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The Challenge of Reorienting Marketing Policy to an Industrialized Agriculture

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In 1968, I participated in a Farm Foundation conference in Chicago with the theme "Agricultural Organization in an Industrialized Economy" (Farris). The visionaries of the time—Farrell, Breimyer, Hildreth, Shaffer, Helmberger and Farris—recognized even then the potential for profound structural and policy change. However, they believed that public policy had the potential for intervening in the process of structural adjustment to maintain relative balance and equity in the marketplace. Projects such as "Who Will Control U.S. Agriculture" (Guither) and N.C. 117 stirred substantial discussion but, in retrospect, served more to alert the industrialized sector to vigilance in maintaining control of the agricultural sector and its policies than to awaken complacent farmers and cooperatives.

While structure has progressively become more industrialized, as foreseen by the visionaries of the time who were willing to explicitly verbalize what was happening, policy has been slow to adjust. The slowness of policy adjustment reflects the resistance of governmental institutions and their constituencies to change. Over time, the economic and political forces brought on by industrialization have broken down that resistance, resulting in the tumultuous domestic farm policy change that is now occur-

ring and could continue over the next decade or two.

The overriding force precipitating this policy change, perhaps, was not industrialization itself but its interdependency with globalization. Globalization and reduced trade barriers have made it much more difficult, perhaps impossible, for farm programs to achieve stability and balance in the marketplace.

If the U.S. agriculture sector had remained relatively closed, the process of industrialization would almost certainly have resulted in serious monopolization issues. But, the processes of globalization and freer trade have made markets broader based and inherently more competitive. At the same time, however, the market position of farmers and their cooperative representatives has become more exposed and more dichotomous. The dichotomy is between the farmers who have, in many respects, become part of the industrialized system and those who have not. The "haves" arguably are the more progressive who are being rewarded for their progressiveness and management superiority. While the "haves" are the minority in terms of numbers, they produce the majority of the product. It may be that these farmers need no assistance from the government. Considering the course of

policy, that is an hypothesis that will soon be tested.

Marketing Implications of Farm Program Elimination

The elimination of domestic farm programs will substantially increase the importance of the marketing function in agriculture. This results from the following likely consequences of farm program elimination:

- Instability in prices and incomes will increase. The effects of price instability will fall most heavily on those farmers/agribusinesses that are unable to cope with the increased risk.
- Exposure to global market forces will increase. This not only means more opportunity to export but also greater competition from imports. The commodities that have been the most highly protected are clearly the most vulnerable to increased global competition. This surely includes rice, cotton, sugar, peanuts, tobacco and dairy (Smith, 1995a).
- Export dependence will increase. After a decade of relative stagnation, export demand has once again begun to soar (FAS). For the commodities that have been the most highly protected, imports will also increase. On an individual commodity basis, changes in the level of imports and exports will be the primary source of price instability.
- The combined forces of industrialization instability and globalization will

result in a substantial structural shake-out. It is difficult to see that any commodity area will be immune from this shake-out. Overall, moderate-size and smaller farms will be most adversely affected. Therefore, the income gap between moderate and large farms will increase. There will be regional differences in the magnitude of change because of concentration of the most adversely affected commodities in the South. But, traditional dairy and pork producing areas of the Midwest and Northeast will also experience tumultuous change. Corn, soybean, poultry, fruit and vegetable producers will fare relatively better due to strong income-induced demand for these products (Womack, Smith, 1995b).

Marketing Policy Implications

The erosion of market policy began in the early 1970s with attacks on marketing orders inspired by Justice Department lawyers and economists investigating the activities of dairy cooperatives. Subsequently, marketing order decisions became subject to scrutiny by the Office of Management and Budget, Council of Economic Advisors, and the Cost of Living Council (Knutson, Penn and Boehm). In the 1980s, David Stockman became a sharp critic of marketing orders.

The 1977 farm bill repealed the 20 percent earmark on marketing research—an initiative requested by our experiment station directors. Neither farmer nor agribusiness organizations arose to the defense of marketing research and extension. Yet, farmer surveys were indicating that marketing was their biggest problem.

