



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

658.80963
F66
95-1

Public Policy in Foreign and Domestic Market Development

WAITE MEMORIAL BOOK COLLECTION
DEPT. OF AG. AND APPLIED ECONOMICS
1994 BUFORD AVE. - 232 CUB
UNIVERSITY OF MINNESOTA
ST. PAUL, MN 55108 U.S.A.

The Food and Agricultural Marketing Consortium
and
NEC-63 Research Committee on Commodity Promotion

Food and Agricultural Marketing Consortium

The Food and Agricultural Marketing Consortium is chartered to provide researchers, extension educators, agricultural leaders, agribusiness representatives, interest groups and policy makers a forum in which to address issues affecting the vitality and competitiveness of the U.S. food and agricultural marketing system. Marketing economists interested in working within this pattern are encouraged to contact the individual chairing any of the following workshops in which they are interested.

Schedule

- January, 1996 **Global Restructuring of Agro-Food Markets: Need for Changes in Marketing Policy -- Alexandria, Virginia**
Steve Sonka, Chairman (217) 333-1817
- January, 1997 **Modern Cooperatives in Food and Agriculture -- Orlando, Florida**
Mike Cook, Chairman (314) 882-0127
- January, 1998 **Harmonizing Marketing Policies Across International Boundaries -- Alexandria, Virginia**

658.80963

F66

~~783~~

95-1

Public Policy in Foreign and Domestic Market Development

Proceedings of a January, 1995 Symposium

Sponsored by

**Food and Agricultural Marketing Consortium
and**

**NEC-63 Research Committee on Commodity Promotion
FAMC 95-1**

**Daniel I. Padberg
Editor**

**Texas A&M University
College Station, TX
1995**

Foreword

Establishing, encouraging and developing markets for agricultural and food products have been important themes of public policy since the early days of the twentieth century. In the Agricultural Marketing Act of 1946, this was emphasized and formalized. Meeting the food needs of our citizens and developing non-food uses received significant attention in the atmosphere of 1946 along with programs for providing food assistance to nations abroad. These objectives related to the economic and humanitarian interests of the day in a positive and direct manner. Their separate parts, locally and globally, were seen as compatible and complementary. Until the late 1970s and early 1980s, these programs were primarily driven by the need to dispose of surplus stocks generated by farm income and price support programs.

With the decline in export markets, we began to question the relationship between farm income and price programs and the ability to price competitively in world markets. At the same time the rapidly expanding costs of supply and stock management programs, combined with federal budget pressures, led Congress and others to look for ways to "market" our way to higher prices and incomes. Government policy shifted from being mainly supply focused to an emphasis on demand creation. Specific efforts included the Market Promotion Program, Targeted Export Assistance, Export Enhancement Program and numerous pieces of legislation mandating checkoff programs for commodity producers.

For the most part, these new and expanded efforts by the government to influence demand for agricultural commodities and products were implemented without the benefit of detailed analyses of potential benefits and costs. In addition, they were "layered" on existing policy and program institutions that may or may not have complimentary impacts.

Objectives of Symposium

This symposium identified how public policies and programs facilitate or hinder the development of domestic and foreign markets for U.S. food and agricultural products. Particular emphasis focused on identifying where markets and current policies fail to provide adequate information, regulatory control, or investment incentives to achieve market growth goals and how public policies might address these failures. The symposium was divided into three thematic sessions: 1) The Economics of Public Involvement in Market Development, 2) The Industrialization of Agribusiness and Market Development Policies, and 3) Public Policy for Achieving Market Growth Through Generic Promotion and Commodity Research Programs.

Economics of Public Involvement in Market Development

The flow of investment is a key in development and growth of markets and industries buying food commodities. In the past few years, private investment incentives are respected as being most important. The interest in public investment incentives has also increased because

public initiatives can channel and guide private development. One major paper considers public policy's role of facilitating and encouraging development of domestic and foreign markets and economies.

Another paper lays out the implications of efficient price and other information signaling for market development. Public policy to facilitate the flow and improve the quality of price and other information has been especially important in the development of the U.S. food economy and may be very useful in the many developing economies seeking a greater orientation to market forces. This area is especially significant in relation to current emphasis on stimulating private investment.

