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THE ROLE OF THE GOVERNMENT IN AGRICULTURAL  
MARKETING IN DEVELOPING NATIONS

A Report on the RTN Workshop on  
Agricultural Marketing and Domestic Trade

University of Connecticut, October 2-4, 1972

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THE ROLE OF THE GOVERNMENT IN AGRICULTURAL  
MARKETING IN DEVELOPING NATIONS

Session I - Food Marketing and Economic Growth--  
The Need for Government Action

Lead-off Paper: Stanley Scaver, University of Connecticut

Development literature and development policy documents reflect a view that the marketing sector has a passive role, i.e., that agricultural production is a leading sector and that, at best, attention to the marketing sector is dictated by a need to remove impediments or constraints to the production sector. The active role of the sector in "integrating and stimulating," generating foreign exchange, "transferring decisions of consumers back to producers and producer's decisions forward to consumers" via price has not been adequately recognized.

While government development policy must take into account more fully the marketing sector, the role of government and the mix of private and government activities will necessarily depend on the socio-economic structure of agriculture and the more general policies and economic structure of the country. The particular role which should be assumed must be related to the needs and objectives of the country.

State Trading: Need for comprehensive control and coordination of export trade in order to maximize foreign exchange earnings, and the historical colonial institutions which were developed for control of export trade provide major bases for a concentration of state trading in export commodities, but among exports the nonperishables have been the most successfully handled.

Also, quality control and organization of production may require intervention and investments in facilities.

Price stabilization has also figured importantly in the justification of state trading. Security of expectations for markets and reasonable prices are often necessary to permit the introduction of new enterprises. While for some (domestically consumed) products price swings partially compensate for changes in output and, thus, in the aggregate do not seriously destabilize incomes, for export crops price stabilization is often required to stabilize incomes, and reduce uncertainty confronting primary producers.

In still other cases, malfunctions in the private sector which produce excessive interseasonal variability are often the justification for state trading to stabilize prices.

Despite a long history, price stabilization efforts have been unsatisfactory in many cases and require additional investigative effort to discover the circumstances under which they can be made to work for the benefit of producers and consumers in many countries.

Government and the Infrastructure: Progress in the exclusive role of government in providing transportation, communications, training and information infrastructure has been impeded by the failure to recognize its "multiplier" role and inability to determine marginal returns.

Market (and production) planning starts with the forecasting of demand, which is made more difficult by data deficiencies. For purposes of both production and market planning, market and production intelligence services are required. Moreover, virtually all investigative efforts of marketing problems require a central information collection agency. This crucial indirect role must be explained better to enlist support of key policy-makers.

Investment in Marketing Facilities: While efficiently designed and

operated marketing facilities may contribute to foreign exchange earnings and other development requisites, careful planning is required to avoid failures.

Retail marketing has with only a few exceptions remained the province of private traders. It appears that here the appropriate role of government is in the area of promoting "minimum regulations for health, quality standards and pricing."

In some cases government has been forced to enter and furnish facilities and services that, for a variety of reasons, private entrepreneurs do not provide in the field. "Later competing private or cooperative enterprise may enter as volume increases, and government should stand ready to phase out their operations."

In the transition from subsistence to commercial agriculture the large number of scattered producers of irregular quality products provides an unfirm base for private operations and may require government-sponsored facilities and marketing services, in some cases through the utilization of cooperative organizations. But the record of failures of cooperatives due to mismanagement is not encouraging.

In enterprises requiring close coordination of production and marketing, government agencies appear generally unable to effect the tight organization and managerial skills required. A supporting or facilitating role vis-a-vis private business may be more appropriate in such cases.

While private initiative is not lacking, the problem associated with many small plants is that they have much too small a scale, and valuable by-products are often lost. The provision of loans to private traders to expand operations may be the expeditious way to attack the problem without getting involved in direct government investment in replacement plants with

excessive overhead and underutilization in such cases.

