Agricultural Marketing Orders

under enabling legislation California marketing programs now interwoven in economic structure of some of state's products

Sidney Hoos

In 1956 there were 28 different marketing programs in active operation in California under the authority of state legislation.

The basic ideas underlying marketing orders grew out of experiences of cooperative marketing associations in the 1920's, but later were sharpened and emerged as a result of problems engendered by the 1930's depression. In the 1950's, marketing orders have become entrenched and interwoven in the institutional fabric of a substantial number of agricultural products.

There are distinctions—legislatively and administratively—between marketing orders and marketing agreements. A marketing agreement is a voluntary arrangement between the government and individual producers or handlers of a particular commodity, and is binding only on those who sign the agreement. In contrast, a marketing order—once made effective under legislatively specified procedures and standards—is binding on and uniformly applicable to all producers and handlers of the product for which the order was instituted.

Legislation enabling marketing orders clearly sets forth procedural and administrative criteria. A majority of the industry—specifically described in the legislation—must approve an order before it can be effective and in California the Director of the Department of Agriculture is required to determine whether the available evidence indicates the need for an order and whether the proposed order meets that need.

For each marketing order the Director has an advisory board appointed from a list of industry nominations. If the order pertains to producers only, the board is composed of producers; if the order pertains to producers and handlers, the board is made up of both groups in equal numbers; and if the order pertains to handlers exclusively, the board is composed of handlers. The advisory board recommends to the Director, and he either approves or disapproves.

The general goals of marketing orders are mainly oriented toward the economic welfare of producers, although the Director is required to give consideration to consumer interests and those of the industry at large.

The major provisions, or tools, of marketing orders—one or more of which are written in the various orders—include: grade and/or size regulation; pack and container regulation; mandatory inspection and/or certification; prohibition of unfair trade practices; advertising and sales promotion; production, processing, and/or marketing research; and volume regulation, with or without stabilization pools and funds.

A prevalent but false notion is that marketing orders are synonymous with quantity restriction, and without that restriction there would be no orders. Quantity control in any of several forms—when it does occur in an order—may be only one of the provisions. A large majority of the marketing orders have no quantity regulation features.

Among the 28 marketing programs in effect in California, quantity control, as such, is incorporated in the 10 orders for: early apples, fresh asparagus, processing asparagus, lemon products, dry-pack lettuce, standard lima beans, cling peaches for canning and freezing, fresh fall pears, winter pears, and delta white potatoes. Even in those 10 programs, quantity restriction is permissive only—and with the approval of the Director—being neither mandatory nor automatic.

In 1955, the total farm value of all California commodities having state marketing orders amounted to $390 million—some 15% of the state's total cash receipts from farm marketings—or 23% of the cash receipts from crops. The 23% is the more pertinent figure because all of the currently effective orders—except three—apply to crops. Furthermore, close to 35,000 producers or 33% of the state's farmers were directly affected by those orders, and a substantially larger number affected indirectly.

Financing of the 28 California marketing programs was provided by assessments on participating producers and handlers. In 1955 expenses amounted to about $6,900,000, divided among the operative provisions of the marketing orders as follows: Administration, 13.5%; Inspection, 14.6%; Promotion, 67.2%; and Research, 4.7%.

Programs of this type are often referred to as self-help marketing programs, but a more appropriate descriptive phrase would be self-financed. Even the phrase self-financed would refer to direct immediate expenditures, because successful programs presumably yield sufficiently increased returns—over a period of time—to offset direct costs to the industries.

The state legislation sets forth general economic standards with respect to the administration and operation of marketing orders. But nowhere in the California Agricultural Code are the economic standards expressed in precise numerical or quantitative terms. No specific percentages of some sort of parity price or parity income are directed.

In addition to the economic implications and inferences flowing from the legislative standards there are the economic considerations of the major functional activities in the operation of the orders. Aside from administration, activities are grouped under inspection, promotion, and research.

Inspection activities — generally thought of as physical—are carried on for economic reasons and have economic effects. From the economic view, inspection is that phase of marketing which separates the total crop into segments, each with different demand and supply characteristics, price and income effects, and relationships to other products.

Inspection provisions are included in half of the 28 California marketing programs but 23 of them have promotion

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MARKETING ORDERS

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provisions. The term promotion includes advertising, trade and consumer education, the employment of fieldmen for retail point-of-sale displays, and similar activities. About 67% of the total expenditures for all activities under all California marketing programs is classified under promotion.

In terms of economics, sales promotion and advertising are carried on to influence consumer demand affecting the derived demands at the handler and producer levels. Consumer demand is generated by the interaction of consumer preferences, income, and prices. Advertising attempts to change the structure of the consumer's preferences thereby altering in certain directions his demand.

