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Where Do We Go From Here?

Wrap-up Session, Saturday, January 15th, 1994, 1:30 pm
Moderated by Tom Sporleder, The Ohio State University

Discussants and Synthesizers:

Gerald E. Grinnell, Packers and Stockyards, U.S. Department of Agriculture

Dennis Henderson, Economic Research Service, U.S. Department of Agriculture

Michael Phillips, Office of Technology Assessment

Ken Clayton, Agriculture Marketing Service, U.S. Department of Agriculture

Grinnell:

I'm reminded of Dan Padberg's challenge to last year's Consortium: To rethink the fundamental premises of our marketing programs. That's what we've been doing at this conference. The question is: *Where do we go from here?* Where does the Consortium go from here?

It's clear there have been paradigm shifts and there will be more. Institutions will need to be revalidated; some will have to be changed. But the changes need to progress in an orderly way. So, the Consortium is in a good position to guide this process and to play a significant role in the debate that will be involved.

But it's hard to get a handle on the many marketing issues—grading, health, safety, the environment, competitiveness, exchange mechanisms, subsidies, and many more. There is so much that it's difficult to bring this to closure. Again: *Where do we go from here?*

I recall the results of the National Commission on Food Marketing in the 1960s—some of you were involved in this—and the great influence this had on the food marketing system of the time. I can see this Consortium playing a similar role and having a similar impact on the food marketing system of the future. But we need now to take action toward resolution, rather than continuing to just discuss the issues. So I suggest that we form committees within the Consortium to scope out the problems and issues and then prepare concept papers. With careful research we can formulate the issues and options to better guide the debate.

Leo Mayer, Office of Technology

Assessment: Grinnell talked about a paradigm shift. I don't think we've yet adjusted our thinking to such a shift. We keep focusing on farm programs and market programs as if they were a given. Well, they are not given. They are going out the window fast—that is the paradigm shift. We

need to put markets back in marketing. We need to look at what consumers want. We began to say that in the 1970s. Now, we need to get on to the 1980s, 1990s, and the next century.

Charles Handy, Economic Research Service:

One problem is that we're much more comfortable with questions about marginal changes than big questions like, Do we have the program at all? Our models (and maybe our economists) can't handle drastic changes such as those suggested in Shaffer's paper—marketing orders as a substitute for commodity programs—or doing away with both.

Phillips: But it is these big questions that are being asked and will be asked in the future.

Scott Irwin, University of Illinois: There's been a revolution in economic theory that can help revitalize agricultural marketing and give it a new perspective.

Steve Meyer, Pork Producers Council: I didn't really understand agricultural marketing until I took some business marketing courses where they talked about *consumers* and how we can't market unless we meet their needs. We've talked about this some here. But this basic seems to get shoved to the background whenever we get into academics.

Henderson:

I'd like to revisit what we set out to do: Re-engineering marketing policies of food and agricultural marketing. Re-engineering gave us a direct tie to the Administration's Re-inventing Government, so it's a good theme. However, as Terry Goss and others said in the November-December issue of the

Harvard Business Review: "Re-invention is *not* changing what is, but creating what isn't." I challenge you to think about that for a moment in the context of what we've been through. Have we been discussing marginal changes or significant adjustments?

Underlying the premise that there has been significant structural change in our food and

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Henderson continued

marketing system since most or all of the programs and policies were put in place means that we must rethink the rationale underlying them. We need to think through re-engineering those policies. How well have we done?

The conference started out with the Administration's leading marketing policy official, Lon Hatamiya, who said basically that there's nothing wrong. This did not seem consistent with our premise about change or our theme, re-engineering. At the other extreme was the Administration's leading food spokesperson, Assistant Secretary, Ellen Hass, who said not only that change is needed but told us what some of those changes ought to be. I found both of these positions to be equally disconcerting and challenging to our theme of re-engineering. I'm not sure we've responded adequately to these two sides.

This having been said—What have we accomplished? I think we've accomplished several things. We started with market information, a subject that has resurfaced throughout the other sessions. We seem to have settled on the thought that because of internalization of exchange, the need for market information to facilitate exchange is evaporating. I'm somewhat uncomfortable with this as the foundation of many of our discussions, for transactions do occur even though there is internalization. The food system is characterized by transitions, even though the loci of those transactions is changing. What kinds of information do we need to understand the transactions that are occurring? How much contracting, who's contracting, what do we mean by a contract? What kinds of ties are replacing what used to be market exchange? Where is market exchange most viable today? What do we mean by market exchange? Price? We're talking about a much narrower range of activity now because of product specialization.

