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FOREWORD

This volume contains papers and discussions presented at a seminar on changes in the economic organization of American agriculture. Organization alternatives were examined in terms of workability, acceptability, consequences, and implications for public policy. Seminar participants included members of two North Central Research committees, NCR-20 and NCR-56, and selected other individuals whose experiences and areas of interest qualified them to contribute in unique and valuable ways.

The contents herein should be of particular interest to agricultural leaders who are formulating policy proposals bearing on agricultural organization, to educators who are dealing with issues of changing industry structure in their research and teaching programs, and to students of agriculture who are seeking greater comprehension of the kinds of changes and problems likely to be faced by agricultural people in the years ahead.

The seminar was planned by a Subcommittee of NCR-20 consisting of Peter Helmberger, University of Wisconsin; R. J. Hildreth, Farm Foundation; James D. Shaffer, Michigan State University; and Paul L. Farris, Purdue University, Chairman. The subcommittee coordinated arrangements involving NCR-56 with Dale E. Hathaway, Michigan State University. Manuscript preparation and publication arrangements were handled by Thomas T. Stout, Ohio State University.

Paul L. Farris
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MARKETING BOARDS AND QUOTA POLICIES FOR CANADIAN
FARM PRODUCTS; AN APPRAISAL OF PERFORMANCE*

H. V. Walker**
Canadian Livestock Feed Board

Mr. Chairman, ladies and gentlemen, I first wish to express my sincere appreciation of the honour accorded me to address you today on our experience in Canada with marketing boards. On behalf of the Agricultural Economics Research Council of Canada, I wish to say that we welcome this opportunity to participate in your seminar. We can only hope that our contributions in this regard will justify your expectations and confidence.

Marketing boards in Canada have had a long and rather complex history.^{1/} The complexity arises, in part, from the division of jurisdictional powers between the federal and provincial governments in matters relating to domestic and international trade, the inability of certain marketing boards to control the inflow of regulated products from other provinces, and the differences in the scope of the powers vested in the federal, provincial, and producer-marketing boards, and industry commissions.

My assignment requires me to speak on Canadian marketing boards. This is a rather general topic, which requires a great deal more time than has been allotted if I am to deal adequately with all of its aspects. The latter includes questions relating to their nature, structure and scope, their legal status, their pricing strategy, their quota policies and whether they constitute

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Director of Economic Research, Canadian Livestock Feed Board. The research work on which this paper is based was completed while the writer was a staff economist at the Agricultural Economics Research Council of Canada. In this connection, the writer wishes to acknowledge his indebtedness to Dr. W. J. Anderson, former Director of Research, Agricultural Economics Research Council of Canada, for his criticisms and useful suggestions on the contents of this paper. These enhanced the logic and clarity of the exposition.

^{1/} Fruit and vegetable producers in the interior of the Province of British Columbia were probably the first in Canada to view producer-marketing boards as a solution to problems of low income and fluctuating prices. These pioneers set up the Okanagan United Growers Cooperative in 1913 to minimize instability in their industry. See: L. E. Poetschke and Wm. MacKenzie, The Development of Producer Marketing Boards in Canadian Agriculture, Edmonton, Alberta, The University of Alberta, p. 26.

an effective countervailing power. Each of these could be the subject of a full paper.

If I am to stay with the time limit specified for my presentation, it will therefore not be possible for me to treat adequately all these aspects of my topic. In this paper, I shall appraise the quota policies pursued by Canadian marketing boards in terms of their potential and pitfalls, as well as their effects on the location of production. I shall then outline some basic ingredients of alternative policies, and will also examine quite briefly the role of these boards in the light of these alternatives.

I have chosen this particular aspect of this topic because the quota policies of these boards have become an important, but highly controversial issue in Canadian agriculture at the present time. This importance is associated with the fact that an ever-increasing number of these boards have made quotas the main facet of their strategy for dealing with problems of price and income instability in particular sectors of agriculture.^{2/} There is, however, a dearth of information on the real economic effects of these quota policies.

Moreover, since my research work on marketing boards concentrated on their quota policies, there is more that can be presented on this than on other aspects of the topic. Furthermore, from the point of view of assessing possibilities for the United States from the Canadian experience with marketing boards, it appears that the potential and pitfalls of these quota policies may have some significance for the United States.

