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Observations on Fruit and Vegetable Marketing Orders: Perceptions and Realities

Gary F. Fairchild

The chaotic conditions surrounding the marketing of fruits and vegetables in the early part of this century are well documented in the marketing-order literature. Numerous small retailers and small producers with low incomes bracketed a marketing channel characterized by volatile volumes and prices. As an outgrowth of these conditions, society sanctioned the transfer of market power to producers through marketing orders to enhance the orderly marketing of fruits and vegetables (Agricultural Marketing Agreement Act of 1937). The concept was to provide, in the interests of both producers and consumers, an orderly flow of supply to market throughout the normal marketing season so as to avoid unreasonable fluctuations in suppliers' prices on both an intraseasonal and interseasonal basis. The bottom-line intent of the legislation was to improve the prices and incomes of producers. The protection of consumer interests was considered, in that prices were not to be unduly enhanced while assuring an adequate supply.

To achieve the goal of improved grower prices and incomes, marketing orders provide for the regulation of quantity marketed, the establishment of minimum quality standards, and market support activities such as research, promotion, and standardization of packs and containers.

While market support activities and quality standards are designed to improve demand, quality standards can also be used as quantity restrictions. The most effective method of influencing prices remains the volume control provisions. It should not be unexpected that these provisions are most often the subject of criticism about their impact on consumer welfare, excess supply, and international trade. Volume controls have not been widely used in recent years.

Studies Abound

Have market orders been successful? Have they resulted in behavior consistent with the performance criteria suggested by the original legislation (provide orderly marketings, establish parity prices to producers, protect consumer interests, and provide orderly intraseasonal flow)? These questions have been addressed by an amazingly large number of agricultural economists for more than half a century, and particularly in the past 20 plus years. The number of studies is overwhelming, including both commodity-specific and general studies of fruits, vegetables and specialty crops.

Perhaps most significant of these studies are reports by two study teams appointed in the 1980s. The first team, with the assistance of a number of advisors from government and universities, reviewed federal marketing orders for fruits, vegetables, and specialty crops with respect to economic efficiency and welfare implications (Heifner et al. 1981). The second team focused on criteria for evaluating federal marketing orders for fruits, vegetables, nuts, and specialty commodities (Polopolus et al. 1986). In addition, Powers (1990) provided a comprehensive overview of federal marketing orders for fruits, vegetables, nuts, and specialty crops. These three reports are offered for their informative nature and insightful treatment of marketing orders at the industry level.

There have also been numerous studies and reports focusing on specific aspects of marketing orders, often using one or more specific commodities as examples (Jessie and Johnson 1981). Specific commodity studies have ranged from carrots and celery to tangerines, tart cherries, and raisins (Shaffer 1968,

Shonkwiler and Pagoulatos 1980, Taylor and Kilmer 1988, Fairchild 1972, Ricks 1993, French and Nuckton 1991).

Marketing orders may well be one of the most studied programs in agricultural marketing. And yet, in spite of the considerable time and talent devoted to the study of marketing order issues, results appear to be somewhat mixed on almost every question. While much of this may be attributed to the wide array of fruits, vegetables, nuts, and specialty crops covered by marketing orders (Figuroa 1993), many studies have concluded with a call for more research, both practical and empirical (not always mutually exclusive), and more data. Many studies seem to do a good job of framing questions to be answered with further research.

While it is difficult and dangerous to generalize, it appears that marketing orders have done a reasonable job of stabilizing markets without undue price enhancement, while continuing to enjoy general grower approval. It is not clear whether grower support stems from perceived price enhancement, muted price variability, positive benefits of market-support features, or fear of excess supplies and low prices in non-order markets. While James Thurber once noted that it is sometimes better to know some of the questions than all of the answers, it would be comforting if we knew a few more of the answers than we do today.

