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An annual outlook conference of the U.S. Department of Agriculture (USDA) is in fact a long-term market information service. An important part of my area of responsibility in this Administration is market information services. Therefore, I feel at home participating in Outlook '83.

I think of government marketing services as those services supplied by government for the purpose of improving the efficiency of markets for agricultural products. This is in contrast to market action programs in which government performs marketing functions such as buying, transporting, storing, processing or financing products in market channels. The principal purpose of the seven USDA agencies for which I am responsible is to provide marketing services which are covered by that definition.

It is useful to distinguish between two primary types of marketing services performed by the USDA; those which contribute to market development, and those which contribute to improved market exchange processes. Market development services of the USDA include research and development, educational, and advisory activities designed to enable States, local governments, producers and marketing firms; acting individually or jointly; to be more effective in deciding which market functions to perform and how to perform them. The Office of Transportation (OT) and the Agricultural Cooperative Service (ACS) provide market development services. Other agencies of the USDA also provide one or more market development services as a part of broader research and development, educational, or advisory activities.

Marketing services of the USDA which improve exchange processes consist of activities designed to enhance the ability of individuals and firms trading in a market to negotiate mutually advantageous contracts for the transfer of property rights in agricultural products as they move, stage-by-stage, from the producer to the consumer or other end user. Improved exchange processes improve overall efficiency of the market.

Exchange process improving services may be divided into regulatory and trader information services. A regulatory service sets the parameters by which firms trading in a particular product may perform certain functions. Those parameters provide others who trade in a particular product with improved knowledge about its attributes, about trade practices of the regulated firms, or about competitive conditions in markets in which regulated firms trade. Inspection activities of the Food Safety and Inspection Service (FSIS) and of the Agricultural Marketing Service (AMS) require that products traded by processors of red meats and their products, poultry and their products, and eggs and their products satisfy

wholesomeness standards. Inspection activities of the Animal and Plant Health Inspection Service (APHIS) require that products traded be free from designated diseases and pests. Activities of the Packers and Stockyards Administration (P&SA) impose trade practice and competitive performance requirements on those who trade in livestock, meat, poultry and poultry products. Activities of AMS impose trade practice requirements on handlers of fruits and vegetables. Those are the principal regulatory marketing services of USDA.

A trader information service provides traders of a particular product in a particular locational market with information about value determining attributes of those units of the product being exchanged, or about value determining market conditions. Both types of information assist traders to agree more readily and precisely on terms of exchange which are mutually advantageous. Standardization and grading activities of AMS and Federal Grain Inspection Service (FGIS), weighing activities of FGIS, and market news and warehouse inspection activities of AMS are the principal trader information services of the USDA.

Administration's General Policy on Marketing Services

When initiated, each marketing service now being performed by USDA was generally believed to be a justified government activity. It was also believed that the funding source was appropriate, that the particular service being provided was the best among available alternatives, and that the service was being performed in an effective and efficient way. Since the initiation of those services, there have been major changes in the taxpayer's ability to support government services, in social priorities, in technology available for rendering marketing services, in the effects of different marketing services on market efficiency, and in market incentives for private enterprises to use and to perform marketing services. Therefore, in the past 22 months, the Administration has begun a review of the principal marketing services provided by USDA to determine whether they are justified; and for each which is justified, to determine the appropriate funding source. We have implemented some changes which we considered to be clearly justified.

The principal change which we have made is to move toward a uniform policy of charging users of all grading services and special market news services for full costs associated with rendering those services, and toward a uniform definition of what constitutes full costs. As you would expect, publicity has focused primarily on commodities where special statutes have historically required that those services be made available free.

Relatively little attention has been given the large number of cases in which user fees have always been collected without fanfare and with active cooperation and support from industry.

In general, we have been pleased by progress made in moving toward uniform user fee procedures for all commodities, although there are additional adjustments to be made. We have been particularly pleased by a

predominantly positive attitude on the part of affected commodity interest groups. However, one unwarranted by-product of the publicity engendered by changes in user fee funding has been concern in industry that this Administration has a negative attitude toward marketing service programs. I want to assure you that that is not the case. We do believe that it is incumbent upon us as responsible public servants to pursue a policy which will insure that, in-so-far as possible, each USDA marketing service is a justified government activity, that all marketing services are the best that can be provided, and that all marketing services are performed efficiently.

Policy on Determining Whether a Service Is Justified and How to Fund It

The theoretical conditions which must be met in order for a marketing service to be justified are:

- (1) Total benefits received by all beneficiaries must equal or exceed total costs of rendering the service.
- (2) The service would not be rendered by private entrepreneurs in the absence of the government activity.

The latter condition is imposed because private enterprise is generally more efficient than public enterprise; unless there are special conditions which prevent market incentives from working; and because the existence of a government enterprise which provides a market service may prevent market incentives from working.