As a prelude to this appraisal, it is appropriate that the legal basis for, and the scope of the powers vested in, Canadian

^{2/} In 1956, there were thirty (30) marketing boards for farm products in Canada. The farm operators who were registered with these boards contributed 35% of the gross cash receipts from farm production. By 1965, the number of marketing boards had risen to 101, and these accounted for 41% of gross farm cash receipts. Over the period 1965-67, twenty (20) new boards were established such that the total number had increased to 121. It has been estimated that the farm operators attached to these boards contributed some 50% of the total cash receipts from farm operations. Moreover quotas are being applied for an ever-increasing range of farm products in Canada. Prior to 1960, quotas were applied to grain on the Prairie Provinces, fruits and vegetables in British Columbia, flue-cured tobacco in Ontario and fluid milk in most provinces. The application of quotas has since been expanded to broiler chickens in British Columbia, Alberta, Saskatchewan and Ontario; turkeys in British Columbia and Alberta; vegetables in Manitoba; eggs in Quebec.

marketing boards should be briefly outlined. The Agricultural Products Marketing (Canada) Act of 1949, and subsequent Acts that were passed by the various provinces provide the legal basis for existing marketing boards in Canada. These Acts recognize that intra-provincial trade lies within the jurisdiction of the provincial governments, and that inter-provincial and international trade fall within the jurisdiction of the Federal Government.

The Act of 1949 was, in a sense, enabling legislation that provided for a transfer of powers whereby the Federal Government may authorize a local marketing board within a particular province to engage in inter-provincial and international trade. However, whereas a local board may engage in either inter-provincial or international trade, it has no power to control the inflow of products from other provinces. This has presented a difficult problem to those marketing boards that have adopted quotas in restricting supplies of particular farm products in an attempt to maintain prices at some given level.

The marketing institutions in Canada are, therefore, both Federal and Provincial in nature. The Federal institutions are the Canadian Wheat Board established in 1935, and the Canadian Dairy Commission created in 1966. There are three types of provincial institutions; these are: The Milk Boards established under the Milk Control Acts of the different provinces, the Producers' Marketing Boards and Industry Commissions. The latter two were set up under the Agricultural Products Acts of the provinces.

The Canadian Wheat Board sets the prices for grains, except corn, and exercises control over the importation of grain. It also attempts to rationalize the flow of grain from farms to markets. In order to achieve this goal, the Board has instituted a quota system, which is designed to provide producers with reasonably equal delivery opportunities at times when supply exceeds demand, as well as to enable the Board to call forth selectively, from farms, the particular types of grain most in demand.

In general, Milk Boards have various degrees of power to fix the prices for fluid milk to producers, processors and consumers; in addition, they may also allot quotas to producers. These boards generally deal with fluid milk, whereas the Canadian Dairy Commission deals with milk for factory manufacturing of dairy products. The Producers' Marketing Boards are established only after a favorable vote by producers, whereas Industry Commissions are created by the government of the particular province with members representing farmers and agribusiness.

Producer marketing boards, which have been viewed as a practical means to eliminating competition among farmers, were intended

to organize them into monopolistic agencies that constitute a real countervailing power in a product market with only a few buyers. Several boards act in an advisory capacity to particular sectors of the industry; others negotiate prices for particular farm products, whereas others form a basis whereby producers may amass the physical assets that enable them to get into the business of processing.

These boards are authorized to license all persons engaged in the production and/or marketing of the particular product. Moreover, they can prohibit persons from either producing or marketing the regulated commodity without a licence. They may also regulate all agreements entered into by producers and processors. Many of these may also determine the proportion of the total volume of sales that may be handled by each processor, thereby giving them some measure of control over processing firms.

These boards have been empowered to regulate the quality and quantity of particular commodities that are marketed at any one period. Consequently, an ever-increasing number of them have adopted either one or two practical methods of regulating the supplies of regulated farm products. The first method involves the allocation of production and/or marketing quotas, which are of two types, viz: (i) a fixed basic quota, established with respect to some historical situation, is allotted to each registered producer; (ii) a crop quota for each quota period is determined by reference to the basic quota. The second method of stabilizing supplies involves a restriction of entry of new producers into the industry.

