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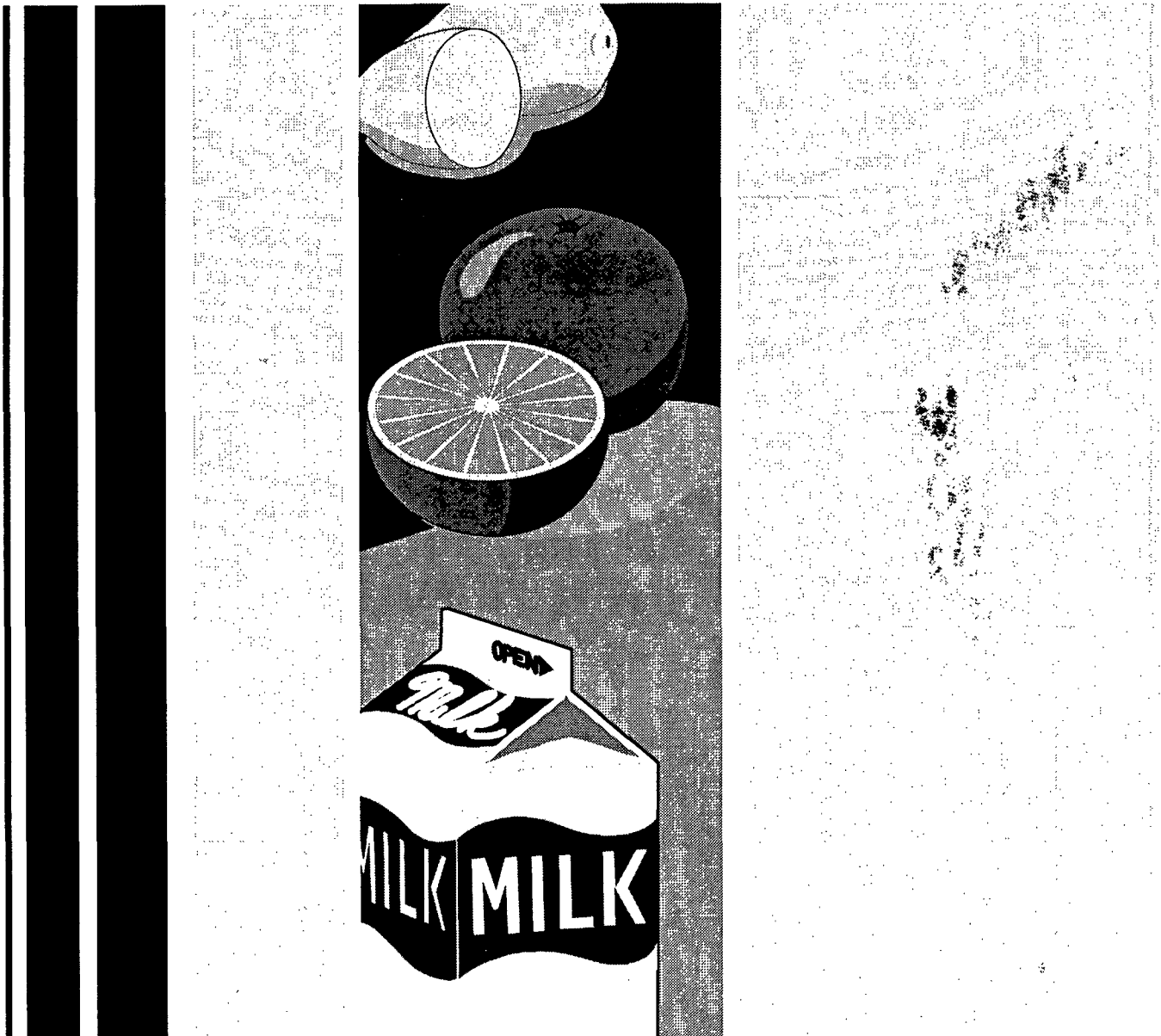
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Number 707

