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AGRICULTURAL MARKETING POLICY

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Agricultural marketing, like the field of economics, generally can be subdivided into three major areas. These include description, analysis, and policy.

The logic of this breakdown is along the pattern of problem solution itself. The area of concern must first be described and then analyzed in terms of the relationships hypothesized from the descriptive material. On the basis of this analysis, beliefs are formulated concerning the present state of affairs. Policy enters once these factual and analytical observations are made by introducing valuations of "what ought to be" in opposition to "what is."

Descriptive Marketing

The marketing system for agricultural products was born from an institutional reconstitution of some processes or functions involved in the production and marketing of farm products. The complete set of processes covering this vertical array of productive activity was performed years ago by a single group of firms, pioneer farms. The phenomenon of vertical disintegration, accompanied and prompted by horizontal integration and specialization, provided for the creation of the supply and marketing sectors contingent to farming today.

Although this set of processes and the firms performing them are finite in their composition, the number of functions and institutions involved in producing and marketing farm commodities is very large indeed. The peculiar relationships between these processes and firms is further complicated by

the geographical dispersion of markets and resources, various price and power relationships generated by different market structures, the participation of government in the marketplace as a buyer as well as a regulator, and all governed by the increasingly unpredictable nature of consumer demand.

It is not surprising that in the face of such a conglomeration of activity various simplifying techniques have been offered and employed by research analysts. Because the first step in research problem-solving is description, a method of data classification arose. The taxonomic criteria used included (1) the commodity, (2) the functions (processes), and (3) the institutions (firms).

Characteristically, this research process of "scientific description" first involved the delineation of commodities by their physical characteristics *at the farm level* so as to describe "industries" that possessed a vertical dimension reaching from the farm to the consumer. The marketing specialist, of course, normally concerned himself only with those processes involving the commodity after it has left the farmer's gate. Other delineations of the research effort included georgraphical bounds (state, regional studies), the funds and personnel available, and the interest of the researcher. Within these bounds, descriptive marketing research has concentrated primarily upon identifying *which* processes were performed by *what* firms.

This knowledge of the technical supply interrelationships in the marketing system, coupled with specifications of the number, size, and organization of the enterprises involved, provided important knowledge of the industrial structure of the agricultural marketing sector of the economy.

Such research, however, has served only as a first step in problem solution. How the system operates is antecedent to why it operates as it does. The latter is the essence of "marketing analysis".

Marketing Analysis

While "scientific description" has remained important in agricultural marketing, some economists have objected strenuously to such research methods. The essence of their objection was that the "functions" studied were classified at the whimsy of the researcher, varying from as few as three functional groups to as many as two hundred types of productive processes. Nothing, they argued, could be more confusing and less scientific. In place of this, such economists advocated the use of economic theory in research.

Economic theory attempts to specify and explain certain relationships between economic variables. To do this it emulates the logic of the experimental method, holding all variable constant save one or two. The variables held constant and the motivating forces at work serve as a prologue of assumptions to a theoretical analysis of economic phenomena. A rigorous network of such theory has evolved over time and provides an important base for the study of many phases of the economy.

The application of this system of theory to marketing research has been limited. The reasons for this have been three-fold. First, the theory is itself complex, requiring intense study for its mastery. Many researchers have failed to comprehend it to the degree necessary for research application. Second, the application of such theory to empirical problems frequently requires the use of statistical and mathematical procedures that are unfamiliar to many marketing specialists. Third, despite its comprehensiveness, the

theory has been able to develop in more complete and determinant form only in theoretical cases that fail to match "real world" economic activity except in very extreme form.

Economic theory, however, has been used in agricultural marketing both to describe and to analyze marketing activity. For descriptive purposes, the perfectly competitive model of economic theory has been used as a framework for empirical data, describing how the marketing system would operate _if_ perfectly competitive conditions prevailed throughout the marketing system. The analysis accompanying this method of description is an attempt to explain why _real_ marketing activity differs from this theoretical norm.

More recently statisticians and econometricians have been partially successful in testing various aspects of economic theory through empirical research involving the use of sophisticated mathematical tools. Such researchers are currently specifying supply and demand relationships at various levels of the marketing system and also are considering locational aspects of the marketing of farm products by employment of combined transportation and input-output analysis.

Also, of more recent vintage, is the study of the marketing system by investigating those elements peculiar to the "structure" of the market or groups of markets and evaluating the conduct of the various market structures that prevail.

These methods of analysis are conditioned by the way the marketing sector is described. Similarly, the analysis used to explain _why_ the marketing system performs as it does has tended to mold valuations of how the marketing of agricultural products should take place.

Marketing Policy

The activities of those firms defined by the functional spectrum involving the processing and distribution of farm products are manifested in their behavior in the market.