The quotas adopted by these marketing boards fall into one of three distinct categories, viz: (i) those that directly restrict production, such as the quotas applied to flue-cured tobacco in Ontario, and eggs for consumption in Quebec; (ii) those that restrict the supply of commodities to the markets, such as the quotas applied to the marketing of broiler chickens, turkeys and fluid milk; (iii) those that rationalize the flow of products to their final destinations, such as the delivery quotas adopted by the Canadian Wheat Board and by the British Columbia Vegetable Marketing Board.

The problem of farm income since World War II, however, has been a reason to question the policies, the conduct and performance of marketing boards in Canada. In this connection, there has been some concern as to whether their nature and constitutions are consistent with the best long-term interests of consumers, farm operators and agribusiness, as well as related sectors of the economy.

An important issue has been whether the adoption of quotas by some of these boards as mechanisms of supply control is consistent

with the public interest. Questions have been raised as to whether these boards are the appropriate types of institutions to be vested with monopoly power of control over the supply of and the prices for farm products. Some contend that such boards represent special interest groups, and as such, they should not be given control over the entire production and sale of certain food products.

The adoption of quotas by these boards has, therefore, become a lively and controversial topic. The increasing incidence of their use has stimulated widespread interest in quota policies pursued by these boards. Interest arises essentially from imperfect knowledge of their real effects on stability, the distribution of income and economic growth in the particular industries to which they are applied, as well as in related sectors of the economy. In spite of some controversy, however, marketing boards and quotas have substantial appeal in many sectors of the agricultural industry, and have been adopted as a marketing approach to the problems of income and price instability in the case of several farm products. Their adoption is also viewed by some persons as a practical method of preserving the family farm.

Positive Effects

Stability - The evidence is that several boards, through their quota policies, have been reasonably successful in achieving the stability for which they were primarily adopted. They have served to stabilize the use of certain factors of production such as real estate, and have stabilized supplies of particular farm products. In addition, they have stabilized farm prices for particular commodities as well as farm incomes at certain levels. There is every reason why certain marketing boards should be effective in stabilizing the level of prices and incomes. After all, several marketing boards have been authorized to set prices, or there is provision in their constitution for some degree of price fixing.

Economic Security - Thus, the quota policy adopted by several marketing boards has, in fact, provided farm operators with a certain degree of economic security in the short-run. In addition, marketing boards have effectively organized producers in particular sectors of agriculture into the virtual monopolies that constitute a real countervailing power in markets where there are only a few buyers. These quotas have provided short-run stability to particular sectors of agriculture, thereby reducing uncertainty in resource use and planning. They afford protection against declines in prices such as those that frequently occurred prior to the adoption of quotas, and which resulted in instability in farm income.

Furthermore, quotas have resulted in short-run gains in the earnings of farm operators who would not have otherwise shared

directly in the national prosperity. Thus, in the short-run, quotas have provided a way out of the farm price-income problem through stabilizing the level of prices.

Negative Effects

Limitation of Entry - The economic security now enjoyed by particular farm operators has arisen in large measure from marketing boards' power to stabilize the level of prices and to limit the entry of new producers. The measure of success achieved by many of these boards is, therefore, attributable to their distributing either a stable or a rising gross cash income amongst a declining number of growers. Thus, some marketing boards have been effective through the policy of limiting the right to produce to a rather select group of individuals, thereby protecting particular sectors of the agricultural industry, as well as both efficient and inefficient producers.

Capitalization - In those instances where the demand for particular commodities is inelastic, the concept of quotas has incited a conflict of opinions concerning questions with broad economic implications. Monopoly pricing by farmers has raised issues about (i) the regressive effects on consumers (ii) the inefficiency of resource-use in the particular sectors of agriculture where quotas are used, (iii) the incidence of capitalization of quota rights into the value of unique factors such as real estate, and (iv) barriers to the entry of new producers into the industry.

A relevant question is whether the incidence of capitalization constitutes a valid criticism of the quota policies pursued by these boards. In this connection, it is common experience that any net return from farm production tends to become capitalized into the fixed factor. This occurs whether these returns originate from the early adoption of new technology, from buoyant demand associated with war, from market restraint, from successful sales promotion, or from the incidence of population growth.

