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FORWARD

This forth Agricultural Marketing Conference, as well as the three that preceded it, was designed to look more closely at the problems facing marketing firms.

An attempt has been made to go beyond the day-to-day operating problems and to look at factors that affect decision making by each marketing firm, farmer, and consumer but which are not under the direct control of any of these. The themes of previous conferences illustrate the nature of this educational endeavor. They follow:

"Vertical Integration in Agriculture"

"Lets Look at Our Business Strategy"

"Market Power"

In this year's conference, the theme "Government and Marketing" describes the interest in and perhaps even the concern of farmers and agricultural business firms as to the present as well as the "proper" role of government in marketing. Certainly there is no reason to ignore the fact that the proper role of government is a controversial question but one that will not solve itself. It is hoped that the thought provoking papers presented in this proceedings have helped those present to better understand and interpret the role of government in marketing and to better operate their businesses under the present governmental framework.

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Address by
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at the
Fourth Annual Agricultural Marketing Conference
Ohio State University
March 15, 1962

MARKETING UNDER THE 1962 FARM PROGRAM

It is the purpose of the National Agricultural Advisory Commission to review the policies and administration of farm programs within the jurisdiction of the Department of Agriculture, and such related matters as the Secretary shall determine, and offer its advice to the Secretary. The Commission was established by an Executive Order on July 20, 1953, and now operates under an Executive Order of May 3, 1961.

Provision is made for rotation of membership. Successors are to be appointed for terms of three years. President Kennedy appointed the present members of the NAAC on June 21, 1961, at which time he designated Harry B. Caldwell of North Carolina as chairman of the Commission.

The Commission has been meeting quarterly, beginning July 11, 1962, and has been holding two-day sessions. There is occasional need for the Commission to meet a third day. There are other times when individual members of the Commission serve as a liaison of the Commission on the various commodity committees.

On July 11, at the first meeting of the NAAC, President Kennedy met with the group in the Cabinet Room. He spoke briefly to the Commission and called upon it to undertake its work in serious fashion, mindful of domestic well-being and international relations.

The President counselled a constructive approach and deplored the prevalence of shallow politics and economic nonsense in popular discussion of agricultural matters. The extent of such views tends (a) to confuse the balanced

judgment essential for wise use of our agricultural abundance in satisfaction of basic human needs and (b) to hamper action to advance the interests of farmers in the national economy. He asked that the NAAC put the national interest first and regard agriculture as a great national asset, an asset effective in winning friends abroad and in checking the activities of unfriendly nations.

The President invited straight-from-the-shoulder discussion of two paramount issues:

--- What should the administration do now?

--- What ought to be done in the future?

In these terms the NAAC can meet its responsibility to recommend measures for consideration by the Secretary of Agriculture, which he in turn must accept or reject as a responsible public official.

Above all, the President observed, there is a mutual responsibility to penetrate and resolve the confusion that beclouds thinking and hinders action affecting agricultural affairs.

Secretary Freeman in speaking of the group stressed the need to get public recognition of the accomplishments of agriculture. He further pointed out the challenge which exists to use agricultural abundance constructively in the nation and abroad.

Dr. Williard W. Cochrane, Director of Agricultural Economics, has been the USDA staff officer attending all the meetings of the Commission, and is the representative of the Secretary.

All the resources of the Department are available to the Commission in carrying out its objectives. The Commission has had a number of special subcommittees, one being Public Relations and Information and the other on Goals and Objectives of Agriculture. After these committees prepared their reports and they were accepted, the committees were discharged. At the

October meeting six new committees were set up, each composed of four Commis members and a staff member from the Departme nt. While the Commission has had subcommittees on feed grains, wheat, cotton, dairy, and other commodities, the Secretary has also established many advisory commodity committees. One of my assignments with Claude Wickard of Indiana has been to serve as a representative of the Commission to the Advisory Committee on Feed Grains and Wheat. I have been most interested in these commodities because of their importance in the Midwest.

I should emphasize the fact that the Commission is advisory only and all final decisions are the responsibility of the Administration. Thus after considering information from many sources, the Secretary of Agriculture must advise the President of the United States on legislation that he believes should come before the Congress.

On January 31, 1962 the President of the United States forwarded to the Congress his recommendations for agricultural programs starting with 1963 and subsequent years. These are described in detail in H. R. 10010 and summarized by the Department of Agriculture in the "Digest of Food and Agriculture Act of 1962."

Following is an analysis of the farm legislation, as recommended by the President, with our analysis and recommendations in line with the policies of the Ohio Farm Bureau Federation.

MAJOR PROVISIONS

The Food and Agriculture Act of 1962 deals primarily with the problems of surpluses in feed grains, wheat, and dairy products; and also provides for legislation dealing with the establishment of marketing orders for turkeys. This bill represents a big step in the direction of government control and regulation of agricultural production. The bill calls for quotas on dairy products

feed grains (corn, oats, barley, and sorghum), and on wheat. In the case of feed grains and wheat, quotas are translated into acreage allotments. Controls, before they become effective, would require approval by at least two-thirds of the farmers voting in a referendum proclaimed by the Secretary.

FEED GRAIN AND WHEAT PROGRAMS

The President called for "mandatory acreage allotment" programs on all feed grains (corn, grain sorghum, oats, and barley--with rye included at the discretion of the Secretary).

Marketing quotas (translated into acreage allotments) would be proclaimed for feed grains. Over-quota grain would be subject to cash penalties equal to 65 percent of parity--even if fed on the farm. If farmers rejected marketing quotas in a referendum, there would be no price support programs for feed grains, and the Secretary would be authorized to sell up to 10 million tons of Commodity Credit Corporation feed grain stocks on the market for unrestricted use in a year (presumably in addition to authority to sell grain stocks going out of condition).

Farmers growing less than 25 acres of feed grain could stay out of the quota program and plant up to their base acreages. Such farmers would not be allowed to vote in the referendum. Farmers exceeding their feed grain acreage allotments on one farm would not be eligible for price support on any grain produced on another farm.

Producers would also be required to devote "to conservation uses" an acreage equal to the difference between their acreage allotments for feed grains and their "base period" acreages. The Secretary could permit these diverted acres to be grazed. Payments would be made for diverted acres, and farmers could voluntarily divert an additional 20 percent of their feed grain allotment acres in return for payments. Alternatively, producers could elect to divert,

in addition to the required acreage, such amount as would bring the total acreage diverted to 20 acres.

The wheat program would take effect at the same time as the feed grain program. It would be a three-price program, with two types of marketing certificates (for domestic and export use). The three prices would be high for domestic milling wheat, indefinite for export wheat, and low for feed wheat.

Marketing quotas on wheat would be continued and producers would be required to retire acreage in proportion to the amount the national allotment is reduced below 55 million acres. There would be no price support program if quotas are rejected in a farmer referendum. Instead, the Secretary would be authorized to dump up to 200 million bushels of CCC wheat on the market.

Producers growing less than 15 acres of wheat could stay out of the quota program and plant up to their base acreages. Such farmers would not be allowed to vote in the referendum.

Analysis

The recommendation of the Department of Agriculture for this new legislation does not provide farmers with a realistic alternative in the referendum. If they failed to vote favorably on the feed grain control program, supports would be ended and the government would be authorized to sell 10 million tons per year from its surplus stocks. In addition, in the case of wheat, if farmers turned down the control program in the referendum, they would no longer enjoy price supports and the government would be empowered to sell 200 million bushels of wheat per year from its surplus stocks. These rates of sale for feed grains and for wheat would be sufficient virtually to break the markets for these commodities, both in the United States and in the world. It would result in bankruptcy for large numbers of farmers and for businessmen selling to farmers. How this is sold will be tremendously important to marketing people.

In his message, the President said of these effects: "Four independent studies, by Cornell University, Iowa State University, the Joint Economic Committee of Congress, and the Senate Committee on Agriculture and Forestry, show how sharp would be the drop in farm prices and farm income if farm programs were abandoned. These studies agree that wheat prices would be sliced almost in half, oats prices 25 percent, barley 28 percent, soybeans 38 percent, grain sorghums 22 percent, and dairy 17 percent. Non-price-supported commodities would also suffer. Livestock commodities would drop 24 percent, egg prices 20 percent, cattle prices 25 percent, hogs 30 percent, and broilers and turkeys even lower than this year."

Actually these estimates of the impacts are conservative since they are based on production levels prior to the large increases in productivity of the past two years.

There is strong evidence to indicate that in order to bring effective reduction in surpluses of wheat and feed grains over a five-year period, it will be necessary to make some reduction on each farm. However, it would be a mistake to attempt to control and restrict feed grain and wheat acreage while leaving the door open for planting of as much soybeans and other oil seeds and minor crops as farmers wish. The estimates, as made by the Secretary of Agriculture, indicate that there presently are 17 million acres of land which will be transferred to cropland use in the years ahead. Other estimates indicate that there may be several times this many acres. In either case, severely limiting feed grains and wheat acreage while permitting farmers complete freedom to utilize all these extra acres for soybeans production, with soybean supports at $2.25, could easily result in a soybean crop almost double that of 1961, which in itself exceeded domestic and foreign needs. Acreage reduction on all farms would greatly increase fertilizer rates per acre.

The Act provides that, at the discretion of the Secretary, commercial feed or commercial wheat areas may be established. "The commercial area shall be proclaimed at the time the national quota is proclaimed.... and such national marketing quotas shall not be in effect with respect to feed grains (or wheat when appropriate) produced outside the commercial area." In addition the Act provides for a minimum of 25 acres of feed grains and 15 acres of wheat, below which farmers will not be required to make any reductions below their base acreages to achieve the adjustment of supply to existing marketing requirements. These two features together will tend to push feed grains and wheat out of areas of greatest efficiency, the areas in which production presently is concentrated, and into the marginal areas where, under the program, production restrictions will be less stringent or entirely non-existent. For greatest efficiency and fairness, a program of controls such as this, if it is to be applied, should be applied to all farmers who raise the commodity regardless of their volume of production.

In general, the program of strict controls of output is likely to restrict the adoption of improved technology and to place American agriculture at a disadvantage relative to agriculture in the remainder of the world. A comparison of the controlled commodities and the commodities not presently being controlled in the United States provided some evidence of the relative impacts of controls on efficiency of production here, relative to other countries. In general, those commodities with strictest controls are least able to compete freely in world markets. This is particularly true in commodities where controls came early and have prevented achievement of economies of scale or adoption of labor-saving technology. What would be the productive efficiency of United States corn production, compared with the present, if we had embarked on a program of strict controls in the early thirties? Adoption of improved technology

would have come much more slowly, farm size would have been much smaller, and there would have been more farmers and more farm labor but less output. This would have resulted in an economic disadvantage both to consumers and to farmers.

Recommendations for Amendment

(a) It is essential that along with feed grains and wheat for feed purposes, also should be included oil seeds, particularly soybeans, and other minor crops which might compete with, or be substitutes for, feed grains;

(b) that the referendum, when it is submitted to the farmer, spells out in detail the period during which the controls would be in effect (for example, five years) and the a manner by which, after the period of adjustment, either a return will be made to the market place without controls, or any extension of this program would be re-submitted to farmers for referendum covering such extension;

(c) that farmers should be given realistic alternatives in any referendum on controls;

(d) that the minimum acreage exemption for both wheat and feed grains be eliminated (or greatly reduced), thereby providing that all farmers (or essentially all farmers) will participate in the referendum and in the acreage reductions if the referendum passes;

(e) that the country not be divided into commercial and non-commercial areas with restrictions only applying to commercial areas for any crop;

(f) that each farmer be permitted to use up to five acres of his diverted acreage for hay or pasture in lieu of acceptance of payments;

(g) that no grazing of diverted acres be permitted other than that on the five acres, as outlined in Item (f);

(h) that financing for this program come primarily from sale of surplus wheat and feed grains;

(i) that payment for diverted acres be set at a level equal to approximately 35 percent of the average value of production on such acres;

(j) that price supports be held at 1961 levels, except that the system of wheat pricing, as outlined in the Food and Agriculture Act of 1962, be used.

DAIRY PRODUCTS

The proposed legislation would establish a marketing base for each producer. The producer's yearly allotment would be a percentage of his base.

Any producer exceeding his marketing allotment would be required to pay a surplus marketing fee. This fee could be as high as $2.75 per hundredweight, at the discretion of the Secretary of Agriculture.

If milk producers vote down the control program in a referendum, government price support purchases would be limited to $300million per year. If producers accept quotas, prices will be maintained at high levels by purchases plus control of output.

The President recommended that producer allotments or quotas be authorized in federal order markets.

Analysis

For dairy products, the alternative to failure to approve quotas is not as drastic as for wheat and feed grains. Not only are there no threats of large sales of surplus dairy products in the market, but the Secretary of Agriculture would be authorized to spend up to $300 million per year to buy up surplus stocks of dairy products. This, taken along with the decline in feed prices, which would accompany failure of farmers to vote for feed grain quotas, probably would leave dairy farmers well off relative to other farmers.

Prior to 1961 there was a reasonably good balance between supply and demand, but in 1961 the Secretary raised the support prices of milk to $3.40 per hundredweight. Production jumped 2 billion pounds and consumption declined by approximately 3 billion pounds. The government suddenly found itself buying up large amounts of manufactured dairy products to support prices. A solution

suggested is controls to reduce production. A small reduction in price support levels might be just as effective in reducing output in the same way that a small increase in price supports results in increased production. However, the major part of the problem stems from the decline in consumption. There doesn't appear to be much effort being made to increase sales of dairy products either at home or abroad, or to do something about the real causes of the decline in consumption. In many foreign countries almost no dairy products are consumed. Restricting supply and government-sponsored monopoly pricing of dairy products could do the same here.

There are other evidences that farmers can and do react to price and adjust production in the free market place.[1/]

The problem of achieving effective increases in incomes of farmers without capitalizing this into a purely artificial certificate value is one of the major obstacles to using this type of program. Suggested quotas or marketing certificates (rights to sell), if they are simply placed in the market place, would be bid up to levels which would quickly negate any increases in income derived from higher prices and artificial product scarcity. Better farmers would bid marketing certificates up to the point where they would represent essentially the full differential between the artificially higher prices and the other costs of production of efficient producers. These certificates then become a regular production cost item of new farmers or farmers wanting to expand output. These artificial costs would make it particularly difficult for small farmers seeking to expand, for the farmer starting up, or any farmer seeking to sell in foreign markets.

1/ For example, a few months ago there was a great deal of concern over the large supplies of broilers and turkeys which resulted in extremely low prices and unprofitable farm operations. Since then, in reaction to the low prices, without government control, growers have reduced production of broilers to levels which will once more make production profitable, and indicate their intentions of making similar reductions in turkey production.

That the marketing certificates will have an artificial value is evident from the text of the Act: "The Secretary may utilize funds available for purchase or loans on dairy products under the price support program to purchase and cancel bases offered voluntarily for sale by producers..." This might be big business for someone.

Apparently the Secretary will be authorized to use available funds to make loans for farmers to cover costs of purchasing certificates, costs which do not now exist. As succeeding generations start farming, dairy prices will have to be progressively higher to cover increasing certificate costs, if the objectives of income and return on investment (including the compounded costs of certificates) equal to those in non-farm section are even to be approached. For example, with efficient producers able to produce milk for under $3 per hundredweight, manufactured milk supports now at $3.40, and fluid milk prices much higher, negotiable certificates will have a minimum value of 40 cents per hundredweight. Farmers will receive paper profit of hundreds of millions or even billions of dollars on economically worthless marketing certificates which become the new producer's costs. The Secretary will have arbitrary authority to decide how these certificates will be allocated and transferred. Inter-farm and inter-regional production shifts, for example, to urban areas will be at the discretion of the Secretary.

"Sec. 436. A producer may, to such extent and subject to such terms and conditions as the Secretary may prescribe, transfer his marketing base, or any part thereof, to any other producer or prospective new producer who agrees to utilize such base for the disposition in commercial channels of milk, butterfat, or dairy products, produced in the same state as that in which the transferor engaged in production, or any state adjacent thereto, or in such other state or area as the Secretary may authorize."

With high certificate prices on milk, it will be to the advantage of many dairy producers to sell their certificates, collect the fees each month, and go into beef or hog production in competition with present producers, thereby injuring the market of livestock producers.

Recommendations for Amendment

(a) that instead of the proposed program for marketing quotas or other controls on dairying, as outlined in the Act, the basic causes of the large increase in production and drop in consumption be determined quickly, and that an effective program to stimulate the demand for milk at home and abroad be activated;

(b) that if price adjustments are necessary, these be made;

(c) that in no case should any system of marketing controls or quotas be tied to the present program of fluid milk marketing orders, nor should anything be done which would impair the effectiveness of the present fluid milk marketing orders.

LAND ADJUSTMENT PROGRAM

The President said he will soon send Congress a special message "devoted to proposals for the maximum utilization of our land resources."

The Food and Agriculture Act of 1962 is the first part of a broad program which the administration has suggested for agriculture, covering many years ahead. In addition to specific commodity by commodity "supply management plans," the Department of Agriculture and the Administration apparently plan a major program of land use adjustment which will have as its objective taking out of cultivation much of the erosive land now being cropped and transferring it to less intensive uses, such as pasture, forests, and recreation.

In his farm message he requested amendment of the Soil Conservation and Domestic Allotment Act to expand the Agricultural Conservation Payments Program to include payments for changes in land use.

He also asked for:

(a) Amendment of the Bankhead-Jones Farm Tenant Act to permit federal purchase of land for recreational development and wildlife protection.

(b) Amendment of the Watershed Protection and Flood Prevention Act to permit USDA to share in the cost of land acquired by local organizations for fish, wildlife, or recreational development.

(c) Expansion of the authority of the Farmers Home Administration to make loans to farmers for recreational enterprises.

In his message to Congress, the President estimated that by 1980 we will need 50 million fewer acres than we have today. The objective of the land use plan is to insure that the major part of the reduction in crop acreage will come from land which is being eroded away. Land of this quality generally doesn't provide an adequate return to farm families in intensive crop use. This particular part of the program is much needed. The major objections to this is that the early plans of the Department are much too limited. For example, early plans call for only 400 thousand acres to be taken out the first year and a like amount the second year, with this ultimately being stepped up to 68 million acres by 1980, for a net cropland reduction of 51 million acres. An accelerated program could be used in conjunction with a program of retirement of whole farms as a major method of reducing production of surplus commodities. Evidence of past research indicates that whole farm retirement on a bid basis is highly effective and efficient in achieving desirable long-run adjustment of both land and labor used in farming.

In the interest of achieving an effective solution with a minimum of hardship and loss of freedom for farmers, it would be more desirable for 1963 to start this program off with retirement of 30 to 35 million additional acres of cropland on a whole farm bid basis, with the emphasis on the marginal lands. A large part of this 35 million acres ultimately then could be permanently adjusted out of agriculture. However, for acreages which were of such quality that they might ultimately be returned to cropping, the return could be made as offsetting amounts of permanent adjustments of cropland were made.

Recommendations

(a) That under the Conservation and Land Use Program, amendment be made to provide for retirement of whole farms on a bid basis, starting in 1963 at a level of approximately 30 million acres on a long-term rental or purchase basis;

(b) that emphasis be on retirement of erosive and otherwise marginal land;

(c) that as this land or land presently in the Conservation Reserve Program be returned to cultivation, the production of this land be offset by retirement of erosive lands either to less intensive agricultural uses or to non-agricultural uses, similar to the outline contained in the Act and the Secretary's statement of January 30, 1962.

ECONOMIC DEVELOPMENT FOR RURAL PEOPLE

Another phase of the Department's long-range program, the program for economic development for rural people, like the land retirement program is long overdue. The really major problem of low income of farm families results from the excess supply of labor on the farm. More specifically it stems from the large number of small uneconomic farm units engaged in agriculture, most of which are family units. This excess, it is recognized, results primarily

from the rapid adoption of labor-saving and production-increasing technology. It is difficult to bring a major increase in aggregate net farm income without special attention to labor adjustment; but if the rate of off-farm migration can be accelerated, a major improvement in the average farm income of families remaining on the farm can be achieved.