These firms operate in two markets as demanders of inputs and suppliers of output. In each of these markets the firm deals with other firms in two dimensions: (1) vertically, by dealing with other firms "across-the-market" and (2) horizontally, by considering the actions or reactions of "like-firms" in terms of outputs sold or inputs procured. These vertical and horizontal relationships between firms, called the exchange (negotiative) and competitive relationships respectively, largely explain why firms or groups of firms behave as they do.

To exert control over these relationships by government through the regulation of market practices, commodities sold and their prices, the number and size of firms at various marketing levels and the direct or indirect regulation of other market conditions is the essence of marketing policy.

Broadly, government attempts to influence business activity in three ways. First, federal and state legislation directly aids growing and declining industries by guaranteeing price supports, restricting competitive imports, providing new technology through governmental research and dissemination activities, and by financing the education, training, and capital needs of firms and individuals.

This type of governmental policy, when applied to the agricultural segment of the economy, comprehends much of what is considered as

"agricultural policy". This group of economic policies overlap into agricultural marketing in the sense that the government, by supporting farm prices, becomes a large marketing firm itself. This vast complex of legislation, in addition to policy actions that can be taken by government as a horizonatal competitor of marketing firms and vertically as a purchases of the products of marketing enterprises, is not discussed in this paper. Any comprehensive study of agricultural marketing policy would logically include government in this two-directional role in the marketing system.

Second, government influences business activity by regulating or prohibiting monopolies and the use of monoply power or by sanctioning the evolution of countervailing monopolies and monopoly power.

Third, legislation is aimed at "maintaining competition" by regulating the nature of the product and degree of entry, by reducing uncertainty and lack of knowledge, reducing locational disadvantages, and by specifying trading "rules" that foster competitive market practices.

This paper discusses public policy of these latter two types as it relates to the market of farm products. Those policies of monopoly control and creation and the "maintenance" of competition involve conflicting value judgments that create inconsistencies in agricultural marketing policy.

Part II. THE GOALS OF AGRICULTURAL MARKETING POLICY

Fundamental to policy formulation and execution are the goals toward which such programs are directed. All purposeful actions, both economic and noneconomic, are characterized by the explicit or implicit expression of certain objectives or goals. These goals derive from beliefs and valuations.

Beliefs

Beliefs are a combination of the observations we make of existing phenomena and our understanding of why this phenomena exists and behaves as it does. The descriptive method in agricultural marketing provides one way of classifying observable phenomena. Agricultural marketing analysis attempts to explain why such phenomena prevail. Our beliefs concerning agricultural marketing, then, are conditioned both by how marketing activity is described and how it is analyzed.

The manner in which economic activity is described is molded by the method of analysis used. The analytical method and the scope of the analysis, in turn, is related to the descriptive taxonomy. Where both the descriptive system and analytical techniques are agreed upon by those interested, fundamental agreement can also be reached regarding the "beliefs" held.

But where disagreement concerning methodology exists, as it does in agricultural marketing, fundamental beliefs about the marketing system show variation. To illustrate, the market phenomenon of "vertical integration" caused a host of beliefs to be formed, not only in terms of describing what vertical integration is, but more so as to why it prevailed. The continued development, use, and acceptance, of economic theory in the analysis of such phenomena will tend to dispell such disagreements.

Opposing beliefs in agricultural marketing are not solely the result of conflicting methodology. Many forces prevail simultaneously in any market situation, and in varying degrees of intensity. All of these forces must be considered in an adequate explanation of market conduct. To evaluate the simultaneous effect of a large number of variables is beyond human capacities. In any decision-making process it is necessary

to "hold other things constant" while analyzing the changes in one or two variables.

It is apparent that what is held constant and at what level it is held constant will influence the nature of the changes in the variables considered. For example, if the number of firms in an industry is very large and is considered constant through the analysis, the output decisons by any firm in the industry will differ considerably from the situation where only few firms prevailed in the industry.

Those elements (number of firms here) that, when changed, significantly influence market decisons are summarized as the "market structure" that prevails. Each element, by influencing market decisions, influences how firms behave negotiatively and competitively with other firms — their "market conduct."

Both market structure and market conduct are observable phenomena. In this context, markets can be described, defined, or delineated by consideration of certain structural elements. The relationships between market structure and market conduct, and vice versa, are prescribed theoretically in economic analysis. Again, description and analysis are basic to the "beliefs" held.

Valuations

Valuations are expressions of certain fundamental "norms" or standards of behavior. These behavioral norms are formulated fundamentally by ethical teachings that are related to the behavior of man. Man must deal with his environment, other men, and himself. These teaching provide behavioral standards for man in each of these aspects of his life.

These behavioral standards extend to economic activity through man as a policy-maker. How man ought to behave with respect to other men is re-cast in terms of how firms ought to behave in regard to other firms. Behavioral relationships between firms are manifested in the market through their negotiative and competitive relationships.

