# MARKETING ORDERS: SACRIFICING THE CONSUMER

While Ronald Reagan continues touting the superiority of the free enterprise system, his Administration has done little to promote free trade or deregulation. Subsidies to the steel industry, "voluntary" import quotas on automobiles, import restrictions on motorcycles and sugar, and abandonment of trucking deregulation are examples of the Reagan Administration's "free market" policies. A decision about to be made by Secretary of Agriculture John Block seems likely to continue the trend.

The Administration is apparently planning to continue legalized cartelization in agriculture by approving the marketing order recently submitted by the Lemon Administrative Committee. Marketing orders, instituted in 1937 by the Agricultural Marketing Agreement Act, protect collective decision-making by growers of a particular crop. The Secretary of Agriculture is authorized (but not required) to approve such orders for milk, fruits, vegetables, and specialty crops (principally nuts).

There are two types of such orders. Quality control marketing orders allow producers to establish grading standards and determine which grades of a crop will be made available to various sub-sections of the market. A higher grade of pecans is required if the nuts are to be sold in the shell at grocery stores, for example, than for use in baked goods. Quality controls also permit joint promotion of homogeneous agricultural products. The message that "orange juice isn't just for breakfast anymore," is paid for by the orange growers rather than any specific company selling orange juice. Although restrictive, these quality controls are not the principal cause of concern.

A much greater threat is posed by the type of marketing orders which contain quantity controls. These allow producers in a given region to determine collectively what portion of their crop they will allow on the market in a given year. This is often achieved through a process by which growers are ordered to hold a specified percentage of their crops off the market in a "reserve pool."

Advocates argue that quantity controls stabilize market prices and that stable market prices guarantee the growers' well-being. Proponents further claim that marketing orders are a relatively inexpensive means of achieving stable prices for farmers. The federal government does not make direct outlays to support prices and the producers bear the costs of storage.

These arguments ignore a fundamental point. Whether consumers are considered taxpayers who buy groceries or grocery buyers who pay taxes, they still lose under this scheme. Market price stabilization through quantity controls sets prices at a level above that which would occur under competitive conditions. The bottom line is higher food bills.

The Reagan Administration attempted to address the problems presented by these marketing orders. The Department of Agriculture provided growers with three options: 1) They could submit a plan to phase out producer allotment programs over five years. 2) Market allocation and reserve pool programs could be used if primary markets (fresh lemons sold in the grocery store, for example) had available a quantity equal to 110 percent of a moving average of recent years' sales. Only then could pooling and secondary market allocations (lemons sold to furniture polish manufacturers or exported, for example) be approved. 3) Producers were asked for greater flexibility in prorate programs, those designed to spread sales of fresh fruit evenly through the year. Adjustments to actual production were sought rather than rigidly establishing the quantity allocated to certain markets before the total output for the year is known.

In submitting their marketing order for the 1983-1984 fiscal year, the lemon growers are ignoring the USDA guidelines. Most important, the lemon producers fail to increase the percentage of their crop allocated to the primary domestic market. Indeed, projections show the percentage of total output for the primary lemon market will fall from 28 percent of total production in fiscal 1982-1983 to only 24 percent in fiscal 1983-1984.

If this sort of market allocation is permitted, it will harm consumers. Because marketing orders with quantity controls have the force of law, new sources of supply usually are subject to the controls. The federal government thus prevents those willing to sell at lower prices from gaining a larger market share. In addition, when growers from other countries would provide an alternative source of supply, lowering prices for the consumer, import quotas and restrictions are sought to keep prices high for the benefit of domestic growers.

The Reagan Administration should enforce its earlier decisions to phase out these orders. The lemon growers' marketing order now being considered by Secretary Block presents the government with a chance to benefit the consumers by strengthening the competitive marketplace. In disapproving the lemon marketing orders, Secretary Block can make a strong pro-consumer, pro-free market statement by discontinuing the Administration's support of these legalized cartels.

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For further information:
"Just Deserts, Mr. Block," Wall Street Journal, May 5, 1983, p. 34.
"Reagan Moves to Curb Power of Farm Boards," Wall Street Journal, May 4, 1983, p. 4.
Conrad MacKerron, "Marketing Orders--Do They Help Some Farmers at the Consumer's Expense?," National Journal, June 6, 1983, pp. 1072-1074.