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AGRIBUSINESS COMMUNICATION WITH FEDERAL GOVERNMENT

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Introduction and Background

Industrialization is occurring in the agriculture and food sector of our economy. Industrialization implies many things. One is a strong relentless trend toward fewer but larger firms in nearly all industries within the food production and distribution sector. Industrialization also implies explicit, unavoidable, and ever-increasing interdependence among firms and between firms and government. Industrialization inevitably increases the complexity of society. This complexity is manifest many ways. Sophisticated exchange arrangements among firms which rely on forward contracts and/or computerized trading, world market interdependencies, technological developments which both create and destroy markets almost overnight, and government concern and involvement in all aspects of business are examples of this complexity. Government is more active in regulatory and legislative roles at all levels--local, state, and federal.

This paper addresses methods for interfacing agribusiness firms and the federal government. The objectives are to examine the differences in regulatory and legislative roles of the federal government, examine methods for corporate communication with the federal establishment and finally to address the interaction which may exist between the method of communication and the regulatory and

legislative functions of federal government.

The scope of the paper is limited to the federal level because of the dramatic variance in situation from one local or state government to another. Situations vary from relatively minimal involvement by local or state officials with laissez faire attitudes to activist governments with numerous regulatory and service bureaus. The alternatives and need for communication with government, at this level may be vitally important, but depends significantly on these situations.

For purposes of this paper, agribusiness is defined in the broadest context as all nonfarm firms either partly or wholly engaged in the agriculture and food sector. Thus, agribusiness involves firms supplying inputs at the production level as well as the myriad of food conversion industries between farm gate and final consumer.

As mentioned above, the long-term trend in number of these firms is declining. For example, the number of food and kindred products manufacturers declined from slightly over 41,000 to about 23,000 during the 25 year period from 1947 to 1972 (Table 1). The decline since 1963 has been at an average annual rate of about 3 percent. As firms exit these industries the average size and complexity of those remaining increase.

Table 1. Number of Food and Kindred Products Manufacturers, Census Years 1947 to 1972, United States

Year	Number of Companies (4 Digit Industries) -number-	Average Yearly Percentage Change From Previous Census Year -percent-
1947	41,147	
1954	38,610	-0.9
1958	36,545	-1.3
1963	32,617	-2.1
1967	27,706	-3.2
1972	23,326	-3.0

Source: U.S. Department of Commerce, General Summary, 1972, Census of Manufacturers, and selected previous census years.

Fewer firms and increasing complexity and interdependency are the key background elements which lend impetus to the desire and need for communication with federal government. This paper first reviews the current status of the theory of regulation, then examines methods of representation of agribusiness at the federal level, and finally considers the interaction which may exist between methods of representation and the type of issue.

Status of the Theory of Regulation

During the past five years a significant increase in scientific literature concerned with the theory of regulation has occurred. In this literature, economic regulation is taken to mean government intervention in the market. Thus, the phrase "economic regulation" refers to subsidies of all sorts and the impact of legislative or regulatory functions of government. Although the

"theory of regulation" is really a misnomer since no integrated, generally accepted theory exists, literature appearing in the last few years may provide the necessary structure on which to build such an integrated theory.

Two general tracts have been followed to date in attempting to build a theory of regulation. The newest is the "capture" theory proposed primarily by Stigler and Posner, both of University of Chicago (2 and 3). The second and eldest tract is the "public interest" theory which is the more widely accepted among social scientists today. The status of each tract will be reviewed briefly, although more space is devoted to the capture theory since it is the newest.

Capture Theory

In his recent writings, Stigler (3) has proposed that there exist four primary areas in which industry or occupational interest groups may seek government assistance, either legislatively or through regulatory decisions at the privilege of the executive branch. These areas are:

1. direct money subsidy
2. control over entry by new rivals (including protective tariffs)
3. actions impacting on substitutes and complements
4. price fixing

The direct money subsidy is manifest in terms of cash payment or loan guarantees to individual firms or interest groups (such as the educational establishments). Control over entry is achieved in many ways such as federal licensing (e.g. common carriers), patents, production or import quotas (e.g. agriculture and oil), protective tariffs, and the like. Actions

which alter or impact on substitutes and complements for a product or service are things such as subsidies to airports achieved through airline industry representation. Building code regulations which prohibit labor-saving materials from use in construction achieved through labor union representation is another example. Finally, price-fixing is manifest in items such as prohibition of interest payments on demand deposits, direct regulation of price through government edict (e.g. airline industry), or any temporary or permanent price ceiling.

The democratic political process in the above areas is distinctly different from the market process in several fundamental respects (3, pp. 10-13). Most basic is that the political process yields a decision which everyone must accept, unlike the market process. The mandatory universality of political decisions means that the decision process must involve everyone and not simply those directly affected by the decision.