Output decisons and the negotiative and competitive conduct of firms in the market, viewed in terms of public welfare, provide dimensions of "market performance". Just as the peformance of an entire economy or economic system is judged in terms of the standard of living it provides, its efficiency or production, pattern of income distribution, progressiveness and stability is judged and measured in terms of similar criteria.

Moving from market structure and conduct to market performance involves the insertion of social value judgments into the analysis of agricultural marketing.

Beginning texts and courses in agricultural marketing frequently set out to solve "the marketing problem" or a set of problems in the distribution of farm products. Such treatments implicitly analyze marketing activity in terms of such "desirable" state of affairs. The most common performance dimension used is "efficiency."

Marketing efficiency, like other performance dimensions, is difficult to tract to individual valuations. Certainly it suggests that resources should be allocated in such a way that maximum satisfactions will be gained by a group of consumers without making the group of resource owners and users worse off. The tracing of this optimality criteria to ethical teachings, however, involves considerable speculation. Perhaps some of

the iterations of the Biblical ten commandments apply; perhaps some elements of the democratic political creed are pertinent.

Such speculations need not concernus here. It is enough for the purpose of this paper to suggest that the performance dimension of agricultural marketing are derived from more fundamental value judgements.

Goals

Goals are the expressed objectives of action programs. They differ from performance dimensions only in the sense that in additionto judging and measuring the conduct of firms engaged in agricultural processing and distribution by some desirable standard, they are set forth in terms of some proposal designed to "bridge the gap" between what is and what ought to be.

Using marketing efficiency as an example, a marketing system may be measured and judged as "inefficient" in the context of market performance. This performance dimension becomes a goal when action proposals are made with their objective being the reduction of marketing inefficiency.

In economic policy discussions generally "goals" are treated as variablesthat are influenced by "instrument" or "policy" variables. For example, the goal of full employment may be reached by using the instrumentalities of government spending (fiscal policy) or changing of the money supply (monetary policy).

The goal variables in agricultural marketing policy are obtained from the performance dimensions of the market. The instrument variables are market structure elements and market conduct. This is to say that market performance is influenced by government through the prohibition, regulation,

or advocation of certain market structures and/or conduct. Government may encourage the standardization of a product (structural element) or may prohibit certain trade practices (market conduct) so as to gain a "socially desirable" market performance.

What is considered "socially desirable" performance in marketing, and economics gnerally, was given birth during the Enlightenment Period by Adam Smith.

The Value Setting

The Wealth of Nations was both an ethical attack on the government regulation of business activity and a logical construct of an economic system of "free enterprise." This analysis of a self-operating economy rested upon a number of restrictive market conditions, but revealed the workings of the "invisible hand of the marketplace" that matched the desires of consumers to a group of selfish, profit seeking entrepreneurs in such a way that only "normal profits" prevail while a high quality product is made available at the lowest possible cost.

Such an explanation netted Smith not only the admiration of fellow economists, but the wholehearted support of the people of his time. That the economy would operate not only as well as if government directed its workings, but would even be more efficient while people individually sought their own selfish ends, was an analysis consistent with the philosophical developments during this period of Enlightenment.

Brewster has derived from this philosphical movement a set of value judgments that are both basic to and consistent with the analysis by Adam Smith. The political and religious order of the day has shifted the concept

of God's work from religious to secular occupations which, in turn, clashed with the politically dominated economy of early feudalism. It became the thought that, politically, each serf was his own lord, and that all men are equal worth and dignity, with no one allowed arbitrary power over another.

Under such a political philosophy each man should have his castle in the form of a plot of land. By natural restraints farm firms would be held small in size by the limitations imposed by family labor and management. The rewards reaped from such productive effort would be equivalent to his contributions, yet he would have equal opportunity with his neighbor. With the farm so tied to the owner-worker-manager, any interference by an "outside" power would rob proprietors of their natural freedom.

The analysis of what came to be called a "perfectly competitive" economy by Smith fitted in and gave strength to these valuations by showing that the _laizzes-faire_ economic system described not only allowed the individualism advocated by political and religious change, but that the economy would be better off with such valuations as a guiding force than with government regulation.

Coupling these developments with the opportunities found in America Brewster says,

> "This enabled classical economic theory here to become a far more formidable system of judgments than the Old World ever shared concerning what ought and ought not be done for the good of all. Here as nowhere else, anyone who advocated departure from the sound economic doctrine could be annihilated with the retort that he was putting a ceiling on the American Dream."

Thus,the analysis of a perfectly competitive economy agress with, and expounds through its assumptions, the value setting of the free enterprise, democratic nature of the American people. That perfect

competition be advocated as a method of describing and analyzing economic activity is no more surprising than it being advoated as a behavioral "norm" for economic activity. Applied to agricultural marketing this norm is the "perfect market concept."