Our society has always promoted the adoption of technological innovations as being consistent with economic growth; yet, the net earnings which accrue to early adopters are capitalized into a unique factor. Thus, capitalization is a fact of life which should be accepted as such. The crucial question, however, is whether the public should approve a form of capitalization that is induced by special-interest groups.

Capitalization exerts upward pressures on production costs, which will rise to meet the level of market prices for particular products. This position, when achieved, will provide the resources retained in the industry with a normal rate of return such as they would have earned in the absence of quotas. It is equally likely that this position will also result in a measure of excess capacity, and unemployed resources. The cumulative effect of these will be a deterioration in the efficiency of the industry.

Value of Resources - Since the net returns associated with quotas are capitalized into some unique resource such as real estate, another aspect of the effects of quotas is that they increase the capital value of farm resources. Hence, farm operators will have to pay higher prices for farm real estate than they would have paid in the absence of quotas. Furthermore, the fact that a quota restricts the use of the fixed factor induces farm operators to intensify the use of other factors of production; this increases the demand for these alternative factors and may probably exert an upward pressure on their prices.

It must be emphasized that the right to produce farm products or any commodity or service is an unalienable gift of society. In being allowed to issue quotas, marketing boards have been entrusted with the distribution of these rights on behalf of society. It seems undesirable that these rights should assume a value in the hands of a privileged group of individuals, because capitalization of these rights into unique resources increases both their value and cost of producing particular commodities. In turn, the increase in production cost affects the competitive strength of these commodities in the market place. The policy of limiting the entry of producers into an industry reduces these rights to the status of scarce factors of production. Consequently, the rights assume values which are then capitalized into some unique factor of production such as land. The greater the probability that the quota policy will be followed or become permanent, the greater the valuation placed on these rights.

Size of Unit - The evidence is that the many marketing boards, apart from the British Columbia Broiler and Turkey Marketing Boards, have not yet formulated either a concept of the optimum size of unit for different types of farm commodity or a policy that would facilitate farm units attaining this particular size. Consequently, they have not placed any stated limit to the size of a quota to be held by an individual producer. The policy of authorizing transfers of quotas between growers without limiting the size of quota to be acquired by an individual grower probably has not helped the particular industry either to capture the cost economies associated with the optimum size of farm unit, or to avoid the increasing costs that are incurred by an industry where farm units are allowed to expand beyond this optimum size.

Uncertainty - Marketing boards have sought to minimize uncertainty in production planning by farmers. The variability of the annual crop quotas is in itself however a source of an uncertainty to farm operators. Moreover, the policy of allotting fixed basic quotas, regardless of whether or not they are fully utilized, tends to bring more resources than are necessary into particular sectors of the agricultural industry. The policy of fixing annual crop quotas as a percentage of the basic quotas also tends to sustain excess capacity in the industry. This inefficiency must exert an upward pressure on production costs.

Resource Use in Related Industries - A major weakness in the quota policies of some marketing boards is their failure to recognize the inter-dependencies between agriculture and other sectors of the economy. The grain industry, for example, is highly dependent upon transportation. It is important, therefore, that the role of transportation, as well as the most rational utilization of the resources of the transportation industry, be kept in perspective when quota policies are being formulated. The Wheat Board delivery quota system to which I referred earlier, is based on equity of delivery opportunities, and therefore requires that railway cars be provided evenly over all delivery points. This principle does not seem to be consistent with the efficient performance of the transportation industry. As an illustration, in periods of peak grain movement, there would be about 7,000 cars per week loaded in Western Canada. These cars would be needed by more than 5,000 country elevators located at some 2,000 delivery points. Thus, each country elevator, on the average, would receive only 1.4 cars per week, which amounts to a highly dispersed distribution of the rolling stock of the railways.^{3/}

This principle of equity must exert a tremendous burden on the resources of transportation, and on the simplicity of its operation. Moreover, the dispersion associated with this principle contributes, in part, to the shortage of boxcars in the movement of other types of commodities both on the Prairies and other parts of Canada.

