the international oil markets, OPEC saw the total market for oil imports fall and its share of that market decrease.

OPEC members see their receipts falling while those of the free riders are increasing. With time and with the pressures of international payments problems, some members of OPEC eventually want to leave the cartel and behave like free riders, producing and exporting as much as possible. But if one country leaves the cartel, then the pressure on the remaining members to quit becomes even stronger, and the cartel crumbles as it did this past year.

Implications for Cartel Dreamers

What does it take to develop a successful cartel? There are three critical requirements. First, the long run demand for the good must be fairly insensitive to price. Second, the cartel must be able to control most of the world trade of the good. Third, there must be no close substitutes for the good.

Obviously, OPEC is failing because there are many suppliers on the world market now that are not part of OPEC, and many substitutes for petroleum have been developed. Therefore, the prospect of a return to market domination by the OPEC cartel is dim.

Given the above perspective, how does the idea of a grain cartel look? The answer has to be pretty bleak. World grain markets do not meet any of the three criteria for a successful cartel. Consequently, any effort to use excessive market power is sure to backfire in the long run.

If American farmers consider the OPEC countries to have been the villains, then the free riders must be the heroes. As world oil prices plunge, the free riders are going to be hard hit. This is particularly true for Mexico because of its precarious economic situation. OPEC members will also be hard hit. It will be interesting to see if our future foreign policy treats hero and villain alike.

Is a "bushel for a barrel" an eventual possibility? Sure! We've seen $12 soybeans since we've seen $12 crude. But if a bushel for a barrel happens it is more likely to be because of depressed oil prices than inflated, cartelized grain prices. C

DISEQUILIBRIA

. . . when things don't fit and other thoughts

Marc Warman on Commodity Advertising

1985 Farm Bill OK's Growth of Farm Commodity Research and Promotion

Farm commodity promotion is big business and it is going to become larger.

The Food Security Act of 1985 sets the stage for a major expansion of commodity research and promotion programs. Such activities date back to the late 1800's, but federal involvement did not begin until the mid-1950's.

Federally sanctioned commodity promotion programs fall into two broad categories. One category is the programs authorized by marketing orders issued under the Agricultural Marketing Agreement Act of 1937. These programs authorize paid advertising for a variety of fruits, vegetables, and specialty crops, as well as milk. Currently, there are 28 of these programs in effect.

In addition, collections are made for a number of other commodity groups under free-standing federal legislation: wool and mohair, cotton, potatoes, eggs, wheat, and dairy. Floral producers disapproved a proposed program for their commodity in January 1984.

A program is pending for honey. And, the 1985 Food Security Act authorizes three new programs: beef, pork, and watermelons. Collections for the beef and pork programs are expected to begin in the fall of 1986. Watermelon producers are in the process of deciding whether to submit a proposed program to USDA for approval.

The size of the various promotion programs is indicated in a table provided by the Agricultural Marketing Service. For example, nearly $100 million is available on an annual basis to promote consumption of dairy products and to conduct related research. This is the largest program. The total of the funds identified in the table is slightly more than $150 million.

Marc Warman is with the Agricultural Marketing Service in the U.S. Department of Agriculture.

Funds Available for Commodity Research and Promotion*

	Million
National Wool Act of 1954	
American Sheep Producers Council	$ 4.7
Mohair Council of America	.5
Cotton Research and Promotion Act of 1966	
Cotton Board	28.3
Potato Research and Promotion Act of 1971	
Potato Board	5.2
Egg Research and Consumer Information Act of 1974	
American Egg Board	5.1
Wheat and Wheat Foods Research and Nutrition Education Act of 1977	
Wheat Industry Council	1.2
Dairy and Tobacco Adjustment Act of 1983	
National Dairy Promotion and Research Board	80.5
Agricultural Marketing Agreement Act of 1937	
Milk Marketing Orders	
E. Ohio-W. Pennsylvania	2.9
Indiana	1.5
Greater Kansas City	.8
Middle Atlantic	6.0
Nebraska-W. Iowa	.9
St. Louis-Ozarks	1.9
Fruit and Vegetable Marketing Orders	
22 different commodities (examples: citrus, olives, almonds)	16.2

**Total collections, less refunds, plus interest and other income in "most recent 12-month period as of January 1986."*

Different techniques are used to collect the money. Here is how it works for some of the commodities.

—Wool and Mohair: Assessments are deducted from incentive payments paid by the Federal Government to growers. These deductions are \$0.04 per pound for wool and \$0.045 per pound for mohair.

