As I understand my mission, it is to stimulate discussion concerning what relation recent developments and research findings in marketing have to say to those concerned with research and other related activities in agricultural policy. This is a wise exercise for our profession. The policy research and extension efforts have been one of the stronger phases of our professional efforts in the past. However, if the identified policy problems of the past are merely projected into the future, our work will be refining the answers of the wrong set of questions.

As I understand the past, our policy research efforts for several years right after the World War II floundered as we attempted to identify the pertinent policy problems. Then after many seminars and discussions, agreement pretty well jelled that "the" farm problem was best described as one of inadequate farm incomes. After this decision was made, alternative solutions were proposed and explored such as curtailing production, increasing demand, and reducing marketing costs. Consensus gradually was reached that the route of curtailing production was most fruitful and research efforts focused in on how to best accomplish that job. I, for one, believe that this research was generally meaningful and valuable. It not only generated needed data and relationships but it also produced proposals and plans. The extension service helped the body politic in making its action decisions. Action was taken. This combined effort and activity certainly was one of the profession's "finest hours" (I say one because I believe the decade of the thirties would also qualify) for it turned its energies toward what social scientists are supposed to be concerned with—the aiding of men to manipulate their business and economic resources toward desired ends. It was involved in the role of invention of new concepts and rules rather than in the static role of scolds.

The major point that I wish to make in this discussion is that the formulization of "the" farm problem as one of inadequate farm incomes will not adequately define the policy problem areas of needed action of the future. First, I do not believe that issues relating to the farm can any longer safely be segmented out from the business context of

*Professor of Economics, Purdue University.
the total system in which the farm operates. I suggest that the pertinent arena is food and fiber policy for the nation— not narrowly defined farm policy. Secondly, I do not believe the "levels of incomes of farmers" any longer adequately describes the concerns and problems of this food and fiber industry either from the viewpoint of the members of the industry, including farmers, or from the viewpoint of society as a whole. Several developments occurring within the marketing segments of our total food and fiber industry are contributing to these emerging issues. It is to these I will now turn.

The Collapse of the Neutrality Assumption

I think it can be safely said that in much of our farm production oriented research it has been assumed that the marketing system was essentially a neutral ingredient. Farm level demand was derived from consumer demands with the costs of the marketing process intervening. The source of change in demand was largely attributable to changes in the numbers and incomes of consumers. (Preferences of consumers were considered—but the source of these preference changes were either largely ignored, assigned to such stable factors as religion or race, or tied into income.) These demand changes were then dutifully transmitted by the marketing system to the farm level.

Several conclusions are now emerging from research point to the proposition that the marketing segments is far from a neutral transmitter of consumer demands. These might be summarized as follows:

1. Numerous studies are concluding that consumer income effects on expenditures for food are largely for more marketing services and processing. The residual income elasticity of demand at the farm level may be very low. And, furthermore, whatever effect incomes have on aggregative farm level demand probably comes largely from a change from low-resource-using to higher-resource-using products in the desired raw product mix.

2. The marketing system is not neutral or ineffective in its efforts to shift consumer level demands for the product mix. The development of new processed products, merchandising techniques and advertising expenditures can and do shift consumer expenditure patterns among product lines at least within the total food budget. Research results in this important area are confusing and muddy, but they certainly are not conforming the hypothesis of no effect. There has been a low-margin merchandising of broilers. Probably more students of the problem than not, conclude that such policies have tended to enhance the demand for the rapidly expanding broiler production. Milk is another product for which there has developed a
rather universal approach for low margin merchandising on the part of major retail establishments. There has been a rather sudden interest of the potato industry in new product technology. There is evidence that this development has influenced the demand for potatoes. There has developed a similar interest in the turkey industry concerning processed turkey products. It is not at all clear whether this development which is increasing year around turkey use will simply reduce expenditures for other meats - or increase the total meat area expenditure. Such examples could be greatly expanded.

3. A related point to the preceding is that such marketing activities may be highly selective in their product orientation. Such activities may be either consumer demand increasing, marketing cost increasing (or decreasing) or both. In addition, the incidence of cost or benefit from such development may be shared in various ways among consumers, marketing agencies and farmers. This fact is at least a partial source of the recent unrest among both consumers and farmers. The feeling of these particular groups is that they have been required to bear the burden of changes in the marketing area over which they exercise no control.

The Problem of the Appropriate Unit of Focus

Much of policy analysis has treated the farmer and farm production as an aggregated whole. The aggregate demand and supply of farm products has been the vehicle of analysis and the impact on aggregate farm income the goal.