This part of the Administration's proposals should be given major emphasis. Emphasis should not be on individual loans, as the Act suggests. Subsistence payments or other forms of direct assistance for retraining would be much more effective in achieving the rate of adjustment needed. Emphasis should be placed on direct assistance in providing educational facilities and relocation assistance without expectation of later repayment. Actually, as these people move into better and higher-paying jobs, the repayment to the Treasury would be made through increases in payments of income taxes. Local businessmen could expect that in some areas the farm business would decline and the non-farm business would increase.

For more details on these two programs, see "Food and Agriculture, a Program of the 1960's," by Orville L. Freeman, Secretary of Agriculture, January 30, 1962, pages 6 to 19.

Recommendations

(a) That the program of economic development for rural people, as outlined in the Secretary's statement, be activated on a large scale to provide opportunities for rural people equal to those available to urban people;

(b) particular emphasis should be placed on programs for retraining, relocation and finding jobs, and efforts to achieve greater industrial and commercial development of rural areas, making use of both human and physical resources in rural areas;

(c) that this be operated in conjunction with and in close coordination with the program of retirement of whole farms.

OTHER POINTS

The President proposed changes in Public Law 480 (originally known as the Agricultural Trade Development Act) which would change its original purpose as a surplus disposal measure. It would become more of a world-wide relief law.

One proposed amendment to P. L. 480 would permit donations of commodities such as dried beans and peas --which currently are not in the Commodity Credit Corporation's inventory. The implication of this is that such action would be taken as necessary to create extra supplies of such agricultural commodities as the President desires for use in this program.

A more far-reaching amendment would authorize the President to "negotiate and carry out agreements" to promote "multinational"programs for food assistance "with international organizations and intergovernmental groupings."

This amendment would presumably permit U. S. participation in programs through which U. S. farm surpluses would be distributed through the United Nations (in programs such as SUNFED--the Special United Nations Fund for Economic Development) or a World Food Bank.

After covering the subject of donations of food at home and abroad, the President outlined several new commodity programs which he asked Congress to adopt.

Recommendations

(a) That the use of commodities not now in CCC inventory should not be handled through P. L. 480 or in such a way as to create new surpluses;

(b) that surplus food program as a part of foreign economic development should be handled by the U. S. government rather than the United Nations.

GOALS AND OBJECTIVES

The goals and objectives implied in the Administration's Agricultural Program, outlined in the Food and Agriculture Act of 1962, are similar but not in complete agreement with the goals and objectives adopted by the Ohio Farm Bureau Federation, as set forth in their policy recommendations and adopted by the Delegate Body.

"A Cropland Adjustment Program was adopted by the delegates to the 43rd annual meeting of the Ohio Farm Bureau Federation on November 15, 1961. Its aim is (1) to maintain and improve farm income; (2) to reduce our agricultural surpluses; and (3) to reduce government costs. The ultimate aim of this program is to help farmers balance supply and demand and eliminate the need for many of the present controls as well as to permit a return to the market place where farmers would be able to obtain prices comparable to the cost of things they buy."

The real difference between the Administration's program and the recommendations of the Ohio Farm Bureau Federation delegates lies in this ultimate aim. It is the objective of the Ohio farmers to return farming to the market place as rapidly as this is possible and to minimize further government activity in farming. In contrast with this position, the Food and Agriculture Act of 1962 calls for controls. The Administration has indicated by this and other statements the belief that permanent controls on agricultural output (called supply management) are necessary and desirable and the goal of the Administration.

The Ohio Farm Bureau Federation delegates outlined a program to accomplish the following objectives quickly, efficiently, and with a minimum of government control:

(a) In less than five years eliminate surpluses of feed grains and wheat, the major surplus items;

(b) Cut government costs by $700 million to $1, 200 million the first year, and more in succeeding years;

(c) Provide needed long-range adjustment in labor and land used in agriculture;

(d) Return agriculture to the market place without a large amount of government participation.

Essentially these same objectives can be accomplished by the amendments to the Food and Agriculture Act of 1962, recommended above.

Recommendations of the Ohio Farm Bureau Federation are based on methods proven by past actual experience and ample research results to be feasible, practical, and efficient in accomplishing these objectives.

The Administration farm bills (H.R. 10010 and S. 2786) are now being considered by the House and Senate Agriculture Committees. Chairman Cooley of the House Agriculture Committee has indicated that he will hold hearings soon on the American Farm Bureau Cropland Adjustment Program bills.

The program of the American Farm Bureau and the Ohio Farm Bureau are quite similar. For example: (1) The Ohio program would provide for a five-year adjustment period during which both a voluntary and a compulsory program would be used to bring supplies of feed grains and wheat into balance with consumption. The American plan would depend entirely on a voluntary program; (2) The Ohio plan would permit supplies of CCC stocks to sell at a percent of parity, which would permit the government to reduce the CCC stocks and use them to pay for the program. The American plan would not permit the sale of CCC stocks below 115 percent of parity; (3) The Ohio program would also maintain the price supports at approximately the 1961 levels. The American plan would have price supports based on a percent of the preceding three-year average, which would result in a moderate lowering of price supports.

It is unfortunate that major farm organizations and the Administration could not have resolved some, if not all, of their differences before going to

the Congress. Much could have been accomplished in this area without a surrender of principle on the part of anyone. This was not done and, as a result, agriculture is divided and the outcome of farm legislation in this Session is uncertain.

Some are saying that Congress may not take any action since we have an election in November. If Congress takes no action, that does not mean we will not have a program. If no action is taken, the program in effect in 1960 would be resumed in 1963. This would mean unrestricted production of corn at fixed price support levels. The price support rate for corn would be at 90% of the average price received by farmers during the preceding three years, but at a rate not less than 65% of parity. A grower with an allotment for grain sorghum, barley, oats, or rye could comply with that allotment and at the same time increase his corn acreage to whatever amount he chose.

For price support eligibility, the Secretary would have authority to require compliance with acreage allotments (except corn) production controls and marketing practices. Price supports could be set at rates determined by the Secretary to be fair and reasonable in relation to the support on corn.

Roy F. Hendrickson, with the National Federation of Grain Cooperatives, makes the following statements regarding the bill:

"Secretary Freeman is sincere, earnest, full of facts, humble. They like him, don't question him or argue much. But he can't sell his elixir - tough supply controls to be voted by farmers who would have the choice between that or no price supports and liquidation of inventories by CCC. Most members of the committees sense some tough logic but no political appeal in this rugged regimen. .... you get the feeling that what Freeman proposed, backed by a President evidently fed to the teeth with high farm costs, is largely academic. So there is a relaxed attitude as he talks on with the earnestness of an Eagle Scout.

It is still a kind of a stalemate, out of which will come a compromise that will perpetuate the status quo a little longer, modified in details..... So the time of final decision has not come. .... No one is satisfied with the present farm program, but no one has come up with a better one that can win broad-scale support. There will be changes, but the really big ones are not in sight at this session of Congress."

The National Council of Farmer Cooperatives, testifying before the House Agriculture Committee on H.R. 10010, said, "The approach of the proposed program is aimed at creating an economic climate in which farmers can hope to earn higher incomes through the market system. This would be done by seeking to balance production with needs for agricultural commodities... In such a climate farmers will be able to strengthen their economic bargaining power and thus retain some of the rewards of their rising productivity. ... It seems to us imperative that a minimum gauge of effectiveness must rest on a reversal of the trend toward ever-mounting surpluses... ... a long-range transfer of excess resources out of agriculture is urgently needed because there is almost universal agreement that the growing imbalance between agricultural output and demand, domestic and foreign, for these products is caused by too many resources in the agricultural production plant."

There is a very hopeful note in the testimony of the National Council. It is difficult at this time to make any specific prediction as to what will happen. I will make the general prediction that Congress will modify the present administration bills by eliminating that part referring to quotas on dairy production, change the feed grain and wheat parts of the bill to provide the farmer a more realistic alternative in any referendum, and provide that any compulsory land retirement would be for a specified period of time only.

The financing of the program should come primarily from the sale of surplus wheat and feed grains. A provision should be made to retire whole farms on a bid basis of from 30 to 35 million acres in addition to the approximately 28 million acres now retired. This program would be similar to the Conservation Reserve that was in effect from 1956 to 1959.

What are the implications in the Food and Agriculture Act of 1962 for marketing people?

The implications are many and I assume that the panel which follows will take the responsibility for bringing them to our attention.

What will the use of marketing certificates for wheat mean to the grain manager? How will the imposition of strict dairy production quotas effect the marketing of milk? If farmers vote against the Administration bill in a referendum, what will be the effect of dumping 10 million tons of feed grains and 200 million bushel of wheat on the market annually?

Are the acreage limitations proposed on grain production likely to cause a shift in production to southern states and to what extent would livestock production go with it? I refer particularly to those provisions for exemptions of farmers with below 25 acres of feed grain and non-commercial growing areas. If feed grain moves south, would processing plants tend also to move to the south? -- would livestock, poultry, and dairy move south?

Indications are that a city like Los Angeles in California, with rapidly increasing population, will need increased amounts of fluid milk. Will Wisconsin under the quota system continue to be chiefly a manufacturing milk state, or will its milk producers produce milk needed in California rather than the California producers? Will fluid milk be shipped to California from Wisconsin?

Senator Proxmire of Wisconsin would like to make sure that if we have milk quotas they will not be transferred to California, and that Wisconsin will supply California with its fluid milk.

Is the Administration program consistent with an expanded foreign trade for agriculture?

Will it hinder or help the President in dealing for trade concessions with the rapidly growing European Economic Community?

CONCLUSION

We have already stated what amendments we think should be made to the Administration bills in order to enable the legislation to best serve the needs of the United States and the people of the world. We believe the recommended changes would increase the income of the Ohio farmer, reduce government agricultural surpluses, cut government costs, and enable American agriculture to continue to increase its efficiency of production and compete successfully in the markets of the world.

NEW DAIRY LEGISLATION

For the dairy industry it appears rather obvious that supply is not in balance with demand at todays support prices. This means that the industry is faced with a choice of alternatives to correct this situation. These alternatives are:

1. Lower or remove support prices
2. Supply control
3. Market development
4. Combination of the above

It is likely that programs will be developed and proposed in all four of these areas. It is essential that the various segments of the industry understand these alternatives in order to make intelligent choices.

In the short run it is likely that the support price will drop to approximately $3.10 per hundredweight on April 1, 1962. To those in the industry and with inventory on hand, the risk of holding it is quite high.

From the longer run point of view the problems confronting the dairy industry are extremely bothersome especially in light of their cost to the general public. Expenditures during the past year for dairy support amounted to approximately $500,000,000.00. It is unlikely that such expenditures can continue to be made for a single commodity without some assurance of future improvements. For this reason there is today intense interest in programs for market expansion or supply control.

Most controversy surrounds the various proposals for supply control. The very nature of legislation of this type has not been popular with most agricultural people. It is also a fact that the functions of many institutions would change materially if some of the proposals were adopted. For example, there is a proposal to set up the supply control regulations under the federal order system. If this were done then certainly the basic aims and objectives of the order program would need to be changed. Today orders are adopted in markets as a means of obtaining orderly marketing while under these new proposals, orders would become price support measures. As a price support measure new standards for pricing would need to be adopted.

Another oft- discussed problem associated with supply control refers to the logistics. Should such programs be proposed and adopted on a local, regional or national market basis? With the extensive movement of milk between markets today, the local market approach would likely be difficult to administer. On the other hand with the extreme variations in market supplies, it would be most difficult to maintain equity among producers selling to these markets. For example, in a deficit market a producer might find himself paying a penalty of $2.75 on milk that would be needed in the market.

For the dairy industry such proposals as land retirement can also be quite significant. If such a program were adopted it is likely to affect adversely the supply of milk in Ohio that would be available for manufacturing purposes. Much of this milk is currently being produced on farms located in areas where land retirement would probably be encouraged.

Whatever the program that is finally adopted, care must be exercised for the interests of the general public. Any program that might result

in significantly higher prices to consumers needs to be viewed with caution. The demand for dairy products has not been holding and the rash of new substitute products are likely to gain a firm foothold unless prices can be held at a competitive level. Returns to producers can be affected as much by a shrinking demand as by an oversupply.

These are but a few of the issues facing the dairy industry today. None of these are insurmountable but they do require understanding. Decisions on a number of these issues finally have to be made especially considering the nature of the problem and the interests of the dairy industry and the general public.

GOVERNMENT IN FRUIT AND VEGETABLE MARKETING

Edwin J. Royer

Historically, there has been less direct government involvement in marketing in the fruits and vegetable industry than with other segments of agriculture.

Fruit and vegetable producers until now have been able to handle the marketing of their crops in a profitable and orderly manner, with only a few exceptions. Following World War II, a price support program was in effect for potatoes. Occasionally when a commodity has been in excess supply, some diversion purchases by the federal government have been made. This was true for stored winter cabbage in 1959 and has occurred with potatoes in several areas (but not in Ohio) in recent years. Last fall, the federal government purchased applesauce for the school lunch program for the first time.

Marketing agreement and order programs as authorized by the Agricultural Marketing Agreement Act of 1937 plus subsequent amendments have been used to provide more orderly marketing for certain commodities and areas. Currently, there are forty marketing orders in effect in the U.S. for twenty-six separate fruits and vegetables. Ohio has never been included in any marketing agreement or order program, primarily because Ohio is a deficit producer for every major fruit or vegetable grown within the state, with the possible exception of greenhouse tomatoes.

Presently, hearings are being held for potato growers to consider a national potato marketing agreement and order. This is the first fruit or vegetable commodity to be affected by an order on a

national basis. Until the passage of the 1961 Agricultural Adjustment Act, the areas to be covered by this type of program was interpreted to be the smallest region or practicable producing area. It is now possible for marketing agreement and order programs to be applied to the entire nation.

An interesting feature of the proposed national potato marketing order and agreement is that it provides for volume marketing allotments which in practice will be about the same thing as marketing quotas. If a referendum is held and is favored by two-thirds of those voting or two-thirds of the production volume voted, a marketing allotment can be made for each individual grower. The proposal in the case of potatoes would be for allotments based on a historical production period using the average of the highest two out of three years preceding the current marketing year, but excluding the year 1962 for all calculations. This is a significant change from marketing orders currently in effect. In all previous orders, the amount an individual could market was based on the current year's production and was not calculated from a historical production period.

Since Ohio has a large population, is a deficit fruit and vegetable production area, and has transportational advantages due to the location of consumers, it might be logically inferred that Ohio fruit and vegetable producers would gain less than many other states from a national marketing program for any fruit or vegetable. It is quite possible that outlets for Ohio grown fruits and vegetables may be restricted by regulations contained in national marketing orders and agreements.

IMPLICATIONS OF NEW PROGRAMS FOR OHIO MARKETING MANAGERS SYMPOSIUM

General

Mervin G. Smith

First of all, I think we need a farm program. We need good farm policies. I say this first because when one critizes some points of farm programs, it is sometimes interpreted that we are against all farm programs.

My part on this program is to emphasize some general points for consideration in farm policies:

1. We must give much more consideration in farm programs to the effects on foreign relations and foreign trade. In fact, some time in the future we must coordinate our farm policies with those policies of other nations. We must be concerned about this immediately in connection with the European Common Market. Unless we keep our agriculture efficient and competitive pricewise, both our foreign trade and our foreign relations will suffer. This is crucial in the next few years as we attempt to coordinate policies with the European countries which are the most important clients for our agricultural exports.

2. We have not given enough attention to the adjustment of resources in agriculture. Our emphasis has been more on prices. The labor or human resource has been neglected and the supreme goal of our policy is for the benefit of the human being. More recently there is some evidence of interest particularly in the adjustment of the land resource and some on the human resource. Here again we are misinterpreted when we say that we need less human resources in agriculture.

I do not believe that anyone should be kicked out of agriculture. No one should move out unless his situation is improved by doing so.

3. Not enough emphasis is given to efficiency and flexibility in agriculture in our farm programs. If anything, some people imply that we already are too efficient. I think we are likely to lull ourselves into complacency and weaken our whole competitive system and productivity in this country compared with the Communist countries unless we still emphasize efficiency and flexibility in our whole agricultural organization. For example, I think it would be a mistake to slow down the shifts in resources between farms or the shifts in the type of farming from one region to another which must take place as progress in technology is made. Some of our programs tend to slow this down or almost prevent these adjustments that are almost inevitable.

4. Some programs are being proposed without knowing or analyzing the full consequences of such programs or the problems which would be confronted with administering these programs. For example, I do not believe a very good analysis has been made on the costs and problems of administration which would be encountered with national marketing quotas. We should be able to anticipate and solve many of these problems before we go too far in deciding this method or policy.

5. Not enough attention has been given to the value and effect of farm programs in the long run. Most of the evaluation of programs and the decisions made in regard to them seem to me to have been made from a very short run, and perhaps narrow, viewpoint. The long-run effect of such programs may be more important than the short run. In the long run the whole structure of agriculture can be influenced and this could influence the whole position of agriculture in this country as well as

the whole economy of this country in relation to other world powers.

6. More research analysis needs to be made of all farm programs and proposals. Likewise, much more economic education needs to be conducted on them. With all the interest that we have had in the farm program it is really surprising that we have had such a small amount of research on them. We need, and can have, improved farm programs with much more research and analysis of programs and much more educational work on the principles involved.

FREE VS. CONTROLLED MARKETS FOR AGRICULTURE*

Max E. Brunk
Professor of Marketing
Cornell University

Everyone today is looking for more market power. It is a dynamic subject among businessmen, labor unions and farmers alike. Within agriculture it's the style --- everyone is for it --- it is one issue on which all farm organizations can agree. Market power implies a degree of industry control over price and it is assumed, with a certain amount of naivete, that higher price means higher income. Certainly after 30 years of experience we should know the folly of attempting scarcity pricing in an atmosphere of abundance. True market power lies in controlling the factors affecting price and not in manipulating price itself.

Now the title of my talk implies that I am going to extol the virtues of a free market versus a controlled market. It can be argued that there is no greater market power than that derived from a free market. There is an abundance of evidence that the free market brings about needed adjustments in resources applied to agriculture more effectively and quickly than any other scheme yet devised by man. Indeed few of you would disagree that the most effective cure for 10-cent hogs or dollar-a-bushel apples is 10-cent hogs and dollar apples. While I might argue that the free market is no more brutal than the slow death cures of a politically controlled economy, many of us are unwilling to effect a cure by killing off the weakest patients. Instead we are much more inclined to accept a partial cure and even to some extent live with the after-effects of a partial remedy. But the choice of low prices or controlled markets is not the only alternative facing American agriculture although our actions during recent generations would seem to so indicate.

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* Fourth Annual Agricultural Marketing Conference at Columbus, Ohio on March 15, 1962.

I shall argue that this is a false dichotomy for either extreme is unrealistic in agriculture today. I shall argue that certain types of controls are essential to orderly marketing while others are inconsistent. I shall also be concerned with who should have the responsibility of these so-called controls --- agriculture or government.

Certainly it doesn't take much of an analyst in looking at the present workings of our economy to conclude that farmers have little voice in determining the prices they receive for their products. In fact the control farmers have over price or the factors affecting price is so remote that one can openly advocate many forms of monopolistic action in agriculture without fear of criticism. Even on the buying side farmers pay quoted prices. True they may argue about the price of feed or fertilizer. They may even haggle a bit over the price of a new tractor, but in the final analysis they pay quoted prices. This lack of power over price, either buying or selling, does not exist to the same degree in any other major sector of our economy.

To a greater degree industry sets the prices at which its products will be sold. Industry even exercises extensive power over the prices of its raw products. Labor goes a long way in stipulating the wages it receives and effectively uses market power to force many fringe benefits. Now I will be the first to admit that things always look greener on the other side of the fence -- that there is a tendency to overvalue the accomplishments of industry and labor in commanding desired prices. Labor or industry commands no more of a secret weapon than agriculture in forcing its product on the consumer but it is true that industry and labor have been able to exercise a greater degree of supply management than our highly decentralized agriculture. The degree of supply management seems to be related to the level of concentration or organization.

Broadly speaking, market power is sought in many ways, but chiefly it is acquired by means of manipulating supply and demand through the instrument of organization. Such organization may take many forms. It may vary all the way from government created monopolies to informal groups of voluntary members. At any one time within a given industry there may exist a number of independent structures all directed at the attainment of greater market power. They all seek to enhance economic returns for their principals.

