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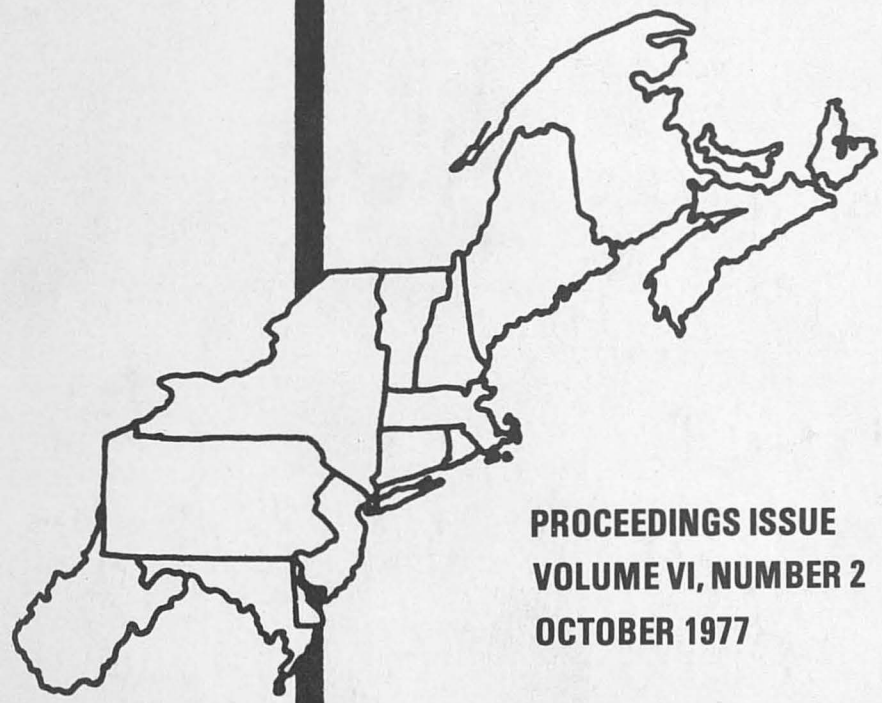
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THE OPTIONS IN PERSPECTIVE

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About two years ago a small group of agricultural economists from throughout the United States met to discuss the possibility of developing an educational program on possible alternative institutional arrangements associated with the marketing of agricultural commodities. The group identified eleven options for further investigation. And then gathered together a total of 26 colleagues to make the study.

Early this year they released a set of thirteen leaflets under the overall title "Marketing Alternatives for Agriculture: Is There a Better Way?" 1/

The purpose of this paper and presentation is two-fold: to introduce the leaflets as an educational tool and place marketing options in perspective.

The first leaflet sets the stage. It begins with a question, "Is there a better way?" The first few paragraphs give a feeling of the nature of the problem as seen by the authors.

"There must be a better way to market my products!" Such is the bitter cry of an isolated producer unable to obtain more than a single bid for his crop. It is also the optimistic assertion of a young competent farm manager who believes his many achievements in improving his productive efficiency can surely be duplicated in his marketing program. Whether the search for better marketing alternatives reflects a do-or-die crisis or rather a simple seeking of improvements, it is common to many producers and others in the marketing system.

The search goes down many avenues. Important -- and sometimes impossible -- demands are made on the performance of the marketing system. Prices and pricing are frequently at the head of the list. How do I, as a farmer, ensure that I

1/ Produced by N.Y.S. College of Agriculture and Life Sciences, Statutory College of the State University at Cornell University as National Public Policy Education Committee Publication No. 7, November 1976.

obtain a truly competitive price for my products? When there are only two or three readily accessible handler markets and their offer prices are usually the same, is that a competitive price? Or even if there are many handlers, but they sell to only two or three processors, am I getting a competitive price reflected back to me?

Price fluctuations, always important, have increased in magnitude the past few years. Once there was only a little embarrassment when a neighbor's cattle brought 50¢ more on Wednesday than mine brought the following Monday. Now, when the possible price difference is \$2 to \$4, one asks if there is any equity in such a marketing system. Why do we farmers always have to be price-takers? How can we gain some influence over pricing - as the dairymen have done - and level out these wild price fluctuations? Why should I have to take \$4 a bushel less for my soybeans in June than I could have received at the combine last fall?

Are there opportunities for bettering the price-quality relationships in the marketplace? Researchers say a high-cutability steer is worth \$50 more than a low-cutability steer. I have the know-how and the production system to produce those more valuable cattle. How can I develop a marketing plan that will pay me more accurately for the quality delivered, whether it's cattle or wheat or fresh vegetables?"^{2/}

This is followed by a first person statement by different farmers about how they view the marketing problem for their commodity - a corn-soybean producer in Iowa who also raises pigs, a Kansas wheat producer, a grower of green peas, an egg producer, a dairy farmer, and a broiler producer. The situation is different for each commodity and even different for producers of different sizes or in different locations who produce the same commodity. Furthermore different farmers and the different interest groups expect different results in the performance of the marketing system.