Second, we seemed to steer clear of an explicit recognition of market intervention in the context of market information. But this need for information to manage intervention in an effective way is at least as compelling as it is for guarding efficient exchange. We need to study what kind of information is needed to effectively manage market intervention.

Third, a question that frequently came up in the discussions is: Why are food and agriculture singled out for public attention? It has been put on the table that agriculture is unique but also that agriculture has more market interventions than other sectors.

Why is Agriculture so Special?

There are nearly always special exemptions for agriculture—e.g., agricultural cooperatives are exempted from anti-trust, and special agricultural workers are allowed under IRCA. And agriculture represents about 20 percent of U.S. exports, yet receives 80 percent of the export subsidies.

Related question: Why do we need to invest in information systems for agriculture? We don't for textiles, steel, or autos.

Wayne Purcell, Virginia Polytechnic Institute: I always say to my freshman class, "I'm not going to tell you that production agriculture is different from most any other sector. But once you learn about the price-taking context and the atomistic context, you'll realize it's different." There are a number of long-standing reasons why agriculture is treated specially. How much longer they will be valid is hard to say.

Henderson continued

Fourth, we concluded that market information is desirable, even necessary, to assess market performance. Are rents being extracted? How much? By whom? But we seem to get skittish in discussing the critical issue of what's the public's right to information from private sources? That's where we began, but I'm not satisfied that

we've resolved this. Specifically: Is a price that results in a private transaction in the public domain? We heard comments on both sides. This is the relevant question about market information—whether we use it to facilitate efficient exchange, to manage market interventions, to measure market power, or whatever purpose. We have not yet really addressed this critical question. How should property rights to transactional information, such as prices and costs, be defined when they are generated in private actions but are essential for the public interest?

The private-public question is being discussed in Congress. From November's *Food and Fiber Letter*: Congress is being asked to decide where the line should be drawn between protecting individual property rights and allowing the public interest to be served when those rights interfere with what is perceived to be in the public good. Those for the bill want greater consideration before a taking without adequate compensation; those opposing it feel the bill would increase the immunity of property rights beyond what is authorized in the constitution. Further, opponents feel the bill being considered would cripple public policy.

Finally, what information do we gather and how do we gather it once we determine that it is in the public interest and that it is in the public domain? To revisit one challenge of the conference: To delineate and balance the rights between firm secrecy and the public's right to information. There's still a lot of light to be shed on this. We need to leave the conference with discomfort about this unresolved issue.

Phillips:

The conference did a moderately good job of confronting the issues directly. I'm pleased with how frank the discussion has been. But we've just gotten warmed up. Like Grinnell, I think we have to come to closure on some

of these issues. For example, the session on grading criteria and the one on marketing orders both left a lot of unfinished business sitting on the table. *Where do we go from here?*

Working on the legislative side, I have a somewhat different perspective than Grinnell or Henderson do. I get questions on a daily basis about the uniqueness of agriculture. Why is it we need so many market intervention programs? What are some of the things we can do away with? Hasn't this industry matured? These questions are being asked more frequently. Many are, of course, budget driven, but they are really more fundamental than just budget. They are questions about the government's role in the 1990s and into the next millennium. Many things are being stood on their heads, and food and agriculture will no longer be exempt. So, instead of trying to defend agricultural programs from attack, the Consortium can attempt to bring objective information and discussion to bear on the issues. Most of the programs, e.g. information and market intervention, had their reason to be in the early part of the century but are now no longer relevant.

Besides this, the Consortium needs to identify the problems that this industry will face as it goes into the next century and to evaluate the respective roles that government and the private sector should play in solving those problems. Looking back on these programs and evaluating where they are today is one thing, but looking ahead to anticipated problems, say, in food safety or market information, is another.