An Economic Research Service Report

Federal Marketing Orders and Federal Research and Promotion Programs

Background for 1995 Farm Legislation

Steven A. Neff
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Abstract

Federal marketing orders and Federal research and promotion programs are self-help programs proposed by agricultural commodity industries and authorized by Federal legislation. Marketing orders have proven a durable fixture in U.S. agricultural policy, especially for milk, fruits, vegetables, and specialty crops. Since 1980, however, 12 of the 47 Federal marketing orders for fruits, vegetables, and specialty crops have been terminated; 2 were added. New Federal research and promotion programs have begun; of the 18 operating in 1994, 14 were established since 1982. With budget limitations expected to constrain agricultural programs in the 1995 farm bill debate, these self-help programs are perhaps under less pressure than some others because they involve only administrative costs, much of which are reimbursed to the Government from assessments on producers, handlers, and importers. Issues with marketing orders include user fees to recover administrative costs, streamlining the rulemaking process, strengthening compliance and enforcement efforts, and resolving concerns of equitable treatment of all handlers within regulated commodity industries. Issues for research and promotion programs deal with governance of the programs and evaluation of their effectiveness.

Keywords: Marketing orders, research and promotion programs, checkoff programs, self-help programs, generic advertising, export promotion

Foreword

Congress will soon consider new farm legislation to replace the Food, Agriculture, Conservation, and Trade Act of 1990. In preparation for these deliberations, the U.S. Department of Agriculture and other groups are studying previous legislation and current situations to see what lessons can be learned that are applicable in the 1990's and beyond. This report marks the first time the Economic Research Service (ERS) has prepared a farm bill background paper on Federal marketing orders and Federal research and promotion programs. It is one of a series of updated and new ERS background papers for farm legislation discussions. These reports summarize the experiences with various farm programs and the key characteristics of the commodities and industries that produce them. For more information, see the References list at the end of the text.

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Summary

The farm legislation debates this year are likely to address a number of issues closely related to marketing orders and promotion programs.

Marketing orders and research/promotion programs (the latter also known as checkoffs) are self-help efforts proposed by farm commodity industries and authorized by Federal legislation. The programs are approved by the commodity groups and are largely self-governed and self-financed.

The current agricultural policy environment of restrictive budgets favors policies that require little net cost to the Federal Government. Marketing orders carry modest administrative costs. Promotion programs are funded by assessments on the industries. Marketing orders and promotion programs can increase returns to farmers without cost to the Government. Marketing orders may be more broadly applicable across the spectrum of commodities.

The structure of marketing orders (other than for milk) reflects the agricultural policy environment of the 1930's, which favored direct guidance of markets by controlling quantities marketed. However, few of today's marketing orders use the quantity control provisions that are authorized. Over the years, 12 Federal marketing orders have been terminated at the behest of the industry participants or the Secretary of Agriculture.

Marketing-order issues that Congress might address this year include pricing reforms of milk marketing orders and streamlining of the rulemaking and compliance processes. (Federal milk marketing orders are treated in this report only to illustrate the breadth of marketing orders but are dealt with at greater length in a companion report on dairy policies, AER-705. Export promotion efforts are covered in a report on export programs, AER-716.)

Some policymakers have suggested that a general framework might be established so that new promotion programs could be initiated under existing rules of USDA's Agricultural Marketing Service (AMS) rather than passing separate legislation for each commodity program.

Questions have been raised about whether marketing orders act against the interests of consumers, but the literature does not indicate that consumer interests on the whole have been hurt. It has been suggested that marketing orders could play a larger role in U.S. agricultural policy, perhaps supplementing or substituting for major commodity programs.

Marketing orders seem best applied to commodities grown by a limited number of producers in a compact geographic area. Milk marketing orders are the exception, but they demonstrate the difficulty in administering marketing orders on a large scale. Perhaps regulations could be tailored to particular commodity production and marketing conditions.

The promotion programs, which aim to increase sales through advertising, promotion, product research, and market research, have proliferated since the mid-1980's. The research and promotion programs have been questioned as to the effectiveness of generic advertising, but the research evidence is mixed.

The positive effects of product research, consumer research, and export market development, not to be confused with export subsidization, are more widely acknowledged.

ERS has not prepared a farm bill background paper on marketing orders and promotion programs in the past, largely because the authorizing legislation for marketing orders lies not in the omnibus farm bills but with the Agricultural Marketing Agreement Act of 1937 (or with separate legislation in the case of research and promotion programs).

But with the appearance of additional farm-bill-related issues in recent years, marketing orders and promotion programs are likely to be more prominent in the 1995 farm legislation debates.