Moreover, from the point of view of the grain producer, it would seem on the surface at least that this principle was designed to protect his best interests. It was obvious, however, that this policy is too inflexible in its application in that it does not make allowances for such considerations as differences in yields among individual farm units, soil and climatic differences, and the variations in the production possibilities in the various regions of the Canadian Prairies, as well as the incidence of hail, drought or disease.^{4/}

Hence, this quota policy penalizes the grain producer who obtains higher yields in that he is given the same quota as the producer with relatively lower yields. Thus, the policy has resulted in a paradoxical situation in which the producer with higher

^{3/}Robert J. Shepp, "Railway Development and Related Capacity for Movement of Grain," "Proceedings of the Grain Transportation Workshop", Minaki, Ontario, Sept. 6, 7 and 8, 1967, pp. 27-30.

^{4/}E. W. Tyrchniewica and O. M. Tangri, "Grain Transportation in Canada: Some critical issues and implications for research", Canadian Journal of Agricultural Economics, Vol. 16, No. I, 1968, pp. 85-97.

yields is burdened with additional storage costs instead of being rewarded for his efficiency.

Impact on Location of Production

The restrictiveness of the quota policies on the production opportunities in particular sectors of the agricultural industry, may perhaps have modified the rate of growth of total cash farm income, not only for particular sectors of the agricultural industry, but for related sectors of the economy as well.

There is some question however as to whether this policy of equity contributes to the best location of farm production on the Prairies in periods of wheat surplus. By way of illustration, if the Wheat Board cannot dispose of the total supply of grain, the quota policy of equal access means that crop districts of low rainfall, which have particular advantage in growing wheat because of the lower production costs, are forced into growing other crops or summerfallow.

This influence on the location of production must result in less than the maximum total farm income in the Prairie regions; that is to say, less than what it could have been if quotas had not embodied the strict equity principle.

Another illustration of the extent to which a quota policy affects the location of production of particular commodities in Canada is the method of the allocating of quotas in the flue-cured tobacco industry in Ontario. The total fixed basic quota of about 152,000 acres has not changed significantly since 1959. Even so, this authorized basic acreage quota represents approximately only 5.3 percent of the 2.9 million acres of potential flue-cured tobacco land in Ontario. Moreover, production is restricted to 15 counties, whereas there are 40 counties with soils that are capable of producing flue-cured tobacco.

This restriction on acreage should be viewed in the light of the facts that the returns per acre from the production of flue-cured tobacco are higher than those of other field crops, and that there are prospective flue-cured tobacco growers who are prevented from producing tobacco. The restrictive policy may also have contributed to the failure of Canadian tobacco to penetrate foreign markets to the extent achieved by Rhodesian tobacco prior to the embargo placed on it. The policy has also led to much concern by manufacturers about the supply, and the high prices prevailing on the Canadian tobacco markets in the present season. The Board's policy of not allowing quota rights to be separated from the farm unit has localized production to a particular geographical area, thereby restricting growers from relocating production according to local conditions and their own best interests.

Issues to be Resolved

In summary, policy objectives for the marketing of Canadian farm products should be preceded by resolutions of some fundamental issues. The basic considerations are: How important is stability to the growth of an industry? Is an industry's short-run stability compatible with its long-term growth? If stability is deemed to be important to the growth of an industry, then are alternative methods of achieving this objective more effective than quotas? If the ordering of priorities favors the use of quotas to achieve stability, then are they consistent with the long-term interests of the industry to which they are applied, and do they meet the public interest? Or, should alternative methods of market control supplement the use of quotas in promoting long-term economic growth? Should the formulation and administration of quota and price policies be entrusted to marketing boards that represent particular interest groups? Will the public tolerate the negative consequences of quotas when the positive benefits occur to only a few?

Conclusions

There is no question of the importance of stability to an industry in creating an environment that is conducive to growth, economic security and prosperity. Substantial economic benefits accrue to producers from operating in a stabilized farm sector, where the incidence of price uncertainty is reduced to a minimum and long-term plans can be formulated with reasonable assurance that expectations will be realized. Moreover, it is likely that efficiency in farm production, in terms of output per unit of input, increases more rapidly under stable prices and incomes than it does under unstable conditions. In a stable environment, farmers have both the inducement and the financial basis to make the types of outlay associated with the adoption of new technology which will reduce production costs.