The essence of the capture theory of economic regulation is that regulation by government is in response to pressure from various special interest groups which are attempting to maximize incomes of their members. Such theory is based on the premise that, since government possesses the power to give valuable benefits to particular interest groups, the expression of that power may be viewed as a product whose allocation is determined by supply and demand (2, p. 344). Hence, other things being equal, the allocation of such benefit would go to those who value it most. The difficulty with such theory is that it is mute on the allocation of consumer protection type regulation. Certainly the allocation of this type regulation has not historically been on the basis of which parties value it the

most and therefore are most able to pay for it.

Public Interest Theory

The essence of the older "public interest" theory of economic regulation is that regulation by government is supplied in response to public demand for correction of inefficient or inequitable market practices (2, p. 335). Regulation of common carriers, farm subsidies, and tariffs, for example, all are viewed as governmental reaction to inefficiency or inequity in markets. Whether regulation is actively sought by industry or whether regulation is imposed, this theory would contend that regulation which occurs is primarily for the protection or benefit of the public at large (or at least a large public segment).

As indicated by Posner (2, p. 339), the public interest theory is made more palatable by observing that regulatory agencies may be asked to perform impossible tasks. For example, a regulatory agency may be directed by the legislative branch to determine costs of regulated common carriers and hold prices (rates) in line with such costs. However, measurement and/or control devices to effectively implement such a task probably do not exist.

The status of either theory of economic regulation is dynamic. Either theory obviously needs further development before it can become a useful, integrated explanatory model.

Methods of Federal Representation

Corporations possess political assets of considerable magnitude. Factors such as large-scale organization and corporate wealth enable firms to be relatively more effective in influencing political decisions

compared to many other entities in our society. Of course, political resources are not synonymous with political power. Resources represent only one necessary ingredient of power. Also, effective capability to translate resources into power varies substantially from one firm to another depending on factors such as corporate managerial philosophy toward political activity and internal organizational structure.

There exist only two fundamental methods for federal representation of an agribusiness firm. One is individual corporate political involvement through what is typically known as the "Washington representative." The second fundamental method is collective representation which involves sustaining membership in an association, such as a trade association. In practice, of course, a corporation may employ both types of representation.

Washington Representative

The phrase "Washington representative" may be somewhat of a misnomer since such an individual need not have an office in Washington, D.C., although that is a widespread practice. The so-called Washington representative is an individual, usually with some experience in the employ of either the executive or legislative branch of the federal government, that is retained by a corporation to represent corporate interests at the federal level. In any corporation, of course, there may be a number of management personnel that deal with government relations but such individuals are not Washington representatives. The latter individuals are constantly ready to act in regard to policy implications of specific cases and situations or on a policy issue that is not yet defined in regulations. In

short, those persons with government relations responsibility react to legislative and regulatory matters rather than being formally assigned to corporate representation in legislative or regulatory matters.

The Washington representative does not necessarily replace or alleviate the need for a corporation to retain a lobbying specialist for a particular job. The professional lobbyist is, of course, oriented solely to the Congress and follows legislative matters full-time. The Washington representative, however, represents a corporation on both legislative and regulatory matters. Indeed, liaison with regulatory agencies of the executive branch may consume the bulk of the time spent by a Washington representative in representing the corporation's interest.

The advantage of individual representation compared to collective representation through an association is singularity of purpose and interest that can be conveyed. Associations may not be able to take concrete positions on particular issues because of the heterogeneity of interests among members of the association. The disadvantage of individual representation compared to collective representation is primarily one of cost. Membership in an association typically would be less costly than retaining an individual for which the firm pays salary and expenses. As previously mentioned however, many large agribusiness corporations do not see these forms of representation as alternatives but rather use both individual and collective representation to communicate at the federal level.

Collective Representation

Collective representation of agribusiness is manifest in two basic forms of trade associations. These are product

or functional. The former associations are product oriented while the latter are oriented toward a function such as banking or wholesaling. An example of a product oriented association would be the Institute of Shortening and Edible Oils, Inc., while the National Food Brokers Association is an example of the functionally oriented association.

Commodity oriented associations may be single product (e.g. corn), product group (e.g. grain), or cross-product general organizations (e.g. National Council of Farmer Cooperatives). Of course, the breadth of representation in terms of number of firms is greater for cross-product associations than for single product associations. However, heterogeneity within the group is directly related to the breadth of the organization also. In essence, within group heterogeneity of interest increases directly with the number of firms the association attempts to represent.