Changes or intervention in marketing or the establishment of new marketing institutions or institutional arrangements are seldom neutral on all participants and seldom will they result in every participant being better off. If the situation for some is improved the situation for others is likely to be worsened by some minor or major amount.

The reason for considering alternatives is that the total system can perhaps be made to work more efficiently and the welfare of some - farmers, marketers, or consumers - can perhaps be improved by a change. But we must remember that the system is complex and tradeoffs will occur and must be recognized.

^{2/} Leaflet No. 7-1 by Rhodes and Forker.

The eleven options discussed in this leaflet set - one leaflet for each option so they can be used individually or in subsets in various kinds of educational programs - cover only a small number of the many options that might be considered. Some proposals involve making a competitive, open-market system work better. Others in effect abandon the open competitive market concept and develop a basis for farmer group action and market power. Some involve rather narrow and specific proposals of interest in a few commodities. Other proposals such as industrial restructuring, are bold sweeping, even controversial and have implications for everyone in the economy.

Four options are concerned with determining price and maintaining market access for individual farmers.

Electronic Commodity Markets

"Imagine if you will a marketing system with a potential to expose the offering of each seller to every buyer and the bid of each buyer to every seller; a market that moves products directly, or nearly so from seller to buyer; a market that can be entered by both buyers and sellers wherever they are; and one that provides a ready source of instant market news. A tall order? Yes, but clearly within the realm of possibility. These are electronic markets and some are already in use." ^{3/}

Since 1971, several electronic market systems have been developed that facilitate centralized remote access trading. Remote access and direct delivery without centralized assembly are this options unique features. Egg Clearinghouse, Inc. for eggs began operations in 1971 as a manually operated exchange. It is now a relatively large volume, viable and competitive price discovery mechanism for the trading of gradeable nest-run eggs and egg products. They will soon install a computer for faster matching of bids and offers.

Telephone and teletype options as well as computerized trading systems have been developed for pigs, lambs, feeder cattle and cotton. It is argued that this electronic technology can be used to revitalize the open market concept in agriculture.

Forward Contracting

The second option, vertical coordination through forward contracting, involves contractual agreements on the production and then delivery and acceptance of a specified commodity at some future date. Terms may vary widely by commodity and may transfer managerial control between parties to the contract. It is common in vegetable production. Processors or first handlers usually initiate forward contracts. Some be-

^{3/} Leaflet 7-2 by Henderson, Schrader and Turner.

lieve that most of the benefits occur to the processors or first handlers who initiate such contracts. However, a contract requires the affirmative action of both parties and there is probably some benefit to both parties or the contracts would not be consummated.

Often where contracting is common, information on terms of trade is limited. When information is limited or non-existent, there is a question as to the degree of competition that exists among the various parties involved.

Forward Deliverable Contract Markets

This leads to a possible third option, a forward deliverable contract market. It is a market for forward deliverable contracts. It is proposed as a means of increasing the amount of information available concerning contractual arrangements and thus achieving the benefits of open market trading along with the benefits of a contract. A forward deliverable contract market would be a public exchange for the trading of standardized delivery contracts. This is not a Futures Market as actual delivery would be required and anticipated. The alleged potential benefit would be more accurate and timely prices for the commodity under contract, more efficient allocation of resources, greater access to markets, greater market power for producers and reduced transaction costs. Such a market would probably not be necessary nor workable for a commodity traded on the futures market. But such a market does not now operate so the claims are only conjectures.

Mandatory Reporting of Market Information

When markets are thin or when the amount of information is non-existent because of direct marketing, vertical integration or contract purchase arrangements, some form of mandatory public reporting of market information might be appropriate. This fourth option could improve market performance if increased information improved competition among buyers and sellers.

A hierarchy of information needs could include a more complete coverage of prices, volume, inventory and product specifications. In addition, one could include such items as transactions at other levels in the marketing chain, processed product market results, line of business results, and transfer prices in vertically integrated firms.

These first four options conceptually would increase the amount of market information and thus conceivably increase competition and in an economic sense, improve the performance of the industry. But every institutional change has a cost associated with it as well as a possible benefit and should be viewed in that light.

Five options that are discussed are designed to restrict competition in some way, or benefit one group at the expense of another.

Exclusive Agency Bargaining

Shaffer and Torgerson propose a new institutional arrangement which they call exclusive agency bargaining. One might ask what is it? They define it as a situation where an association of farmers obtain the right to represent all farmers in a bargaining unit in bargaining for terms of trade. Processors or buyers would be required to bargain in good faith with and only with the Association. The authors make strong claims for such an arrangement. They argue that it could become a means to facilitate price discovery and better coordinate production and thus supplies with the needs or demands of the market. Opponents of such a proposal argue that it is a means of giving farmers monopoly power and thus a means of transferring income from consumers to the producers that are organized in such bargaining units. It is clear that this option would be extremely controversial. Any pay off to society in general would have to result from a possible improvement in supply planning and management.