The Perfect Market Concept

The idealized economic system presented by Adam Smith spurred subsequent economists to refine and modify the analysis in such a way that a rigorous network of economic logic developed. Much of this study was aimed at specifying exactly what kind of conditions needed to prevail so that the automatic nature of "invisible hand" would work toward the attainment of that economic performance consistant with the philosophy of individualism.

Study and reflection revealed that the "invisible hand" of the market could replace the iron hand of government if perfect competition prevailed. Perfect competition is a market situation in which a number of "conditions" exist. If these conditions are net, it then becomes possible to predict the output and price decisions of the firms in the market. It is also possible to predict the market performance that such a market would generate.

The "conditions" that must exist for perfect competition are numerous. The following list provides a summary of some of these "conditions," which, of course, also serve as assumptions to any analysis of such a market situation:

1. The size of the firm's output is sufficiently small relative to industry output to guarantee that each firm's output actions cannot perceptively affect the behavior of the market price prevailing for the industry. (This is referred to as the "atomistic assumption" and essentially eliminates from analysis the existence of power relationships between firms either horizontally or vertically.)

2. The commodity output of the firm is homogeneous with respect to the output of firms on the same horizontal level in the marketing spectrum. (Although this element of homogeneity is frequently discussed in terms of the physical characteristics of the product, Chamberlin and Triffin specified the definition of homogeneity of product in terms of ultimate consumer demand, not its physical attributes.)

3. The market transactions are spatially oriented to a single point geographically, a market place. (This assumption disallowed any locational advantage or disadvantages in the market. By assuming equal transport rates this assumption can be replaced by a more realistic spatial market, but only by such a new assumption.)

4. The firm is unable to establish any artificial restrictions in buying inputs or selling its output. (Discriminatory pricing and the possibility of holding monopoly rights [such as patents] is ruled out by this assumption. This condition further excludes the possibility of any form of market power by the firm.)

5. The complete freedom of entry and exit into and from the industry is allowed, which ultimately serves as a necessary long-run equilibrium condition for industry price and output solutions. (This condition of entry is normally discussed in terms of an economic barrier, where little capital is needed to produce the product, but entry restrictions provided by laws and pure market power also are eliminated by this assumption.)

6. Perfect or equal knowledge by all firms regarding present and future prices in both the input and output markets provide a further limitation to the possibility of price discrimination or power relationships, but also escapes the possibility of uncertainty entering the "best available technologies." (This assures an optimum allocation of resources, and long-run efficiency by both the firm and industry.)

It becomes apparent that some of these "conditions" could be influenced by government through legislation. If a large number of firms is desired in an industry, government could prohibit single firms from producing entire industry output, making the firm "split" and sell part of its plants to other firms. Or, government could encourage the development of new firms by providing credit, lessening the tax burden upon them, or by briefly creating a competing operation of its own and later selling this to a new firm. Similarly, government could take measures with respect to the other "conditions."

If the "conditions" of the perfect competition are believed to lead to market performance that is considered socially desirable, governmental policy can be aimed at trying to establish these conditions in economic reality.

Adam Smith and others have successfully argued that such market performance is desirable and that it conforms to an accepted national, religious, and political philosophy basic to the American Dream. That the perfectly competitive model serves as a grand accumulation of "goals" as a normative standard for business behavior, should not be surprising. The legislation, aimed at prohibiting monopolies and "maintaining competition," is the resulting evidence of this ethical norm for American business.

The Concept of Countervailing Power

The realities of the economic world of American business soon demonstrated that while it may be socially desirable, perfect competition was not a sustaining market structure over time. The development of large firms that dominated vast industrial sectors, reaping great profits and restricting their would-be competitors, forced government to "counter-vail" this power by legislation.

The Sherman Act and subsequent amendments were aimed at dissipating the economic power of such giant corporations by "prohibition" conspiracies in the restraint of trade or unfair practices generally. Additional legislation also was enacted in an attempt to recreate the conditions of a perfectly competitive economy to "maintain" competition.

This legislation did one other thing. In addition to letting government "countervail" the corporate giants by prohibiting certain market conduct, one amendment excused certain business groups from anti-trust enforcement and subsequently encouraged these groups to form and merge in such a way that these firms could themselves "countervail" the power of vertically-related industries. These were the labor union and agricultural cooperative exemptions from anti-trust legislation in the Clayton Act of 1914.