While it is true that agriculture has used this means to gain market power it has not been highly successful in reaching its objectives for a number of basic reasons. These I need not belabor before an audience of well informed agricultural leaders and market operators. Nevertheless the failures of agriculture to establish a reasonable degree of market power voluntarily, has led to all sorts of government programs designed to do for farmers what they have been unable to do for themselves. But there is a vast difference in the effects of market power established by industry or government. The former entails a responsibility which the latter does not. With industry control, price concepts are quickly translated into value or income concepts while with government control price concepts reign supreme. Under entrepreneurial control the principals making a decision must bear the financial responsibility of the results, be they good or bad. Their only alternative is to respond to the dictates of consumers. But under government control, payments are made to farmers for services rendered to government -- not to the market. In a sense considerations of consumption are made subservient to production.

It is important to recognize that any industry which exerts a high degree of internal control over either production or distribution also exercises a degree of monopolistic power which runs counter to true concepts of a free market. But so long as the pricing mechanism is left free the taskmaster is

the consumer and every market manipulation that yields rewards is based on this consideration. When this responsibility is removed through the instrument of government subsidy programs we begin to lose market perspective. The channels of communication between producer and consumer become garbled with the static of political issues. We begin to seek expedient solutions as well as solutions designed to remedy the after-effects of preceding programs. We soon find ourselves subscribing to actions which ignore or have little relevance to the dictates of the market taskmaster -- the consumer.

Implicit in the workings of a competitive economy is an equality of bargaining power among buyers and sellers. The ability to exercise control over supply, demand or cost depends greatly on the level and effectiveness of the organizational structure attained within a given industry. When competitive advantage is gained by any one group, we see upward or downward pressures on price depending on whether that group is buyer or seller. This results in organizational counter-measures by the group which has lost relative power. This is the position in which agriculture finds itself today -- a position of trying to build an integrated series of organizational counter-measures.

The effectiveness of this effort will depend on the ability of agriculture and its free market agents to identify common goals, to achieve concerted action and to establish a well balanced mix of marketing activities. In identifying goals it is important for agriculture never to lose sight of the fact that it can maximize income in the long run only by producing products needed and wanted in the marketplace. No other goal can be consistent with the philosophy on which our economy is structured. The injection of government subsidy into the picture makes it increasingly difficult for both farmers and market agents to respond to the dictates of the consumer. The pricing mechanism, which is the communication line between consumer and producer, becomes confused

with other considerations. But government programs are not the only forces of distortion. Farmers themselves often fall into the trap of thinking that consumers should buy those products which farmers like to produce. The graveyard is full of farmer cooperatives which have tried to sell what their members want to produce rather than what the market wants. The very same farmers who have trouble understanding why such cooperatives fail will join a purchasing cooperative and insist that it buys what they want rather than what industry wants to sell. Fortunately private market operators provide effective competition for such efforts so that such production oriented farmer cooperatives face the alternative of failing or becoming market oriented.

Government can be of its greatest service to agriculture in helping to establish a favorable atmosphere for effective organizational structures needed in a well balanced marketing mix. In a world of big business characterized by large scale buying and concentration of processing, handling and distribution, farmers recognize they can do little to manipulate supply or demand or effect operational efficiencies without collective action of some kind. Past efforts in some cases has led to outright government programs designed to maintain or raise prices and in other cases it has led to the formation of larger scale purchasing and sales organizations as well as farmer controlled bargaining associations. Increasing interest has developed in these latter types of organization because the prices generated under past attempts to artificially manipulate prices have not produced desired results. There has been dissatisfaction with existing farm programs which some consider inadequate, ineffective or undesirable. There is also a preference by some farmers for private action over government action. Unfortunately a philosophy has developed that any specific effort to give farmers greater market power is either a clear cut government program or a clear cut industry program. In reality many

effective structures can be established only by the concerted action of agriculture and government.

The past century has witnessed numerous attempts on the part of farmers to organize large-scale cooperatives or associations in an effort to counter the market power of meat packers, milk distributors, processors and handlers. You are well acquainted with the ambitious Sapiro movement of the 1920's which resulted in the formation of national livestock, tobacco, and grain cooperatives. Within a few years these organizations collapsed simply because they could not prevent their members from selling outside the organization despite "iron-clad" contracts. Loyal members simply found that they could not afford to hold the price umbrella over non-members and there was no instrument by which compliance could be forced on non-members.

On the other hand, with market orders this fundamental weakness is recognized in that orders are binding on all producers when a substantial majority vote to use this device. Thus government action facilitated and indeed made practical the use of market orders as producer-controlled programs. But now we are witnessing a shift in power even with this instrument so that it too is threatened to be laden with political considerations not consistent with the basic goal of agriculture -- the philosophy of a market oriented economy.

Admittedly, I have oversimplified the picture. Organizational structure per se on the seller's part is not the only way of offsetting the market power of organizational structures created by buyers. In many instances organized buying power might be wholly or partially offset by greater productive efficiency of the individual. There can be little doubt but that this is what has been taking place in agriculture. But there is rather strong evidence that the gains in efficiency by many producers have not been great enough to offset the market power which the buyer has acquired through organizational structure.

When there is trouble there must always be a scapegoat who generally gets the blame for a lot more trouble than he creates. It hasn't been many years since farmers thought they could solve their marketing problems through the instrument of rigid grading standards. Periodically someone jumps on the open exchanges and the speculator. Today the whipping boy is the large scale centralized buyer. Personally I believe there is a very decided risk of overemphasizing the amount of market power which buyers have acquired. Yet I think it is just as fallacious to maintain that no relative gains in power have been made. Certainly large scale buyers are no better able than farmer marketing cooperatives to force abundant supplies on the consumer at scarcity prices. All the market power in the world will not do that.

At this stage it seems appropriate to ask the question. If organizational structures have given buyers a little more market power, why can't this same power be offset by sellers using this same device? Now I am not implying that changes in organizational structure have not been taking place within agriculture. We see them occurring all about us. However, the degree of market power gained by agriculture through this device has been less than that gained by either business groups or labor. What is there about agriculture and its market channels that keeps it behind in the struggle for market power? I think we may find part of the answer by looking at the characteristics which give organizational structures their market power.

First, it must be relatively difficult to get into and out of business. There are many barriers to freedom of entry. Some are economically generated while others find their origin in the political considerations of trade groups or government. Capital requirements make it difficult for just anyone to become an automobile manufacturer. Apprenticeship requirements keep me from fixing my neighbor's plumbing. Educational requirements keep some of us from

practicing law or medicine. Building codes protect the electrician. Licensing may keep some of us out of the liquor business. On the other hand, agriculture has established relatively few barriers to entry. If almost any group in agriculture is successful in negotiating higher prices, we find an almost immediate shift of new producers and resources into that sector.

Secondly, many of our most powerful marketing structures exist in industries which have few producers. The smaller the number of producers, the easier it is for them to come to agreement on issues involving price and income policies. Again agriculture has poor qualifications on this score. Not only do we have many producers of given products within agriculture but also we have strong competition among the producers of alternative products. In addition these producers are scattered geographically. Producers of apples in California and in New York face different problems in both production and marketing. Small wonder they have difficulty in agreement. They simply don't see things in the same light. And even if they were able to agree to withhold supplies to effect a better price the producers of peaches stand ready to step in the void and capture a share of the abandoned market.

Third, I list the importance of having strong alternative uses of product or resources. Certainly there is more ability to withhold products from market if they can be diverted to alternative uses. In this way much of the financial pressure is removed. A cherry producer with cherries ready for harvest finds little he can do with his product if he doesn't sell in the established market. Even from year to year he has problems in getting his cherry trees to produce anything other than cherries.

Fourth, we find that market power and large financial resources go together. Large financial reserves enable many industries to weather the storms of excess inventories which are built up in an over-anticipation of market

demands. Likewise, market power is often attained via the route of integration. To a degree industry gets agreement with dollars while farmers must depend largely on organization of people to do the job. Being able to buy into the marketing mechanism in order to force your beliefs into practice requires money -- the kind of dollars frequently missing from agricultural organizations.

Last on my list is the degree of price-making activities which government will sanction in a given industry. With all its inherent disadvantages in building organizations with some reasonable degree of market power, agriculture has at least faced relatively few problems of antitrust. To some extent government can and has used exemptions from antitrust laws to help counterbalance the power of other groups to which collusion tends to come naturally. But we can expect that government will go only so far in this respect before it encounters the wrath of the consumer.

In attempting to structure our agricultural market organizations in the future, it is important that we give particular attention to these characteristics. In spite of these handicaps, I sincerely believe that agriculture is just beginning to exploit some of the market power of business organization. Recognizing the general attitudes farmers have regarding labor unions, I hesitate to draw an analogy between agriculture and labor. However, it is there. If we will look at the labor movement and its achievements over the past half century, we will readily see that all the things on my list really give greater handicap to labor than to agriculture in developing market power. I sincerely believe that the ingenuity of the American farmer can seek out solutions just as labor has done, and I do not by any stretch of the imagination mean to imply that agriculture should or will need to follow the pattern set by the labor movement.

In fact, the pattern to be followed by agriculture is fairly well established

It consists of a hybrid -- the parents of which are the devices used by industry on the one hand and labor on the other. This pattern includes among other things three distinct types of market organizations. They are:

1. Sales Organizations.
2. Bargaining Associations.
3. Market Development Associations.

To a very great extent, the success of any one of these in achieving market power depends largely on the existence of the others. This lack of balance accounts for many failures. Before commenting briefly on each I want to make it perfectly clear that these three devices alone are not powerful enough to solve the surplus problems of agriculture created by the artificial prices of government support programs. However, the judicious use of these devices will serve to lessen the need for such programs, thus restoring to the price mechanism the function of reflecting the wants of consumers.

Sales Organizations

Real power in marketing as in production comes from ownership. If farmers are to gain significant price-making power, they must get into the business of marketing and exercise control over the distribution of their products. Gradually we are seeing this take place. Certainly it is not to be accomplished overnight.

The development of sound cooperatives calls for far more than getting the religion. It requires capital, the full confidence of members, good management, efficient operation and established market outlets. To be worth their salt they must be able to do the job better than competing structures. These things don't just happen. They are built over time with all the skills and ingenuity of man.

I well recognize that many of you operate marketing businesses which are

in direct competition with farmer owned cooperatives, and where they are giving you real competition I well appreciate your attitudes concerning them. Again I may be altruistic in my thinking but I believe that both profit and cooperative organizations can establish formal working relationships in such a way as to capitalize on the inherent advantages of each. We have recently seen such structures emerge, and in the future I think we will see more of them. The Welch grape organization and Curtice-Burns in New York and the Minute Maid structure in Florida demonstrate different ways that private business has made advantageous use of cooperative organization. For the cases in point cooperative structure is used to facilitate financing and stability of raw product supplies while corporate profit structure is used to insure effective management and efficiency of operation.

I am convinced that many farmer cooperatives can and should establish formal working relationships with private business for their mutual benefit. Such arrangement will yield stronger market organizations than mergers among either cooperatives or private business because it accomplishes more than mere economies of scale.

I personally believe that the establishment of sound marketing structures will go a long way in giving agriculture the market power it seeks and needs. Again I believe that government can get a little piece of the agricultural burden off its back by doing more to encourage the establishment of such structures. Even though many farmers are not yet ready to get into the full swing of the marketing game I believe they will gradually turn to various forms of marketing organization in their struggle to gain market power. The rate of development will in large measure be determined by the attitudes and activity of government relative to this type of business organization.

Bargaining Associations

The history of bargaining association activity in agriculture is at best a mottled one. There have been some limited successes and there have been many failures. Some of our large cooperative marketing associations today started out as bargaining associations. They soon realized that it takes more than just desire or threats to gain true market power. As a result it was found necessary to gain some degree of control over marketing and distribution and hence they were forced into the handling, processing and selling of farm products.

On the other hand, we have some examples of bargaining associations which have operated successfully over a number of years. Their success seems to hinge more on a recognition of the limits of their power than on the production of spectacular results. These associations have helped strengthen the hands of farmers through negotiating for favorable terms of contract -- terms which are of mutual interest to the handler as well as to the producer. Their only significant success in price manipulation has been when there is an allied market structure such as a market order or strong marketing firm which exercises a degree of control over supplies.

I believe the day is not far off when we will see a national network of bargaining associations in agriculture. Such a structure would solve many of the problems which weaken the influence of small local associations. With many products there is need for the exchange of information on a national scale -- again an activity beyond the reach of local associations. A national structure could provide leadership guidance, specialists in negotiation, legal counsel, informational services and public relations. Such a structure would serve to develop a mutual interest by producers within commodity groups as well as between commodity groups; and I might add that anything which will facilitate resource adjustments among commodity groups will contribute to market power.

The greatest pitfall in creating such a structure is that of attempting to exercise too much power without simultaneously developing adequate controls over supply or demand. We have seen such failures in the past, the most colorful of which was the Sapiro Movement. It is very apparent that any successful bargaining effort on the part of agriculture must be accompanied by strong controls over both supply and ease of entry. Both market orders and licensing are needed allies and it is here where government can assist agriculture in permitting the creation of limited trusts.

In approaching bargaining it is important that farmers and market agents work together for their own mutual interest in establishing the strongest possible market for their product. Certainly experiences of the past would indicate that there are no excess dollars in marketing margins which can be siphoned off by farmers. The only material gains to be derived are those coming from effective supply management.

Market Development Association

As previously stated, it is important for agriculture never to lose sight of the fact that it can maximize income in the long run only by producing products needed and wanted in the marketplace.

While the potential power of sales organization lies in the area of efficient operation and supply control, farmers must look to ways of expanding the demand for their products. Market development associations are the chief organizational media used to this end. I include in this category what are commonly referred to as trade associations, commodity organizations and farm organizations generally.

If we will look about us, we will see few industries indeed which possess any appreciable degree of market power which do not enjoy a dominant trade or

promotion or market development association. Such associations historically have been a medium through which the really new ideas of an industry are born. Many successful businesses today are the product of the deliberations of industry associations. Beyond this, market development associations serve to protect their members from the abuses of government on the one hand and gain favor from it on the other. And traditionally such associations have been the chief media for both industry public relations and product promotion.

Farmers in general have been slow to participate actively in market development associations. As we develop our market power, we cannot afford to neglect the development of good, sound and active associations. In doing this it is important that we develop strong cross-commodity associations in order to attain the greatest market power. Single commodity associations develop strong vested interests which tend to resist the dictates of the market. When such commodities lose favor in the marketplace singular commodity associations have no alternative than to resist and their only effective way of resisting is to turn to government as an artificial market for their products. More and more we are seeing agricultural commodity groups running to government for help just as soon as a crisis appears. It's high time that we develop structures which will serve to remove the pressures of maintaining the status quo. An association is no different than a farmer - the strongest are those who have the greatest alternatives when a market dries up.

Summary

In summary, solutions to the problem of gaining greater market power in agriculture lie in the twilight zone between a free and a controlled market. Market power in agriculture can be gained by replacing those government controls which serve to directly distort the pricing mechanism. Replacement should be

made with industry and government controls that are consistent with market demands. To this end government can be of its greatest service to agriculture as well as the consuming public by providing a favorable climate for the organization and operation of marketing institutions in which farmers have a greater voice. Furthermore government action can help provide a solution to some of the inherent weaknesses in such agricultural organizations. There are basically three forms of marketing organizations through which farmers can gain market power -- bargaining associations, sales organizations incorporating the features of both cooperative and profit type businesses and market development associations. They are not substitutes for one another, but rather each makes a contribution to the other's success.

DYNAMICS OF OHIO DAIRY PRODUCER

Daniel I. Padberg

The structure of the milk producing industry has in most markets been changing to fewer producers and larger producers. This industry has also been growing in size as measured by total market volume. Because of increasing market volume relative to demand, milk product surpluses have become an expensive problem nationally. National policy to reduce the surplus problem is currently being formulated along the lines of some sort of supply management. This policy will require adjustments of individual milk producers. Out of this complex of problems - 2 issues arise:

1. What type of public policy can best achieve the supply management goals of the present administration?
2. What effect will this "policy of restriction" have upon decisions concerning the future adjustments necessary for individual producers.

In order to make good decisions in both the public and private sectors of our economy, much information is required. This paper reports research currently being conducted at Ohio State University concerning the nature of adjustment patterns of milk producers in the Columbus milk shed during the 1950-1960 period. By understanding the environment in which these economic units operate and the way they respond to changes in this environment, we may be able to provide information useful in making improved policy decisions publicly and privately.

I. Analysis of Structure of Columbus Fluid Milk Producing Industry.

First the changes in structure of this industry caused by the adjustments of individual producers during the 1950-1960 period will be studied. In order to measure changes in the size-distribution of these producers, pounds of Grade A milk marketed per month was observed.[1/] Figure 1 shows the size distribution of Columbus Market milk producers in 1950, 1955 and 1960. Size categories are defined as follows:

1 = producers delivering less than 2,000# of milk per month,

2 = producers delivering 2,000 to 2,999# of milk per month,

3 = 3,000 to 4,999,

4 = 5,000 to 6,999,

5 = 7,000 to 9,999,

6 = 10,000 to 13,999,

7 = 14,000 to 19,999,

8 = 20,000 to 29,999,

9 = producers delivering 30,000# per month or more.

Category 10 is used for the number of entrants and exits during the base period under consideration.

It may be noticed that in 1950 and 1955 the largest number of producers were in the smaller size groups. The most common size in these years was a monthly production of between 7,000 and 10,000 pounds of milk. Also in both of these years the number of producers delivering more

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[1/] The volume marketed during the month of September is used as an indicator of the size of a producer for that year.

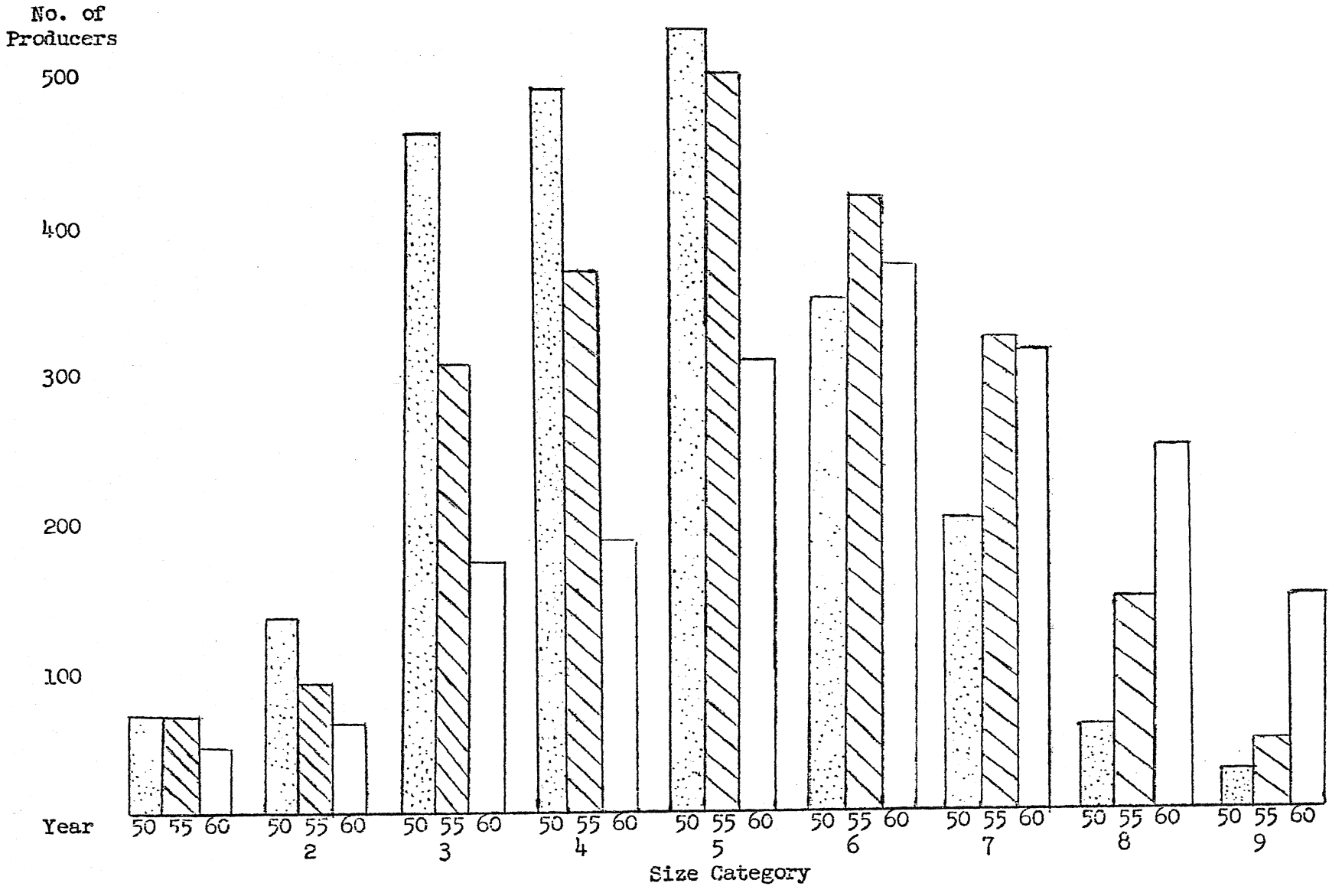

FIGURE 1. Observed Size-Distribution of Columbus Milk Producers, 1950-1955-1960.

than 20,000 pounds of milk per month was relatively small -- 3.1% in 1950 and 8.3% in 1955. The number of producers in the market declined slightly from 2,256 in 1950 to 2,216 in 1955.[2/]

In the 1955-1960 period the shift of producers from smaller to larger size groups, had accelerated. By 1960 the most common size is between 10,000 and 13,999 pounds of milk and producers delivering over 20,000 pounds of milk monthly had increased to 22.7% of all producers. The number of producers by 1960 had dropped to 1,823.

