should retain title to market rights and allocate them temporarily to individuals for use only so long as they continue to meet performance standards required to make the program work effectively.

If a program improves prices, the increases in returns attributable to the program presumably will be assignable to the market rights, and this value will tend to be capitalized. The contention then is that, as the program continues, those producers who were fortunate enough to be included in the program at its inception realize a windfall, but a new producer who wishes to begin production and secure a share in the market must buy the market quotas. This becomes to him a cost of production, and consequently the income benefits of these new producers will be largely offset by the added costs of entry. The program is, therefore, said to be self-defeating.

This is a serious argument. If we had no program involving marketing quotas, and agriculture operates just about as it does now, we can ask, "What happens when farm prices improve sufficiently to yield increased incomes with the prospect that this higher return will continue for some time?" Inevitably the factors of production, including land, obtain higher returns, and a part of the increased income attributable to these factors will be capitalized into higher land values. Now, if a young person wishes to enter farming and to begin production of this relatively favored commodity, he obviously will have to invest larger sums of money to participate in the additional returns. The costs of starting farming are higher. Thus, I think we can conclude that the argument against the fact that quotas, if they have value, will tend to be capitalized is just as much an argument against the proposition that land values rise when farm incomes rise.

The consequences of capitalizing increased returns into the value of market rights represented by a marketing quota differs somewhat from the consequences of capitalizing added income into land values. In the case of land values, we have real property subject to local tax, whereas market rights are personal property and in many cases probably not subject to local tax. Furthermore, imposition of a quota program might lead to some shift in value from land to personal property and pose problems for local taxing authorities.

Presumably, the value of this market right would rest on semi-monopolistic power exercised with the support of government. The willingness of the public to pay a relatively high price for corporate stock, such as American Telephone and Telegraph, represents its desire to share in the relatively high income and growth potential of this organization. Similarly, if the market right for a commodity has value, it represents the desire and willingness of individual farmers to participate in the production and marketing of the commodity and to receive reasonably favorable incomes. But I do not believe agriculture can exercise a sufficient degree of market control to lead to capitalization of market rights into very high values. Furthermore, if this does become a problem, it can easily be kept at a minimum through issuance of additional market rights, taxes on transfer, and other devices.

COMMODITIES TO WHICH MARKETING QUOTAS MIGHT BE APPLIED

The increasing specialization of agriculture in relation to its markets tends to facilitate application of supply management or marketing quota programs. Where marketing channels are diffuse, producer numbers large, and substitution relatively easy, the administrative problems of such a program are likely to be correspondingly difficult. But agriculture is rapidly changing in ways which tend to make such programs more manageable in many areas. The experience with marketing orders for commodities other than milk has been largely confined to crops produced in limited areas, and the programs have been aimed primarily at achieving improvement of quality and limitations on seasonal volume movements. Thus, the objective has been primarily to control market supplies and prevent depressed prices within the season. The orders were open-ended on entry or expansion and regional or local in application.

It seems to me that national programs for many of the livestock products, some of the fruits and vegetables, wheat, cotton, and poultry, can be devised which would be workable and would effectively check the rate of expansion in output over a longer period. Those farm products which have intermediate uses like feed grains pose special and complex equity problems which may prevent development of marketing quota programs.

Perhaps the most important point about such commodity programs is that each commodity must be considered on its own merits. While a general framework for marketing order programs can be outlined, programs should be tailored specifically to fit the physical and market characteristics of each commodity.

Since farm resources may be shifted among several alternative uses, adoption of a marketing order program for one commodity may force producers of other commodities into similar action if for no other reason than for protection against the price impact of diverted resources. This may lead some people to prefer resource programs with strong cross-compliance features, in spite of their uncertain output consequences.

Programs which focus on limitations of resources like land tend to have their initial impact on feed production enterprises, which in turn increases some costs of the feed conversion enterprises and simultaneously tends to limit their output. A market quota program for livestock or livestock products, on the other hand, would reduce the demand for feed grains and, consequently, reduce the returns to factors used in feed grain production.

In view of the complex interrelationship between feed production and feed conversion enterprises in the Corn Belt, any program, whether primarily market or resource oriented, will raise serious equity problems.

MARKET POWER AND MARKET ORDERS

While most economists look on the use of marketing quotas as a device to bring supplies into a more appropriate balance with demand, many seem to accept implicitly the idea that an effective marketing quota program will automatically improve prices. I feel that this is by no means certain. I believe that an effective marketing quota program is an essential precursor to improved prices and incomes of farmers in view of the pressure of supplies on markets. But I am also aware of the great imbalance of market power between farmers and their outlets. We have been witnessing a rapid growth of large-scale firms in food processing and distribution, much of it by merger and acquisition, with probably a much lesser proportion by internal growth. Farmer marketing co-ops have grown also, but not nearly in proportion. Under a marketing quota program, farmers and their co-ops would still have to seek out their markets and bargain for their prices, but with smaller surpluses to weaken their bargaining position.

Preservation of a competitive economy cannot be left to chance. When some firms achieve relative dominance, we cannot permit them to set the rules of the competitive game. If we do, we relinquish the rule-making process to the most powerful contestants. This not only permits them to win the game, but may put an end to the game as we have known it. Certainly it does not give us any assurance that marketing quotas will bring farmers the price and income consequences intended.

Thus, I feel very strongly that marketing quotas alone may not be adequate. We should be prepared to apply them in conjunction with programs of marketing orders which prevent the use of unfair trade practices and the abuse of economic power. No more than surveillance and reporting by the administrators of market order programs to the Justice Department or the Federal Trade Commission may be needed to prevent development of undesirable practices.

Existing legislation (Section 8c(7)(A) of the Market Agreements Act of 1937), authorizing use of orders for prohibiting unfair methods of competition and unfair trade practices in handling of farm products, should be used.

Marketing quotas and marketing orders are not intended to be neutral. They are for farmers. Excessive preoccupation with achieving short-run price stability for some products perhaps has led us to ignore emerging long-run changes in the structure of market power which threaten the success of farm programs. We cannot afford to ignore these much longer. Thus, I hope, most marketing quota programs (if they are used) will also include provisions which tend to insure competitive performance in food procurement, processing, and distribution, wherever appropriate.

I conclude, therefore, that: Effective programs of supply management for individual products will be necessary to achieve farm price stability and improvement in the years ahead; more precise, effective, and democratic programs can be developed by focusing primarily on marketing quotas rather than resource restriction type programs; these programs should be combined with market orders which aim to prevent unfair trade practices and other abuses of economic power; and although many difficult problems will have to be handled, such programs can be quite widely applied in agriculture today.