Vertical Integration

A sixth option, vertical integration through ownership, is defined as ownership participation in two or more steps in the total production, processing, servicing, marketing complex by a single business organization. This is basically the cooperative idea. Much has been written on integration in the past and I will not dwell on the issues. Increased vertical integration in certain situations can improve competition, while in others it might worsen it. One of the major issues now is whether or not the Capper-Volstead Act which currently provides farmers with some degree of exemption from federal anti-trust legislation will be continued in its present form. The Capper-Volstead Act makes it possible for farmers to legally organize for the purpose of jointly marketing and pricing their products. There is some question as to whether or not they could legally do this if the protection of the Capper-Volstead Act were eliminated.

Joint Ventures

A seventh option, joint ventures between agricultural cooperatives and agribusiness marketing firms. This option is a favorite of Ray Goldbergs of Harvard. In the past some joint ventures have been successful, others have failed. Again, under some circumstances a joint venture might improve competition, while in others it might worsen it. The impact of joint ventures can be positive to producers if it improves market access or if it enables them to invest and thus realize a return on profitable marketing functions. However, as in any business venture there are risks.

Marketing Orders

Marketing orders have been with us since the 1930's. They provide a mechanism by which producers may unify to request government programs to regulate marketing of a commodity. They have been initiated to bring

orderly conditions to chaotic markets in milk, fruits, and vegetables. There are many ways in which marketing orders could be expanded to provide new marketing activities or cover additional commodities. Though potentially able to improve producer incomes in the short run and provide for more orderly marketing, costs to producers, consumers, and marketing firms do exist. The primary issue involved in the discussion of marketing orders is whether or not the improved coordination or increased stability that might occur is justified because the tradeoff might be higher prices to consumers. The tradeoff is not usually obvious.

Marketing Boards

Marketing boards are proposed as a substitute for private grain exporting. I will not go into detail, except it is argued that a marketing board acting as a single agent, could exert leverage in the export market for grain and thus increase prices and return to farmers. A single agent for the entire volume to be sold in the international market could prevent competition among private firms and thus prevent price erosion. On the other hand, it is not at all clear that a single marketing agency could do a more efficient job of identifying potential buyers and extracting from them the largest possible return. It could be, that without competition, the proper price would be most difficult to determine and thus one might be worse off rather than better off.

The last two options concern broad regulatory proposals affecting the working of much of the economy.

Industrial Restructuring

Industrial restructuring is a sweeping proposal to change, by legislation the nature of the competitive game by reducing the size of the largest players. Some argue that existing anti-trust laws and countervailing power have not stemmed increased and unreasonable industrial concentration. As a result, the overall market power for farmers and the general public have been reduced. The breakup or diffusion of highly concentrated industries - industrial restructuring - is proposed as a means to restore competition and free enterprise to the market place.

Fine Tuning

Fine tuning the present system is an option that results from the conclusion that the system is already functioning quite well. There is adequate legislation, perhaps too much regulation. But the system could be made to work even better by just fine tuning the way the system is now regulated or motivated.

The presentation has involved only a sketchy coverage of only 11 of many possible identifiable institutional arrangements that can affect the manner in which farmers market their commodities and influence the efficiency with which the food industry functions. It was an attempt to put some of the options in perspective.

It is important that we understand the marketing system as it now functions and realize that intervention or the establishing of any new institutional arrangement will have benefits, perhaps, but is also likely to incur costs. The distribution of these costs and benefits will not likely be uniform. In fact, such institutional changes are often designed to improve the welfare of some group, realizing full well that the welfare of others might be adversely affected.

The authors of the leaflets tried to estimate the way the benefits might be distributed (Table 1). Note that it was felt that all eleven options could benefit producers in some way. The relevance is quite different for various commodities. Some would have a positive beneficial impact on consumers. However, the impact it was felt would be neutral or negative for agribusiness for most options. Little quantitative data is available to support the distributional estimates on this chart. Therefore, I will not dwell on them. They are qualitative. Many authors had views that would differ substantially from those indicated. My own view differs somewhat, but I have no stronger evidence to support them than do the group of authors that developed this table.

Table 1
How the Benefits of Each Marketing Alternative are Likely to be Distributed

	Distribution of benefits			
	Producer	Agribusiness		Consumers
		Marketing firms	Supply firms	
Marketing alternatives:				
Electronic exchange	+++	---	N	++
Contracting	+	+++	++	+
Forward deliverable contract markets	++	+	N	+
Mandatory reporting	++	-	-	++
Exclusive agency bargaining	+++	--	N	--
Ownership integration	++++	----	----	-
Joint venture	++	+	+	-
Marketing orders	+++	--	N	--
Marketing boards	+++	--	N	--
Industrial restructuring	+	----	----	+++
Fine tuning	++	--	-	++

Source: Slide set prepared to accompany "Marketing Alternative for Agriculture: Is There a Better Way?"

Summary and Closing Statement

In summary, I would like to make several points:

1. The marketing of agricultural commodities involves many institutions and institutional arrangements that influence or affect the efficiency of the system and the distribution of the rewards.
2. The type of performance desired of the food system is different for various interest groups.
3. There exists a large number of options that could be put in place that would influence how well the system performs and also affect the distribution of costs and returns among industry participants.
4. One should have a relatively clear understanding of the trade-offs involved before making a major change in the institutions or institutional arrangements that regulate the way participants behave.