These statistics show the aggregative growth patterns which we have become familiar with in this industry as in others -- a trend to fewer and larger firms. Some questions arise out of this industry adjustment patterns, however: What has happened in terms of adjustment of individual producers? Have the little ones gone out of business to be replaced by bigger units or have the smaller ones grown larger or both? If individual producers continue in their present growth patterns where will this lead us?

In order to conduct a systematic investigation of the dynamic aspects of this industry, the growth of each producer is observed. For example, Table 1 shows movements of producers from one category to another which resulted from their decisions to increase or decrease production between 1950 and 1955. For example, in 1950, 455 of the Columbus milk producers were in Category 3 -- that is, producing

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[2/] This number of producers in the market runs slightly higher than data reported by the office of the Market Administrator because farmers marketing their milk jointly are counted as two units in the present analysis rather than as a partnership.

TABLE 1. MILK PRODUCER GROWTH PATTERNS, COLUMBUS MARKET, 1950-1955.

Size Category	# in 1950	1	2	3	4	5	6	7	8	9	10
1	62	0	5	7	7	3	4	1	0	1	34
2	133	8	15	18	16	7	6	2	0	2	59
3	455	13	13	75	52	56	21	9	0	0	216
4	483	8	8	45	65	70	45	15	2	1	224
5	521	8	8	30	55	87	70	45	10	4	204
6	340	2	0	6	21	40	53	56	23	3	136
7	191	1	0	2	4	12	23	39	25	6	79
8	51	0	0	1	0	2	3	6	15	8	16
9	20	0	0	0	1	0	0	1	1	7	10
10	25,790[a/]	22	39	117	143	216	183	141	62	15	24,852
# in 1955	28,046	62	88	301	364	493	408	315	138	47	25,830

Entrants = 938 Exants = 978

a/ This category represents potential entrants. The total number of farms reported in the 1959 Census of Agriculture in the 17 county area serving the Columbus market was used to represent this potential.

TABLE 2. MILK PRODUCER GROWTH PATTERNS, COLUMBUS MARKET, 1955-1960

Size Category	# in 1955	1	2	3	4	5	6	7	8	9	10
1	62	0	1	4	2	3	3	0	0	0	49
2	88	4	5	5	2	2	0	2	1	1	66
3	301	10	13	27	28	21	10	2	5	1	184
4	364	6	11	39	22	27	34	13	10	0	202
5	493	3	7	24	25	60	62	33	16	2	261
6	408	0	4	9	19	30	52	51	36	13	194
7	315	1	2	4	7	20	34	38	43	13	153
8	138	1	0	2	1	3	5	15	34	26	51
9	47	0	0	0	0	0	3	4	5	12	23
10	25,790[a/]	19	21	57	77	137	158	151	96	74	25,000
# in 1960	28,006	44	64	171	183	303	361	309	246	142	26,183

Entrants = 790 Exants = 1183

a/ This category represents potential entrants. The total number of farms reported in the 1959 Census of Agriculture in the 17 county area serving the Columbus market was used to represent this potential.

between 3,000 and 4,999 pounds of milk. The numbers in the Category 3 row of Table 1 show what had happened to these producers by 1955. Thirteen went to Category 1, 13 went to Category 2, 75 remained in Category 3, etc. The number in column 10, in this case 216, indicated the number of producers within this group who had gone out of business by 1955. Table 2 shows similar data for the 1955-1960 period.

It is possible to compute probabilities of growth by dividing the numbers of producers moving to various other categories by the initial number of producers in a particular size category. If we assume that this pattern of growth represents the adjustment of producers to the changing nature of their environment and that these responses would be expected to continue, it is possible to use these probabilities of growth to predict adjustment patterns for the future. The development of complex mathematical methods of analysis and the availability of electronic computing and data processing systems make it possible to evaluate the aggregate impact of the thousands of individual producers decisions upon the future structure of the industry.3/

The number of producers moving from smaller size groups to larger sizes is decreased as the number of smaller producers in the industry is reduced. Therefore, when the observed growth pattern is projected into the future it is noted that an equilibrium size distribution of producers is obtained. That is, the number of producers moving out of a size category during a time period is equal to the number entering.

3/ For a discussion of the analytical methods used here see D. I. Padberg, "The Use of Markov Processes in Measuring Changes in Market Structure," Journal of Farm Economics, February 1962, pps. 189-199.

In Figure 2, the plain columns indicate the number of producers which would be in each size group if growth of the type observed during 1950-1955 were to continue indefinitely. Similarly, the shaded columns indicate the number of producers that would be in each size group if growth of the type observed during 1955-1960 continued indefinitely. Note that the predicted size distribution based upon the growth patterns of the 1950-1955 period shows little change from the 1955 actual size distribution of producers. That is, firm growth during this period would not be expected to lead to a great change in the structure of the industry.

The predicted size distribution of producers based on firm growth during the 1955-1960 period shows much more change in industry structure. The total number of producers has significantly declined and the number in the smaller groups has declined while the number in the large size groups have increased.

What explains the difference in growth patterns observed in these two periods? Many factors were likely influential in causing the tendency to larger and fewer firms to be accelerated during the latter 1950's. Probably the adoption of bulk handling facilities was among the more important of these factors affecting producers decision to change size of operation. Since the adoption of bulk handling equipment represented cost savings available to a greater degree for large producers than small producers, a tendency toward increased size is created. Since most changes in production or handling methods amount to the substitution of expensive equipment for processes which were previously done by hand, this tendency toward increased size may be expected to continue.

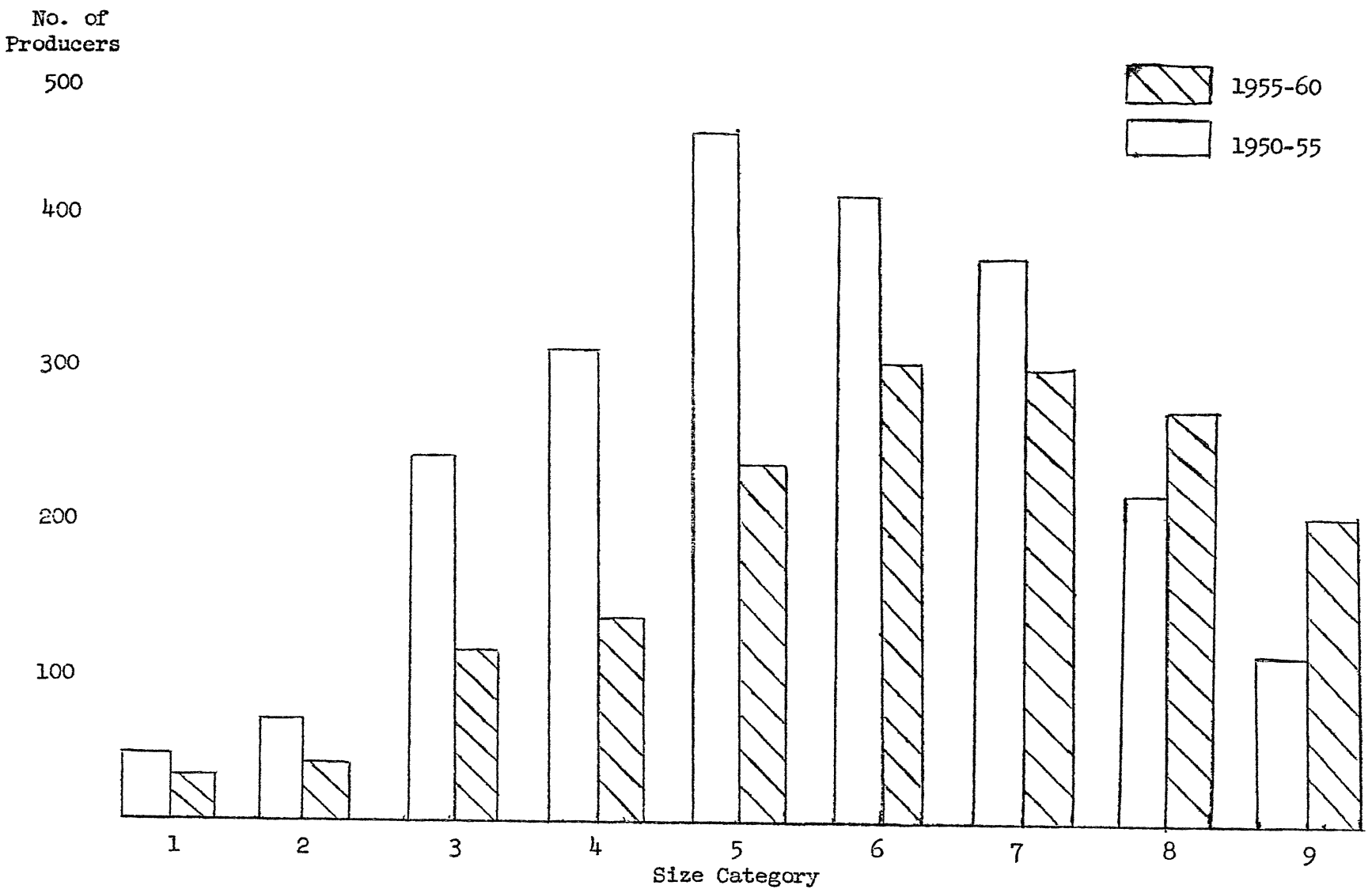

FIGURE 2. Predicted Final Size Distribution of Columbus Milk Producers Based on Growth Patterns Observed During the 1950-55-1955-60 Time Periods.

Although it is interesting to evaluate the kind of industry structure which would emerge if observed growth continued indefinitely, this does not help much in planning. It would be more interesting to observe the kind of industry we might expect in the reasonably near future, say 1975. If these growth patterns are projected to 1975, it is noticed that the final distribution is approached. Table 3 shows the number of firms in each size category observed in 1950, 1955 and 1960 along with the projections.

Now lets summarize what this analysis tells us about the future growth of the industry. Producer growth as it was observed during 1950-1955 would have maintained an essentially stabilized industry structure. Producer growth as observed in 1955-1960 is very different from that of 1950-1955 and will develop an industry structure with fewer firms and most of them in the largest size categories. The most common producer size in this new industry structure is a monthly production of 10,000 to 14,000 pounds and there are more producers (763) larger than this most common size than the number of producers in smaller sizes (556).

Is the projection of 1955-1960 growth pattern a good prediction of what will happen to industry structure? It is probably a conservative prediction. Just as growth accelerated in the latter part of the 1950's compared with 1950-1955, growth during 1960-1965 will likely continue to move at a still faster pace. The Columbus Market manditory adoption of bulk handling facilities in 1961 has already had this effect in this market.

What do these growth patterns mean to producers and potential entrants? From these conservative estimates of future growth, we can get some indication of the life expectancy of present producing

TABLE 3. SIZE DISTRIBUTIONS OF COLUMBUS MILK PRODUCERS OBSERVED AND PREDICTED.

Size Category	1950	1955	1960	1975 based on 1950-55 growth	1975 based on 1955-60 growth	Final Distribution based on 1950-55 growth	Final Distribution based on 1955-60 growth
1	62	62	44	48.1	32.0	49.7	31.6
2	133	88	64	68.3	42.1	70.0	41.5
3	455	301	171	235.8	114.6	243.0	112.9
4	483	364	183	304.2	135.4	313.7	133.9
5	521	493	303	440.3	238.2	453.9	236.0
6	340	408	361	399.9	304.4	412.8	302.0
7	191	315	309	359.4	297.9	371.7	296.2
8	51	138	246	210.8	267.4	218.2	265.8
9	20	47	142	106.4	200.6	108.5	200.7
Total No. Producers in Industry	2256	2216	1823	2173.2	1632.6	2241.5	1620.6

firms in various size categories. Based on growth patterns observed during 1955-1960's, producing firms with monthly output of less than 10,000 pounds have about one chance in 21 of remaining in business until 1975 if they remain the same size, about one chance in 13 if they increase output, and in any case almost a 9 out of 10 chance of going out of business before 1975. Chances of remaining in business are best in the largest two size categories and are roughly twice as good as in the smaller group. In all size groups the probability of being out of business is high. Table 4 shows the probable 1975 disposition of current producers in each of the size categories based on projected growth of the type observed during 1955-1960. For example, of the firms currently producing 7,000 - 10,000 pounds (Category 5) row 5 shows that .27% of them will be in Category 1 in 1975, .4% will be in Category 2 in 1975 1.1% of them will be in Category 3 in 1975, etc. Eighty six percent of them will be out of business by 1975.[4/] Starting in any size category the chances of being out of business by 1975 is very high. This illustrates the high rate of turnover in this industry.

II. Implications of Changing Industry Structure With Respect to Supply Management Policies.

Our study shows that this segment of the dairy producing industry is very dynamic with a high rate of growth and turnover among its constituents. In tables 1 and 2, the number of firms remaining in a size category for five years was small in every case never exceeding 35% and typically less than 25%. These growth patterns also show that, during the five year periods observed, almost half of the producers in

4/ Producers who have shifted to other markets are included in this group.

TABLE 4 PROJECTED GROWTH OF EXISTING COLUMBUS MARKET PRODUCERS BETWEEN 1960 AND 1975.

Initial Size Category	SIZE CATEGORY IN 1975									Out of Business 10
	1	2	3	4	5	6	7	8	9	
1	.20	.29	.75	.78	1.27	1.54	1.36	1.20	.73	91.88
2	.20	.29	.73	.75	1.19	1.44	1.31	1.21	.86	92.02
3	.28	.43	1.07	1.06	1.64	1.97	1.71	1.60	.99	89.25
4	.29	.44	1.13	1.14	1.83	2.30	2.10	2.12	1.36	87.29
5	.27	.41	1.10	1.16	1.96	2.60	2.50	2.61	1.69	85.70
6	.26	.37	1.03	1.11	1.98	2.83	3.00	3.50	2.65	83.27
7	.23	.33	.93	1.02	1.86	2.79	3.11	3.80	3.09	82.85
8	.22	.26	.81	.89	1.72	3.07	3.86	5.20	5.10	78.88
9	.17	.21	.63	.75	1.46	2.67	3.28	4.21	4.28	82.34
10	.10	.14	.37	.45	.79	.98	.94	.80	.58	94.85

the industry went out of business and were replaced by entering producers. In an industry characterized by continuous change in the size of individual producers and a high turnover rate, any supply management system involving bases or quotas must have an efficient method of transferring base.

Supply management policies which have had some measure of success in the past have involved market structures in which a few large stable firms have had a dominant position in the marketing channel. The sugar beet marketing plans are probably the best known example of supply management which is effected through the sugar refining industry composed of less than 20 relatively large firms. In this kind of market structure, market output is typically controlled by decisions of firms concerning their individual output. Supply management in such a situation simply involves the government joining in this decision process and providing enabling legislature to allocate this output level among farmers.

This type of policy is not applicable to the fluid milk producing industry. Fluid milk handlers number in the thousands and much milk goes directly from producer to consumer. Policies which have been presented to manage the supply of fluid milk suggest direct regulation of individual producers.

The fluid milk producing industry is a competitive industry. In such an industry, structure producers do not decide how much should be marketed and adjust their individual output accordingly. Rather they consider themselves too small to seriously affect market output

and proceed to produce the output most profitable for them at current prices. Market output is then adjusted by the entry and exit of these small producing units.

Supply managements in the dairy industry is an attempt to control market output the way it is typically controlled by oligopolistic firms. This is not meant to imply that such policy is not feasable. Rather, it is meant to point out that supply management in this industry would be a different process than supply management in cases where it may be implemented through an oligopolistic structure. By taking account of this difference more appropriate policy may be developed.

There is every reason to believe that the growth of producers has been related to increased operating efficiency of the industry as well as being profitable for the individual producer. This is not meant to imply that increasing size will guarantee more efficient production. In some cases, however, larger size is required before more efficient handling techniques are profitable. If supply management policies have the effect of restricting these growth opportunities for the future, increases in the productivity rates for farm operators may be eliminated which would have an adverse effect on producer income as well as consumer welfare.

In conclusion I would like to offer the following comments:

1. The size of producer has increased significantly since 1950 and this trend toward larger size may be expected to continue.

2. If our research devoted toward increasing technical efficiency is successful and results in developing equipment to replace processes previously done by hand, further increases in producer size may be required if these more efficient techniques are to be adopted.
3. The milk producing industry as we know it today is made up of individual producing units which have a short life expectancy and which are continually changing in size. This very competitive environment creates an opportunity for individuals to expand and take advantage of technical advances which may improve their profits and increase industry efficiency.
4. It is important to assure that supply management policies do not seriously restrict the freedom of entry, exit and individual firm growth in this competitive environment, for such policies might represent a high cost in terms of individual opportunities and industry efficiency.
5. Managing this industry of continuously changing individual producing units will be a monumental task administratively.
6. Although the national surplus problem may make supply management an administrative necessity, it represents the application of methods which seems to be effective in the stable industry structures of oligopoly to a highly competitive industry structure. This has never been done successfully and we will need to proceed carefully.

ALTERNATIVE DAIRY PROGRAMS

By

K. W. Kepner

The present dairy price support program requires the Secretary of Agriculture to support milk prices at such level between 75 and 90 percent of parity as he "determines necessary in order to assure an adequate supply". This law is seemingly unsatisfactory in at least two aspects. First, the level which may be established under the adequate supply criterion may not provide an adequate income for dairy farmers. Secondly, there is no way to avoid excessively high governmental expenditures because the government is required to support unlimited milk production. This second factor endangers the continuation of any dairy support program.

The unfavorable and unexpected development in consumption last year emphasized the shortcomings of the present program. Although the per capita consumption of dairy products has been declining slightly during recent years, the increase in population has generally been an offsetting factor with the result being that total consumption has increased. During 1961 production increased about 1½ percent, a rate slightly less than the increase in population. However, total consumption declined in 1961 by approximately 2½ billion pounds on a milkfat equivalent basis. As a result, government expenditures for surplus dairy products will exceed half a billion dollars this marketing year, nearly double last year's expenditures.

To illustrate the cost of the present program, $540 million, let us put it on a more familiar base. It represents 42 cents per hundredweight

of milk produced in the United States during 1961. Expressed in terms of dairy cows it amounts to nearly $30 for each dairy cow in the country or to nearly $1,000 for each 33 cow dairy herd. This is the situation that has brought forth the discussion of alternative dairy programs and it is toward a correction of this imbalance between supply and demand that alternative policy suggestions have been made.

Three alternatives have been receiving the most consideration:

1. Free market with no price supports or marketing controls.
2. Price supports at 75 percent of parity (present level is about 83 percent) with no marketing controls.
3. Supply management with price supports continued near the present level.