A significant amalgam in terms of agribusiness representation at the federal level is the Food Group. This is an informal group designed to facilitate interassociation information exchange. The Food Group is not an association so it represents no one nor takes any action. However, even though the Food Group is an information exchange mechanism, its individual member associations are some of the most action-oriented organizations representing agribusiness. The alliance is not new (1949) and has a history of successfully coordinating agribusiness representation among associations on specific issues.¹

The relative frequency of occurrence of each form of association is indicated by analyzing 1976 Food Group membership. Using the product and functional classifications outlined above, each 1976 member of the Food Group was categorized

exclusively into one or the other depending on the association's primary orientation (Table 2). Of the association members, 76 percent were product oriented while only 24 percent were functionally oriented. Total membership of the Food Group was 84 with 64 of these being product oriented associations.

Within the product oriented classification, 52 percent were associations with a single product orientation, 42 percent were product category oriented, and only 6 percent were cross-product oriented. This tabulation indicates a significant propensity toward single product or product category associations rather than broad multi-product associations.

Within the functional category, 30 percent or 6 associations were general functional such as wholesaling or banking. Another 35 percent, or 7 associations, were service oriented such as associations representing consultants, state Departments of Agriculture, or land-grant universities. Another 25 percent, or 5 associations, were retail oriented while 10 percent, or only 2 associations, were oriented toward hotel, restaurant, and institution representation.

In the aggregate, the 1976 Food Group clearly is composed of a preponderance of product oriented associations rather than functionally oriented associations. Within the product category, associations are predominantly single product oriented or product category oriented.

Interaction Between Method of Representation and Type of Issue

Regulatory versus Legislative

Communication between agribusiness firms and federal government is a function of the type of issue under consideration. For example, there exists a broad inherent

Table 2. Taxonomy of the 1976 Food Group, Washington, D.C.

Classification	Number	Percent
Product Orientation		
Single Product	33	39
Product Category	27	32
Cross-Products	<u>4</u>	<u>5</u>
Total	64	76
Functional Orientation		
General	6	7
Retail	5	6
HRI	2	2
Service	<u>7</u>	<u>8</u>
Total	20	24*

*Does not add due to rounding error.

Source: Computed based on 1976 Food Group Directory.

difference between regulatory and legislative issues. Legislative issues tend to be of wide impact and tend to have more universality than regulatory issues. Contrast this to a regulation issued by an executive branch agency which tends to more specific and narrow in its impact on agribusiness. For example, legislation establishing the Environmental Protection Agency to promulgate cleaner air and water is an issue which has wide impact on business and consumers. However, an EPA regulation may be issued which involves specific guidelines for the amount of particulates allowed in waste water discharge from a certain food processing plant or type of processing facility. The point is that there is a tendency for regulatory issues, on the average, to be of more narrow focus and impact than legislative issues.

The consequence of this inherent difference between regulatory and

legislative issues is that the affected segments of the agribusiness community tend to differ substantially. Also, regulatory issues tend to have direct and distinct economic impact on an individual corporation while legislative issues tend to have less direct and more vague economic impact on an individual corporation. In actuality, a continuum exists for both regulatory and legislative issues which runs from specific, direct economic impact on a small number of individual firms (e.g. Federal Trade Commission action against four cereal manufacturers) to indirect, vague economic impact on all firms (e.g. inflation or unemployment legislation). The functional relationship between specificity of issue and number of firms concerned is important however.

On broad, general issues more homogeneity of position tends to exist among corporations with respect to the issue. These are also the issues that tend to have indirect and vague economic impact on particular firms. The converse is that as issues become more direct and specific in economic impact the fewer the number of firms that are concerned with the issue and more heterogeneity of opinion tends to exist among corporations with respect to the issue.

Another distinction between legislative and regulatory issues is that the loci of power is relatively more diffuse with regard to legislative issues. Regulatory issues, emanating from agencies within the executive branch, tend to have a specific locus of power. In fact, for most regulations currently operating, not only can a specific executive branch agency be pinpointed as in charge, but typically a specific individual within that agency has designated responsibility for the regulation. Compare this to a typical legislative issue where the locus of power is spread (albeit unevenly, perhaps) over 535 legislators.

A final distinction between legislative and regulatory issues is that legislative issues are relatively slow in formation and transformation into new law. Regulatory issues, however, tend to be much swifter in formation and transformation into a new regulation. Regulations can be nearly instantaneous (e.g. ban on cyclamates) and are, in general, more susceptible to swift transformation into new rules. This means the gestation period on legislative issues tends to be longer which allows more time for formation of definitive positions by individual corporations and more time to evaluate the extent of direct impact on an individual corporation of alternative resolutions to any particular issue.

Interaction

Given the propensities of legislative and regulatory issues discussed above, the interaction between type of issue and the optimum method of representation becomes quite apparent. Multi-product associations would tend to be the optimum method for corporate representation of broad, general issues. As the issues become less broad and more specific, the smaller less heterogeneous associations, such as the single product associations, become the optimal method for representation of corporate interest. Finally, with regulation or legislation that may have direct and specific impact on one or only a few firms, the Washington representative becomes the optimal method of representation.