—Cotton: An assessment of \$1 per bale plus 0.6 of 1 percent of the bale's value is collected by the first buyer of cotton from the producer.

—Potatoes: A maximum assessment of 0.5 of 1 percent of the prior 10 years U.S. average price received by growers is authorized. The current assessment of \$ .02 per cwt. is collected at the first point of sale.

—Eggs: An assessment of \$0.05 per 30 dozen case of eggs is collected at the point of first sale.

—Wheat: An assessment of \$0.01 per cwt. of processed wheat is paid by manufacturers.

—Milk: Under the Dairy Promotion and Research Board program, \$0.15 per cwt. is collected on all milk marketed by producers with a credit of up to \$0.10 allowed for producer contributions to State and regional promotion programs. Assessments under the six milk market order programs are \$0.10 per cwt.

—Fruit and vegitable market orders: Assessments are made on handlers. The amounts vary.

New Programs/Proposals

—Honey: Assessments have been recommended at \$0.01 per pound for the first year of the program. This rate may be increased by \$0.005 per pound per year up to a maximum of \$0.04 per pound. A hearing has been held but the program is still subject to approval by producers in a referendum.

—Beef: The Food Security Act of 1985 authorizes an assessment rate of \$1 per animal per sale.

—Pork: The Food Security Act of 1985 authorizes an initial assessment rate of up to 0.25 of 1 percent of the value per sale. C

E. C. Pasour, Jr., on Free Trade's Price

U.S. Farmers Can't Have Free Access to World Markets and Price Supports, Too

In the public debate over trade policies, Americans typically portray the United States as a free trade island in a sea of agricultural protectionism. But the U.S. has been throwing up obstacles to free trade with U.S. domestic agricultural policies that date back to the Agricultural Adjustment Act of 1933.

U.S. agriculture has been a perennial albatross in efforts by the United States to liberalize trade. Price supports plus import quotas, export subsidies, deficiency payments, and so on cause the same economic distortions that arise from more familiar protectionist measures such as import taxes. The problem posed by U.S. farm policy in efforts to expand trade and negotiate agricultural trade liberalization through GATT (The General Agreement on Tariffs and Trade) is rooted in the inherent contradiction between domestic price supports and free international trade.

Price supports for farm commodities are incompatible with trade expansion? because import barriers are a necessary appendage of farm policies that hold domestic prices above world price levels. The conflict between domestic farm programs and free trade was apparent when GATT was established in 1947 to liberalize and expand trade. As Thomas Grennes points out in his 1985 Heritage Foundation publication, it is no coincidence that agricultural and other "primary products" are not bound by the GATT principles which generally prohibit import quotas and export subsidies. The United States insisted on special treatment for agricultural products.

The GATT exemption for agricultural products was made necessary by Section 22 of the Agricultural Adjustment Act of 1933, as amended. It requires that the U.S. Government impose quantity restrictions whenever imports would "materially interfere" with the operation of U.S. farm programs.

It is not difficult to see why such protection is required for dairy, sugar, peanuts, tobacco, and other products where domestic prices are held above world price levels. In 1984, for example, domestic prices of U.S. dairy products were two to three times prices in international markets.

Call for "Miami Vice?"

The case of sugar, where the domestic price in early 1985 was more than six times prices in international markets, is even more dramatic. Without rigid import controls for price-supported products, consumers would substitute lower priced imports for domestically produced products. And, the displaced U.S. production would accumulate in government stocks, further undermining farm programs.

That kind of price differential also attracts smugglers. There have been reports in the press of shiploads of foreign sugar entering the United States illegally.

But the U.S.-inspired GATT principles that permit special exemptions for farm products also incorporate limits on how far countries can go in limiting imports to protect domestic support programs. Import quotas are not to be used to reduce imports by more than domestic production is restricted. This means that limitations on imports should not cause the ratio of imports to domestic production to be below the ratio that would exist if there were no restrictions on imports. Thus, if imports would be 20 percent of domestic production in the absence of restrictions on imports, an import quota should not reduce the ratio of imports to domestic production to less than 20 percent.

D. Gale Johnson shows in the December 1984 American Journal of Agricultural Economics that this principle has been "grossly violated" by the United States for a number of products including sugar, dairy, peanuts and beef. In the case of sugar and beef, for example, import quotas exist even though the U.S.

E. C. Pasour, Jr., is in the Department of Economics and Business at North Carolina State University.