Government as a Catalyst for Marketing Improvement: The "laws, standards and rules of conduct for trade" provide the atmosphere in which marketing development takes place. Grades, standards, weights and measures and minimum health codes are among them. But continuing analytical services to provide and appraise proposals for improvement, and credit services on a standby basis are essential to avoid uneconomical direct investments resulting from market malfunctions in the private sector.

Commentary: Richard A. King, North Carolina State University

Emphasized again is the active role of marketing in the development process and our apparent inability to convince policy-makers of its full importance. To remedy this situation my suggestion is that we focus more clearly on alternative development strategies that might be adopted, especially those dealing directly with the marketing sector. It is important to then evaluate the effects of each in terms of changes in prices and costs that could be expected. For example, if improvements in a particular highway do not result in changes in the configuration of the site price surface then, from an economic point of view, it is the same old road. (My biases concerning development strategies are discussed in King<sup>1</sup> and the use of site price surfaces is described in Bressler.<sup>2</sup>)

The question of how and to what extent government should participate directly in marketing activities is made more difficult by the fact that

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<sup>1</sup>Richard A. King, "Product Markets and Economic Development," in Economic Development of Tropical Agriculture, ed. by W. W. McPherson (Gainesville: University of Florida Press, 1968), pp. 78-92.

<sup>2</sup>Raymond G. Bressler, Jr. and Richard A. King, Markets, Prices and Interregional Trade (New York: John Wiley and Sons, 1970), pp. 125-29; 182-200.

there are multiple criteria which must be considered. The use of participant indexes might be a first step in quantifying these effects on different groups in the system. Analytical models that more fully reflect the links between geographic regions, incomes of producers, marketing firms and consumers, and general levels of employment should receive more serious attention.

Marketing planning is said to start with forecasting demand as the basis for determining production targets or requirements. I agree! But more consideration must be given to demographic changes than is often done in consumption projection work. The recent study of the Philippines by Kelley<sup>3</sup> makes this case very well indeed, 95% of variations in consumption being attributable to demographic changes.

There is little hope that we will agree fully on prescriptions that should be applied generally. Emphasis should be upon methods and models that have proven to be effective and appear to be generally applicable for evaluating alternative marketing strategies.

Commentary: Peter Timmer, Food Research Institute, Stanford University

It is not clear that we have meaningfully distinguished between "active" and passive roles. If active means that there is a "multiplier" then we must identify and measure it before we can say that marketing has or does not have an active role.

If efficiency is important we must distinguish between allocative and technical efficiency. The latter referring to a slope on the isoquant

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<sup>3</sup>Allen C. Kelley, "Demand Patterns, Demographic Change, and Economic Growth," Quarterly Journal of Economics, LXXXIII, No. 1 (February 1969), pp. 110-26.

equal to the inverse of the ratio of prices of the factors, while the former refers to output relative to a given combination of factors.

The two basic ways of looking at marketing are (a) with a focus on prices which leaves quantities implicit as in neoclassical economics, and (b) with the focus on quantities in which prices are implicit as in socialist or state planning models. In either case in government planning we must be prepared to handle the corresponding marginal quantities implicitly involved.

"The position that when private enterprise fails to provide necessary service (required) government participation is clear provides no guideline for public intervention, because 'failure,' 'necessary' service, and 'participation' can be defined in any way that the government likes."

The dynamic multiplicative role of marketing may be difficult to sell to policy-makers primarily because of the weakness of the positive or multiplier results, rather than poor understanding on the part of the policy-makers. The evidence must be mustered!

Obviously the correct balance between state intervention and private control must be resolved country-by-country and year-by-year. If we must accept the constraints of particular countries' situations and policies, we can only ask what can be done at the margin to improve welfare through marketing channels.

Rejoinder: Stanley Seaver

There is no disagreement on the fact that the specific situation in its uniqueness must be examined. But it is clear that if the private sector fails to perform according to goal criteria of that country, the government must consider action of some type. But this does not give us

an answer of what to do, and does not necessarily justify government investment in or operation of marketing facilities.

### General Discussion

(Notes on the open discussion will not be identified by commentator and will not be complete. With some exceptions in this and the sessions to follow, the comments will be listed chronologically. Therefore, comments which have a common conceptual orientation are not necessarily grouped.)