It is, therefore, in the interests of agriculture as well as in the public interest, to adopt the appropriate mechanisms that would ensure stability in the food industry. Quotas, however, are not the only means of raising prices and incomes to farm operators. Alternative methods include the expansion of demand, market control in the form of market discrimination, and market differentiation in terms of quality.

Market discrimination may result in an increase in returns to producers without recourse to supply controls. This policy implies that the adoption of a multi-price system, where markets of varying elasticities exist, could be exploited to the advantage of producers. It must be realized that the limitations, assuming no production response to increase returns, are those imposed by substitute products and/or identical products from alternative sources of supply. This is, however, a problem that will also seriously limit the effectiveness of quotas.

In practice, the problem with these alternative methods is the uncertainty of the results. Since producers are free to expand their output in response to increased earnings, the price effects of these methods will most probably be short-lived. Moreover, as the elasticity of the supply function for farm products is presumably significantly greater than zero, the risk of over-production and lower prices becomes quite real. The latter does not generate a great deal of optimism for the outcome of these methods. Thus, the ordering of alternatives appears to favor quotas because of the limited scope of alternatives.

Most marketing boards enjoy a substantial measure of autonomy. In fact, they have been allowed to function with minimum government interference. It would seem appropriate, in the public interest, to have a greater measure of control over the functions of these boards as they relate to the determination of supply and fixing of prices. Governments should retain unto themselves these functions, or delegate them to some independent public agency that could better reconcile the different and conflicting interests of the various groups that comprise society.^{5/}

It has been noted that quotas have maintained stability in particular sectors of agriculture. However, they have also resulted in a deterioration of efficiency. Thus, the short-term stability that has been attained may well be incompatible with the long-term economic growth of the industry. Three decades of experience with the use of quotas in the flue-cured tobacco industry of Ontario would seem to indicate that the industry's short-term stability and its long-term economic growth are not compatible; thus, serious consideration needs to be given to the formulation of an alternative policy more consistent with long-term growth.

After three decades, the unit price for Canadian flue-cured tobacco is now the highest in the world. The prices have increased substantially over this period, and while acreage has been kept relatively stable, variation in yield have resulted in an unstable supply situation. Consequently, gross cash incomes have also been unstable. Income per farm, however, has increased substantially over this period because of the restriction of entry and the decline in the number of registered growers.

There are serious questions, therefore, of the effectiveness of quotas in sustaining long-run stability in this industry. In fact, the continuation of their use has resulted in Canada's playing a rather diminutive role in the export trade in flue-cured tobacco, in spite of Canada's comparative advantage in terms of transportation costs over Rhodesia for the lucrative British market, and the Commonwealth preferential tariffs that favor Canada vis-a-vis the United States in competition for the British Market.

^{5/}Willard W. Cochrane, "Some Further Reflections on Supply Control," Journal of Farm Economics, Vol. XLI, No. 4, Nov. 1959, p. 701.

The industry has catered primarily to a captive domestic market. This market is characterized by an inelastic demand for flue-cured tobacco, a rising per capita consumption of tobacco and tobacco products, restrictive tariff walls that have virtually kept out foreign flue-cured tobacco from the Canadian domestic market, and the restriction on the entry of new growers into the industry, which protects the rights of existing growers by refusing to extend them to others.

What this all implies is that there has been a tendency to view quotas as ends in themselves, rather than as means to an end. Moreover, quotas have been used in conjunction with the other powers vested in marketing boards to preserve the status-quo in particular sectors of the agricultural industry. This, together with the limitations placed on entry into these sectors of the agricultural industry, has resulted in a substantial measure of capitalization of quota rights into the land values in the industry.

Thus, the fact that the positive effects of quotas are enjoyed by a rather select group of individuals raises some serious doubts as to whether the public in general will tolerate the substantial negative effects of quotas, while their benefits occur to only a few. Public agencies should, therefore, formulate an alternative marketing policy that will minimize the negative effects of quotas, while at the same time enhancing the total economic welfare of society.