In addition to allowing certain firms to form and merge so as to countervail other industry, it was implicitly recognized that uncontrolled competition would not necessarily result in desirable performance. The most particular case in point is that of agriculture. Due to the nature of the demand for farm products and the nature of the farming industry, this nearest-equivalent to perfect competition on the American scence demonstrated low labor and enterprise earnings relative to other industries. So low

were these earnings that it became necessary to protect these competitors by restricting their competition. In addition to encouraging the cooperation of farmers to jointly market their outputs and purchase their inputs, governmental policy also encouraged the "fixing" of market prices by formal agreement.

These policies to restrain competition among farmers can be traced to either of two goals. First, and most consistently used in agricultural policy discussion, the peculiarities of the agricultural enterprise sector (the demand they face, the technologically driven "treadmill" increase in average cost, etc.) require that government aid this industry in many ways because it is a victim of its own market structure. The form that aid takes includes the marketing of their product. Certainly, it is argued, the farmer should receive a "fair" price for his product and anti anti-trust measures should be used to attain this parity price and income.

Another approach and another goal is to argue that because the businessess that surround agriculture are structured such that they inherently possess greater bargaining power than the farmer does. It is only logical that the farmer, given the privilege of combining or using pricing practices, will effectively restrain or countervail the nonfarm agribusinesses.

Regardless of whether the parity income or "parity power" argument is used, it is a fact that protective or countervailing policies have arisen that are of extreme importance in agricultural marketing.

The Conflict of Goals

It becomes clear that the goal of attaining a perfectly competitive situation seriously conflicts with a goal of countervailing the power of imperfectly competitive firms by encouraging monopoly and monopoly practices.

Such goals would not conflict if they were considered in a short-term sense. If farmers were given temporary marketing powers while those they negotiate with were forced toward a perfectly competitive market structure, the policies would not conflict but would serve as a two-pronged attack against monopolization. But this has not been the case. Both goals have served as the base for continued long-term policy programs.

Part III. AGRICULTURAL MARKETING POLICIES

The conditions necessary for perfect competition also specify certain market structure elements that serve as instrument variables in policy formation. Given that certain performance norms are desirable to society in general and that such performance automatically results under perfectly competitive conditions, it follows that market conditions should be made as "perfect" as possible. 1/

A. Perfect Market Policies

The market structure elements that serve as instrument variables in perfect market policies can be derived from the conditions necessary for perfect competition. Each of these "elements" significantly influence the supply or demand relationships present should they change, and such changes, in turn, influence market conduct and performance. Certain conduct conditions are also listed for perfect competitions and where these can be regulated directly they also become part of those policies aimed at creating a perfect market.

1/ For a critical appraisal of this syllogism see Hesse W. Markham, "Changing Structure of the American Economy: Its Implications for Performance of Industrial Markets," JKE 41 (2): 389-400, May 1959.

The following brief review of existing perfect market policies is cast in terms of those perfectly competitive market conditions previously listed.

1. Atomisticity of Power

"The size of the firms output is sufficiently small relative to industry output in order to guarantee that each firm's actions cannot perceptively affect price."

This condition implies that both the number of firms and the size of their individual market share are important structural elements. To influence industries so that the number of firms will be large and each will possess a small market share is to make the industry more perfectly competitive.

The number of firms and their market share serve in market structure analysis as basic data in the computation of "concentration ratios." The percent of total industry sales by the largest eight, six, or four firms in the industry is computed and serves as a comparative device for business concentration in several industries. 2/

One method to achieve many firms of small size is to simply prohibit the existence of monopolies or near-monopolies in any industry. This was the first major step in marketing policy by the federal government through the enactment of the Sherman Act.

The wording of this anti-trust act of 1890 did not specifically state that the size of firms was the determinant of whether monopoly existed,

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2/ For an excellent discussion of concentration ratios, their construction, and use in analysis see Joe S. Bain, Industrial Organization (Wiley and Sons, New York, 1959), especially Chapter 4.

but the courts interpreted the Sherman Act in this way until 1944.[3/] Condemning evidence in support of previous prosecutions was concentration ratios showing that this or that firm was too large in terms of total industry sales.

How big is "too big" is an arbitrary question unless it can be tied to market conduct and performance. While it is presumed true that large firms possess great market power, it does not necessarily follow that such power will be used to restrain trade. This conclusion of the Hartford case of 1944 demonstrated vividly that to merely manipulate market size alone is not enough to insure a certain market conduct or performance. To suggest that market power exists by measurements of number and market share is one thing; to suggest that the possession of market power is bad because it leads to poor market performance is quite another thing. [4/]

Even to prohibit monopoly-size, however, is to insure atomisticity. Such action only paces an "upper limit" on size of firms. The famous ALCOA case and subsequent government actions demonstrates another method that can be used to attain atomisticity. [5/] Although "cease and desist"

3/ An interesting review of court interpretations of anti-trust legislation over time is presented in Dykstra, Cases on Government and Business (Callaghan and Company, Chicago, 1948). The 1944 case that finally reversed the decision that size alone does not constitute restraint of trade was United States vs. Hartford Empire Company, 323 U.S. 386 (1945). (This was also discussed in United States vs. United States Steel Corporation 251 U.S. 417 (1920) but was still unsettled there.)