1. The demographic impact on demand has been neglected because only in the past few decades has demographic change been important enough to overshadow the other factors. A relatively static factor has now become a very dynamic one.
2. The whole issue of the division of function between the private and the public sector with regard to ownership and operation of marketing enterprises is very sensitive and tends to make economists shy away from studying state enterprises. But regardless of the public-private balance, there is still a problem of minimizing losses, and as a matter of political strategy it may be necessary to make the public enterprises work before constraints to operation in the private sector can be eased to the point that the private trade can make its contribution.
3. There is the further question of whether the constraints to efficient operation in the public sector are any different than in the private sector (e.g., transportation infrastructure).
4. Part of the neglect of the marketing sector is its political sensitivity. In most countries the middleman has been so maligned that people are afraid to work with him.

5. The anecdotal references to gross inefficiencies such as extreme seasonal swings in prices often appear on closer examination not to be so obvious. In any event, if one is to be able to anticipate them one must know something about stocks in storage which in Africa are mostly in the villages--a major data problem. It is of importance to note that in the year following the one for which Seaver reports seasonal price data, prices varied only slightly after harvest.
6. The private trade in Africa, contrary to Seaver's paper, has always had an organization which assembled the products of thousands of small-scale producers. The active role of the merchants is supremely clear, although the system may not have been very active or progressive in reforming itself.
7. Growth may, indeed, occur without active development in King's sense. The articulation of the society is the task of the marketing system--to show people opportunities which they can seize upon and profit from.
8. The fact that the export industries of the LDCs have not had spinoffs in nonexport sectors may be explained by the nature of the marketing system and its relation to government. In the West the government and marketers were the same people and worked together to develop supplies. This is what drove economic progress, as is pointed out by Heilbronner in The Making of Economic Society.
9. While the notion of price surfaces as a tool of analysis has value, the process by which the price surfaces come into being, i.e., the method by which a market as a price-making process

becomes a viable alternative after an infrastructural constraint is removed, is not shown in the King-Bressler book.

10. The question with regard to state enterprises would seem to be one of identifying constraints which we can use to modify the existing system so that it operates in a manner which is functionally (not necessarily formally) similar to what we have in the West.

#### Summary of Open Discussion

The main analytical task seems to be that of identifying the types of actions which can be taken by the state which have the largest multiplier effects throughout the system, but this must recognize that constraints are operative which are dissimilar from place-to-place and time-to-time. No doctrinaire formula of market organization is transferable without modification from one situation to another.

Session II - State Trading, Agricultural Marketing Boards  
and the Role of Government in Marketing

Lead-off Paper: Reynold P. Dahl, University of Minnesota

The pronounced tendency for state intervention and direct control over marketing, particularly in the African countries, merits review of the rationale for these interventions, identification of the principal types of trading operations and marketing boards, a consideration of the issue of what is a proper balance between government and private enterprise in marketing, and the research issues relating to the identification of the proper balance and respective roles of the public and private sector.

The main motivations for public intervention relate to (1) the presumed need to establish more complete control over the entire national economy as a basis for achieving government development objectives; (2) the assumed benefits from establishment of a uniform national sales policy for agricultural exports; (3) the provision of marketing services required for agricultural and commercial development not presently provided in the private sector (notably inputs); (4) the management of expropriated foreign companies taken over by the governments on the theory that local control was necessary but that private companies did not have the experience, capital and organization required for success; and (5) a combination of ideological factors and stereotypes of unproductive, exploitative middlemen.

Marketing boards are often the instrumentality of government intervention. However, there is no uniformity in their role and functions, varying from very limited market research and sales promotion functions, regulation of quality standards in export markets, nontrading price stabilization (taxes and subsidies), supply control, buffer stocks operations for

domestic products, monopoly export marketing and price stabilizing, monopolies in domestic trade and processing, and various combinations and variants of these.