Symposium Challenge

The theme of this symposium is re-engineering marketing policies for food and agriculture. Besides being a snappy, cutting-edge title designed by some of the most creative minds in agricultural marketing to attract a large crowd, it signals the symposium objective of evaluating the role of public policy supporting the orderly marketing of commodities. This offers symposium participants the opportunity to examine the marketing machinery that has

been part of public policy in agriculture for the majority of this century. We have the luxury of asking such questions as: Are marketing orders doing the job with respect to the legislative intent? Can they be modified or improved? Have domestic and international market conditions changed so as to eliminate the need for marketing orders? Have changes in economic and social conditions created an unfavorable public policy atmosphere for marketing orders?

Reviewing the literature on fruit, vegetable and nut marketing orders reveals that nearly all of the major issues and concerns have been analyzed. Specifically, three papers from the 1993 Food and Agricultural Marketing Consortium symposium, *Food and Agricultural Marketing Issues for the 21st Century* (Padberg 1993), did an excellent job of outlining and addressing the key issues on justification of marketing orders and major changes in markets and society that may change the way marketing orders are viewed (Padberg and Love 1993, Sporleder and Phillips 1993, Armbruster et al. 1993). It seems that so much has been said and written, so many questions asked, guidelines for research suggested, calls for analysis and data collection issued, and policy options and outcomes identified and considered, that we may just be running in circles.

This paper provides a brief outline of the major arguments surrounding marketing orders in an attempt to stimulate some critical thinking and analysis. The intent is not to get bogged down in details of commodity-specific orders for fruits, vegetables, and nuts. While a rose is a rose and milk may be milk, fruits are not fruits and vegetables are not nuts. Thus, it would be easy to get lost in details. The goal is to stimulate discussion on some of the broader issues associated with fruit, vegetable, and specialty crop marketing orders.

How Objective Are We?

As economists specializing in agricultural marketing, we may not be as objective as we think. We may tend to defend the status quo and the "farm position" more than we think we do. In a 1982 AAEA invited paper session on marketing efficiency and federal marketing programs, Jessie, Johnson, and Paul made several observations worth noting: (1) As agricultural economists we have come to take USDA programs for granted; (2) Questioning the social value of these programs makes us uncomfortable, at best; and (3) We are, perhaps, too close to the trees to see the forest—our emphasis on production and marketing of farm products gives us a myopic perspective of aggregate social welfare (Jessie et al. 1982).

Analyses by agricultural economists employed by land grant universities or by USDA tend to be significantly less critical of marketing orders than analyses by economists employed by the U.S. Department of Justice or the U.S. General Accounting Office (Masson and Eisenstat 1978). Certainly marketing orders can be viewed from a number of perspectives. It is important that those closest to the analysis and administration of marketing orders maintain the broadest perspective.

Dinosaurs?

Discussing marketing orders is like entering a time warp and being thrust backward in time to a Jurassic Park of agricultural programs. The botanical landscape is composed of vast expanses filled with fruits, vegetables, nuts and other prehistoric specialty crops. The dinosaurs of the Depressionistic Era, marketing orders can be found dating to over 700 lunar cycles B.C. (Before Clinton).

Times have changed since the Depressionistic Era. It is hard to argue that the chaotic conditions surrounding the marketing of fruits and vegetables 60 years ago still exist today. However, agriculture has always faced changing times, with

respect to both the production and marketing environment. The title of a USDA Yearbook of Agriculture says it best: *Farmers in a Changing World*. That was in 1940!

Almost everything has changed since 1940, except perhaps marketing orders. Actually, some argue that marketing orders have changed in attempts to meet current market conditions and problems (Padberg and Love 1993, pp. 148-150). Still, the literature does not reflect concern about the prospect of returning to the chaotic, low-income conditions of the 1920s and 1930s if marketing orders were to vanish from the earth (e.g., following a direct meteor hit).