There is rapid tendency toward enterprise specialization in the farm firm and some tendency toward more regional specialization of production patterns. And at least within the assembly level of marketing there is growing enterprise specialization. We have already noted that marketing activity and costs changes may vary widely among product groups. Integration activities have not taken place between marketing and agriculture in general but have developed very unevenly among specialized marketing agencies and a particular farm enterprise. These developments all point to the enterprise or product as the appropriate unit of policy concern and research analysis.

There are other developments which confuse the issue, however. The production units of processing seem to be increasingly specialized. For example, separate hog, cattle, broiler, and turkey slaughtering facilities are tending to replace the multiple purpose slaughtering facilities. In the critical issue of managerial control of business units, however, the issue is not so clear. The development of the conglomerate manufacturing unit of many product lines, both combining products
within the food complex and also combining food and nonfood products seems to be on the increase. The retail unit itself has trended away from product line specialization toward complex aggregation of many product families. Specific product line orientation of management has given way to viewing all the products as something to be manipulated as part of the whole. Pricing the product mix is common terminology.

Where does this lead us as we seek the appropriate units of problem identification and analysis? It seems clear a general agricultural production focus is less appropriate at the initial production level. If we increasingly have specialized producers of pork, cattle, and chickens, the possibility that an effective broiler advertising campaign may be largely at the expense of pork is of little concern to the cattle group. Integration activities in turkeys is of only passing interest to specialists in dairying. On the other hand, the retailer pricing his mix to maximize his retailing returns couldn't care less that his use of near-loss operations on one product and loaded margins on another may have very special implications to one group of producers compared to another. Defining policy problems, proposing alternative solutions and analyzing impacts must increasingly take these divergent developments into consideration if such work is to be effective and helpful in guiding decisions and actions.

The Decline of the Validity of the Community of Interest Assumption

Both of the above developments, the growing inappropriateness of the assumption of neutrality of the marketing system and the increasing difficulty of identifying the appropriate unit of focus, are very closely related to another assumption that has been carefully cultivated over time - even though many of the cultivators may have done so with tongue-in-cheek. This is the idea that the farm community and the marketing community are interdependent and have one big community of interest. Interdependent they certainly are, but this does not make them one big happy family in which actions benefiting or hurting one member automatically have similar results on other members.

This is only another way of stating that different segments of the food industry are developing differing capabilities of exercising market power. One trend almost all marketing research agrees upon is that firms are increasing in absolute size. Whether this development is leading toward increasing concentration of power in all relevant markets is a question not so clearly answered. Certainly there is developing market concentration in selected areas of the food industry.
What kind of market behavior results from these trends is not at all clear. Our research has been over-occupied with measuring concentration ratios. There is a considerable shortage, however, in work that assesses and evaluates what these varying levels of concentration mean to market performance and the nature of competitive behavior. The need is critical for devising realistic and acceptable criteria for answering the question of how effective is the existing level of competition. Unfortunately we often appear as if we were divided into two opposing camps: one group holding firm to the model of perfect competition and decrying any departure from the model as bad; the other group holding firm to the view that existing competition is keen and vigorous and that any obviously unacceptable behavior or performance is temporary and will be automatically corrected in the long run. Neither of these extremes is very useful as a philosophic base for policy analysis. But the middle ground lacks definition and content.

The Deterioration of the Exchange System

It is concerning the exchange system and the mechanics of price discovery that the findings of much current market research are probably saying the most to researchers in policy. Three specific developments here can be mentioned:

1. There is a proliferation of price discovery points at the raw product levels and the reduction of such points at the processor-wholesaler-retailer levels.

Part of our conventional wisdom as agriculturalists stems from the time, now many years ago, when products moved from the farms into the hands of processor, wholesale and retail buyers located in large urban centers and organized around various kinds of market facilities and "market streets". Here prices were discovered under conditions assumed to approximate the model of perfect competition. There were weaknesses, to be sure - especially in the areas of communication and product identification. But these could be largely overcome by governmental policy which fostered the free assembly and dissemination of market information and promoted the increased use of uniform standards and grades. Prices were discovered by individual buyers and sellers exercising their classic propensity to haggle in the market place. The one thing which is clear is that these organized terminal markets are no longer a major vehicle for the exchange process. Buyers have moved out into the production area to acquire their needs through direct negotiations with individual farmers either at their farms or at many local buying points. At the other end of the marketing system with the increasing size and manufacturing activity of processors and the increasing size of retail organizations, the
exchange process is increasingly taking place through individual isolated agreements between two interested parties. Though the actual physical use of the old system has declined, evidence points to the fact that the use of the pricing results of the vestigial activity has not.