In 10, 15 or, certainly, 20 years from now, the USDA will surely be much different than the USDA we've known. Change is imminent. Surely, there are powerful, political forces that will be opposed to change, and they will be successful for awhile, but, sooner or later, the programs will change. So, those in the research community, as well as some in the

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industry, should play an active role in identifying the issues and problems that the food and agricultural industry will face in the 21st century. And, especially to educate policy makers to a forward-looking approach, instead of an entirely reactive mode—always running to catch up. Anything the Consortium can do to assist in this switch in perspective from backward reaction to forward planning and action, will be a major plus.

This Consortium that has come together to study issues needs to come to resolution and closure on at least some of them. My concern is that as we leave, we have many more questions on the table than we have begun to answer. I would hate to see them just stay there. Rather, I hope we can be creative and revisit the issues at further symposia, somewhat as the Trade Consortium does. Besides their annual meeting, they conduct a two- to three-day symposium six months later, devoted entirely to one topic. For example, this summer there will be a symposium in Ottawa on the question of trade and the environment. The best minds in the world will be brought together to focus on this massive issue. I hope that this Marketing Consortium could follow a similar pattern: Spend some time focused on one issue to see if we can come to resolution. Clearly, it shouldn't be an approach that seeks final answers and recommendations. Rather, it should be an alternatives-and-consequences approach. Lay out the issues that will be faced along with alternative ways to address them, pointing out the advantages and disadvantages of each.

Handy: We've been talking about the need for closure. But have we ever decided what the group wants? To what extent is the Consortium responsible for making some sort of recommendations to policy makers?

Phillips: When I say coming to closure, I do not mean coming up with recommendations. Rather, closure would mean helping to

frame the debate: These are the issues. This is the best analytical work we (marketing economists, including those at this conference) have done on them to date. These are the findings. They imply these policy options. The trouble is there has been some good work done on marketing issues, but it's all scattered around. That's why the Consortium ought to bring this knowledge together in a series of white papers that spell out the options. This will contribute to policy makers' having a more informed debate.

Les Myers, Virginia Polytechnic Institute: I'm reminded of something Ken Clayton said a long time ago about another conference. "This is just like any other conference; we didn't come to any conclusions." The point is we can't evaluate what we have accomplished here until some time has passed.

Grinnell: Can this Consortium develop its own action agenda? I realize we all as individuals go back and work in this general area at the universities, agencies, and in the industry. But I think that the Consortium should be able to do something beyond what individuals do. The potential impact is so much greater if the Consortium can come up with an action agenda.

Gary Fairchild, University of Florida: Perhaps the Consortium could help set priorities. Given the scarce money at the state and national levels, with scarce resources, some priority setting is needed. What better group to do this?

John Lee, Mississippi State University: We really can't set priorities. Institutions each set their own. We can, however, study and suggest changes in them.

Mayer: On one thing we all agree: There has been a lot of change and there is going to be more. But if you want to assume a framework for the future, you'd better assume that it's going to be the marketplace, not the government, that's calling the shots. Those programs of 50 years ago are on their way out. We are in

the process of deregulating agriculture. If we'd been asked 15 years ago: Can the airlines be deregulated, we would have said "No!" Well, they were. And the airlines have gone through 16 years of hell. The question is: Will it go better for agriculture? Can we agricultural marketing economists provide a better path, so the industry doesn't derail during the deregulation process?

Thompson: But agriculture is *not* being deregulated. There are *more* regulations than ever before—for example, labeling and pesticides. There are many more regulations, but they're in different areas.

Mayer: But you're talking about a different thing. The regulations in the market and farm programs are on their way out.

Thompson: But not on the environmental side.

Phillips: That's exactly why we need to look ahead. What are the programs agriculture is going to need in the future? What is the road map? How will adjustments be made?

Thompson: But have we answered any questions? I feel we're in a time warp. One of my favorite books was written in 1912, and it asks almost the same questions. Have we ever answered the questions about the government's role, about market power? And everybody has talked about how much things have changed. Well, should we be *surprised* that things have changed? Of course, things have changed! What progress have we made? What is our role as marketing economists? *Where do we go from here?*

Grinnell: We *can't* answer the questions. We can only identify the problems, define the questions, and bring information that will help address the questions. The questions will be answered in the larger arena, by market participants. At this conference we've been working around the questions but haven't nailed them down yet. What are the marketing problems that need to be addressed? We haven't been modifying our marketing institutions as quickly as we should have. But what are the new needs of

the marketing institutions of all types? What are the fundamental problems in food marketing that the marketing system and, particularly, the public policy organizations need to address? Once we've identified them, then this profession has some expertise in bringing information to bear on those issues. What are the tradeoffs? What are the impacts of various scenarios? That's where the profession, and particularly this group, can be very useful. It's the wrong assumption to think that this conference would answer questions.