The expected results for the next marketing year under each of these alternatives with regard to milk prices, producer income and governmental cost have been estimated by the U.S.D.A., Table I.

Table I

Expectations Under Alternative Dairy Programs

Alternative	Mfg. Milk Price	Total Producer Income	Government Cost
Free market	$2.50	down $1 billion	none
75% parity	3.10	down $350 million	$450 million
Supply management	3.40	same as in 1961	300 million

From these expectations the following conclusions can be drawn. A free market program, while having no governmental cost, would reduce producer income drastically during the next year. Price supports at 75% of parity would also result in a substantial reduction in producer income, and at the same time, governmental cost would be considerable. This program would have little affect on milk production during 1962 because production adjustments to price changes generally require several years. A supply management program, as that proposed by the Administration, would limit governmental expenditures and maintain producer income near the present level. Basically, the cost of the support program would be controlled by placing a surplus marketing fee on milk marketed in excess of a producer's marketing allotment.

How can an individual dairyman or a marketing organization decide which alternative he or they should favor? I would list three general factors that should be considered: (1) objectives, (2) expectations, and (3) situation.

Objectives: What do you believe a dairy program should accomplish, that is, what should be the objectives of such a program? Some of the desirable objectives that are often listed include maintain and improve producer income, give producers a satisfactory income in view of their labor and investment, limit government expenditures, have a minimum of government interference, strengthen consumer demand, maintain the family farm, and obtain and maintain a balance between supply and demand.

A program could be easily written to obtain any one of these objectives by itself, but difficulties are often encountered when a combination of objectives or a balance among objectives are thought desirable. Several of the above objectives are, at the very minimum, in partial opposition to one another. That is, a program which maintains and improves producer income might be in conflict with the objective to strengthen consumer demand.

Expectations: By expectations I have reference to the results that one expects under each of the possible alternatives. I have previously indicated the expectations of the U.S.D.A. with regard to three alternatives during the next marketing year. However when making a decision on the possible alternatives, one's expectations must extend beyond one year. That is, the long-term implications of each alternative must be carefully weighed along with the short-term implications. Admittedly these can, at the best, only be estimates, but the best possible estimates must be made and a decision reached on basis of these estimates.

Expectations under any supply management program should be greatly dependent upon the specific provisions of the plan. The most important provisions, as I view them, of the Administration's supply management proposal follow:

1. The Secretary has the authority to support prices up to 90% of parity.

2. Producers will have the opportunity to decide in a referendum between a higher support price with supply management or a lower support price without supply management.

3. Governmental expenditures for the dairy price support program will be limited to $300 million.

4. Each producer will be assigned a base on the basis of his 1961 production and these bases will be transferable from one producer to another.

5. A producer's marketing allotment will be determined by multiplying the marketing allotment percentage by the producer's base.

6. The marketing allotment percentage will be determined by dividing the estimated demand for the marketing year by the aggregate of all producer bases.

7. Surplus marketing fees up to $2.75 per hundredweight will be levied against marketings in excess of a producer's allotment.

The National Milk Producers Federation is presently discussing an alternative proposal throughout the country. In my opinion, these two proposals are basically similar because they both provide the legal framework for supply management and give producers the opportunity to choose between such a program with higher support prices and lower support prices without supply management provisions. However, the Federation's proposal would limit the amount of adjustment in any one marketing year by restricting any reduction in support price to 20 cents per hundredweight, by restricting any allotment cuts to 5 percent per year, and by defining situations where the $300 million limit on public expenditures would not be applicable.

Situation: I will classify dairy farms into three general classes on the basis of (a) extent of planned expansion, (b) amount of debt financing and (c) degree of operational efficiency. Some generalizations can then be made with respect to these classifications and two of the alternatives,

free market and supply management. A producer who is planning expansion might favor a free market program because under supply management expansion is possible only at a higher cost. On the other hand, a producer that has a relatively great amount of debt capital in his operation would probably favor a supply management program because of its price assurance features. On the basis of efficiency, the relatively efficient operator would likely favor a free market because he would be better able to "weather" a period of depressed prices.

This analysis of various situations based on expansion, financing, and efficiency has considered each factor in isolation from the other factors. What happens in an actual situation when all of the above factors apply to a given producer? As an example, let's examine what the reasoning might be of a producer who is planning expansion, has relatively large amounts of borrowed capital, and has an efficient operation. From the standpoint of expansion and efficiency this producer would likely favor a program approaching the free market. However, there is certainly a limit on the price decline that such an operation could take and still survive. If the prices were so low that funds were not available to meet interest and principal payments, then this producer might well favor another alternative that has some price assurance features. This illustrates the importance of considering the existing situation and one's expectations together when deciding which program will be most acceptable to an individual dairyman. On the basis of different situations, neighboring producers might favor different alternatives.

In closing I would like to emphasize the following points:

1. The dairy industry cannot logically rationalize the present situation and problem away because the present productive capacity of the industryand of agriculture in general is exceedingly great. A drop of 10 percent in milk prices will have little affect on the surplus situation but it will greatly reduce producer income.

2. There will be no supply management program this year but it will continue to be discussed as one way to balance supply and demand and the possibility of such a program exists for future years.

3. While one may not agree with the alternatives proposed by the Administration, I believe the direction of the alternatives is correct. That is, the industry will have to move either toward a more competitive pricing system without production regulations or the maintenance of present prices with some form of production regulations.

4. Promotion should be used in connection with any program that is selected but its limitations must be recognized.

5. Any program must take into account the important changes which are taking place in the dairy industry and should be administered to minimize interference with desirable long-term trends and economic adjustments in the industry.

A time of decision appears to be near for the dairy industry. The industry has the opportunity to express its opinion on alternative programs through its congressional and cooperative representation. After the facts have been obtained, it will be your decision, but this decision should come only after the facts are known and the implications are weighed. The attitude that my mind is made up so why confuse me with facts cannot be tolerated. The thing that distinguishes man from other forms of life is his ability to adapt through an intelligent decision making process. Lack of adaptation can bring death to individuals, to firms and to entire industries. Let us use this ability to adapt and hope the old addage is true, that given enough facts one can't help but make the right decision.

SOME PROS AND CONS OF SUPPLY CONTROL PROPOSALS

E. F. Baumer

It is my assignment to present some of the arguments for and against the proposals dealing with supply control. The arguments presented here by no means exhaust the list of pros and cons on this type of proposal but they are intended to stimulate discussion and thinking. First some arguments for supply control legislation.

1. This type of a regulation would more nearly approach a self-help plan. There would be a limit of $300,000,000.00 of public finds to support dairy products and expenditures above this amount would be paid for by those producers who expanded production above their base. The amount of penalty to be paid on production above the base would then depend on the level of support and the value of this excess production on the open market. In this fashion the surplus products purchased to support producer prices would be paid for by those farmers who produced above their base.

2. A minimum of interference would occur with production adjustment if quotas are easily negotiable. This point is generally argued from two angles. First a production control program can prevent production adjustments from occurring if these programs would be so written as to freeze production. Production adjustment are always taking place in an industry and are a manifestation of the law of comparative advantage. Second, it is argued that a producer knowing his expected output can so arrange his factors of production so as to obtain the lowest cost possible. He need not

be primarily concerned with obtaining maximum output but rather with the production of a fixed output at lowest cost.

3. It will not be necessary to make the adjustment by lowering price. Supply response to price has been small where measurements of this relationship have been made. This would mean that in order to get the needed production adjustments, prices would need to be reduced materially and that they stay at this lower level long enough to drive out a significant volume of production. This would, therefore, lower incomes to a significant segment of agricultural producers and cause severe economic hardships in regions where dairying is the primary farm enterprise.

4. Farmers have a strong hand in determining the details of the program. An industry committee would be set up to develop the program and to be advisory to the Secretary in administering it. It is doubtful however, that Congress will assign as much power and influence to this committee as some are suggesting. Congress will need to be consistant on this point and will, therefore, be reluctant to delegate much power to such an industry committee.

5. The use of quotas will likely result in less entry and exit from the dairy business. Beses would need to be obtained and paid for resulting in some difficulty at least as compared to free entry. This fact would also serve as some protection from other enterprises where supply restrictions of all sorts might be enforced.

6. It will no longer be necessary to buy products in order to support prices. This objective can also be attained by buying up bases, thus making it unneccessary for the government to buy and store dairy products.

7. The final decision relative to such a supply control measure would rest with the producers themselves. To make such a program operative it would be necessary to obtain an affirmative vote from two-thirds of the producers voting.

Some arguments against supply control.

1. The problem of administration would be more difficult than is generally anticipated. Although data on production are available for most fluid markets there is little available for manufacturing milk producers. Even in a state as highly industrialized as Ohio, there are more manufacturing milk producers than fluid milk producers. The multitude of transfers and changes in payment arrangements would make such a program difficult to administer.

2. Such a program would require the full cooperation of producers. As has been pointed out above, administration would be difficult and without the support of producers it would be even more difficult. There is considerable doubt that producers will support supply control legislation at this time and therefore, would view such a program with limited enthusiasm.

3. The problem of maintaining equity among producers would be difficult. This is especially true as one moves from fluid markets to manufacturing markets, deficit markets to surplus markets and from one region to another.

4. It is essential to maintain reasonable prices to consumers. The supply-demand balance is a rather delicate one and alternations in either supply or demand can have substantial effects on prices to consumers. With the number of new substitute dairy products on the

market today it is important to maintain a competitive level on price to consumers for fear of losing a substantial portion of the market to the substitutes.

5. It is likely that higher producer prices would have adverse effect on our foreign markets. It is also argued that these foreign markets are essential if prices are to be maintained at present levels especially considering the rapid rate of technological adoption in the producer segment of the industry.

6. It would be doubtful that quotas would result in any real improvement in producer income since the quotas would be capitalized into the business. It would be a cost of doing business - something like "good will" in industry.

7. The long run and short run goals of the program are not clear. Are prices to producers to be maintained or increased in the short run? What is to be done with the small dairymen? These are only two of a long list of such questions that often come up in opposition to quota plans.

As was stated in the beginning this list of pros and cons does not exhause all the possibilities. These are presented in an effort to stimulate thinking on some of the more important issues.

MARGINS, PRICES AND COMPETITION IN THE FRUIT AND VEGETABLE INDUSTRY

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Last year marketing charges took 65 cents out of each dollar spent by consumers for fresh fruits and vegetables. This margin covers the services performed by firms all the way through the marketing channels, including packers and shippers, transportation agencies, wholesalers of all kinds, and retailers. Over a period of time, the costs of each of these firms must be covered by the prices it receives or it will soon be out of business.

The objective of this discussion today is to try to understand a little better the nature of competition at each level in the marketing system and the way that margins are established. Most of the emphasis will be at the retail level, since this accounts for the beggest single share of the overall marketing margin.

The Nature of Competition

The form of competition varies in the different markets through which fresh fruits and vegetables pass. It is influenced by the number and size of firms in each market and the number of products which each firm sells. In general, the greater the numberoof sellers in a market and the smaller the proportion handled by each firm, the smaller the amount of influence which each firm has on price. It is apparent that a firm which accounts for less than 1 percent of the total sales in the market will not affect the price much by any decision which it makes. On the other hand, the firm with 20 percent of the market will have a

marked effect on the price if it increases its output by 50 per cent.

The firm which sells only one product must live or die on the returns from selling that product. On the other hand, a firm with a broad line has many opportunities to shift the burden of the overhead costs among products, as long as it averages out to a profit on the total. Also, such a firm is better-equipped to weather the storm if the price of one commodity falls to unprofitable levels, on the old insurance principle of sharing the losses.

Let us consider briefly the kinds of markets in which sellers of fresh fruits and vegetables operate--how much market power do they possess and how prevalent are multiple-product firms?

Firms marketing fresh fruits and vegetables at shipping point typically handle one or a relatively restricted group of commodities. In many areas, they are restricted by production conditions to a single product, e.g., potatoes in Maine or Idaho, or to a small number, e.g., deciduous fruits in the Central Valley of California. In other areas, broader lines are possible, as in South Florida where twenty-odd vegetables are grown in the Everglades area. Although there are marked differences between areas in the concentration of sellers, even in areas where the number is relatively small, the influence of any one seller on price is greatly circumscribed. In most cases the influence is nil. The price floor for perishables is established by the out-of-pocket costs of harvesting and preparing for market. Overhead costs are covered in the long run or not at all.

At the wholesale level, commodity lines are generally broader than at shippint point. Except in the very largest markets, the larger firms handle almost all types of fresh fruits and vegetables. Many

wholesalers profess not to have any margin policy--they "charge what the market will bear" or "what supply and demand determine." Since most wholesalers are almost entirely traders with little or no allocable, out-of-pocket costs, wholesale margins for any individual commodity are seldom cost-related in the short-run. Negative margins with wholesale selling prices lower than the cost delivered in the market on a single commodity for a market as a whole for a short period are not unknown.

The retail level is dominated by the supermarket with its thousands of items on the shelves. Currently, supermarkets sell about 50 percent of the total volume of all grocery stores. About two-thirds of the supermarkets are operated by chains.

The important area of competition in retailing fruits and vegetables is the local market. In our study of markets throughout the country ranging from New York City with a volume of 133 thousand carlots down to towns in West Virginia with a few hundred carlots, the largest group in each market (chain, retailer cooperative, or voluntary group) had from 5 to 42 percent of the volume of all retailers (leaving out the sales to eating places and institutions). The average of 43 markets was 19.5 percent. In only 8 markets did the largest firm have more than 25 percent of the business. The share of the four largest groups in these markets ranged from 13 to 74 percent, averaging 41 percent.

It is obvious that individual firms in most of these markets have some market power, but in no case does any one firm have anything approaching monopoly control. Every cahin must be acutely conscious of the actions of its competitors, of the prices he charges and the quality of produce which he offers.

Each retail group strives to create for itself a favorable com-

petitive position, combining the various merchandising policies and practices in somewhat different ways. All utilize fresh fruits and vegetables as a 'traffic builder;" some attempt to build a reputation for the highest possible quality almost regardless of price; while others lean more toward price appeal and are satisfied with somewhat lower levels of quality. All groups emphasize the gearing of procurement policies to movement of large volumes of produce with fast turnover and emphasis on freshness. Some have moved toward 100 percent prepackaging with every item in the produce department price-marked and, wherever possible, wrapped. Others emphasize the greater freedom of choice inherent in bulk displays, catering to a group of shoppers who prefer to select their own individual pears or potatoes. Each endeavors to attract and hold a group of customers to whom its particular set of merchandising policies and practices appeal.

Pricing Policies and Margins

Typically, a chain sets a target margin for each major department in the store. The target for the produce department varies widely between chains--from 25 to 40 percent of the selling price, with most firms in the 28-33 percent range. Variations in the target margin depend partly on the overall target for the firm and partly on variations in the role which the produce department plays in creating the "store image" and contributing to the profits of the firm. Only a few chains are concerned about being "competitive" on all items in the produce department. Most are concerned only about the general impression or "image" which their prices create.

Margins and selling prices of individual items in the produce department are set so that they will average out to the departmental

target margin, if all goes according to plan. It is general experience that the margins realized over the course of a year average out 1 or 2 percentage points less than the figure set as a target. Margins are varied between commodities. They are relatively low on some basic items such as potatoes and high on smaller-volume items such as fancy fruits and some vegetables.

Every week each chain selects certain produce items to be advertised. Most of the advertised items are large-volume commodities which, the management hopes, will have greater appeal to more shoppers than would other commodities which are bought by fewer people. The principal function of the advertised specials is to bring customers into the store or to keep the old customers coming in. Prices and margins on advertised specials are frequently somewhat lower than for the same items at times when they are not advertised. This gives the item greater drawing power in terms of customers and the chain hopes to make up in volume some or all of the dollar profits which are given up when the margins are lowered.

Independent supermarkets and those belonging to small chains are typically well informed of the selling prices of their major competitors, the larger chains--often through the efforts of the wholesalers who furnish them with price lists from the major chains. Their pricing decisions are made with the prices of their competitors in mind. The decision as to which prices to meet is dependent partly upon the image which the manager is attempting to maintain--e.g., that he is "competitive" on price, on quality, or both.

Small retailers can generally be characterized as price-takers or followers, although not in the sense that they attempt to meet the prices of the dominant chains. They typically deal with a different class of

customers or a different type of business (for example, the off-hours business of those who do most of their shopping at a supermarket).

Factors Affecting Margins

Overall farm-to-retail margins are affected by several factors. We have been able to measure the affects of several of them. The most important factor affecting margins is the level of costs. During the postwar years, marketing margins for the market basket of fresh fruits and vegetables showed a consistent upward trend which was very similar to the trend of marketing costs for fresh fruits and vegetables during this period. Margins for some commodities increased faster than costs, while for others the increase was less. This appears to indicate that there has been some shifting of the burden of costs from commodities such as oranges and snap beans and, to a lesser extent cabbage and tomatoes, to other commodities such as lettuce and potatoes and, to a smaller extent, sweetpotatoes and apples.

The second factor affecting margins is the level of farm prices. As farm prices rise, margins have a tendency to increase as well, but only by a fraction of the percentage increase in farm prices. Margins for oranges, apples, carrots, cabbage, lettuce and onions rise only a little in response to increases in the farm prices of those commodities. Margins for tomatoes and sweetpotatoes rise about half as much as farm prices, in terms of percentages. The response of margins for potatoes and snap beans to changes in farm prices is intermediate between the two groups already mentioned. In all these cases, the responses of margins to changes in farm prices also apply on the downward side: when farm prices decline so do margins.

United States average marketing margins for a given commodity are also affected by changes in average transportation costs brought about by shifts between supply areas in the course of a year. Thus, when New York City shifts from Long Island to Maine as its major source of potatoes, transportation charges are somewhat higher. We were able to isolate such a relationship by statistical means for 9 out of the 10 commodities analyzed by measuring the relationship between overall marketing margins and the average length of shipment of 14 major markets. Sweetpotatoes, potatoes, and tomatoes show a stronger effect of length of shipment on margins than do the other commodities.

Implications

What does all this mean to the grower, packer, and shipper? How is his price affected by the kind of competition which exists at the retail level and the way that marketing margins are determined? It is apparent that the most important factor influencing marketing margins for fresh fruits and vegetables is the costs of the firms which handle them. Since 1947, margins have just about kept pace with the costs of the materials and services which marketing firms buy, including transportation rates and wage rates. The nature of competition among retailers, especially chains, has meant that margins did not increase at the same rate for all commodities. For some fruits and vegetables, margins have increased more than for others, mostly because selling prices of retailers are determined partly by their merchandising policies. The basic requirement of these merchandising policies is that the prices of individual commodities be set so as to help to establish an "image" of the particular chain or store as a "low-price" outlet or a "high-

price high-quality" outlet or somewhere in between these two extremes.

Since margins at both wholesale and retail levels are generally figured in terms of percentages rather than an absolute dollars-and-cents amount, there is some tendency for margins to increase when farm prices rise and to decline when they decline. However, this influence is relatively small. For some commodities, it has almost no effect. For a few, the margin increased about half as fast as the farm price.

Thus, at any given time, the price which growers, packers, and shippers receive is determined mostly by the supply available. If the supply is large and the price relatively low, margins for most commodities will not change much. For a few, they will decrease somewhat. With conditions reversed and the farm price relatively high, marketing margins for a few commodities will increase somewhat--for most commodities, they will change relatively little.

PRICING OF TOMATOES IN 214 OHIO RETAIL STORES

Joseph D. Brown

The sole aim of this paper is to consider a few preliminary findings on the retail pricing behavior of tomatoes in a random sample of Ohio retail stores.

The Study

The study period ran 12 weeks from March 27 through June 17, 1961. The random sample consisted of chain, voluntary, and independent stores located in eight city areas - Canton, Massillion, Cincinnati, Cleveland, Columbus, Dayton, Lima, Toledo, and Youngstown, plus stores in the towns and villages around Columbus and Lima.

Along with the information on various types of tomatoes - greenhouse, tube, and vine ripe - data were collected for head lettuce, leaf lettuce and bibb lettuce and for cabbage. The following information was collected each week: type of products handled, how handled, price wholesale source if possible, quality and other subjective values, whether product advertised or not, wholesale price from Federal Market Reports and from the grower shipper.