Marketing orders remain dinosaurs late in this millennium trying to balance supply and demand for fruits, vegetables, nuts, and specialty crops. In last year's symposium, Padberg and Love observed "As we lay the policies developed in this situation (read Depressionistic Era) against the realities and problems in our modern economy, much of it fits poorly" (Padberg and Love 1993). My guess is that if Padberg and Love have noticed, others less supportive of marketing orders have also noticed. For example, Masson and Eisenstat, writing on federal milk marketing regulations, suggest that "The farmer income goal (of marketing orders) is obviously no longer needed to meet the depression emergency; therefore this goal now develops only an equity aspect." Given the assumption that Congress did not and does not intend to tax poorer individuals to subsidize richer ones, the current price level in this area should be reevaluated by the USDA and/or Congress" (Masson and Eisenstat 1978, pp. 690-691). Further, they note that "Supply inadequacy was a problem related to severely depressed farm incomes, poor transport, and poor communications between short markets and long markets" (Masson and Eisenstat 1978, p. 696).

On a more optimistic note, Padberg and Love, in discussing the rationale for

public intervention in food and agricultural markets, conclude (p. 152):

Marketing orders and cooperatives have survived into times and conditions very different from those of their beginnings. While their roles and focus of attention have made several adjustments to new conditions, the basic structures are still needed. Power balances may figure less in the purpose of these institutions than in the past. Both provide an enabling structure to support collective marketing initiatives. These structures are just as important in providing vertical coordination and advertising programs as in their earlier tasks.

The strongest support for marketing orders can be found in the basics of economics and marketing. Agricultural markets tend to be imperfect and thus often unstable and unfair to participants. Farmers tend to overproduce, which tends to cause supply-demand imbalances, unstable prices, and sometimes even continuous disequilibria. Imperfect markets are, in part, the result of imperfect information with respect to both supply and demand. Add to this the variables of perishability, short marketing seasons, unequal market power, and in some cases highly-capitalized perennial tree crops, and one can begin to appreciate the need for discipline in fruits, vegetables, nuts and other specialty crops. Open markets can bring discipline through low prices and firm exits. Instruments such as marketing orders can help bring discipline through quantity and quality controls, improved information, and measures designed to enhance demand.

Whether or not the basic structures are still needed is perhaps open to more debate from a broader perspective than suggested. For example, from a consumer perspective, the necessity of marketing orders may be a more open question. Furthermore, the tighter vertical coordination found in many marketing channels may have diminished the need for

marketing orders. Certainly, marketing orders play a significant role in facilitating the marketing of fruits, vegetables, nuts, and specialty crops. The real question may be whether or not government has a continuing role to play in the facilitating functions of marketing.

Back to the Future

No matter how safe and secure the past, we have to face the future. What kind of environment awaits marketing orders depends, in part, on the perspective from which they are viewed. From a consumer perspective, it may become increasingly difficult to argue that welfare would suffer in a world without marketing orders. Concerns exist about consumer welfare and whether agricultural economists have given adequate consideration to the impact of marketing orders on consumers. Questions have also arisen as to the measurement of the true total cost associated with marketing orders, as well as total welfare.

While not all fruit and vegetable growers support marketing orders, the majority do. Marketing orders must be doing something right, given their general level of support by growers and their longevity. But it is important to remember that there are other perspectives that must be considered, as well as economic, social, political, and international trends which cannot be ignored.

An excerpt from a paper by Paul G. Christ, presented by Kaiser:

Few people understand marketing orders, and a lot of people distrust them. Proponents argue that they are useful in promoting orderly marketing and reducing market failure. Opponents believe they are a device to promote the economic well-being of favored producers at the expense of consumers. There are elements of truth in both perspectives. In considering the future of marketing orders, *we need a vision.*

(See Paul J. Christ's paper in the appendix to this section.)

The Vision Thing

We have had a long-term vision in this country which has included concern for agricultural producers' welfare. In the case of fruit, vegetable and specialty crops, this vision has been manifested in the form of marketing orders, cooperatives and other measures to help balance supply and demand, as well as market power. This vision continues today. Thomas Sowell suggests that "it takes a vision to beat a vision." Otherwise old visions such as marketing orders would simply be patched up with unending reforms. Sowell also notes that "an alternative vision has to become viable" before changes will occur (Sowell 1994).