Irwin: The basic questions *never* change. It's the provision of scarce resources to the individuals in a society. We do experience an infinite variety on that theme as the world changes.

Eluned Jones, VPI: The data exist to look at the *old* problems. Funding is usually to fix up old problems. We are politically geared to fixing up old problems. But it's somewhat counterproductive because we're doing what we need to without necessarily agreeing with what we're doing. *So, where do we go from here?* We need to become more forward looking. To be pro-active. To take a stand. This is new for agricultural economists. We should look ahead and put what we see into white papers.

Sporleder: Do you mean doing scenario analyses that consider various possible futures? We should be aiming our research at emerging issues and considering—*Where do we go from here?*

James Shaffer, Michigan State:

There is a continuous process of institutional obsolescence. What I was doing in my paper was try to anticipate that process. We don't do enough of this type of thinking, nor do we articulate it well. I'd like to see some other types of research—for example, experimental economics being tried at Ohio State. I was talking to the CEO of Seald Sweet, Jay Holford, asking him whether his company would like to play some economic games to see how various simulated scenarios would turn out.

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Lee: I have a few more points. First, on what the Consortium can accomplish. I urge you to look at the Trade Consortium. It has had a tremendous impact on the nature and amount of research that has been done. (Another question is: Is the world better off because of this research?)

Second, as an article of faith, I believe that the availability of our findings, or what we have done here, eventually does become a part of the common wisdom and does gradually change things. But it takes time.

Third, the concept of markets has been broadened by moving beyond what happens in the private sector to social goals and objectives. We know that markets can work. But the question is what and who are going to be included in these markets and to whose end? This broadens the whole context—the so-called internalization of externalities through environmental regulations, etc. The natural resource economists may be ahead of us in this. Do markets still work under these broader objectives?

Clayton:

I found Grinnell's comparison of this Consortium to the old national Commission on Food Marketing an interesting one. In fact, when we were getting this Consortium started, we reflected on how long a time it had been since anyone has taken such an intensive look at food and agricultural markets. At least some of us see this type of review is as long overdue. And there is hope that this Consortium can fill some of the informational gap between agriculture and its markets.

Reflection on some of the papers presented here raises some fundamental questions. Putting aside for a moment whether it's the public or private sector, just what is the industry's need for market information, for grades and standards, for price reporting (like the Market News Service), etc.? There was some discussion

focused on this, but I sense that further development is needed. Then, there is the question of the public sector's role in developing the information that underlies the operation of the marketplace. We did draw out that the government's role is as a facilitator, but also it is in the business of signaling.

Certainly there is a lot of change going on, and a lot of questions are being raised about what the public involvement ought to be. The price and income support programs get center stage in that debate, but it's not limited to this. For example, up until this current fiscal year, it was thought that the government ought to keep the official yardstick for grades and standards. Now, with the exception of grain, the industry is paying for the development of standards. I don't know if this is good, bad, or indifferent, but the fact remains that nothing is sacrosanct. Other philosophical issues aside, the budget has become the great equalizer. There are a lot of decisions being made, but not always with complete information. One thing this Consortium can do is to be sure there is information on the table as such decisions are made.

Among the changes taking place are the changing needs of the customers of government services and information. In AMS's strategic planning effort, we are conducting customer surveys and establishing a variety of feedback mechanisms. This promises to provide new information that may well contribute to the types of discussions we've been having here. One criticism I have of this conference is that the customers for the programs we have been discussing are, for the most part, not in attendance. It's fine for us to approach these issues on a conceptual level, but the fact remains, without the customers' presence, I'm not sure how close we'll come to getting it right. Those of us in charge of managing these programs do have to deal with our customers.