Along with the price and of course the marketing margin determination, other objectives of the study were to determine price and margin variability in retail stores; the type, frequency, and amount of product displayed; trends in margins during the marketing season; and relation of display, quality, package, etc. to prices and margins.

The remaining portion of this paper is devoted to the findings.

Results

Between 37 and 46 percent of the tomatoes on display were tube tomatoes. The higher percentages were found during the early weeks of the study. On the other hand, greenhouse tomatoes almost completely replaced vine ripe tomatoes beginning the week of May 1 and accounted for over 60 percent of the displays during the latter part of the study.

Based upon a split-week wholesale price average (Thursday and Friday of previous week with Monday, Tuesday, and Wednesday of stated week) the retail price for U.S. #1 medium greenhouse tomatoes was responsive to wholesale prices, particularly during the period of heavy greenhouse tomato production (Chart 1). The resulting absolute margin in cents per pound is close to being a straight line during a period of falling price. This meant that the percent margin (percent of retail) or percent margins (percent of wholesale) increased as prices declined. Therefore the return to the retailer per dollar of tomato sales during a lower price period was greater than during a higher price period. Since all types of stores were combined for this chart, the type of pricing policy is generalized. For the pricing policy, it would indicate either a fairly constant absolute margin, or an increasing percent margin of retail as wholesale prices declined. What about the economic implications of this situation? Since the sales of greenhouse tomatoes is responsive to price changes (i.e. an elastic demand, which means that if prices are lowered, consumers will buy more dollars worth of tomatoes than at the higher price), the retailer could increase his sales if he were to follow a fixed percent margins as compared to fixed absolute margin during a falling price level. One question at this point, should

Chart I

AVERAGE WHOLESALE PRICE, RETAIL PRICE AND MARGIN

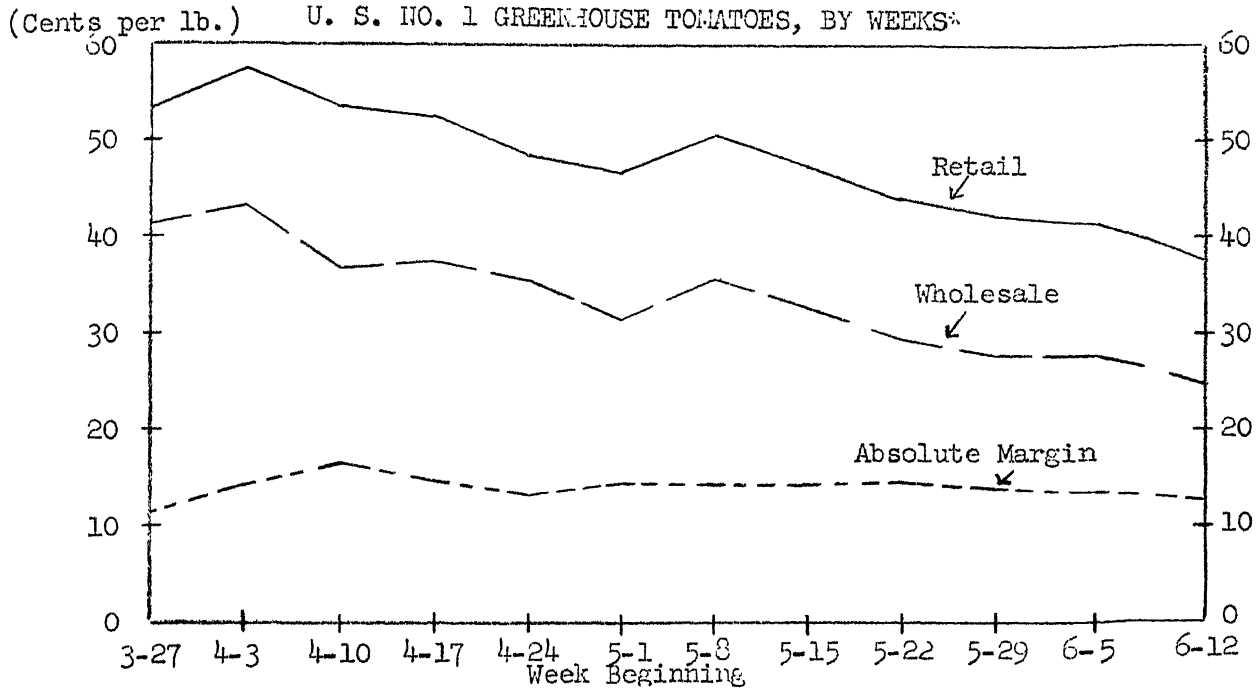
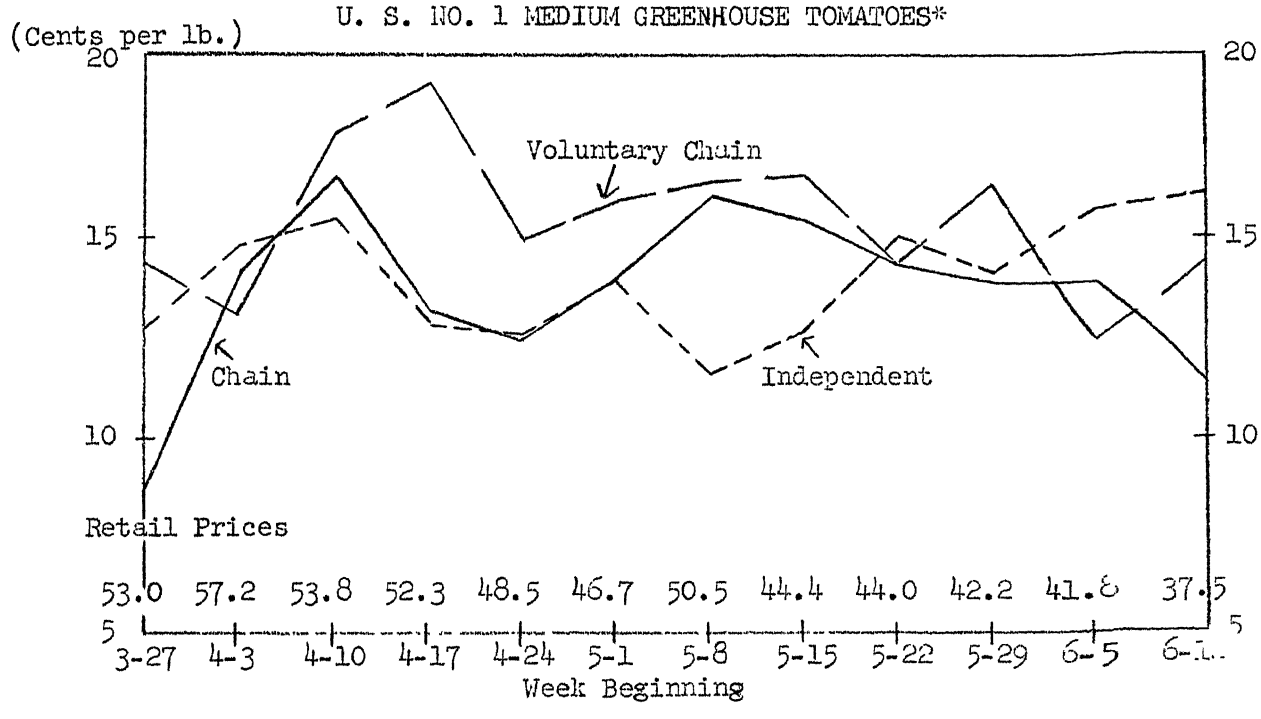


Chart II

RETAIL MARGINS BY STORE TYPE



* Wholesale prices from Federal Market News Reports for Thursday and Friday of previous week and Monday-Wednesday of stated week were used.

the retailer lower his retail price based upon a fixed percentage when all greenhouse tomatoes are being sold under the existing pricing policy?

A word of caution, the above chart is based upon an average or a measure for central tendency, or in other words there are deviations in bohh directions from this average figure. For example when the retail absolute margins are separated by the type of store (chain, voluntary chain, and independent), the resulting three types of stores when charted (Chart II) do not result in a straight line as before; but they fluctuate up and down, while of course, the central tendency is shown to be relatively straight. Another example of the same point, Chart III shows the average retail price by week for U.S. #1 medium greenhouse tomatoes along with the number of observations by ten-cent intervals which are averaged to give each weeks average price. For almost all weeks, the price was within a range of 30 cents per pound.

The retail price for vine ripe and tube tomatoes fell very little during this 12-week period. The resulting absolute margin showed a few peaks and dips (i.e. retail was not perfectly responsive to wholesale changes), with the price level being fairly constant, graphic analysis does not indicate whether retailers are following an absolute or percent margin policy for these types of tomatoes.

Table I shows the resulting absolute and percent margins which averaged over the 12-week period. The wholesale price used each week was the split week (last part of previous and first part of stated) based upon Federal Market Reports.

Chart III

AVERAGE RETAIL PRICE AND NUMBER OF RETAIL STORES

SELLING IN EACH RANGE

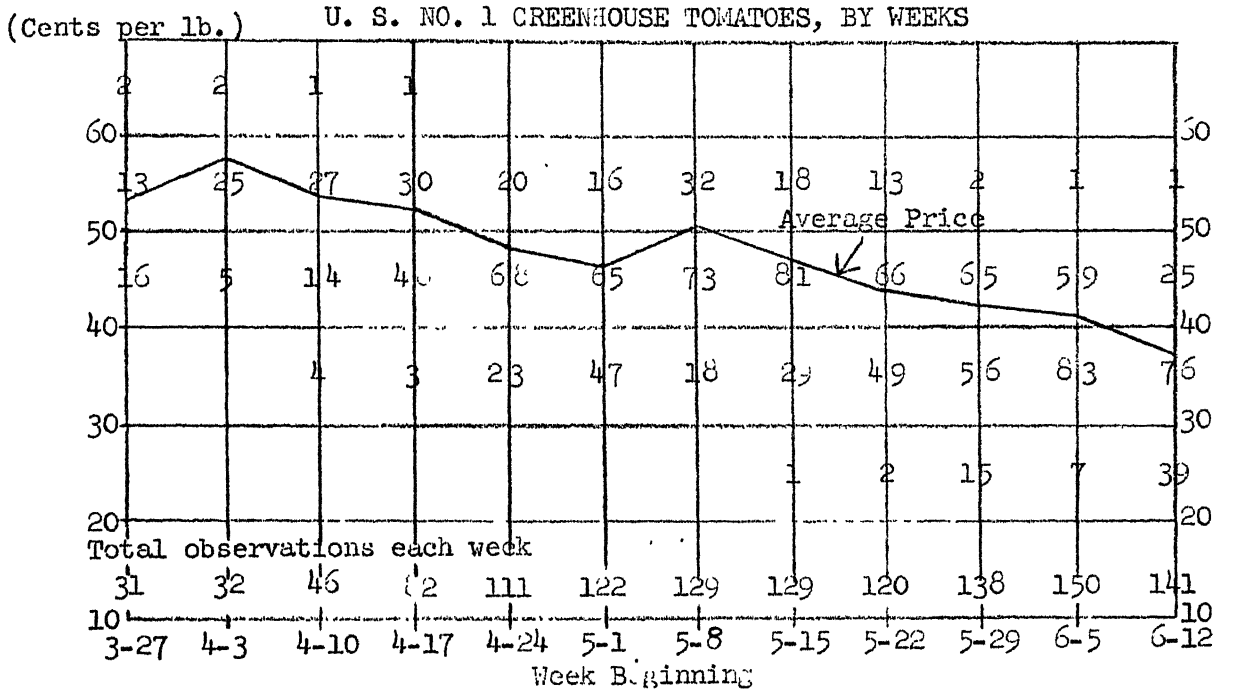
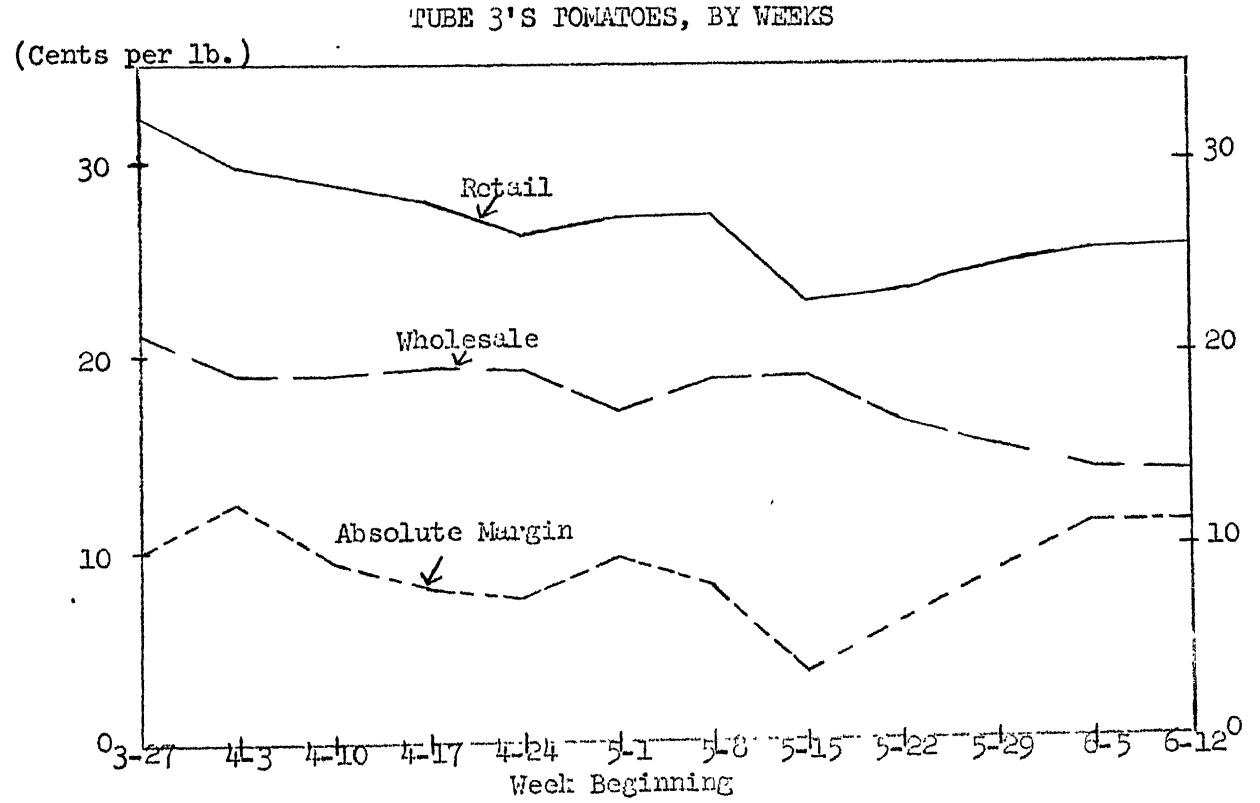


Chart IV

AVERAGE WHOLESALE PRICE, RETAIL PRICE AND MARGIN

TUBE 3'S TOMATOES, BY WEEKS



*Wholesale prices from Federal Market News Reports for Thursday and Friday of previous week and Monday - Wednesday of stated week were used.

Table I

Absolute and Percent Margins, 12-week Average
by Tomato Type 214 Ohio Retail Stores
March 27 through June 10, 1961*

Type of Margin	Greenhouse			Vine Ripe	Tube**	
	#1 Med.	#2 M-L	#1 5&6 Pac.	All Sizes	3'S	4'S
Retail Price	47.9	40.1	37.5	37.6	27.0	28.1
Absolute (cents per lb.)	14.18	16.06	12.3¢	17.9	9.2	10.7
% Margin (of retail)	28.5%	36.5%	28.2%	47.6%	34.1%	37.9%

* Federal Market Reports
** Cents per tube

Concluding Remarks

1. Marketing margins for greenhouse tomatoes in cents per pound remained relatively constant throughout the season while prices paid declined as supplies increased.
2. Retail greenhouse tomato prices were more responsive to the wholesale prices than were those of tube and vine ripe tomatoes.
3. Retail prices for greenhouse tomatoes varied among the retail stores by about 30 cents per pound.
4. No difference in pricing policy of different types was apparent for greenhouse tomatoes.

Livestock Market News Needed In The Sixties For The Eastern Corn Belt

Roy H. Rockenbach, Chief, Market News Branch,
Livestock Division, USDA, Washington, D.C.

Before we get in to even what our work is, I want to explain one thing and that is -- we don't come out here looking for work. I'm sure Clarence Girard will agree with me that we have plenty to do and we're certainly not trying to take over any state operation or any private operation in market news work or to replace anyone. We are here to help in any way we can to show what is done in other states and to show the kind of programs that have developed and maybe we can profit by some of the successes and failures in other areas. To tell you just a little bit about what our work is -- we have forty-eight offices over the United States representing points from the east coast to the west coast, from New York to California on down into Texas and up into Minnesota. Most of our operations, until a few years ago, were simply federal operations. Then it became apparent that there were many needs for more intensified information and many kinds of information on a state basis and so we began developing federal-state programs.

Now what do we do? We report completed prices on completed sales of livestock, meat and wool. We have all three under our program that is directed out of Washington. Certainly we couldn't keep track of all what's going on all over at once. This is one thing we do emphasize in that some people think that we predict prices and that is not our job -- to tell farmers, producers or others what the livestock might bring tomorrow or the next day or even later on this forenoon. This is not our job. We try to report completed sales as nearly accurate as to a

weight and grade basis as is humanly possible.

We'll go just a little bit into our past record, then tell you where we are today and then a little bit about what the title is: "Market News in the Sixties" which is what I think we are interested in.

Most of you know that there have been periods of evolution when markets change from direct marketing many years ago to terminal markets and auction markets. And now the shift is back to more direct marketing. Before we had terminal markets in the United States, all the livestock was marketed direct. And, of course, the auction sales have been going on since many years before anyone came to America except for the Indians. So, auction markets aren't new, direct marketing isn't new and certainly I don't believe that any one type of marketing today could handle our full livestock production. I don't believe we could get along without the terminals without a period of adjustment. Certainly we couldn't get along without the auctions. Neither could we get along without the direct marketing system we have today. Therefore, it is our job to report all of them.

When Market News was started back along 1918-1925, primarily the livestock centers were terminal markets. Therefore, our market reporting offices were established at the terminals. This carried on through until about 1939 when we started the direct reporting service in Iowa. From then on we have gradually developed more direct and auction sale reporting. However, it wasn't until just a few years ago that we really got into the auction reporting program in such a manner as we believe was fully satisfactory.

As we shifted from terminal market reporting to some direct reporting

and some auction reporting, we found, of course, that this direct auction reporting is a lot more expensive because you report on less livestock per man that you need to do the reporting. This is one of the problems. This is where we are today. We are in the process of shifting from primarily reporting terminal markets to covering auction sales, direct sales, and of course, we also have problems in the meat and wool marketing. In wool trading many years ago the Boston wool market was the primary center of wool trading. Over the past ten to twenty years the trading in wool has shifted from the Boston area and many wool mills have sprung up all along the east coast and some out on the west coast, etc. So not only in livestock, but in meat and wool we have problems in shifting our market reporting.

You might wonder how we do the livestock market reporting. We report livestock at the terminals generally only when we see the livestock. We have followed this pattern through auction reporting and believe that we should report the auction markets only if we have a man there to view the livestock. You might say, well, (and some states have) reported livestock auction markets use the auction operator information. We're not saying this is bad. We're saying this is perfectly satisfactory for this local area. Certainly, the auction market operator can provide valuable information. But to keep the information uniform and to keep it so it can be understandable in other areas, we need something besides the individual auction market operator information. Because this auction operator or anyone who is in a local situation may use a different grade interpretation, he may use different terminology, or he could even possibly be biased, who knows? So, for this reason we report

auction markets in our federal-state program only if we can have a person there at the auction market while the sale is in process.

Now, in the direct marketing a few years ago we might mention that we reported many livestock sales. The need of seeing these livestock sales out in the feedlot or out on the range or even direct hog reporting was not realized to the fullest extent that it was necessary to see some of these hogs to verify that the information was accurate and complete. Because even though it was accurate, if it is not complete as to the shrink or as to the weighing conditions, it is not too valuable. So, we have developed a program for checking the sales we report in direct trade. (We'll mention that a little bit later when I tell you about some of our federal-state programs.) But generally speaking, we believe it is necessary to see a good share of the livestock we report even in the direct sales in order that we can verify that the information we put out is accurate.