Ideally, we would like objective, practical tests for determining whether both those conditions are satisfied for each of the several types of services which I defined earlier. As indicated, we have been using one such test to determine whether grading and special market news services satisfy the condition that total benefits exceed total costs. That test might be called a market survival test. It consists of charging users of a service a fee which is large enough that total revenue exceeds full costs of providing the service, including costs of collecting the fee. If those paying customers continue to buy the service, then it demonstrates that total benefits equal or exceed full costs and, therefore, that the service is justified. This test also has the advantage that an affirmative test simultaneously answers the question of how to fund the service.

Standardization and Grading Services - Our policy is that, as a general rule, Federal grading services are justified only if they satisfy the market survival test. We arrived at this view on the basis of our observation that, in most instances, there are relatively few benefits to the public at large which are not appropriated by an identifiable group of users. We recognize that there are some difficulties in deciding whether administrative, supervisory and support costs should be included in full costs, and in deciding how much of those costs should be charged to a particular service. However, the magnitude of costs which require allocation are usually small relative to total direct costs, and acceptable guides to allocating those costs are available.

Our policy on how to determine whether maintenance of a grade standard is justified and how to fund those activities is more complex. If there are numerous users of a product standard other than a related Federal grading service, or if there is not a Federal grading service, it is not possible to obtain full cost funding for the standardization activity through a user fee. Therefore, if grade standards are to be maintained for such a product, the costs must be partially or totally funded from appropriations. We do believe that in many such instances, benefits to the public at large from maintaining standards in currently useful form do exceed full cost of the services. Therefore, it is our policy to develop an effective review procedure for determining whether the maintenance of standards for each such product is justified, and the extent to which costs might be recovered through a user fee.

In those instances in which the sole or dominant user of standards for a particular commodity or product is a related Federal grading service, it is our policy that costs of maintaining that standard should be included as a part of the direct costs of rendering the grading service. In such instances, the market survival test for the related Federal grading service will also determine whether the standardization service should be continued.

Market News Services - Federal market news is readily and widely dispersed among the public by a variety of private communications systems. Moreover, there is a wide variety of private and State market news sources from which users of Federal market news receive similar information. For these reasons, it is difficult to identify users who receive special benefits from a Federal market news service. Further, if benefitted users were identified, in most instances they are so widely dispersed and benefits to individual recipients are so small that user fee collection costs would be prohibitive. Therefore, it is generally necessary for total costs of a public market news service to be funded from appropriations. The only exception is when a well identified group wishes to receive market news in a form or by a method of communication which differs from forms or methods used for general public dissemination. In those instances, it is our policy to collect a user fee which covers added costs of rendering the special service.

In the absence of a useful market survival test, a more-or-less subjective judgement must be made as to whether particular market news services are justified. It is our policy to work toward the development of evaluation techniques which will assure that decisions to fund are based on an informed judgement.

Regulatory Services - At this time, our policy is to continue essentially full-cost general revenue funding of all USDA regulatory services. There are four distinctly different reasons for this policy. First, benefits are frequently so widely distributed as to make them essentially general public benefits. Second, for many of the services, user fee collection costs would be prohibitive. Third, existing statutes provide for general revenue funding for most other similar Federal regulatory services. Fourth, general public support for the regulatory services is typically strong, reflecting a widely held perception that they are appropriate roles for the Federal Government. That perception is reflected in the mandatory nature of the regulatory services.

We do believe that in the future, careful consideration should be given the possibility that it would be appropriate to finance some of the regulatory services with full-cost user fees. Such would be the case even though the ultimate benefits of a regulation accrued in small individual amounts to a large number of beneficiaries, if individual traders were able to pass a full-cost recovery user fee on through market channels to those beneficiaries, and to do so at a relatively small cost

Market Development Services - The distribution of benefits from market development services is typically such that user fee collection costs would be prohibitive. Therefore, justified services must be funded from appropriations. As in the case with market new services, it is our policy to improve evaluation techniques for market development services so that funding decisions can be based on informed judgement.

Choice of Marketing Services and Performance Efficiency

Costs and benefits from a marketing service depend critically upon the choice of the particular service rendered and the efficiency with which the service is performed. For example, a grading service might pass or fail a market survival test depending upon the points in the market at which the service is offered or upon the standards used, and upon the method used to provide the service. Our Service administrators are aggressively pursuing management techniques which will help to insure that overall program efficiency is promoted in each of the two areas suggested by this example.

We believe that four types of change will be particularly important in maintaining overall efficiency of marketing service programs. The first is amendment or revision of grade standards to better reflect current market structure, market practices, trader and consumer preferences, and commodity or product characteristics. The second is the development, adaptation and adoption of more efficient and effective methods of grading and inspecting products, including instrument grading, instrument inspection, and partial inspection or the regulation of performance standards by sample inspection.

The third type of change is the development, adaptation and adoption of more efficient and more effective methods of acquiring and disseminating market news. The fourth is the development of improved methods of selecting markets to be reported.

A Final Observation

When we shift a grading service from appropriations to user fee funding, the need to survive in the marketplace has a positive effect on attitudes and performance of program personnel. That effect is a clear reminder that a market economy is a marvelous social instrument.