Are there viable alternative visions which may affect the perceptions of marketing orders in the future? I believe the answer is yes. There are growing visions in at least three areas which may change the perceptions of marketing orders with respect to efficiency, equity, and appropriateness: (1) structural changes in food and commodity markets, (2) technological changes, and (3) changes in international trade and global politics.

Structural Changes

Structural changes in food and commodity markets were addressed very clearly by the authors of three papers in the 1993 Food and Agricultural Marketing Consortium symposium. Armbruster et al. (1993) outlined several trends that may influence marketing orders, including both budgetary and philosophical attacks on government regulations. In particular, the regulatory burden on handler and consumer costs was noted as well as the ideological concerns about market control and price discrimination. The argument that marketing orders are a relatively low-budget item may be less effective given the recent demise of the low-cost wool and mohair program.

Drawing on Senauer et al. (1991), Sporleder and Phillips (1993) detailed major trends in consumer attitudes and behavior that will affect consumer patterns in the future. They noted that "sweeping changes in intermediary and final markets have triggered corresponding changes in market structure," highlighting contracting and ownership integration as two alternative exchange mechanisms for enhancing vertical coordination. They suggested that "the market's traditional way of matching demand and supply is diminishing as demand splinters into smaller niches."

Kinsey (1992 and 1993) detailed seven socioeconomic trends/forces affecting the demand for food that are expected to continue well into the 21st century: (1) demand for a wide variety of food within countries, (2) demand for environmentally friendly products, (3) demand for foods that contribute to better health and longer life spans, (4) homogenizing of food preferences and availability across countries, (5) slower growth in total demand for food in the United States, (6) demand for convenience, and (7) demand for services from the public sector.

Kinsey (1992) notes that these trends "speak of the need for producers, processors and governments to stay alert and flexible in order to adjust to rapidly changing markets." Are agricultural economists alert enough and are marketing orders flexible enough to survive? What if marketing orders begin to be perceived as a problem rather than an ally to these trends? For example, the issues of health, the environment, and consumer budgets could increase acceptance for less-than-perfect external quality and increase demand for smaller sizes, neither of which affect nutritional content.

Technological Changes

Technological changes were also considered in the 1993 symposium. Sporleder and Phillips provided a well-reasoned analysis

of the subject and suggested that technological innovations "will encourage vertical coordination in some cases" and that "small-scale producers will be at a long-run competitive disadvantage in specialty crop markets unless they have a particular market niche." I am not convinced that marketing orders are conducive to the development and servicing of market niches.

Sporleder and Phillips conclude (p. 114) that biotechnologies "soon will affect the marketing of some livestock, milk, fruits and vegetables where perishability and seasonality presently are significant characteristics." They further conclude that "... traditional USDA policies concerned with orderly marketing will become less important for many commodities. As markets become more tightly vertically coordinated and technology is capable of adding more value to the product,...less rationale exists for orderly marketing policies. As a consequence, some USDA policies based on orderly marketing concepts are likely to be de-emphasized in the future."

Compromises between agriculture and other political action groups, representing such interests as the environment, may in the future result in an erosion of support for certain government-sponsored facilitating functions such as marketing orders. However, an institutional perspective would suggest evolutionary rather than revolutionary changes. Institutions tend to die slow deaths. Furthermore, there is the old adage that there is nothing more permanent than a temporary government program.

International Trade and Politics

Perhaps some of the largest challenges to marketing orders may be the more open international trade environment, the new world order, shifting international objectives, and a more honest appraisal of comparative and competitive advantage.

Two recent papers addressing the relationship between marketing orders and international trade are worth noting in this regard.

In a paper presented to a 1993 conference in Europe, Carman concluded that market allocation programs for California almonds, navel oranges, and raisins "appear to have led to increased U.S. production and exports of the covered commodities and strengthened their position in export markets." Carman further concluded that "it is unlikely that marketing orders will be used to expand exports of covered commodities during the next few years, since reduced use of volume controls will tend to increase the proportion of product flowing to the domestic market."