And this is how we report today. We have been, of course, requested to use auction-operator information. For many years this has happened. There was a time when we used some of this. We found out that it was not a good process and certainly today if the auction operators want to furnish it to the local newspapers and they find it valuable, this is fine. We believe that the federal and the federal-state service can provide uniformity to make this information more usable in other areas.

You might wonder why we need federal or federal-state information. We have a little example in this morning's paper. I picked it up and here is the livestock report. Part of it is by the State Department of Agriculture in Ohio. Part of it is USDA for Chicago and there is also a report

prepared by Armour & Company. I don't have any doubt that each one of these put in the best information they could, but I have no doubt either that none of these are exactly comparable as far as grade or weighing conditions. And therefore, it is rather difficult for the producer to look at these and get the complete knowledge that he should have. This is one reason why we need federal or federal-state information. I have here another market card. This happens to be for the 12th of March and we have one from Illinois for the 13th. On one of these the price spread on butcher hogs is 16.25 to 16.50. On the market card the price on butcher hogs is 15.00 to 17.25. Well now, if there is a difference between 15 and 16.25 on the bottom end of these hogs, that is a real difference in the margin of profit if it means any number of hogs. Certainly the person who put out the market card I am sure did his best and put on this card the way his hogs sold. But he was using a different quality of hogs or a different weight of hogs or taking some other things into consideration that made the two market reports noncomparable. I believe Director Wood brought up a very good point when he mentioned that to be useful there must be an exchange of information between states. If we get into this common market in Europe, there must not only be an exchange of information between states, but there must be an exchange of information between nations. This is the real reason why you need someone or some assistance to make information comparable from one state to another. Certainly Ohio could develop their own state reporting program that probably would fit Ohio if all the livestock produced was used in Ohio and none came into Ohio from other areas. But, if you are to ship livestock out of Ohio or bring livestock or meat into Ohio or ship meat out of Ohio, well then you need

an exchange of information with other states on the same basis that the other states are using. This is where we believe we can, as Federal people, help you. Certainly, as I mentioned, we don't want to try to run anyone's program (we're not here to try and run anyone's program). We in the Federal Service are interested in three main things as far as the Federal-State Reporting Service is concerned. We are interested in seeing that the proper techniques of collecting information are used, that enough of the livestock is seen and that we can assure accuracy. We are interested that the same grade interpretation of livestock is used between the various states so that when they talk about a choice animal in California, you know what they're talking about here in Ohio; or if you talk about a No. 1 hog here in Ohio, they know what you are talking about in Virginia or New Jersey or where the hogs may be going.

And the final point is -- we are interested in using somewhat of the same terminology so the reports can be interchanged between the states. This is about as far as our requirements are in Federal-State market reporting programs.

Now where do we think we may go in the next five or ten years? This is difficult to say. I mentioned we don't make predictions on market news in our market reporting. We were accused of this a year or so ago. It was stated that we set the prices at a number of markets. Certainly I think we all agree that some people do use Chicago, Omaha or St. Louis as a basing point price. This is perfectly natural. This will always happen. However, the prices we release from Chicago or from St. Louis, from interior Illinois or from other places, they are all based upon sales completed when that report was issued. We do one bit of predicting and that is -- we make estimated receipts for the day's trade.

At a few markets, probably in eight or ten markets, we make advance estimates for the following day for Tuesday through Friday. This is as far as we go in making any predictions of the estimated receipts for the following days.

Now, I will try to predict a little what may happen in market news programs for some states. At the present time we have seven states that we work with on a cooperative basis and have market reporting. We have with California one of the oldest and most complete programs. The state reporters in California work just the same as our reporters. They have the leased wire service available to transfer the information between the offices and, in fact, their reporters in California in most cases are comparable to ours in every way. They have an excellent program and do the same type of reporting. They report direct sales. They report auction sales and there are two small terminal markets in California. Possibly you could consider three if you consider Stockton and then the two markets just outside Los Angeles as two instead of one.

We have six other states with programs. Some of the older ones are down in the southeast area (Georgia, Florida, Alabama) which have a team of state reporters reporting auction markets. Each of these states are divided into four or five sections depending upon how the livestock moves within the state. These state reporters each cover one auction market a day, furnish the information to press and radio stations and then immediately after the sale furnish this information to them. So, the auction market report is on the air either the evening of the sale or early the next morning and is also available to newspapers immediately after the sale. In addition, the information is forwarded

to a central office where it is summarized and a state-wide summary is prepared.

A similar operation is carried on in Georgia, Florida and about a year and a half ago, nearly two years now, your neighboring state of Illinois started a full state-wide program of auction and direct reporting. The work is headquartered in Springfield, Illinois, with one man working full time as a coordinator mainly to maintain uniformity in grade interpretation, standards and the techniques of gathering the information. Each of the five reporters in Illinois have a section of the state. Each reports an auction market a day. In the forenoon they check buying stations and packing houses where they buy direct. They check the records of these and what they are checking for is that they not only check the records, but they look at the hogs that have been bought at these places because our Springfield, Illinois, office calls these various states each morning to put out the direct Illinois hog report. They collect information on about 20,000 hogs every day. Then these five reporters in the various sections of Illinois are spread out over the state visiting the buying stations, visiting the packing houses where these hogs are bought, checking the grades on the hogs that are there for the day and checking the previous day's records to see that we're getting accurate information.

Now, we recognize that this isn't complete as far as a direct reporting system should be on hogs, but it would certainly be far too expensive to keep a reporter at every one of these packer buying houses or buying stations. This is the best system that has been devised as yet for collecting this direct hog sale information and verifying it.

We find practically no variation in the prices they give us. There will always be differences of opinion in borderline prices on grade and this is, of course, what our reporters are concerned mainly with when they go visit these buying stations. They are looking at these hogs critically as these people are that are at the buying stations or packing houses. They may not call the hogs the same grade all the time. Certainly they learn what one packer or what another buyer is calling a No. 1 hog or is calling a certain grade of steer of whatever it is they are looking for. This, we believe, is the direction that market news may go from here on. We can't predict it. All we know is that it has proven successful in a number of states.

We could mention some states that have started using auction operator information. I could tell you about a state that collected direct hog sale information and recognized that they were getting 25 to 50 cents under what was being paid. But, they released the information believing that the farmer was getting more anyhow than he thought he should because if he took it to the buying station, he would get 50 cents more than what the state had reported it. Well this, of course, proved to be very bad information. It was actually misleading so they discontinued this and are now working on a system of checking the prices they receive.

Now, this has all been part of the development. Several states that took auction operator information and released it as a state report have discontinued such reports. This has not proven to be successful either. We have a good program in Kentucky. We have revised our agreement with Pennsylvania three times within the past two years to increase

auction reporting in the state of Pennsylvania. This seems to be the direction we are going.

We also mentioned that this was costly. I can tell you that in Illinois we are spending between $20,000 to $25,000 in Illinois to provide the federal supervisory office, the clerk and the travel. The state of Illinois is spending annually in the neighborhood of $55,000. This could vary $5,000 in either direction. So, this is an expensive operation, but Ohio is marketing about 4,000,000 hogs each year. If you would take these 4,000,000 hogs and figure them at 200 pounds apiece, that would be 800,000,000 pounds. If you could just raise the average price of hogs a cent per hundredweight on this 800,000,000 pounds of pork, your $50,000 or whatever your state would spend would be minimized.

We in the Federal Service do not tell any state or even recommend to any state how big their program should be or how much they should spend. If they are interested in a program, we will be glad to try to help them work out such a program in such a manner as has been found satisfactory in other states.

I certainly believe that you have a great deal to work for here in Ohio. You have alot of hogs and cattle that are sold direct. Your Cincinnati market is not as large as it used to be and is not as important. Therefore, I believe it is time you take action if you want federal or federal-state reporting.

Answers to Some Questions

1. What is the best procedure for us to improve our marketing reporting system in Ohio?

I believe that we could do a better job of informing the public if we had some uniformity on how this information was gathered and assembled and also distributed. I think one thing we certainly could use is some additional uniformity so that the market reports would be more comparable. Of course, as I understand it, you don't have any auction reporting or any direct cattle reporting in the state. The University people are very well informed on what is happening and what has happened in the state. They have county agents and Extension people who can talk to various industry groups or farmers and get their ideas. They are in a good position to act as an advisory group to the State Department of Agriculture. I believe, also, that the producer organizations should be represented in any planning for a full-scale market news program.

2. Do you think this has benefits for markets, packers as well as farmers and others who produce livestock?

There are always side benefits while our service is primarily for the producer. There will be some auction markets, there will be some buying stations put out of business by an adequate market reporting system. We have found in Illinois, for instance, that the bottom end of the price spread has narrowed about fifty cents in a year and a half. We have found some of the marginal very small

buying stations that were taking a big cut and have gone out of business. Because, they were buying these hogs below what the market was. There will be some this without a doubt.

3. If you report direct purchases and the prices that result from those purchases, at what point do you establish the price where cattle are sold on a grade and yield bases in a packing plant?

We have not, as yet, reported prices on a grade and yield basis. A few of our reporters have mentioned in their western reports sales on a grade and yield basis. There are three reasons why we have stayed away from this. First of all, we do not have assurance that the identy of the animal is maintained from the producer to the carcass. Secondly, we do not have information that the grade has been certified on the proper cattle and third, we don't know the weighing conditions because, as all of you know, some packers may shrink from their hot weight from one and a half to two and three quarters per cent. All of this, of course, would throw our figures off. So, to date, we have tried to stay away from reporting prices that have been sold on a grade and yield basis. If this increases, it will make our prices less comparable. We are studying this problem of reporting on pencil shrinks. We may make a change in our reporting procedures. At the present time, we are putting at the head of the reports that the following sales are based on 4-5% shrink or 4% shrink, mostly 4% shrink, or something on this order. We are studying the pitfalls and what the problems would be to report all prices on a shrunk basis. We are just looking

at it; we have made no plans to do this. There are people for and against as you could well imagine.

4. One of the biggest criticisms of the federal market news service that the average farmer has is concerning your quotation on hog prices. In as much as you are quoting 1's, 2's and 3's, 190's to 240's with a big spread in price, don't you feel that you would be much better off quoting 190 to 220 No. 1's, No. 2's and No. 3's and 220's and 240's rather than making a farmer believe that hogs are being sold 190 to 240 all on a big spread?

I certainly agree with you 100 percent. But, I doubt if you can find our quotations today on our terminal markets or even on our direct trade with more than a fifty cent price range. Except when you get into the extreme weights and I think if you get into the extreme weights, we'll all agree that there is more of a range. This was certainly a fault two years ago, but we have narrowed this spread during the past two years. We have done much to narrow this price range by either separating weights or grades or making different combinations. This is certainly a valid criticism, but we have narrowed this during the last year and a half.

LIVESTOCK MARKETING PROBLEMS IN 1962

Clarence H. Girard, Director, Packers & Stockyards Division
Agricultural Marketing Service, U. S. Department of Agriculture

It is a pleasure to be here today and take part in your Fourth Annual Marketing Conference.

Meetings such as this, I am convinced, serve a very useful purpose. They strike at the deficiency in communications which is one of our very real problems today.

This is a problem in fact, that I think might well head the list of "livestock marketing problems in 1962" -- and, I might add, in any other year.

And it is problem that we are working on in 1962 as we continue to strive toward more effective administration of the Packers and Stockyards Act. Effective administration will require a major reorientation of P&S functions to achieve a more positive approach to livestock marketing. Our first step will require an intensive, nation-wide educational program to better inform producers, those in the livestock marketing industry, meat packers and the general public about the provisions, the protection, and the aims of the P&S Act. In return, we shall ask for advice and guidance from the industry in a cooperative effort to solve our many mutual problems. The success of this program will depend largely on our ability to enlist the aid of the most effective informational media available to farmers today -- the Extension Service and the county agent.

As for other livestock marketing problems -- those I was asked to discuss today as "needing action in 1962" -- I could give you a list as long as my arm -- some trivial, some of far-reaching importance. But

before getting into any such specifics, I would like first to take a few minutes to discuss the over-all picture as I see it and tell you in general terms just how we are approaching the administration of the Packers and Stockyards Act in 1962.

The P&S Act basically is designed to preserve free and open -- but fair -- competition in the marketing of livestock, meat, and poultry. To this end, the law prohibits those who are subject to its provisions from engaging in any practices which restrict competition, control or manipulate prices, control the flow of livestock, result in monopolies, or which are unfair, deceptive, or unjustly discriminatory.

These generalities are not fixed and immutable concepts to be applied in a theoretical vacuum. They must be realistically related to a constantly changing, dynamic marketing system. Guidelines that once were so simple and clear are no longer so. When the policy goal was to ensure that many participants be active in a market, the enforcement technique had to do chiefly with monopoly and with collusion or other recognized malpractices. Now that decentralization, vertical integration, and large retailers characterize the market, the P&S assignment is not so readily set forth. The rules of the game that were well suited to the centralized marketing system of yesteryear are not necessarily and invariably appropriate to the kind of system we have today.

To carry this a step further, the greatest hurdle of all is to bring our thinking up to date. Our concepts of what is right and what is wrong, the mores of the market, often still are tailored to the older situation. We have not replaced them with newer ideas applicable now. For example, actions by an individual firm that were harmless in a setting free of power dominance may be harmful indeed when backed up by possession of

great bargaining power. This is the dilemma of market behavior and market regulation in today's setting.

To put it differently, the issue we face is not whether certain practices are inherently bad or good or whether some firms are intrinsically saintly or evil. The issue is how to devise rules of conduct in marketing that are best suited to the kind of marketing system that has recently come into being. We will profit much if we remove the issues from moralism and pose them in terms of the criteria of a good marketing system.

We believe that the livestock industry is interested in good marketing because it depends for its life blood on a free and efficient system that will move huge quantities of a good product to millions of consumers without interruption or loss of quality. In other words, modern conditions demand an efficient low profit, high volume, unrestrained marketing system that gets a perishable product moved quickly and at low cost and to the satisfaction of the consumer. But at the same time we all want the system to operate to allow livestock producers and firms of modest size to maintain some equality of economic opportunity with those of massive financial power. Such is our mission and it is an enormous undertaking.

The size of our task may be placed in more understandable perspective by a brief review of what has taken place over the past 40 years.

Changes that have evolved in our marketing system since the P&S Act was passed in 1921 are numerous. But perhaps the most outstanding are the development of the mass merchandising system and the loss of the formerly clear structure in marketing.

Forty years ago, we had a pretty well-defined system of marketing from producer through central markets, to the packer, through the wholesaler to the retail store. This pattern, which of course still does exist

to some extent, lent itself readily to observation and regulation. Today, the livestock producer and the retailer are still fairly well defined, but everything in between is mostly scrambled.

Whereas 40 years ago, 90 percent of livestock marketed went through terminal markets, now it's something less than 38 percent.

In 1930, only about 200 auctions were in operation. Now there are some 2,300 under P&S regulation. Direct sales to the packer, from farm or feedlot, have increased no less spectacularly.

This trend toward decentralized marketing has also been stimulated by the trend toward decentralization in the meat packing industry. And, just to complicate the picture a little more, we also have to consider the varied effects of integration -- the horizontal mergers and acquisitions of competing enterprises by firms of similar types, as well as the vertical integration of firms performing different functions -- such as cattle feeding by meat packers and slaughtering by retailers.

Along with these shifts in marketing operations we have witnessed the shift in market power to the retail level that has come about, in the main, since World War II. This is indeed something new for the livestock industry. It was the meat packers' domination of marketing that inspired the passage of the P&S Act in 1921. Now meat packers are complaining that retailers are dictating prices to them.

The growth of retail supermarket chains -- both corporate chains and independent stores that group together to achieve the same sort of buying power -- is certainly a factor with which we must reckon. These chains, it is widely recognized, account for more than 85 percent of all grocery store sales. To put it another way, more than four-fifths of all food retailing in this immense country is being done by fewer than 90 thousand

stores -- most of them affiliated in chains of one sort or another. It was recently reported that only 1,086 buying offices account for 87 percent of the national food sales.

That such concentration of buying power as these figures reveal has far-reaching effects is perfectly obvious. Such factors as decentralization and vertical integration have their effects, too. But no one person or institution has yet made a thorough enough appraisal of all of these changes, many of which are relatively recent, to give us any clear idea of just what they mean or where they are leading us. Such work is under way, however, both in Government and outside -- in universities and experiment stations.

Recently there was set up within the Department of Agriculture a task force charged with studying the entire problem of the changing nature of the marketing system for agricultural commodities and its significance to Department programs. Economists from both marketing research and marketing programs were brought together, in the hope that such a team could come up with useful recommendations.

We who are concerned with the administration of the Packers and Stockyards Act also need to study not only the changes that have been and still are going on, but also the many new problems that have come along with them. We must ask ourselves what new concepts must we develop to determine what is acceptable and what is not, what is fair and what is unfair. And we expect to obtain valuable guidance in our search for new concepts from the Department task force.

Our concern, of course, is to see that everyone along the line -- from the producer to the consumer -- is able to get fair treatment.

The fact that the P&S Act was broadened in 1958 to bring within its

scope all stockyards, market agencies, and dealers whose business touches on interstate commerce, means that we must look at the whole picture, and from all angles.

It is incumbent upon us to make sure that through regulation we are not inadvertently favoring or restricting any one type of market outlet over another. The purpose of the amendment, obviously, was to provide that trading practices shall be uniform in all marketing channels, whether at public markets or in the country.

All of us naturally would agree with this philosophy in principle -- that restraints -- or the lack of them -- should apply equally to all marketing methods and all persons subject to regulation. But when we come to apply this principle, we immediately are confronted with the differences in customs and practices that have grown up over the years in the previously unregulated phases of the industry.

Accordingly, we are seeking to confer with all segments of the industry in an effort to develop regulations which are workable and fair--regulations that are responsive to present day marketing conditions. We believe, however, that the regulations should contain explicit guidelines, simple and readily understood. Nothing hampers business like uncertainty. Nothing daunts or discourages it like the necessity to take chances, to run the risk of falling under the condemnation of the law before it can be sure just what the law is.

That is why we have been asking the aid of the livestock industry to ehlp us write regulations that are sound, explicit, practical and fair -- regulations, in short, with which the industry can live and prosper.

Some people contend that we should not issue regulations, but administer the Act on a charge and defend, case-by-case basis. We do not

believe that this is an adequate approach for many of our problems under the P&S Act.

The case approach is cumbersome and poorly adapted in many instances to keeping pace with the commercial innovations of a dynamic economy. The regular emergence of new marketing outlets, new methods of distribution, new selling devices, and ever-increasing competitive pressures, finds us unable to keep pace by using the case-by-case method solely. Moreover, the case method in certain instances may be unfair as it strikes only at individual firms. Prevention is preferable to prosecution as a fairer means of obtaining compliance with the Act.

The rule-making approach also has the advantage of directing attention to an entire industry rather than focusing attention solely on particular firms, and it involves on analysis of all relevant aspects of a problem rather than dealing with symptoms. In addition, if members of the industry voluntarily participate in the rule-making process, they are more apt to become partners in the development of sound policies. As a result, we shall be in a position to receive guidance so that what evolves is a servant, rather than a master.

This is not to say, however, that the mere issuance of even the best of regulations will automatically ensure compliance with the Act and that no cases will arise thereunder. Those engaged in the livestock industry are responsible, honest citizens and possess high standards of business integrity; however, unfortunately there will always be some, as there are in all industries, whose standards of business ethics are not as high as they should be.

A review of formal disciplinary and other proceedings under the Packers and Stockyards Act concluded in the past two years, or presently pending,

will indicate the breadth of our enforcement undertaking and the nature of some of the problems with which we are confronted.

Proceedings based upon complaints against packers have resulted in orders requiring them to cease and desist from such violations as (1) failing to pay for livestock; (2) engaging in unfair livestock buying practices by using false weights; (3) falsely grading meat; (4) restricting competition in livestock buying; (5) combining to control prices in lamb buying; (6) using false advertising; (7) using unfair buying practices at hog buying stations; (8) unfairly pricing meat; (9) delaying payment for livestock; (10) using unfair weighing practices in buying livestock; (11) furnishing inferior products to State institutions. Other pending complaints against packers involve (1) failure to pay for poultry; (2) upgrading of beef; (3) failure to pay for livestock; (4) falsification of meat grades; and (5) live and dressed lamb buying practices.