We have changes in terms of the competitive environment in which industry is operating. There is structural change in the domestic market, but even more important is the rapid movement toward a global marketplace. We're fast moving beyond NAFTA to an Americas-wide agreement. Also, with GATT, the stage is widening. There are many more players, and the issues are becoming more complicated. This Consortium is in a position to help analyze these issues by setting them this broadened context to enhance reasonable decision making at a policy level.

There is also continuing technological change. For example, with breeding and computer-assisted technology, many more characteristics of cotton fibers can be measured. Manufacturers can now access databases to identify bales that will meet precisely the characteristics that buyers want. Thus, there is a role for government in facilitating such market transactions.

I recognize that the "chapeau" for this entire conference is the question of private rights vs. the public interest. I'm not overly concerned that this conference didn't resolve that issue. I'm not sure that those of us in this room can do so. It will likely get resolved somewhere out there in the public arena. The Consortium's role, rather, is to enlighten the debate—to clearly draw the questions and to be sure that those making the decisions operate on as complete an information base as possible. Getting the questions right is a big step in the right direction.

Lee: What you get out of a conference like this is an indicative agenda. Here we've generated a list to nail to the door to work from. There has been some payoff and some progress. We do know more than we did 20 years ago—but the target is moving. Even if we could answer all the questions here, there would still be questions because the world is changing. And even if the questions were the same in the future, the answers will be different.

At this conference, we've realized how much the world is changing, for example, in information technology. We talked about the increasing concentration and integration in agriculture. We once talked a lot about structure but then quit focusing on it for awhile. Now, that issue is back full force. Half the value of U.S. production comes from 75,000 farms. Half of all the sugar production comes from 25 units. This means that the traditional focus on producers has changed. It's hard to find the line where producers stop and others take over in the vertical process.

I've been aware that we have to adjust Situation & Outlook and other information because vertical integration is taking place and needs are changing. But Purcell's comments started me thinking—maybe it's the other way around. Maybe the failure of the information process has added to this pressure for integration and coordination, because that's the way to overcome lack of information. Information is what's needed to make markets work enough so vertical integration is not needed. So there's room for empirical work on the direction of the relationship.

One thing I'd conclude that this conference makes clear: We have to change our mindset about what we mean by market research, because the boundaries and definitions of the institutions are not the same as they once were.

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Grinnell: Can this Consortium develop its own action agenda? I realize we all as individuals go back and work in this general area at the universities, agencies, and in the industry. But I think that the Consortium should be able to do something beyond what individuals do. The potential impact is so much greater if the Consortium can come up with an action agenda.

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Sporleder: Several have approached me suggesting executive summaries of the sessions here that would synthesize for policy makers the papers and discussions that have taken place. The question is: Do we just want a proceedings for students and marketing economists or do we want to put something out, somewhat like OTA does, that policy makers will use?

Fairchild: Perhaps the Consortium could help set priorities. Given the scarce money at the state and national levels, with scarce resources, some priority setting is needed. What better group to do this?

Jones: We need to become more forward looking. To be pro-active. To take a stand. This is new for agricultural economists. We should look ahead and put what we see into white papers.

Phillips: There has been some good work done on marketing issues, but it's all scattered around. That's why the Consortium ought to bring this knowledge together in a series of white papers that spell out the options. This will contribute to policy makers' having a more informed debate.

I hope we can be creative and revisit the issues at further symposia, somewhat as the Trade Consortium does. Besides their annual meeting, they conduct a two- to three-day symposium six months later, devoted entirely to one topic. I hope that this Marketing Consortium could follow a similar pattern: Spend some time focused on one issue to see if we can come to resolution. Clearly, it shouldn't be an approach that seeks final answers and recommendations. Rather, it should be an alternatives-and-consequences approach. Lay out the issues that will be faced along with alternative ways to address them, pointing out the advantages and disadvantages of each.

Clayton: The Consortium's role is to enlighten the debate—to clearly draw the questions and to be sure that those making the decisions operate on as complete an information base as possible. Getting the questions right is a big step in the right direction.

Phillips: Instead of trying to defend agricultural programs from attack, the Consortium can attempt to bring objective information and discussion to bear on the issues. Besides this, the Consortium needs to identify the problems that this industry will face as it goes into the next century and to evaluate the respective roles that government and the private sector should play in solving those problems. Looking back on these programs and evaluating where they are today is one thing, but looking ahead to anticipated problems, say, in food safety or market information, is another.

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