Often overlooked dimensions of policy that have made market regulation more difficult are the provisions of the Administrative Procedures Act; the requirements for various impact analyses; and the increased propensity of interest groups to challenge and use the courts to overturn market regulatory initiatives. As a consequence, often the process of obtaining regulatory change has become sufficiently protracted that producers and agribusiness enthusiasm for particular market policies has materially diminished. This is clearly the case for milk marketing orders.

Market policy also has been the victim of reduced appropriations and the unwillingness of agricultural interests to continue certain market services through user fees. The impacts of reduced appropriations appear to have fallen most severely on the domestic market information and outlook functions. An interesting study would involve changes in the quantity of market information available to farmers from public sources. Such a study should involve a division between information on market activity (supply, marketings, demand and price) and outlook information, including related extension marketing education. While public information has significantly declined, private information surely has increased. Access to private information, however, is a function of wealth, progressiveness and knowledge. Reduced public information plays directly into the hands of the industrialization process. That is, the benefits of privatization of the market information system accrue to larger industrialized farmers and agribusiness. The following are new dimensions of market policy that have significantly shifted its orientation:

- Breimyer points out the explosion in checkoff programs that go largely to financing generic advertising and promotion programs. On balance, his evaluation appears to be negative. In a futuristic context, it is interesting to speculate on how generic advertising programs are likely to fare in a more industrialized and export-oriented agricultural setting. On the one hand, checkoffs have been a means by which producers could leverage U.S. Department of Agriculture (USDA) international cooperator program market development funds. On the other hand, as the export business becomes more value added and brand oriented, the interests of agribusiness in generic advertising might be anticipated to decline. Yet, it is interesting to note that the first processor-financed checkoff program has recently been authorized and implemented for milk—arguably, a product that is more difficult to differentiate by brand.
- In 1995, produce and commodity groups won a hard fought battle against retailers and wholesalers to preserve the Perishable Commodities Act (PACA). While retailers and wholesalers were unsuccessful in repealing the law, retailers got themselves exempt from paying the license fee, although they are still required to obtain a license. In addition, the new law has made it easier for producers to enforce PACA's ten-day, prompt-pay provisions.

- Substantial new initiatives have been taken to modernize the meat and poultry inspection system. There are reasons to believe that food safety could become the major new initiative area for market policy. Yet, it is important to note that the modifications of meat and poultry inspection procedures have come with considerable political controversy. Moreover, Congress is having tremendous problems coming to grips with the issues surrounding Delaney, even in the face of a court order effectively mandating policy change. This Congress clearly is not in a mood to enhance the level nor the clarity of regulations.

Alternative Marketing Policy Directions

In the future, marketing policy will seek to either remedy the inequities of a freer market economy or further dismantle the major existing marketing policy dimensions.

Remedy Inequities

Policymakers could seriously evaluate, consider and seek to remedy the inequities among farmers and consumers resulting from the change in farm programs combined with the process of industrialization/globalization/export dependence. The most serious inequities that public policy has a chance of remedying relate to increased requirements for market information and education. To begin with, farmers do not recognize the seriousness of the situation they are facing. This is the case even for many larger farmers, but it is particularly a problem for moderate-size farmers.

The major impending problem is that of variability in output prices for grain, cotton, rice and milk producers and in input prices for livestock and milk producers. Coming to grips with instability requires a working knowledge of futures and options markets. Effectively operating in these markets requires access to reliable outlook information. Making intelligent commodity marketing decisions requires improved spot market information in an environment in which market prices have greater propensity for geographic differences with more instability.

Logically, one could see the potential for expanded utilization of marketing orders to replace some of the stabilization functions performed by farm programs. For example, orders might be utilized to improve data collection, to implement grading functions or to protect the integrity of identity-preserved commodities. Orders could also be utilized to regulate market flow if the non-recourse loan was eliminated. The suggestion for an increased role for marketing orders, however, seems unlikely to be taken seriously by policymakers in a political environment in which orders have not had a favorable image since the 1970s.