4/ This very argument is the unfortunate crux of a recent journal article that deserves reading merely to see the unjustified assertions that can lead from other wise sound analysis: Robert F. Langfillotti, "The Superior Market Power of Food Processing and Agricultural Supply Firms — Its Relation to the Farm Problem," JFE, 42 (5): 1228-1247, December, 1960.

5/ United States vs. Aluminum Company of America 148 F. 2nd 416 (1945).

orders resulted from findings of monopolization in aluminum by a single firm, the efforts of World War II required the development of competing aluminum operations by the Federal government. Following the war, these operations were sold to firms that would compete with ALCOA. Although it can be effectively argued that such actions were not anti-trust actions, this example does demonstrate another way in which government can dissipate the size of large firms.

Still other methods are available under the taxing and aid programs of government. Large concentrated business can be taxed heavily, thus creating competitive disadvantages, or small business development can be encouraged by provision of credit. But these methods have either been used in a limited way or are normally justified on other grounds.

The feature policy program directed at the atomisticity condition has been anti-trust legislation. As noted, it serves only as a restraint to very large size and does not create the condition of many firms of small size in a perfectly competitive industry.

2. Homogeneity of Product

"The commodity output of the firm is homogeneous with respect to the output of firms on the same horizontal level in the marketing spectrum... the homogeneity is in terms of ultimate consumer demand."

Real or fancied differentiation of the product by firms (a market practice) also serves as an instrument variable in agricultural marketing policy. To make products less differentiated or more homogeneous in the minds of consumers is the general aim of legislation concerning grades and standards, and to some lesser extent, sanitation requirements.

Most of the federal "grades" for farm products have resulted from a series of separate pieces of legislation concerning specific commodities. [6/] Many farm products are not graded and others are being considered as additions to the list. The goals or purposes of grading are normally given in terms of production and marketing efficiency and intelligent consumer decision-making. These goals are performance dimensions of the perfect market and serve separately to justify grading regulations.

To interpret grading as a marketing policy requires recognition of an explicit and perhaps over-riding goal in such policy programs — to encourage a high quality product. This implies that a high quality product would not be forthcoming otherwise under existing market conditions and that such a policy action is needed to assure quality.

The perfect market by its assumptions assures a homogeneous product and by its structure assures a high quality output. "Quality" is a performance dimension. Grading serves as an instrument variable to homogenize the product. [7/]

"Standards" can be interpreted in two ways. First, an accepted grading system can become a "standard" for quality. This is a frequent interpretation of the term when used jointly as "grades and standards." Second,

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6/ For a survey of the Acts from which these grades arose see Compilation of Statutes Relating to Marketing Activities...of the A.M.S., U.S.D.A., (Agricultural Handbook Number 130, U.S.D.A., January 1958) and for a detailed breakdown of the current grading standards used see Grade Names Used in U.S. Standards for Farm Products (Agricultural Handbook Number 157. U.S.D.A., February 1960.)

7/ To differentiate by quality attributes is only to differentiate; but as grades and prices become related the effect is to homogenize.

standards are accepted measurement units (bushels, hundred weights, etc.) and even extend to retail packaging.

In this second context product differentiation is disallowed by variation in the measurements of the product. The "economy-sized" package is frequently a misnomer of its actual content. 8/ By requiring standardized measurements or packages the market is being made more perfect in terms of the homogeneity condition.

Homogeneous products are also a side-effect of governmentally imposed sanitation and purity requirements. A lower quality-limit on product variation is set by demanding purity within narrow tolerance limits. Seed certification programs, for example, help homogenize products by purity standards for producers using seed. Meat inspection programs provide a sanitary, disease-free product to consumers but also place a limit on product variation in livestock products.

These product standardization policies do not completely disallow product heterogeneity. Real product variation in quality continues to occur despite longrun tendencies toward more standardized products. It can be argued that such variation is "good" on the grounds that by the existence of greater product variety more consumers are satisfied. Fancified product variation, the promulgation of ignorance rather than knowledge, is lessened by those policies if they are made effective through enforcement and education.

3. Locational Equalization

"Market transactions are spatially oriented to a single point geographically, a market place."

8/ The September 1960 issue of Consumer Report investigates some deceptive packaging practices worthy of reading. Current Congressional hearing are also being held in this field.

Locational disadvantage to farmers has three important legislative aspects. The first of these relates to the Interstate Commerce Act of 1887. All interstate commerce became subject to federal regulation under this bill and was upheld in later Supreme Court decisions. 9/ While this legislation applied to all business, there was a single exception — the shipment of agricultural products.