Should we have an "industrial policy" for food and agriculture? We have traditionally supported patterns of policy relating to competitiveness, scientific development, food safety, nutrition, the environment, etc. as separate modifiers of public policy to facilitate food marketing. It is frequently felt that our foreign competitors have a pattern of public policy cutting across all the relevant areas that is purpose-built to encourage growth of a particular industry—often called an industrial policy. An industrial policy can be a vehicle to channel public assistance to strategic industries for better positioning of the U.S. economy in relation to future competition and trade. The third paper will examine how industrial policy "links" to economic growth and identify implications for the U.S. market development programs.

The Industrialization of Agribusiness and Market Development Policy

What balance should be struck between public and private investment in new product technology and other marketing research? We benefitted from a pro-active public sector when our citizens inhabited plains and prairies without infrastructure. Is that stance still equally appropriate with a highly developed agribusiness? Are there other kinds of "self-help" needed by farm producers who face a highly organized system of agribusiness buyers? Does marketing technology vested in the private sector promote system efficiency as directly as that in the public sector? These issues are addressed in a paper concerning the traditional federal/state research model.

As a highly developed infrastructure replaces traditional markets with modern vertical linkages, what will happen to the flow of information provided by markets? How will the efficiency and effectiveness of this complex structure be judged and monitored? How will market development be affected by these changes? These issues are covered in a paper on vertical coordination, public information, and market development.

Agricultural commodity policies have usually focused on price levels and their implications for farm income. In more recent years, significant export subsidies have come to be a regular and primary component of these policies. The current North American Free Trade Agreement and General Agreement on Tariffs and Trade policies will alter the established export subsidies and may require different methods of market development. A paper on pricing policies and market development considers future public policy directions in this area.

Commodity checkoff programs have grown to be a significant modern part of market development policy. They involve several equity issues, including: 1) free rider problems, 2) checkoff refund policies, 3) cross commodity effects, 4) block voting in referendums, etc. Issues and concerns about the effectiveness of these programs on market development are considered in the first paper in this session.

Public programs to promote market development abroad have emerged during the past few years. Many experts in food marketing are hardly aware of programs like those set out in the Export Trading Company Act of 1982 and the Food, Agriculture, Conservation, and Trade Act of 1990, etc. How effective are these programs? Are they compatible with other market development programs? Is the food and agricultural sector unique in needing public assistance for developing foreign markets? If so, why? A second paper identifies critical issues relating to these programs.

The final paper reviews the need for public intervention in program evaluation for both privately funded domestic programs and partially publicly funded foreign market development programs. This issue runs through much of the efforts to visualize and design public policy for guiding and monitoring a food industry with a developed "big business" infrastructure. It is especially important where public/private initiatives are undertaken. Major rethinking of policy directions, data reporting requirements and methods may be required in this area.

Daniel I. Padberg
Texas A&M University

CONTENTS

	Page
Part I ■ Current Market Development Activities/Policies	
Assessing Market Development Activities for Agricultural Commodities	3
<i>Thomas L. Sporleder</i>	
Part II ■ Economics of Public Involvement in Market Development	
Private Versus Public Incentives for Market Development Investments: Is There a Role for Public Policy?	21
<i>Terry L. Roe and Gopinath Munisamy</i>	
Contracting, Imperfect Information and the Food System	41
<i>Ian Sheldon</i>	
Should We Have an Industrial Policy for Food and Agriculture?	55
<i>Dennis R. Henderson and Daniel I. Padberg</i>	
Discussion	67
<i>Frances Antonovitz</i>	
Part III ■ The Industrialization of Agribusiness and Market Development Policies	
Development, Dissemination and Adoption of New Products/Uses Technology: Is the Traditional Federal/State Research Model Obsolete?	73
<i>Michael Martin and Bruce Bullock</i>	
Vertical Coordination, Public Information and Market Development: Are New Public Data Policies Needed?	79
<i>Steve Sonka</i>	
Market Development: An Objective for Policies Affecting Commodity Prices?	85
<i>Karen Ackerman and Stephanie Mercier</i>	
Discussion	99
<i>Michael Reed</i>	

Part IV ■ Public Policy for Achieving Market Growth Through Generic Commodity Promotion and Research Program

Federal Legislation and Producer Checkoff Programs 105
Wayne R. Watkinson

Public Funding of Foreign Market Development Programs 121
Henry W. Kinnucan and Karen Z. Ackerman

Public Policy on Program Evaluation and Disclosure of Program Expenditure 135
Olan D. Forker, Harry M. Kaiser and John E. Lenz

Discussion 143
John Huston

Part V ■ Summary and Implications

Summary and Implications: Foreign and Domestic Market Development 147
Walter J. Armbruster