Policy Alternatives

A marketing policy should, therefore, embody the following principles that may well be more consistent with the long-term maximum economic welfare of society than existing policies: -

1. Independent Agency - An independent public agency representing all interest groups should be delegated the functions of fixing and allocating quotas as well as of determining prices for the particular farm commodity. The agency should represent the interests of farmers, the trade and consumers.
2. Unrestricted Inter-Provincial Flows of Farm Products - There should be no restrictions on the flow of farm products and resources between the various provinces. This is to facilitate the flow of resources and commodities from the least-cost source of supply to markets.
3. Quotas should be earned - Therefore, quotas should be earned and not bought and should belong to this public agency. No individual grower should be allowed to sell his quota. When he elects to cease production for one reason or another, his quota should revert to the agency.

When an individual grower desires an expansion of his quota, this should be earned on the basis of performance. He should apply to the agency for an increase in his quota, and it should be within the jurisdiction of the agency to decide whether the farmer's performance with his present quota merits the increase.

4. Negotiability of Quotas - Many difficulties are associated with the capitalization of quota rights. Although the economic goal on which trading in quotas was rationalized was in itself quite laudable; this type of trading is wrong in principle and discriminatory both in theory and practice. It is wrong in principle because no individual should be allowed either to sell or to make economic gains from a factor of production that belongs to society, which has allowed him to use it without cost to himself. Furthermore, an individual's ability to pay, rather than his performance may not be indicative of his ability to handle a larger sized unit.

5. Limits to Size of Quota - Moreover, in allotting quotas, marketing boards should emphasize that all quotas are the property of the agency and as such they would be subject to review as circumstances warrant. In addition, a ceiling should be put on the size of quota to be held by an individual grower, based on the optimum size of a farm unit for the particular commodity; this might be readjusted in accordance with changes in technology, and level of management.

6. Freedom of Entry - No values should be attached to quotas. The mechanism for their allocation and application should facilitate freedom of entry into the particular industry, so that sales of registered premises and transfers of quotas may not exclude new producers.

7. Inter-sectoral Dependencies - The quota policy should recognize the inter-dependencies between agriculture and related sectors of the economy. Quotas should be designed to achieve the objectives of price and income stability, but should not interfere with the most efficient utilization of the resources of associated industries, such as transportation.

Role for Marketing - The recommendation that the functions of determining supplies and allotting quotas and determining prices be delegated to an independent public agency does not detract from the usefulness of marketing boards. It may be emphasized that these boards would continue to play a positive role in rationalizing the marketing of farm products. In this connection, some of these limitations of marketing boards as economic institutions should now be examined, with a view to improving their effectiveness.

The essence of a marketing board is compulsion, in the sense that all producers of a commodity or group of commodities must

market through a board and accept all of its regulations. This type of compulsion requires the authority of law. Farm operators, as individuals, do not favor compulsion, and their allegiance to the board may require statutory policing which may be difficult either to obtain or to exercise when required. Moreover, it must be emphasized that the use of power tends to perpetuate the status-quo and to oppose change. Marketing boards must, therefore, provide in their structure the opportunity for changing conditions to influence their operations.

The nature of the demand for a particular product will strongly influence the effectiveness of quotas. The existence of close substitutes to products, alternative sources of supply that are outside the jurisdiction of the marketing board, and wider import competition, will limit attempts by producers of a single product in a given region to establish effective bargaining power.

Marketing boards operate in a dynamic world. They will, therefore, be unable to cope with new circumstances without continual review of their policies and procedures. For example, quotas based on historical situations such as those applied to tobacco, turkeys and broilers may become unrealistic; compliance of producers with compulsory features of boards may be given less willingly and less completely after some years of operation.

In spite of these functional and institutional limitations, it is envisaged that there are tremendous possibilities for marketing boards to contribute towards a rationalization of the marketing of Canadian farm products. Potential exists for increasing their scope and functions. In this connection, these boards may work towards an improvement of producer incomes as well as the distribution of producer returns, so that each producer would receive the same return for equal quality of product within a given production period. This may be accomplished through more aggressive sales promotion activities such as advertising, generation of more appealing product uses, market differentiation and discrimination, education, maintenance of quality control, refined market planning and research into new markets.