The agricultural exemption in interstate trucking of farm commodities and "unmanufactured items thereof" has received considerable written treatment and serves as testimony of agricultural favoritism in current economic policy. This exemption now means that the ICC has no control over who enters the business of trucking these commodities, the routes he travels, the areas he serves, and the rates he charges.

The apparent original intention of the exemption was to aid the farmer by withholding restraints on the shipments of products to the first point of transfer. Since farmers normally handled this transportation, the law was aimed at providing special aid to a geographically dispersed and disadvantaged farm community. The scope of this original legislation extended, however, to all non-manufactured farm products and created special advantage to the transportation until enactment of the Transportation Act of 1958, which limited the "exempt" commodities somewhat. 10/

9/ The earlier case of Gibbons vs. Ogden, 9 Wheat, 1(1824), set the stage for this act and the commerce powers were greatly (and peculiarly) extended in the 1937 case, National Labor Relations Board vs. Jones and Laughlin Steel Corporation, 301 U.S. 1. This latter case allowed government regulation of those businesses dealing only inter-state by the precarious logic that if such a business did not exist in the state its product would have to be shipped in, thus it is under federal control.

10/ For a discussion of the Agricultural exemption in interstate trucking, see Marketing Research Reports Number 188, (A Legislative and Judicial History), U.S.D.A., July 1957 and Number 352, (Developments in 1957-58), U.S.D.A., July 1959.

The exemption provision of the Interstate Commerce Act served as a means of attaining more perfect location competition for the farmer and later for those businesses that assumed this task from him.

Another locational policy has already been briefly summarized in the Sherman and Interstate Commerce Acts by their subsequent regulation of rail transportation. The charge of rate profiteering at the expense of farmers who had no other way to reach their markets was an important influence in the adoption of these laws. To regulate rail rates was to again lessen his locational disadvantage.

A further method to lessen or strengthen locational misfortunes of businesses are a group of state laws that serve as barriers to trade between states. An early compilation of these laws shows a forbiding array of such state legislation that is still largely current law. [11/] The direct prohibition or taxing of imports across state lines may either serve to encourage or discourage a perfect market, but many of these laws in the Midwest serve to protect the farmer from out-of-state competition.

4. Non-discriminatory Pricing

"The firm is unable to establish any artificial restrictions in their trade in the input and output markets."

The battle against discrimination and restraint of trade is, of course, the essential feature of the Sherman Anti-trust Act of 1890. Later courts interpreted this act to mean that monopolization not monopoly was a violation of the law, the difference being that monopoly indicated only size

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11/ Comparative Charts of State Statutes Illustrating Barriers to Trade Between States, Marketing Laws Survey, W.P.A., May 1939.

while monopolization indicated monopoly practices. The Sherman Act simply declared such actions illegal.

The Clayton Act (1914) and Federal Trade Commission Act (1914) went further than the Sherman Law by specifying how firms should and should not compete. These pieces of legislation, frequently termed "amendments" to the original anti-trust act were aimed directly at controlling market conduct.

Several legislative enactments following these, also directed toward controlling market practices directly, included the Robinson-Patman Act of 1936 (established rules against price discrimination), the Miller-Tyding Act of 1937 (made state "fair trade" laws legal in interstate commerce) and, after a Supreme Court ruling that the Miller-Tydings law was illegal, resale price maintenance was restored in the McQuire Act of 1952. 12/

The direct control of market practices was also enacted by agricultural commodity groups. These laws, familiar to agriculturalists, include the Commodity Exchange Act, Packers and Stockyards Act, United States Warehouse Act, Product Agency Act, and Perishable Agricultural Commodities Act. 13/

While some portions of these bills deal with grades and standards, much of their content is aimed at directly regulating the conduct of firms in the marketplace for these products. The general form of this regulation is

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12/ A review of this legislation is given in Marshall Dismack, Business and Government (Henry Holt, New York, 1953), Chapter 8, "The Regulation of Trade Practices."

13/ Reference to these laws are compiled in Abridged List of Federal Laws Applicable to Agriculture, (Office of Information, Mimeograph Number 2, 1950)

directed toward the prohibition of monopolistic practices and the encouragement of more competitive conditions in the market.

5. Free Entry and Exit

"The complete freedom of entry and exit is allowed to and from the industry — without legal or economic restrictions."

The economic aspects of entry conditions in the market are regulated by government via anti-trust legislation and is influenced by the provision credit and education to firms and laborers. For agriculture, these latter policy programs are evidenced by the vast financial system set up by law to aid agriculture and by educational and extension programs to "help the young people get started in farming."

The legal aspects of entry deserve brief comment. The patent laws providing monopoly rights to inventors and public utility franchises, and allowing monopoly under the strict control of government, provide interesting examples of non-perfect conditions promulgated by the federal government. These examples demonstrate some of the conflict in agricultural marketing goals to be later pursued in more detail.

