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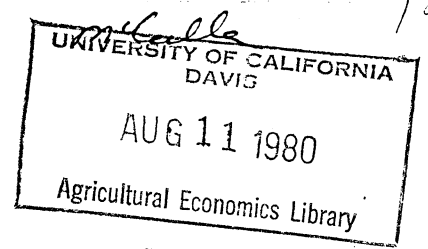
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Grain Marketing

*International middlemen in
grain and oil seeds
by Joseph Halow*



1980

1 Years ago in a college literature course our professor explained
2 that some historians disputed the fact that the Iliad had been written
3 by Homer. They contended there were indications it had instead been
4 written by someone else, whose name was, oddly enough, also Homer. I am
5 frequently reminded of this absurdity when critics of U.S. agriculture
6 speak disparagingly of the "Middlemen" in agricultural marketing and pro-
7 cessing, indicating that they are the bad lot who intervene unnecessarily
8 between the farmer and the consumer in order to exact a profit. They sug-
9 gest that this function be performed by representatives of the farmer, as
10 in farmer cooperatives or through the formation of other separate groups
11 to market and process the commodities for the farmer.

12 The concept of the farmer performing the entire function is so un-
13 realistic as to merit very little comment. It would suggest bridging the
14 centuries and returning agriculture to a system more compatible with
15 Homer's time than ours. For it is ludicrous to think of marketing grain
16 in a raw or unprocessed state in a form of farmers' markets such as those
17 in which produce is sometimes sold. Wheat is, of course, mostly marketed
18 as bread and other wheat flour products, and corn is principally marketed
19 as meat. And it takes a great many people, with a variety of skills to
20 transform those grains into products and bring them to the points where
21 they are needed. Wheat has relatively little value on the farm where it
22 is produced if someone "out there" does not want it and it does not reach
23 him. And he does not want it as wheat; he wants it in a form in which it
24 appears in the super market. Soybeans are almost absolutely worthless
25 without some very expensive processing. The farmer is not in a position
26 to perform all those functions either because he does not have the

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27 facilities to do so and/or because he also does not have the time and the
28 contacts.

29 The puzzling part of the latter suggestion, that of forming new
30 groups or cooperatives to market or process the grains changes nothing,
31 for it merely exchanges one commercial group for another. For anyone who
32 performs the function of the "Middleman" immediately becomes a "Middle-
33 man," for he must undertake the same function and is, therefore, subject
34 to the same risks and conditions now faced by those who market and pro-
35 cess the grain which the farmers produce. The one major difference,
36 however, is a negative one, for almost all those who attempt to crash
37 into the grain exporting field know relatively little about it other than
38 that it looks like a good business. And even this conclusion is reached
39 principally because they are impressed by the volume which is moved.

40 The individual or firm which markets the grain produced by the
41 farmers becomes more the agent of the farmer, for his function is merely
42 an extension of the marketing chain which begins when the farmer sells the
43 grain from the farm to the country elevator. Considered in this fashion
44 there can be no separation into "international middlemen" and, one assumes,
45 "domestic middlemen," for they are then not really middlemen at all but a
46 very integral part of a system, as important to it as the farmer himself.
47 They --- from the farmer through to the firm which loads the grain on a
48 vessel for export --- are all part of the marketing chain. And that mar-
49 keting chain has become more and more international for the percentage of
50 U.S. grain going into the export markets is growing and is already well

51 over half of total annual disappearance.

52 The concept of a "middleman" who intervenes between the farmer and
53 the ultimate consumer, profiting in the act, is an old socialistic argu-
54 ment, and one which ultimately leads to government controlled monopolies.
55 For the other marketing alternative is to turn to Government, for given
56 the impracticality of the other suggestions, one then must seek a group
57 of well meaning, honest, astute and omniscient individuals, without any
58 vested interest in the function they are performing. They are, of course,
59 always exceptionally gifted, for they assume a superior knowledge and
60 understanding of the function they are to perform automatically when the
61 title is conferred on them. A "marketing specialist" becomes one immedi-
62 ately when he is promoted to that post, even though he may have been an
63 accountant before that.

64 The way to a socialistic marketing system is paved with a criticism
65 of the free enterprise system. As agriculture assumed greater importance
66 during the past decade, there has been a constant complaint that "something
67 had to be done" to solve the problems in agriculture although an unbiased
68 observer might have difficulty understanding what all the shouting is
69 about. For far from a poor or even mediocre performance in agriculture,
70 U.S. agriculture has performed nothing less than brilliantly.

