COMMENTS

ON THE INVITED MARTIN-WARLEY AND RAUSSER-STONEHOUSE MARKETING BOARD AND SUPPLY RESPONSE PAPERS

By

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The Martin-Warley paper tests the ability of five Canadian marketing boards (pork, flue cured tobacco, broilers, turkeys, and eggs) to reduce market instability by checking four market variables: industry output and gross revenue, and producer and consumer prices for two time periods - one before and one after a significant institutional change toward more market control by the boards. A control group is comprised of U.S. data for the same time periods. Relevant statistical tests were used. Their conclusion regarding producing market stability for the five commodities was that their work on "market performance must be suspect", and that "only verdict ...supportable...is (one of)...not proven."

Despite their claims of inadequate analytical treatment and demonstrated inability to show definitely that boards do stabilize markets, their paper is a useful and intelligent exposé of one of the basic problems dealing with government (political) intervention in the food system. The boards in general, have power to control production, producer entry, and farm prices - yet they seem to fail in achieving their main task of guiding the food system effectively. They appear to succeed in their function of providing adequate farm incomes if firm volume is great enough, yet they seem to ignore the impact of their actions on consumer food budgets and inflation. It is to the author's credit that they point out these problems, and moreover suggest that the next round of inquiry about boards should be in their operational structures and roles rather than in measuring a single performance criterion.

Several questions could be raised in reviewing the author's paper, the key one being whether or not there are feasible alternatives (politically and economically) to marketing boards: if their demonstrable performance according to well defined policy ends is questionable. Perhaps the situation has deteriorated to such a degree that flexibility is nil, and the options are simply to minimize whatever negative consequences that can be identified.

However, one modification to the existing institutional structure would be to analyze what might happen if the boards were to follow a pattern similar to the State of California marketing orders. There, the board members are elected from the industry, meetings are monitored by economists from the State Department of Food and Agriculture, and board actions subject to "advise and ammendment" by that Department's Director. Essentially, boards are concerned with advertising, promotion, some research, and data collection; they do not set prices, nor do they practice supply control programs any more. They are funded from commodity-wide assessments set by referendum of growers or grower/handlers for that commodity.

Corollary questions are whether Canadian boards still operate in the broad public interest for which they were initiated. The answer to this depends in large measure on the political power of Canadian agriculture, not in analytical probings of economic efficiency. Equity problems are interesting to analyze, yet solutions to these will be found through channels of advocacy rather than objective economic analysis.

Another question relates to the structure of the Canadian food system once the production level is presumably well regulated. Lack of evidence for stability leads one to question again the myth that farm level efficiencies are passed on willy-nilly to consumers. Stickiness of margins, paths of price decline different from those of price increases based on demand and income elasticities, and the role of labor unions could well explain most of the reasons why the authors of this paper felt frustrated at not being able to produce more viable evidence.

Finally, the more intelligent use of forward contracting although now practised could lend a stabilizing force to the goal of market stabilization. Could the regional boards work in concert with a natural board to moderate "local" supply pressures in view of a larger whole?

Marketing boards might have outlived their usefulness to allocate farm resources efficiently since they effectively limit competition, and they may ignore the macro effects of their actions on consumer price indices. Yet, as indicated, they may also serve other more positive roles in rural areas and in the halls of regional and national governments, roles different than those first set for them, roles which have evolved and which now need probing policy exploration.

In sum, this well done paper opens a door on marketing policy anaysis for which the authors should be congratulated even if they do not choose to be iconoclasts.

The Rausser-Stonehouse paper explores the impact of government intervention in the Canadian dairy industry on producer's supply response. It is a well conceived paper, well researched, and inventive in its use of empirical methods. I felt a lack of conclusion, although this was, indeed, a preliminary draft, since the beginning and middle sections of the paper were so excellent.

This paper is notable for its recognition of how policy is made, how it works, and how these aspects might be integrated into some type of useful policy analysis along with relevant private sector considerations. While the focus is supply response for dairy, this is somewhat misleading since private sector response is really only mechanical adaptation to mandated and incentives determined by the political process. The authors state that government officials determine domestic and foreign trade goals and then work backwards to producers through processors. Their description of this mechanism is delightful and laugh provoking to an ex-bureaucrat responsible for setting milk prices and quota limits for California. The potential frustrations they point to are accurate, and it's with a feeling of relief that one realizes no more need to play price czar. It's a no-win situation. No politically determined price setting mechanism can endure forever in the face of alleged inequities by producers, processors, retailers and consumers.

In view of their excellent start, I was dismayed in their literature review that no mention was made of interviews either with agency administrators or producers since both of these perspectives were ones the authors attempted to specify as structural parameters requiring behavioral equations. In additon to using "unconventional" empirical mehtods, perhaps it is also time to introduce more listening to participatory or affected groups and individuals. No matter how good the method, if it's not aimed at the proper variables the ensuing analysis is useless for policy makers. For example, references might be made as to how politicians and administrators pursue risk reducing paths; producers are not the only ones whose livelihoods are at stake through miscalculation about risk.

In milk, and I would hypothesize all administered commodity price programs, the prime movers are the policy makers followed by the policy implementers who are, in turn, adjusted to at the producer-processor level depending on the particular program. Aggregated response from atomistic production units can be usually based on profit motives; farmers are businessmen, too. Yet this response is conditioned by government (agency) policy as the author's note. Another policy aspect is that while producer's milk response, for example, may be thought to be primarily a function influenced by government "demand" (or market of last resort), it is also highly influenced by cost increasing regulations which can also weigh heavily on the supply side. Instances include EPA regulations on the use of agricultural chemicals around barns, Treasury regulations on income taxes which bear on capital investments, union labor regulations on hours and working conditions, and State perceptions about the merits of selected foreign agricultural trade programs.

How to integrate these aspects is, indeed, a horrific problem, yet without some attention paid to them, analysis of production responses could miss the point.

An item I found confusing, by its absence, was lack of reference to consumer attitudes toward milk prices and their role in their food budget. Admitting that rationality is a highly adaptable word, and that effective advocacy is the power behind most policy changes, the affect of milk prices on inflation certainly ought to be covered in any discussion of milk price policy.

In summary, this paper provides a breakthrough in identifying useful policy parameters, in combining private and public sector behaviorial equations, and in daring to suggest the use of qualitative measures. The authors should be applauded for these innovations. I hope in the near future that their work can also incorporate discussions with appropriate policy administrators, legislators, and producers; that it considers the consumer side of the coin as well as the producer-processor's; and that they make more use of the "normative" models they mention to perhaps construct an ideal which allows adequate milk production at reasonable prices, and which also lends itself to easily enforceable administration.