Brader: Fairchild cites Hoy Carman's study on almonds, raisins, and citrus that says that marketing orders have been instrumental in building export markets for these commodities. However, the assumption that the domestic market pays more may no longer be true. The Pacific Rim markets are becoming very lucrative.

Chambers and Pick (1994) have addressed marketing orders as non-tariff trade barriers. They note that minimum-quality standards may be biased against foreign-produced goods, may impede trade, and may be used to circumvent a country's comparative advantage in producing certain types of produce. They further identify the conditions under which minimum-quality standards are considered nontariff barriers.

Marketing orders will certainly continue to receive more attention in the international arena where volume restrictions, quality and pack standards, information generation and availability, and the free rider problem take on interesting and intriguing dimensions (Lee and Fairchild 1988, Fairchild 1989). In addition, marketing orders could be easily traded off to meet an international objective. Quoting Jean Kinsey from the 1993 symposium

"nontariff measures used to promote environmental and moral causes, quite unrelated to the economic value of products and trade, are a sea of quicksand that we are only beginning to traverse."

Politics and public opinion will continue to be more influential than economics in the public policy process. Just recently, two diverse molders of public opinion have commented on marketing orders. A *Wall Street Journal* article by Fritz (1994) criticized the proposed plum marketing order in California, citing growers' desire to withhold "baby plums" and "cosmetically challenged fruit" from the market in order to "restore stability to the marketplace" and earn a decent return. Fritz positions the rights of "low-income frugal Americans" against growers' desire for more money, concluding that "raising consumer prices through marketing orders is just plumb wrong." Second, Rush Limbaugh commented recently on how market orders decide how much produce will be sold each week.¹ In spite of the economics of the situation, perceptions such as these can quickly become reality.

To counter negative public opinion and increase crop utilization, expanded purchases of fruit and vegetables for school lunch and low-income programs to meet five-a-day consumption objectives could utilize cosmetically-imperfect and small-size fruit to meet nutritional needs. Maybe the idea could be "marketed" to the advantage of the fruit and vegetable industry.

Supply and Demand

Balancing supply and demand continues to be a major problem for the U.S. fruit, vegetable, and specialty crop industry. Supply responses and lags between expected and realized prices still can create major price swings for growers. Thus, they have economic incentives to seek more

effective coordination. Plums and tart cherries are recent examples. However, large retailers may well absorb much of the price changes due to their pricing policies, and thus diminish the need for marketing orders from a consumer perspective (Padberg and Love 1993).

The issue of supply response and the apparently natural law of over-production seem to be core to the marketing order discussion (Brown et al. 1991). Quantity restriction, no matter how it is achieved, underlies most marketing orders. It does not solve the problem of chronic over-production, it just hides it.

Supply-demand balancing remains the primary challenge for fruit, vegetable, nut, and specialty crop markets, as it does with agriculture in general. While the problem may be more acute for some fruits, vegetables, and nuts due to perishability or longer biological lags (for perennial crops), these subsectors are probably not as unique as they think.

The debates over the estimation of supply responses in the absence of marketing orders and minimum prices necessary to assure an adequate supply seem to continue without end. While many admit to a lack of appropriate methodology, speculation continues. This situation is not unlike the North American Free Trade Agreement debate where estimation of supply and import responses to the elimination of tariffs was both contentious and problematic. In the partial vacuum created by a lack of perfect knowledge and information, fear often prevailed.

Fear and emotion also seem to be important parts of the marketing order debate. Maybe we should just draw straws and eliminate a few marketing orders, see what happens, analyze the hell out of what we observe empirically (both short-run and long-run effects) and then (without prior announcement) compensate growers for transitional losses on an ex post basis.

¹Telephone conversation with Duke Chadwell, January 7, 1994.