A review of the dockets of cases brought against stockyard owners, market agencies, and dealers involving registration and bonding, rates and charges, trade practices, and weights and weighing shows some 150 cases, initiated by the P&S Division, were prosecuted to a conclusion in the past 2 years with orders issued requiring respondents to cease and desist from various violations of the Act, suspending registrations, granting reparation for damages, and affording other relief. We have some 50 cases pending at the present time.

In addition, a considerable number of cases have been carried forward and prosecuted in the Federal Courts, wherein fines have been levied for violations of the Act, injunctions have been issued to prevent further violations, and other action taken in a substantial number of cases.

Some of the other problems we shall be giving attention to during

1962 include the use of "pencil shrink." Should we forbid it at public markets if we allow it in the country? If so, where do we draw the line? How do we make a distinction?

The bonding of packers and the prompt payment for livestock and meat also need attention. Should anything be done about these and, if so, what?

We are earnestly seeking your views on these and other matters. We feel that those in the industry must take a stand on what kind of industry they want to live with and must help form concepts of right and wrong, fair and unfair, by which all in the industry should be guided.

These are just some of the perplexing problems we are presently grappling with. Others, such as false and deceptive weighing practices, price manipulations, conflicts of interest such as when market agencies purchase out of consignment for speculative purposes -- these we always seem to have with us to a greater or lesser degree.

We also receive complaints about practices which have the effect of avoiding buying competition -- for example, division of buying territories, agreements not to compete, the furnishing of competitors with information on proposed buying operations, and the use of a common order buyer to avoid buying competition.

We believe that all such practices violate the Packers and Stockyards Act. It would be better all around if industry would voluntarily stop these practices without action on our part. But we know from experience that there will always be some who will overstep the bounds to obtain an unfair economic advantage. In the less serious cases, we offer a violator an opportunity to enter into a stipulation under which he agrees to discontinue the unlawful practice. In the more serious cases, however, formal

action is usually necessary to obtain effective compliance. In the latter cases we, of course, must have the facts to prove the violation, and in many instances, the economic effects thereof. We cannot proceed summarily. We must obtain legally sufficient evidence, admissible in court, before we can make formal charges.

This is as it should be. But it does, again, mean that we must count on industry help. We have the necessary legal authority, but only if people in the industry are willing to come forward with the facts -- and are willing to testify -- can we provide truly effective enforcement.

Such cooperation, I believe, displays a true regard for maintaining and fostering a free, competitive marketing system for livestock. And the value of competitive enterprise, in my opinion, cannot be over-emphasized. It is no accident that nations with truly competitive economics have never in history embraced totalitarian creeds, either of the fascistic or communistic variety.

Certainly the livestock industry is an important part of our national economy -- and the maintenance of free and open -- but fair -- competition within it is important to that same degree.

To do an effective regulatory job in the livestock and meat marketing industries, I repeat, we need industry help. We must have the facts that only those who are knowledgeable in the industry can supply. Only then can we make informed judgments as to how we can best administer a law that is designed to preserve competition in this important area. We must work together with industry -- it is in our common interest.

GRAIN FEED AND FARM SUPPLY SESSION

Opening Remarks by

Ross Milner, Chairman

The Government has had 33 continuous years in the farm commodity business. Essentially it started with the Federal Farm Board in 1929. During this period we have had a major depression, a boom, a major war and peace. Regardless of our state of economic and military affairs, we have continuously had Government farm commodity programs.

It is true that these programs have changed somewhat and as good citizens we should do all we can to improve them.

In the meantime we feel that the topics for this afternoon offer a great opportunity to be of value to you, namely, "How to Operate Under the Farm Program". This means that we shall be concerned with the impact of Government programs on decision making in managing grain and feed firms. We are fortunate to have two very competent speakers. Your questions and comments are also needed, however, to make the program a complete success. We propose that we hear each of these men, then we shall have questions which you may ask of both men.

Government Feed Grain Programs and the Grain Business

W. S. Farris, Agricultural Economics Department
Purdue University

Summary of remarks presented at Agricultural Marketing Conference at Ohio State University, March 15, 1962.

We have had a long series of government programs affecting the production and marketing of feed grains in the United States since the mid-30's. The soil conservation and domestic allotment act of 1936 and 1937 and the various modifications and renewals which have been super-imposed on the original act have had as general objectives, one to increase and stabilize the incomes of those farmers who sell feed and second to increase and stabilize the incomes of livestock farmers. The principle method used to achieve these objectives has been to reduce and stabilize the supplies of feed, and consequently the supplies of livestock products. A major problem all through the history of our feed grain programs has been the tendency to establish prices for feed grains above that which the market would establish at the same time the reduction programs were being tried. The consequences which we have all observed of setting support prices at what might be called inducement levels has brought activities on the part of farmers which tended to thwart the programs rather than to support them. It has resulted in confusion and frustration for farmers, has brought disappointment to the politicians, and in general has brought anguish to taxpayers. (And just possibly has brought a few sleepless nights to some grain dealers.)

Approaching our present situation we have been through several different attempts at supply reduction of feed grains. We tried to balance feed grain production with utilization by acreage allotments. This method, which was voluntary, did not succeed in balancing production with utilization and as allotments became smaller so did compliance.

We next tried price supports without controls on production with all feed grain producers being eligible for these supports. The price support levels which accompanied this program were such that they served to induce production rather than to restrict it, and possibly served to inhibit utilization. The advancement of technology during the period when price support without controls were in effect helped to write our history of mounting feed grain surpluses and the increasing role of the Commodity Credit Corporation in the feed grain business.

Next in line in our efforts to keep feed grain production down was the conservation reserve of the soil bank. Some of the 29,000,000 acres in the conservation reserve program undoubtedly came out of feed grains but most of these acres were marginal acres and this program at best did not cut our feed grain production significantly. The acreage reserve program was addressed more specifically to the cutting of acreage planted to feed producing crops but here again relatively high price support levels, rapidly advancing technology and, some would say abnormally good weather during the late 50's, caused the acreage reserve program to fall far short of its anticipated goal. The acreage reserve program probably kept corn production somewhat below the levels which might have been realized in the absence of the program but

still with only about 7 percent of the corn acreage under the program there was much slippage and the carryover of corn continued to mount each year.

This brings us to the emergency feed grain programs of 1961 and 1962, the 1962 program being in the main a carbon copy of the 1961 program. The programs were designed to increase farm income and to reduce, or prevent further accumulation, of feed grain surplus. Participation in the program is voluntary and the farmer can qualify under the program if he will reduce his corn acreage by 20 percent below his base acreage as worked out by the local ASCS committee. The acreage thus diverted from corn must be used for soil conserving purposes. A participating corn grower will be eligible for a price support loan at a $1.20 per bushel (National average) on the normal production of the acres planted to corn. In addition he will receive a government payment to equal to the support price times 50 percent of the normal production of the diverted acres. One half of this payment is made soon after the farmer signifies that he will comply with the program and the other half after compliance is checked. If the farmer so elects he may divert up to 40 percent of his corn acreage and for the additional 20 percent diverted he will be paid the support rate times 60 percent of the normal production on the land diverted from corn. Sign up for the 1962 emergency feed grain program is now underway and the present plan is to complete this sign up by March 30. The USDA is anticipating a rate of sign up of approximately equal to the 1961 program. Last year's program resulted in 18 percent reduction and corn acreage but due to good weather, advancing technology and other slippage factors, the crop turned out to be only 9 percent below the previous year. Expected carryover of corn into the 1962 feeding

year is expected to be down by about 200,000,000 bushels. The degree of participation, the weather, and farmer application of technology will determine to what extent the 1962 emergency feed grain program will reduce total corn supplies. In payment for the two emergency feed grain programs the Commodity Credit Corporation was permitted to sell corn from government stocks at market price without regard to the previous formula of 105 percent of support price plus carrying charges. Thus CCC has been a most active seller in the market this year as all of you well know, and as long as there is a spread of 15 cents or more between the support price and the market price farmers will continue to tender large amounts to the government and consequently the government will continue to be a seller in the market.

The proposed Food and Agricultural Act of 1962 is designed to: 1. to improve and protect farm income, 2. reduce the cost of farm programs to the taxpayer, 3. reduce the government's excessive stocks of farm commodities, 4. maintain reasonable and stable prices to consumers for food, fiber and other farm products, 5. provide abundant supplies of farm products for domestic and foreign needs, 6. conserve and improve soil, water, grasslands and forests, 7. expand opportunities of all American's for recreational use, water, forests and wild life, and 8. improve the living standards of rural communities through rural renewal. The feed grain section of the proposed act title IV, sub title A is an inherent part of the administrations announced A, B, C, D program. Abundance, -Balance, -Conservation-Development.

Under this act, corn, oats, grain sorghum, barley and (at the discretion of the secretary) rye would be treated for the first time as a single commodity for the purposes of bringing total supply of feed grains more nearly into the line with needs. The program would be effective for the 1963 and subsequent crop years. Marketing quotas and acreage allotments would be established for all feed grains as one commodity if two thirds of the feed grain growers voting in a referendum approved such marketing quotas. The marketing quotas and acreage allotments would be proclaimed, worked out, and voted on in advance of the production period in which they were to apply. The secretary would be authorized to make payments to producers who divert feed grain land to conservation uses. Additional land could presumably be diverted from feed grains equal to 20 percent of the allotment and payments would be made for so doing. Marketing quotas and acreage allotments would be mandatory if approved in a referendum.

Under the proposed new program if marketing quotas were approved by producers the level of price supports for feed grains would be between 65 and 90 percent of parity. Price support on all feed grains would be available only to a producer who stayed within all acreage allotment in his farm and who compiled with the land use requirements. Presumably such price supports would be handled similar to those in previous years.

If marketing quotas are in effect penalities would be paid by feed grain growers who produced and excess acreage of feed grains. This marketing penalty would be at a rate of 65 percent of the parity price per bushel.

(The February 1962 parity for corn was $1.60 per bushel). Thus the penalty at present levels would be $1.04 per bushel.

If marketing quotas are voted down by producers then there will be no price support and the commodity Credit Corporation would be authorized to sell up to 10,000,000 tons of feed grains for unrestricted use at market prices.

If the proposed feed grain program is not enacted then the legislation in effect in 1960 would presumably be in force. This would mean unrestricted production of corn at fixed price support levels. Corn acreage allotments could not be used and there would be no limit or qualification on acreage to qualify for price support. The price support rate would be at 90 percent of the average price received by farmers during the preceeding three years. But at no less than 65 percent of parity.

In projecting the results of the proposed feed grain program the USDA expects (1) production totaling between 135 and 140 million tons in 1963, and then ranging from 140 to 145 million tons a year in the mid-1960's, (2) carryovers dropping sharply from an estimated 72 million tons October 1, 1963 to 64 million tons in 1964, 56 million tons in 1965 and 48 million tons in 1966.

The feed grain situation now is that, while we will apparently have a reduction in carryover stocks this fall, we have the problem of handling a six months supply at year end in addition to the new crop owned largely by CCC. CCC will probably be a big seller in the market for some time to come.

It is certain that if support prices are substantially above market prices, then government takeover will be relatively high and as a consequence CCC sales will be proportionately large.

There is every indication that utilization of feed grain will increase. Business volume will thus continue at high levels. The question remains as to who will handle it.

If the government policies shift most of the grain handling responsibility to the trade, then the business will gravitate to the efficient handler, location considered. A major difference in the grain situation ahead, assuming that CCC stocks are reduced, is that storage income from government stocks will be less. Storage space built to accommodate this need only is likely to go begging.

However, grain men still face a situation in which they can earn income in the ways they are best equipped to do:

(1) A handle charge on the farmer's grain.

(2) Payment for conditioning and storing grain for farmers.

(3) Blending grain to advantage as farm, CCC, and market outlets permit.

(4) Getting margins on grain sold through regular and specialized outlets.

Some implications and observations for grain firms.

1. Government will be a major receiver and seller of corn for several years.

2. Grain storage revenue will ebb and flow with the managing of CCC inventories.
3. Assuming that surpluses are reduced the construction of additional storage space for the occupancy of CCC corn is risky business.
4. Adequate storage space and efficient handling and conditioning equipment must be maintained.
5. Quality considerations will probably play an increasing role in grain merchandising. A dealer who loses on quality will probably lose his margin.
6. Pricing is likely to be dominate by support rates for several years.

What can the individual dealer do?

Mainly he will need to create his opportunities for merchandising and handling if he expects to get business above that which will come to him because of his location.

He has at least three major avenues open to him.

1. Be an active purchaser of CCC grain when it can be profitably handled by blending operations. This will call for aggressive purchasing from farmers and alert merchandising through "irregular" outlets.
2. Increase storage occupancy by offering inducement for farmers to store grain. Permit selling on any day elected by the farmer. Make offsetting futures sales.

3. Actively solicit farmers high moisture corn which would otherwise be eligible for support. Dry the grain, give warehouse receipt so farmer can get price support loan. You can earn the storage, some handling charge, and possibly, buy the corn and make a margin on it.

Even though government will be a big factor in the grain business, business there will be, and payment will be made to those who handle the tremendous quantities of grain needed in our economy. Competition will be keen, margins will not always be assured. But the grain handler who operates adequate, efficient facilities and who does an aggressive job of buying and merchandising will continue to have a prosperous business.

THE GOVERNMENT AND THE FEED INDUSTRY

Oakley M. Ray
Director of Market Research
American Feed Manufacturers Association

Public agricultural programs is a most controversial subject. There is disagreement in almost every segment of agriculture as to how much the Government should attempt to do for agriculture and what the short and long run results of alternative programs are likely to be. The opinions I express here are my own, and do not necessarily agree with opinions of AFMA directors or other AFMA staff members.

The feed industry probably has not been as seriously affected by agricultural programs as the grain industry. The large surplus of feed grains is being released as production is cut back, so that there is no foreseeable prospect of a feed shortage within the next few years for the U.S. as a whole. Shortages have occurred in some areas where programs have encouraged farmers to withdraw from production large percentages of total feed grain acreage. In some cases this has meant that feed grains have had to be imported in larger quantities than usual from feed surplus areas which has placed the livestock and poultry industries of certain areas at a disadvantage relative to other areas.

One program which is important to the feed industry is the milk price support program. Milk supports were raised about a year ago to a point where farmers are willing to produce more milk than consumers will buy at present prices. Milk feed ratios have been quite favorable for efficient dairymen, and production has been increasing. This may be detrimental to both the dairy industry and the feed industry over

the long run. It will be more difficult to adjust the overexpanded dairy production plant to consumer demand than would have been the case before the recent expansion. In the short run, however, the favorable milk feed ratios have been helpful to both dairy farmers and the feed industry. The alert feed man has been working with his dairy customers to develop a feeding program which will help each customer to maximize his profits under the conditions that now exist.

The current dairy situation illustrates an important point concerning agribusiness. An agricultural program is likely to present opportunities to alert farmers and agribusinessmen regardless of whether the program is basically in the best interest of agriculture and/or consumers over the long run. The alert entrepreneur will take advantage of these opportunities by adjusting his operation as agricultural programs change.

Current U.S.D.A. administrators favor the development of strict control programs for most agricultural products. The proposed Food and Agriculture Act of 1962 permits strict controls for three important parts of agriculture - feed grains, wheat and dairy. A turkey control program is being considered, and a referendum is likely if the Secretary of Agriculture feels that it will be approved by producers.

The development of programs for some commodities will likely lead to programs for other commodities. If the dairy and turkey industry should be cut back, for example, farmers who have been producing these products will have excess time, capital and buildings which can no longer be used for milk and turkey production. Some of these resources will be used to produce commodities which are not controlled, such as beef cattle, eggs and broilers. This will lead to

overproduction of the uncontrolled products and force producers of the uncontrolled products to ask for control programs in self defense.

The feed industry is not likely to be cut back much in total as long as controls are limited to a few products. A feed manufacturer who has depended heavily on dairy feed might be hurt temporarily if dairy should be cut back substantially. However, his customers would tend to adjust in a short time to increase their production of uncontrolled livestock and poultry products. Therefore, total feed requirements for the country as a whole would probably not be restricted very much.

If we eventually develop controls for all important livestock and poultry products, this would restrict most sectors of agribusiness as well as producers. The major objective of the programs would be to increase farmers' prices by restricting supplies. The consumption of meat, milk and eggs would thus be less than would otherwise occur. The controls would also likely result in considerable inefficiency of production and marketing since the most efficient operators would not be able to expand readily relative to the less efficient. In similar fashion, the most efficient areas would not be able to expand readily relative to the less efficient areas. This would further increase the prices that consumers would have to pay to obtain a given quantity of meat, milk and eggs and would further restrict consumption.

The average feed customer will likely purchase smaller quantities of feed if controls are developed for the animal product(s) which he produces. It is popular to exclude small producers from controls and to favor the small producer relative to the large. There are usually more small producers than large producers. Washington decision makers, whether Republicans or Democrats, usually give some consideration to

the number of votes involved when making decisions. Also, it would be difficult to administer a program which attempted to control thousands of small producers.

In the case of the proposed turkey marketing orders, for example, the smallest producers are excluded. If prices should be increased by the program, this would encourage more small producers to enter turkey production. Thus large commercial producers might produce a smaller percentage of the total crop. In the case of the burley tobacco program, there has been a substantial change toward smaller producers over the years. In 1944, 41% of the burley tobacco allotments were one acre or less in size, and 8 1/2% were five acres or more. By 1959, 74% of the allotments were one acre or less, and only 2% were five acres or more.

Most of agribusiness is likely to be tightly controlled if control programs are developed for meat, milk and eggs. The proposed turkey marketing order illustrates the degree of controls that can be expected. The order provides that turkey processors could be required to withhold from marketing a percentage of turkeys slaughtered. The Advisory Committee and the Secretary of Agriculture would decide what percentage would be set aside, how long the processor would hold the birds, how he would dispose of the birds and how much he would receive for processing and other costs of the set aside. Employees of the Secretary would have almost unlimited access to facilities and records of the processor. A second marketing order has been considered for turkey eggs which would apply similar controls to hatcheries.

Agribusiness controls will likely be widespread if several agricultural control programs are developed. A quotation from the proposed

wheat program of the Food and Agriculture Ace of 1962 provides an example. This section on "Reports and Records" reads as follows:

> "This section shall apply to warehousemen, processors, common carriers, and other handlers of wheat and food products containing wheat, all persons engaged in the business of purchasing, selling, exporting, or transporting wheat or food products containing wheat---- Any such person shall, from time to time on request of the Secretary (of Agriculture), report to the Secretary such information and keep such records as the Secretary finds to be necessary....Such information shall be reported and such records shall be kept in such manner as the Secretary shall prescribe...the Secretary is hereby authorized to examine such books, papers, records, accounts, correspondence, contracts, documents, and memorandums as he has reason to believe are relevant and are within the control of such person...
>
> "Any person failing to make any report or keep any record as required...shall be deemed guilty of a misdemeanor and upon conviction thereof shall be subject to a fine of not more than $5,000 for each violation."

It is almost a certainty that there will be more government in agriculture in the future, and that more and more agricultural decisions will be made in Washington. These may restrict the total output of animal agriculture below what it would otherwise be. This does not mean, however, that the total output will be less in the future than it has been in the past. In fact, it is likely that animal agriculture will expand somewhat in the foreseeable future whether we introduce control programs or not.

Our population is increasing at the rate of about 20% per decade. This is an extremely favorable factor for anyone who is in any way concerned with food production and marketing. The total output of meat, milk and eggs will probably be less under control programs than under the free market, but total output in either case is likely to increase from present levels. This will mean that more feed will be required.

Government programs will not eliminate the need for feed for livestock and poultry, or the need for someone to produce and market that feed.

Increasing feed requirements will provide many opportunities for those presently connected with the feed industry. No one is in better position to take advantage of these opportunities than the person or firm who is already in the business. Individuals and companies who do the best job of keeping informed and adjusting to changing industry requirements -- including changing Government programs -- are likely to profit accordingly.