71 Ten years ago U.S. exports of wheat, feed grains and whole soybeans
72 totaled 46.5 million tons. This year U.S. exports of those commodities
73 are forecast to be about 127 million tons or, 273% of the quantity ex-
74 ported a decade earlier. The total world figures for that period are 108

75 million tons ten years ago and about 213 million tons this marketing
76 year, or not quite double the quantity traded a decade ago. The U.S.
77 performance is clearly better than that of any or all of the other ex-
78 porting countries.

79 U.S. agricultural trade has been the best foreign exchange earner
80 for the U.S., providing the U.S. with a favorable net balance of trade of
81 about \$14 billion annually. There is no other sector of the U.S. economy
82 which has performed so well. If the others could approach the performance
83 of U.S. agriculture the U.S. would enjoy a very favorable balance of trade
84 and payments, we would have a thriving economy without inflation and the
85 United States would not have lost the international prestige and influence
86 it took for granted when we had all those good things.

87 The part of the farmer in this agricultural miracle is clearly under-
88 stood and recognized. Less understood, much less appreciated, is the role
89 which the rest of the system played in this outstanding performance. For
90 the exporter provides many of the facilities in which the grain is col-
91 lected after it leaves the farm. He provides also the facilities through
92 which it moves to port and the facilities through which it is loaded. It
93 is the exporter who seeks the export markets, and it is he who assumes the
94 risk in making and delivering the export sale. Such risks can be both
95 economic and political, and the political risks can be encountered both in
96 the United States and abroad. It is the exporter who continues to invest
97 whatever profit he may have made in new facilities for handling and moving
98 the grain, for if he did not there would not have been the expansion we

99 have witnessed during these past ten years. The grain would have been
100 worthless on the farm, and the farmer who continued to build up sur-
101 pluses because his grain could not be shipped would be inclined to plant
102 less. Because he continues to invest in the future, the exporter must
103 also continue to evaluate the market, analyzing not only its current but
104 also its future potential.

105 The exporter does all of this, of course, because he hopes to make a
106 profit in his operations. If he did not have that incentive he would not
107 be inclined to do it, and the industry and the nation would be the loser
108 for it.

109 The concept of profit has also been quite inaccurate and at times
110 distorted, but this is also in keeping with the liberal or socialistic
111 philosophy which lies behind the attack on free enterprise in agriculture.

112 Profit is, first of all, the most basic of all incentives and the
113 one which lies closest to everyone. It is certainly a hypocrosy for any-
114 one to criticize business' interest in profits and still strive for promo-
115 tions and income increases in his own profession. Books have been written,
116 criticizing the grain exporters' drive for profits, and the prices demand-
117 ed for such books indicate that the authors are hoping to profit by their
118 sales. To this end they have attempted to make them interesting, even
119 if in doing so the presentation falls short of --- or even contrary to ---
120 the facts.

121 Profits are also not always realized and certainly not to the ex-
122 tent generally believed. A grain exporter remarked recently that during

123 his early training his employer had told him that it does not require
124 much merchandising ability to buy a bushel of grain and sell it for a
125 little more than its cost to the seller. Real merchandising ability,
126 he was told, is to buy a bushel of grain and sell it at a price a little
127 under the cost to the seller and still make a profit! And this is where
128 most of the profit has had to be derived in grain exporting.

129 An example is provided by the experience of the farmer coopera-
130 tives in some of their initial direct sales efforts overseas. They all
131 found ready and very interested buyers abroad, all of them also hoping
132 to avoid the so-called "Middlemen" and thus obtain their grain at lower
133 prices. To their dismay, however, the buyers all learned very quickly
134 that when they received offers against their tenders the prices at which
135 grain was offered by the cooperatives was invariably appreciably higher
136 than the price at which the other exporters offered. Their dismay was
137 paralleled by their amazement that the exporters, who purchased large
138 quantities of the grain from the cooperatives, were able to offer the
139 grain at prices lower than those at which the cooperatives were them-
140 selves able to sell abroad. The cooperatives have since learned to be
141 more aggressive and have made great inroads into direct export sales, so
142 much so that one of them is now among the top five firms in the nation,
143 but the example illustrates clearly that the profits made are in manage-
144 ment and not necessarily due to the type of mark-up customary in other
145 branches of business.

146 And the exporter does have a vested interest in agriculture, and be-

147 cause of it he has the incentive to perform his function well. The
148 argument posed frequently in government that government officials may
149 not confer with exporters because they have vested interests is absurd,
150 and it is absurd actually on two counts: It is first absurd since those
151 who have a vested interest in an industry are those who know most about it
152 and who are most interested in its welfare. Having a vested interest is
153 not criminal, and it is offensive and inaccurate to suggest that those who
154 have vested interests are pursuing those interests at the expense and to
155 the detriment of the nation. It is absurd also because of the implication
156 that those not in the industry, such as government officials, do not have
157 vested interests, for everyone has a vested interest, and everyone is in-
158 terested in making a profit and everyone is interested in being promoted.
159 Those without such ambition are certainly not those who are making any
160 serious contribution to the economy and the nation. There are a few genu-
161 inly altruistic people in the world, and they do make a commendable con-
162 tribution, but they are an exceptional and very small percentage of the
163 population.