Associations with a large number of members typically are restrained from taking definitive action or a definitive position when the issue is specific and may only impact on a small segment of that association's membership. Due to the heterogeneity inherent in a large number of members, consensus cannot be

gained which would allow the broadly based organization to take a definitive position on a specific issue. Another factor which may prevent definitive positions by large associations on specific issues is that privileged information may need to be revealed in, for example, a regulatory issue in order to adequately represent the position of an individual corporation. For competitive reasons, a firm may refuse, or at least be reluctant, to turn such information over to an association.

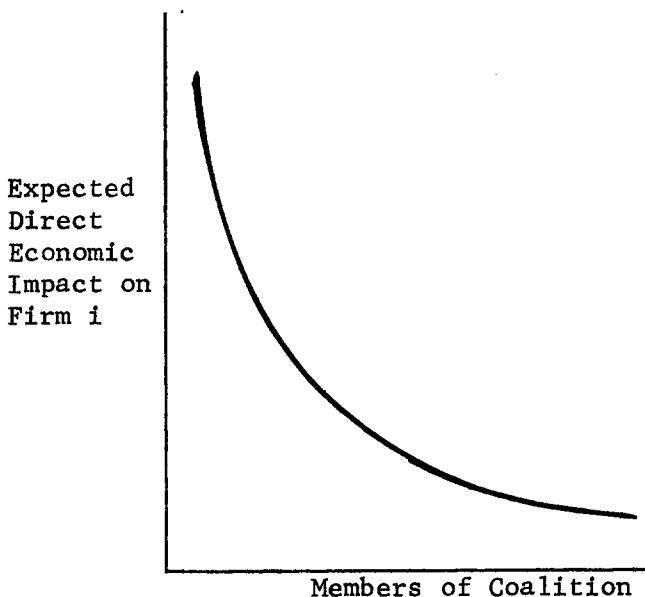
In summary, expected effectiveness of various methods of representation or communication varies substantially by type of issue (Table 3). Communication and effective representation of an individual corporation's interest could be expected to be greatest through a Washington representative for specific issues of direct economic consequence to the firm. Also, for issues of broad, indirect economic impact, greatest effectiveness in representation of an individual corporation's interest would be expected through a multi-product association or other large coalition. Conversely a Washington representative would be expected to be relatively ineffective in representing individual corporate interests on broad issues. Representation through a large coalition with respect to specific issues would be expected to be relatively ineffective also.

An alternative way of formalizing this general relationship is to relate expected costs and gains incurred by an individual corporation to the size or membership of any particular coalition (Figure 1). To generalize even further the preceding relationships, the expected direct economic impact on an individual firm would be expected to be inversely related to the size of a given coalition. For example, a specific OSHA regulation may have a direct adverse economic impact on textile mills through a noise pollution

Table 3. Expected Relative Effectiveness of Various Methods of Representation by Type of Issue.

Method of Representation	Type of Issue	
	Specific Direct Economic Impact	Broad, Indirect Economic Impact
Washington Representative	High	Low
Single or Product Category Association	Moderate	Moderate
Multi-Product Association	Low	High

Figure 1. Plausible Relationship Between Type of Issue and Size of a Coalition



standard. The direct economic impact on firm *i* may be relatively great and specifically measurable but affect only a small number of firms. Hence, the coalition concerned with the regulation is small. The converse is (say) a legislative bill to promote employment or control inflation which may have relatively minor direct economic impact on firm *i* but relatively homogeneous positions exist among firms with respect to the issue. Hence, the coalition is relatively large but the expected direct economic impact on firm *i* is relatively small.

Summary and Implications

The need for communication and representation at the federal level has increased over time as agribusiness firms have become fewer in number but larger and as society becomes more complex. As this industrialization process increases the complexity of society, corporate political involvement at all governmental levels will likely become more intense. No one method of representation of individual corporate interest is likely to be adequate. A significant interaction exists between the expected effectiveness of the method of representation and the type of issue. Large coalitions tend to be optimal for broad issues of indirect economic impact on specific firms while smaller coalitions or individual representation tends to be optimal for specific issues of direct economic impact. Expected direct economic impact of legislation or regulation on individual firms is suggested to be inversely related to the expected size of a coalition.

Footnote

- ¹For an example of such a coordinating effort with regard to the Hart "Truth in Packaging" Bill see Hall (1, p. 166).

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2. Posner, Richard A., "Theories of Economic Regulation," The Bell Journal of Economics and Management Science, 5:335-358, Autumn, 1974.
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