Protecting the Farmer

Lessons of the Marketing Boards

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THE depression which affected Britain in the 1920's and 1930's was particularly harsh in its impact upon agriculture. In an attempt to ameliorate the situation the Government in 1931 passed the Agricultural Marketing Act. This and subsequent legislation allowed for the setting up of producer-controlled marketing boards which could influence both the level of production and the percentage of that production sold to the consumer.

The 1931 Act was relatively unsuccessful in encouraging producers to form marketing boards. As it contained no provision for the regulation of imports, farmers feared that a producer-controlled board might succeed only in raising the level of prices and thereby make the U.K. market more attractive to foreign producers. Should that happen, our farmers would lose some of the benefit although the cost of the measures would be borne directly by U.K. producers. In order to remove this obstacle, the 1933 Act provided for imports to be controlled if a board were set up. Whilst this may have acted as an inducement to the formulation of additional boards, it also meant that the consumer was increasingly at the mercy of the producer.

Since then various boards have been set up: the Hops Board in 1932; the Milk Board in 1933; the Potato Board in 1933: the Tomato and Cucumber Board in 1950; the Wool Board in 1950; the Egg Board in 1956. The Tomato and Cucumber Board was wound up in 1964 because producers were dissatisfied with its actions. That board had few powers. For their products, whilst receiving the benefit of tariff protection, had no other defence against foreign produce. This circumscribed the board's ability to affect prices. Producers consequently tired of paying the levy, and voted to revoke the scheme. The Egg Marketing Board is due to follow the Tomato Board into oblivion in 1971—a year earlier than the final date recommended by the Reorganization Commission.

Although the marketing boards are responsible for only a comparatively small percentage of gross national product, they continue to fascinate economists. They are important in that their history underlines certain basic economic facts. The policies of the boards are frequently similar to those of an industrial cartel. It is not unreasonable to assume that the consequences will be similar as well.

There have been two major post-war inquiries into the consequences of producer-controlled marketing boards. The Lucas Committee which reported in 1947 was extremely critical of the work of the pre-war boards. More recently, the Reorganising Commission which investigated the operations of the British Egg Marketing Board recommended that this industry should be restored to the beneficial protection of a free market. Specific policies of the boards such as the Egg Board's Seconds Scheme and the Milk Marketing Board's policy of pooling transport costs, have been condemned in various *ad hoc* investigations.

Means of Protection

The producer-controlled boards seek to protect the interests of producers in various ways. Existing producers are protected by a quota scheme in both the potato and hops industries. In the egg industry they were given protection by the ill-fated Contracts Scheme. Inefficient producers are protected by restrictions upon expansion by efficient producers. In addition, in the egg industry a special payment is made to packers who serve small producers. Remotely situated egg producers are protected by a guaranteed market and milk producers by a virtually uniform price structure. Producers as a whole benefit from the efforts of the boards to raise the prices paid by consumers.

Investigations by the Consumers' Committee and other bodies have indicated that the consumer of each of the products governed by a statutory marketing board pays higher prices than he would otherwise do.

The economic consequences of these policies are unwelcome, and warrant substantial analysis.

The first result of the policies pursued by the various boards is the encouragement of what would in a free market be uneconomic production. For example, the Hops Board gives each producer a quota which is related to his previous acreage. If he wants to expand, he can do so only by buying another producer's quota. Likewise anyone who wants to enter the industry has to buy an existing producer's quota.

Shelter for the inefficient

The Potato Board operates a quota scheme under which a producer's "entitlement" is related

to his previous level of production. Those producers who grow more than the board wishes them to are

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charged an extra £10 per acre by the board. This deters certain producers —the relatively more efficient—from expanding the level of their production, and provides a shelter

for the less efficient. The doomed Egg Board's contract scheme operated in a similar way, until its weaknesses became obvious even to its authors, the British Egg Marketing Board.

The Milk Marketing Boards have no quota scheme. But their pricing policies encourage over-production. The demand for liquid milk is relatively static. Therefore, if production were to be increased, most,—if not all—of any increase would be sold for manufacturing purposes. The price to the public of milk sold for manufacturing purposes—20.86d. per gallon in 1968/69—is well below that of milk sold for immediate consumption—52.55d. The price paid to producers was, on average, 40.32d. per gallon. Although there were slight regional variations in this price, producers within a region received the same price regardless of whether they had increased the scale of their output or not.

Thus the expansionist producer is paid more for his milk than it is worth to society. Under a free market system, few producers would seek to supply milk for manufacturing: that part of the market would be left to foreign producers. Hence producers would concentrate on the domestic "liquid" market, where prices would then fall. The situation would reach equilibrium with prices and production at a lower level than at present. It has been estimated by Mrs. Whetstone* that under a free market the retail price of milk would fall by 2d. per pint. Those producers who would stop producing milk would be the less efficient producers.

The Egg Board follows a similar policy by taking certain eggs off the market. It processes these eggs, which are then re-sold at a considerable loss to the board. Thus in 1967-68 the Board received about £8 million for its sales of processed eggs, resulting in a loss of £5 million. It also meant that the consumer of fresh eggs had to pay a marginally higher price.

Under a free market, it is unlikely that an egg producer would seek to supply this market.

Local Effects

It can be seen that all the boards have a harmful effect upon the efficiency of their industry. In addition to these general effects two of the boards encourage locational inefficiency. Although the Milk Board discriminates between producers according to which area they are situated in, the discrimination is very slight and much less than there would be in a free market. This negligible price discrimination is accompanied by a pooling of transport costs. The net effects of these two policies is to provide a substantial subsidy to producers in remote areas.

Obviously, the boards' policies of restricting the rate of production will have an adverse effect upon consumer prices. But the boards operate in other ways as well. The market support operations of the Potato and Egg Boards are designed to raise the prices paid by consumers. Both boards also have other means of raising prices. For example the Potato Board restricts the volume of potatoes by insisting that potatoes of less than a certain size may not be sold. But this minimum size is increased in years of high production — an indication that the basic purpose of the restriction is to reduce the supply coming on to the market and to raise prices. The Annual Reports of the Potato Marketing Board indicate an obsession with the level of prices. Its 1959-60 Report, for example, referred to the board's "remarkable achievement" in maintaining prices above the guarantee level despite excess production. Such a tribute was a testament to the powers of the board's intervention.

Again, the Egg Board's "seconds" scheme was designed to prevent certain wholesome but inexpensive eggs from being sold as fresh eggs. Throughout the various inquiries into the "seconds" scheme it was admitted that the absence of these eggs would lead to higher prices. Indeed, this was one of the ways in which the board attempted to justify the scheme.

Bad Economics

Although the boards' supporters would admit that their policies have caused the consumer to pay higher prices than would have prevailed in a free market, they use two arguments to defend these policies. The first is that the higher prices have reduced the cost of the subsidy bill. The second is that these higher *short term* prices are necessary to secure supply in the *long run*.

Both of these arguments are unsound. First, any subsidy system is bad economics. Second, whilst there is clearly a danger that low prices

could have an effect on the future level of production, the prices which result from the boards' policies are clearly higher than is necessary to secure supply in the long term. The proof of this is the fact that three of the various boards have to discourage the growth of production by artificial means. Thus in these branches of agriculture, each covered by a marketing board, there could be a reduction in prices without any danger to adequate long-term supplies.

It can be seen that the two defences offered by supporters of the boards' pricing policies are invalid. The boards have encouraged inefficient production. They have also raised the level of consumer prices to a higher level than it would be in a free market. Their demise would therefore be economically beneficial.

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