Whenever title exchange takes place, decision must be made as to the value of the particular product at that particular time and place. Increasingly the food system is using a system of formula relationships tied to specific quotations of the old terminal system to arrive proposed exchange price levels. This is occurring at the very time that the validity of such price levels in increasingly under question.

2. The number of open pricing point levels in the marketing channel is being reduced. No matter how one evaluates the situation the conclusion is unescapable that integration through either ownership or contract both between initial producers and other parts of the marketing system and between the other levels of the marketing system is increasing. The drive or desire to establish more effective control over the market channel exists strongly in important marketing decision centers.

Some have argued that integration is simply a new arrangement of the traditional open-market exchange system. Others have suggested that integration and contractual arrangements constitutes a replacement of this system. Regardless of conceptualization, the results of this development is a shrinking of the amount of open and uncommitted trading which takes place. Though for a different reason, the results of this are similar to the decentralization process discussed earlier. Less products are available for any type of centralized trading. Here, also, many groups and firms making contractual arrangements and struggling for some base to tie to, are using formula relationships tied to the price result of the marketing process that it is tearing down.

3. There is a decreasing use of uniform product standardization and an increasing use of service and differentiation in the product package in the pricing system at all levels of the food industry. More and more processing and service is being added to the raw product of the farm as it passes through the marketing channels. This increases the importance of technology in the marketing process. It permits the increased manipulation of the design and differentiation of the final consumer product. Added to this is the impact of multi-unit retailing and self-service merchandising. With this are greater expenditures to influence consumer acceptance and loyalty to a store or group of stores and/or a particular product or product line. As the Food Commission concluded: the food industry is becoming more and more
"sales oriented"; increasing emphasis is on manipulated consumers and less on simply producing a good product for less. In the farm production operation itself technology and knowledge have increased the possible control over the variation in the farm product production.

All of these changes add up to an increased concern over the variation of the product throughout the system. At the farm end this has resulted in increased integration referred to previously and an increase in so-called specification buying. Such buying is really extra standardization being enforced over very narrow ranges of a product line. Traditional "uniform" grades and standards of products and their packaging are often used as a basis upon which extra requirements are added by both the buyer and seller. Such relatively minor technical differences in products are of great importance to the effective operation of highly mechanized and standardized marketing firms. To this then are added an increasing bundle of services and intangible factors which are used to additionally direct and control the flow of products through the system. This may take the extreme form of complete contractual arrangements specifying production, product and packaging activities or the less complete forms of the furnishing of advice, technology and materials to the participants. Prices generated upon goods using broad and widely used standards are often not considered to be adequate signals for organizing the flow of goods.

All of these add up to the proposition that traditional efforts to increase the use of uniform standardization and to generate improved market intelligence may no longer be an adequate approach. We may be the period of transition to a basically different system of organizing and controlling the production and flow of food and fiber products.

The Policy Implications

If the above adequately describes the developments in the marketing system, then there are many implications to research and activities in policy. I believe that in many ways, as professionals concerned with agriculture policy, we have lost touch with what farmers and others consider their problems in the real world. The unrest is there, but the action agencies in the field are not hammering on our office doors for our advice, counsel and research.

We should again turn our talents to that area where we should have some unique talents - in helping to sort out and identify the relevant problems of the food and fiber industry and then devising and evaluating alternative solutions. I say problems because I believe that policy issues of tomorrow will not simplify themselves into a single category such as that of inadequate incomes. I say food and fiber industry because isolating out farms and farmers will not be realistic.
I would suggest that society in the years ahead will be in the process of devising new rules under which the production and marketing of food and fiber will function. In the past when this has occurred it has taken the form of many individual pieces of legislation put together to establish new institutions and develop the ground rules for different acceptable behavior. The Sherman Act and the following legislation over the years helped shape the form of competition. Laws were passed creating the cooperative, the Federal Land Bank, the market order system.

Should we restrict the freedom of firms to differentiate products and influence consumers? Should we regulate the freedom of a retailer to manipulate prices as he pleases? Should there be some boundaries placed on integration activity? Are the present statutes adequate in defining the dimensions of a cooperative; the rights and behavior of bargaining groups? Should Farm Boards, or pricing-by-committee, or the organized bargaining table be instigated as an alternative to the deteriorating pricing system? Society will answer such questions as these with or without our help. I believe it would find more effective long-run solutions if the talent of our profession participated.