Without farm programs, there will be a need for increased undergirding of cooperatives. As under the current policy regime, the greatest need is for director training. The challenge facing cooperatives trying to compete in a global-trade-dependent market is just beginning to be recognized. If cooperatives are to compete in an industrialized, global and branded market, multinational cooperative structures will be essential. For example, large retailers require that fruit of the same quality be available throughout the year. If cooperatives are to do an effective job of marketing, it will be necessary, for example, to have fruit cooperatives' market-

ing functions coordinated across countries in the northern and southern hemispheres. Moreover, multinational cooperatives long ago were identified as a necessity for competitiveness in international grain trade (Knutson, Cook and Sporleder). The same argument can be made for cooperatives involved in the poultry, hog or dairy business. Surely, in the absence of milk price supports and federal orders, dairy cooperatives in the United States, the European Union, New Zealand, and Canada would need to coordinate their activities to compete with the multinational structures of Kraft and Nestle. The same would be true for Goldkist in broilers and Farmland in hogs.

Reduced Government Market Involvement

The alternative direction that policymakers could take is to dismantle marketing policy in the same manner as is being done for farm programs. This alternative would involve dismantling marketing orders, check-off programs and the various programs established under the Research and Marketing Act of 1946. With strong budget pressures, this would appear to be the most likely option. Adding to the probability is the reality that without checkoff programs, the political influence of commodity groups is reduced. Despite the fact that checkoff funds cannot be utilized for political purposes, their existence enhances the overall political influence of commodity groups within the agriculture sector (Knutson, Penn and Boehm). A weakened farm organization structure and reduced spending, combined with a Congress that is not sympathetic toward special agriculture sector programs,

could result in the dissolving of one or more of the agriculture committees and the USDA.

Implications for Marketing Research, Teaching and Extension

While my instructions were to emphasize marketing policy, I would be remiss not to make some concluding remarks regarding the implications for marketing research, teaching and extension programs within the land grant university system—extending to the survival of the system itself.

Three points regarding the status of agricultural marketing programs within the land grant system include:

- With only a few exceptions, marketing extension programs have diminished to the point at which their impact is nil. Two examples are illustrative of the situation. First, a California marketing specialist is expected to cover thirteen different commodities. Second, marketing has become sufficiently weak within the North Central region that extension directors have dissolved this regional committee. Under the conditions that exist, extension clearly is not in a position to meet the needs and challenges presented by an agriculture without support programs.
- Breimyer does a good job of evaluating the status and orientation of marketing research. Evaluations of the performance of the marketing system have largely vanished as the profession has become more agribusiness oriented. The only areas of strength that I can identify are analyses in the

areas of market promotion, dairy marketing and cooperatives. The strength that exists in these areas results largely from special grants, not from conscious land grant support commitments. As a result, many states have little or no research in these areas. Moreover, despite the increased orientation toward agribusiness, there is no cohesive agribusiness research thrust.

- At the undergraduate level, marketing teaching has taken an agribusiness orientation. Ironically, at the graduate level, there is little agribusiness orientation. When combined with the lack of an agribusiness research undergirding, the result is a highly flimsy and vulnerable agribusiness education structure.

The status of marketing research, teaching and extension in the land grant system suggests a need for change. Three general options are apparent:

- The private sector orientation of the current system could be shored up by developing agribusiness research and graduate teaching programs. This would require a shift from traditional marketing research and increased funding, presumably with support from the agribusiness sector.
- Traditional research resources could be focused on arousing social awareness of the inequities that will continue to expand under freer market policies. This would be a risky course that

could result in sharply reduced financial support for marketing research, teaching and extension.

- The undergraduate marketing teaching function could be given up to business schools. This strategy would recognize that in an industrialized setting, there is no uniqueness to agriculture. Over time, the merits of this position appear to be taking on increasing reality.

In evaluating the status of agricultural marketing research, teaching and extension, I have raised several issues that suggest a need for objective evaluation of the status of the agricultural economics profession in marketing. The Marketing Consortium is the logical organization to spearhead such an initiative.

NOTES

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