The intent of marketing program advertising is to supplement—not displace—private advertising. There is no evidence that sales promotion under marketing orders has caused a decrease in private advertising by individual firms. If sales promotion is carried on under the authority of a marketing order, every participant must contribute to the financial support of the advertising, in proportion to the volume he markets.

Objective and substantive results to support the effectiveness of advertising and promotion are extremely difficult to develop. The disentangling of short-run and long-run consequences, temporary and lasting results, single and cumulative reactions, and multiplier effects, raise tremendous analytical problems. Simple questions as to whether to advertise or how much should be spent on advertising are difficult to answer. But many producers and handlers believe it is necessary to advertise to expand, or even maintain, their market outlets.

The third major category of provisions is that of research. The commodity marketing programs do not have research staffs but utilize other organizations. Some orders utilize the research services of the state university, and some orders also purchase research services from private firms. At times they participate jointly with the government under provisions of or similar to the Federal Research and Marketing Act.

The research activities of marketing programs are economic in nature and often technological with economic implications. Technological research projects include, for example, improved processing methods for canned fruits, disease and pest control, improved varieties, development of new utilizations, improved equipment, and similar studies by technical departments and organizations.

Economic and statistical research ranges from the organization and development of data reporting systems to econometric analyses of the operation and effects of marketing programs. Of particular concern to those orders having a volume-regulation provision are the economic characteristics of the market demands facing the industry. Knowledge concerning price and income effects, for example, as well as measures of demand relationships among various products is necessary for a rational operation of the volume-regulation provisions. Some orders have at hand—or seek to acquire—such economic relationships.

To have current information on retail inventories, purchases, sales, and prices—the type of data not available in reports of federal or state agencies—some advisory boards contract with private marketing research agencies to obtain such information. Those orders are accumulating a fund of economic knowledge concerning consumer and trade behavior that exceeds in detail and scope that of other industries.

For purposes of planning marketing policy, several of the orders—cling peaches, Bartlett pears, and lemon products, for example—have helped to finance researches in objective preharvest sampling forecasts of the prospective supplies available for marketing. Reliable and timely forecasts of supplies are of particular concern to the orders utilizing volume-regulation provisions.

There are two major types of quantity control available under the volume-regulation provisions. One is intertemporal distribution of the harvested crop marketed within the season and a second is curtailment of the total crop to be harvested or marketed—or both—for the season as a whole. Intertemporal distribution within the season may have several economic objectives, the primary one being the approaching of maximum returns from the sale of the crop. Related objectives include dampening of the seasonal patterns of prices and sales. Curtailment of the total crop also has the primary objective of increasing returns from the sale of the crop. But in each case, the particular effects on prices and returns depend upon the nature of the relevant supply and demand functions, their price and income elasticities, their stability over time, and their sensitivity to developments in related products.

The problem of multiple products stems from the interaction of crops which are competing in demand or are produced and marketed in competing areas. Interregional and interproduct competition can not be ignored in the operation of volume control.

A marketing program which disregards the indirect—as well as the direct—economic effects on competitive products, or regions, is eventually likely to find its objectives frustrated and its long-run relative market position affected.

Marketing orders are effective only for certain types of problems under particular circumstances. They must be tailored to specific situations, and they require skillful management blended with appreciation of their short-run and long-run economic implications.

Of particular significance is volume regulation of seasonal total supply. If seasonal total demand facing growers is such that restricting the season's total volume brings increased total returns to growers, there is short-run inducement to practice such volume regulation, and it can be rationalized in acute situations. But continued restriction, resulting in grower returns being increased sufficiently and over a long enough period can lead to expansion of growers' productive capacity.

Although marketing orders may be used to control volume marketed, they are not effective in controlling volume produced. Growers are free to expand or contract their acreage or yield and thereby their volume. New growers also can enter the industry in response to anticipated relatively profitable operations. Such long-run flexibility in production counteracts, at least in part, the short-run effects on grower prices and returns from volume control through marketing orders. Thus, the administration of seasonal total supply regulations calls for use of the order so that its short-term applications do not bring about long-term effects which aggravate the situation the order was intended to alleviate.

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The above article is based on Giannini Foundation Report No. 196, Economic Objectives and Operations of California Agricultural Marketing Orders, *by the same author. Copies of the detailed report are available without cost.*

HYDRANGEA

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larly in the 5 ml/liter treatment—were more prone to wilt during the heat of the day than other treatments. None of the plants treated at the two lower levels of Folex showed injury.

With all Vapam and Folex treatments the most immature buds—which most closely approached the stage of development when commercial growers would defoliate—forced normally with neither malformed buds or leaf injury. The plants were in peak of flowering between March 10 and April 1, 1957. All plants had good commercial quality.

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