Final Observations

How will marketing orders deal with the decrease in agricultural chemicals available for minor-use crops? What if free riders are really way out ahead of the pack, entrepreneurially speaking? If we did not have marketing orders today, would we want them, propose them? Could we get them approved?

Perhaps we should sunset marketing orders in 1996 or in 2000. What would be said to justify their continuation? Would adequate data (including the total cost of marketing orders) and necessary analyses be available? Could it honestly be said that growers and consumers would be worse off without them? What are the alternatives? We have a lot of very talented people in the profession and industry with the knowledge and experience to answer these questions. A sunset law would certainly force the issue.

John Heron once said: "Bring new ideas in, and entertain them royally, for one of them might become king." New ideas will continue to emerge, new market structures will continue to evolve. New visions, as well as perceptions of old institutions, will determine the fate of marketing orders.

If, as many studies suggest, there is not clear evidence that marketing orders unduly enhance price, mute price fluctuations, or improve consumer welfare, then maybe they cannot be successfully defended. If they cannot be successfully defended, then maybe they are not needed.

Some of the best minds in the agricultural marketing field have addressed marketing order problems over the years. Perhaps now is the time to utilize this knowledge in a definitive analysis of marketing orders before this expertise fades away.

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Holford: My total experience has been in the citrus industry, but even within this one industry, I have found totally different grower attitudes about marketing orders. I started with Sunkist in California. I began studying demand for fresh lemons, but attention was soon shifted to allocation of market opportunities among shippers in the various regions. Prorate is based on figuring out everybody's "fair share." Everyone generally believed in overall volume control; concern was directed to how to divide it up over time. I presented at hearings, served on prorate committees, and generally studied and re-studied allocation issues. What is interesting about my California experience is the great intensity of interest that industry has in marketing orders. At times, this interest grew from intense to explosive.

Next, I went to a Texas cooperative and now I'm in Florida. I have found an entirely different attitude toward marketing orders from that in California. Rather than an interest in volume control, these industries use more of a defensive mechanism, such as grades and sizes. The major purpose is to assure quality control—to give confidence to consumers in a dependable-quality product. Letting all grades and sizes onto the market can bring the whole thing down to the lowest level. Also, the grading system greatly facilitates communication with buyers—once buyers know it's U.S. #1 being shipped, price can meaningfully be negotiated. (However, minimum grade standards have become less meaningful as discriminating buyers demand higher quality and face more choices.)

I wonder whether the difference between California and Texas-Florida rests on the relative strength of their cooperatives. A strong cooperative in California is perhaps driving the demand for volume control, while cooperatives in Texas and Florida are much weaker.

Armbruster: What about equity? Don't marketing orders have a role in helping smaller growers?

Holford: In Texas and Florida, equity is not an issue. It's perfect competition, a free-for-all; but it can be disastrous for some.

Closing Thoughts

Brader: With marketing orders, there are many perceptions (and misperceptions). We need to look behind the perceptions for the reality. For example, contrary to the perceptions of many, marketing orders do not necessarily entail supply control. Now they are much more focused on the demand side. There are 44 orders in effect; 39 are active. All but three have quality control, about the same number have research and development, and around half have advertising and promotion. Although supply control is authorized for many commodities (e.g., almonds, walnuts, prunes), it is currently implemented for only three (raisins, filberts, and spearmint oil).

Hatamiya: Marketing orders were established to stabilize incomes and protect family farmers. I believe that they work toward these goals, despite differing points of view on their value.

Comment: The criticism is never about how AMS administers these programs. There's always been a good, cooperative working relationship with users. At best, these are tough programs to administer. Here we have just been trying to sort out their effectiveness and discover what impacts they have had.

Kaiser: Marketing orders must first and foremost serve the public interest. Second, abundant supply with some price enhancement is surely better than restricted supplies with a lot of price enhancement. Finally, federal orders have a long way to go to achieve a consumer-oriented vision, to achieve the efficiency that the public has a right to expect.