164 A North Dakota wheat farmer very eloquently expressed his concept
165 of profit when he heard that a high-level government official had indi-
166 cated that there were those farmers who agreed with the Administration's
167 action in calling an embargo on sales to the Soviet and some of the others
168 "would do anything for a buck." The farmer retorted "Of course we do it
169 for a buck! Why does he think the farmer farms? Does he think we do it
170 because we like to stroke the hogs!"

171 The concept of a "Middleman," as popularly held in some circles,
172 could actually be more aptly applied to government and government inter-
173 vention in agricultural marketing. This is not to deny that government
174 does have a function to perform in agriculture, but its function should
175 be to aid and not replace or direct. If having a constant source of food
176 available for the people is a responsibility of the Government, then Govern-
177 ment has an obligation to provide facilities to the farmers for planting
178 a crop. Government also has a responsibility for keeping the agricultural
179 community advised on conditions in agriculture, to aid farmers and agri-
180 business in making plans for food production and its movement. Govern-
181 ment does not have a role in restricting the marketing of food in other
182 than national emergencies or in instances when there may be an inadequate
183 supply of food for the nation. There are many who do not feel that these
184 conditions have been met during the past decade, during which time there
185 have been several embargoes, each of which was later termed not to have
186 been necessary and none of which was ever considered to be particularly
187 successful in achieving whatever purpose may have been given as the rea-
188 son for which it was instituted. One embargo against certain Eastern
189 European countries was, in fact, said to have been the result of a power
190 play between the State Department and the Department of Agriculture!

200 If the middleman is someone who comes between the farmer and his
201 ultimate consumer and does so for a profit, then this really fits in in-
202 stances when government goes beyond the function of providing assistance
203 and begins to exercise a control over the movement of a commodity which

204 it does not own. If someone does not believe government agencies do not
205 make direct profits he should check the activities of the Federal Grains
206 Inspection Service which has produced a tidy profit of about \$16 million
207 in approximately two years of operation. And this is even in an area in
208 which government does have a legitimate function but has merely become
209 overzealous.

210 A more subtle form of profit is one in which government employees
211 enhance their own positions and/or provide positions for others through
212 intervention in the markets. An even more subtle form is through the
213 political use to which agriculture may be put and the benefits which may
214 be derived from such action.

215 A very blatant form of middleman intervention in the market is pro-
216 vided by the government's signing of a bi-lateral agreement with Mexico
217 for the sale of certain amounts of grain. In doing so the government pro-
218 vided nothing other than an assurance to Mexico that the government would
219 not impose an embargo on those sales. And such an assurance would not be
220 necessary if the government were not in the business of embargoing grain
221 sales in the first place. Nor has the government's intervention in this
222 business brought anything to the agricultural community or the nation, for
223 the sales would have taken place without the government's intervention.
224 That is, whatever benefits there are in the sales would have taken place
225 completely without the government, so that only government benefits
226 through whatever political advantage the government derived from the trans-
227 action.

228 The worst part of having a government middleman is that government
229 does not compete fairly for the markets --- actually does not compete at
230 all --- so neither buyer nor seller has the benefits competition brings
231 to any market. Government merely monopolizes business when it assumes a
232 commercial role, and there is then no competition to bid up farmers'
233 prices when grain is needed to load vessels and there is no one to bid
234 competitively for new business. If a U.S. offer is not considered com-
235 petitive, the buyer is not able to turn to another U.S. seller but then
236 seeks his grain from another source.

237 In short, agriculture has been extremely efficient through the
238 interaction of all those engaged in all aspects of agriculture. The agri-
239 cultural function as it exists in the United States is the system which has
240 evolved in response to the needs of agriculture and the nation. Despite
241 what its critics contend, it has been extremely efficient, and the prob-
242 lems in agriculture during the past decade have tended to be philosophical
243 rather than economic. They have become economic because of the turns taken
244 in the philosophical struggle. The continued attacks at the so-called
245 "middlemen" have been part of the struggle. To suggest the introduction
246 of an outside entity in marketing, such as government, is to propose re-
247 placing a vital part of a highly competitive system with a real "middle-
248 man" who can function only in an area where he has no competition. This
249 can result only in destroying the competitive balance within the system,
250 with an accompanying loss of the incentives which have, in turn, been re-
251 sponsible for the innovations which have made U.S. agriculture excel and
252 become the envy of the world.