Generally speaking, however, unrestricted entry and exit is the primary target to federal policy aimed at the regulation of marketing activity. [14/]

6. Perfect Knowledge and Certainty

"Perfect or equal knowledge of firms regarding prices in their input or output markets is disallowed ... and uncertainty is eliminated."

Lack of adequate information by farmers concerning market prices led to the formation of government agencies that collect information on prices

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14/ Enactments and administrative rulings concerning the entry condition are discussed in Joe S. Bain, op. cit., pp. 237-264.

and quantities of farm products sold and disseminate these data to farmers (market news) and use it to predict future prices (market outlook). These marketing services by government tend to dispell lack of knowledge and uncertainty in marketing farm products and tend to make such marketing more perfect. 15/

Several programs already discussed can also be related to this condition. Grading, standards, and sanitation requirements, if made effective by educational programs, also serve to lower ignorance levels. The research and extension services of the federal government also provide examples of programs that lessen the lack of knowledge and uncertainty in the market. Uncertainty, of course, is reduced by credit provisions involving insurance and price supports.

This brief overview of agricultural marketing policies suggests their dependency on the concept of the perfect market. It also suggests that despite the magnitude of the complex of regulatory activity, a perfect market is really unattainable by policy action under out political philosophy. Most of this policy either prohibits extreme variation from the conditions of perfect competition or encourages perfectly competitive behavior.

In the words of Sosnick,

> "The set of market structure and conduct attributes which define 'perfect competition' constitute individually and collectively neither a normative ideal nor a satisfactory basis for appraising

15/ A comprehensive historical survey of market news and outlook services provided by the federal government is contained in Taylor and Taylor, The Story of Agricultural Economics in the United States (Iowa State College Press, Ames, 1952), Chapters 12, 13, and 17.

actual market conditions ... the extremes which define atomistic and otherwise perfect competition tell us nothing about desirable gradations in even the few dimensions to which they refer ..." 16/

While perfect competition is unattainable, it is necessary that some consideration be given to what is a "workable" goal toward which policy can be directed.

It is under the guide of "workable competition" that it is possible to justify countervailing power policies in agricultural marketing.

B. Countervailing Power Policies

When businesses combine, merge, and grow in size in one industry while those in a vertically-related industry do not, the balance of bargaining power in the market becomes one-sided. This has been the historical experience in agricultural marketing and farming.

This lack of bargaining power on the part of the farmer was recognized in anti-trust legislation by exempting the agricultural industry from prosecutions under the Clayton Act. The exemption of excused marketing and supply cooperatives and cooperative mergers from anti-trust action gave countervailing power privileges to the farmer. 17/

The Copper-Volstead Act, of course, followed the Clayton Act exemption giving special encouragement to the formation of agricultural cooperatives and specified the criteria for cooperative organization to exempt if from paying business income taxes. Succeeding legislation and the formation of

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16/ Stephen A. Sosnick, "A Critic of Concepts of Workable Competition," QJE, August 1958, pp. 383-384.

17/ A discussion of "types" of bargaining power available to farmers is found in Robert Clodius, "Opportunities and Limitations In Improving the Bargaining Power of Farmers," Agricultural Adjustment Center Release, Iowa State College, Ames, October 1958.

special agencies in the government prompted and encouraged the growth of agricultural cooperatives to a size and extent that today excells most of their marketing competitors.

But to countervail power in the marketplace by encouraging changes in size and concentration was deemed insufficient. The Agricultural Marketing Act of 1937 allowed farmers and their negotiating parties to "fix" prices and restrict entry by formal agreement. A host of marketing orders and agreements have arisen for various farm products that aim to protect the farmer from the disadvantages that perfect competition impose upon him.

While general anti-trust policy prohibited collusion on pricing and restraint of trade, the Agricultural Marketing Act allowed and encouraged such marketing conduct.

While the policies related to attaining a perfect market forbid the uncontrolled growth of businesses, the cooperative exemption allowed and encouraged such growth for one sector of the economy.

This rather astounding conflict in policy programs has been treated passively as a simple "exception" that does not seriously affect the operational performance of American Business in general. Counter to this feeling Bain says,

> "In consequence of the scope and character of the treatment of the 'exceptional' cases, it is not longer possible to regard the various anti-competitive policies as merely an assortment of unusual and special departures from the general procompetitive policy. Rather all must recognize that these exceptional policies as a group embody a second orientation or line of emphasis in American public policy toward business, <u>which an important part is potentially in conflict with and inconsistant with the general</u> procompetitive policy." 18/

18/ Joe S. Bain, <u>op</u>. <u>cit</u>., p. 541, the underscoring is mine.