While "the researcher must ask how closely the margins and prices established administratively conform to margins and prices as determined in a free (efficient) market....yet the growth of such organizations make effective margin analysis more difficult." Secrecy in the operations of state trading organizations and marketing boards further complicates the problem for the analyst. Yet indirect evidence such as the existence of black markets, and seriously underutilized capacity, provide indications of the misallocations of resources, and inadequate incentives for efficient operations.

Cochrane, Ruttan, and others have observed the insensitivity to economic needs by the ponderous bureaucracies which are often involved in public sector operations. Mellor notes encouragement by foreign aid agencies for displacement of the private sector by public and cooperative sectors rather than "facilitating the operation of the private sector." These problems and the apparent bias toward capital-intensive facilities in areas where capital is dear and labor cheap seem to be reinforced and complicated by the intrusions of political pressures which make efficiency difficult to achieve in the absence of the traditions of adherence to functional rules and regulations which we find in the developed countries.

While these problems are real, there is need for assistance to the agencies and countries concerned in promoting marketing improvements. More specifically, improvements can be made within the framework which has been established, and we can assist in developing means by which joint ventures can be fostered between the private trade and government organizations.

Also there is need for research to strengthen and improve the remaining private indigenous markets. Whether operated privately or publicly, the marketing system, if it is to be efficient, requires transportation and communications infrastructure, credit system support, uniform weights and measures, commodity standards, market information and research and advisory services. And small shifts toward more mixed state and private systems have occurred in some areas.

Commentary: William C. Merrill, Iowa State University

The Dahl paper suggests that the wide differences in the role of government in agricultural marketing are importantly a result of basic differences in values. But, as Milton Friedman suggests, these nominal value differences may disappear once we have the facts. But in any event, there must be some agreement upon basic goals before we as analysts can appraise performance, or derive a proper balance between public and private operations. The reasons that are given for government intervention do not, however, give precise or meaningful goals.

Lacking precisely defined goals of the country or its policy makers, Dahl judges the operation of government marketing operations largely on the basis of internal efficiency relative to that of private firms, and finds them largely wanting in this regard. But even on that ground, "private firms usually do not deduct the full social costs...when computing their profits (nor are they able to capture the full social benefits...)." This plus the wider range of goals of government enterprises and greater restrictions on their activities make them almost inevitably fall short of private firm economic efficiency. "The relevant question is 'can they achieve their goals.'"

But even if we knew the goals and value systems, and could define an optimum balance at one point in time, technological change and changes in costs and relative prices over time would alter the optimum balance.

Commentary: Marvin Miracle, University of Wisconsin

No doubt, as Dahl contends, government marketing operations in developing countries tend to be inefficient for a variety of reasons including "personalized, arbitrary actions in relationship with the public and less efficient staff because recruiting is determined by political considerations." But are there other issues that are more important? Is this true of all government operated businesses in both developed countries and elsewhere? Is this true generally of marketing? Or is the argument that there are special conditions in developing countries which make marketing boards particularly inefficient there but not so much elsewhere? Obviously if government operations generally are everywhere inefficient the policy implications are straightforward. If they are inefficient only in marketing because of particular problems in that field, this has important bearings on policy. But if because of nepotism and political manipulation government business generally operates poorly in the developing countries, the problem takes on a different configuration.

While it is difficult to examine internal operations of marketing boards, we can evaluate the importance of some of the things they try to do, and their effectiveness in doing them. These include: (1) price and income stabilization, (2) public revenue collection, (3) effectiveness in providing incentives for producing exchange earnings (appropriate types and quality of products), (4) redistribution of income, and (5) increases in employment.

The Dahl paper relegates the government to a modest role of price stabilization and supply control, providing market information, and physical infrastructure, and credit to small producers, plus perhaps protection of public health. But for price stabilization and supply management there is no more reason to expect efficient administration than in more direct market operations. It seems that if the governments are thus incapable of effecting detailed administration of complex ongoing economic operations, the list of potentially useful roles can be culled down to protecting health, providing roads and other physical infrastructure, and supplying market information.

Rejoinder: Reynold Dahl

One of the problems is getting government policy makers to recognize that they can operate quite effectively without actually handling more than 10-15 percent of the crop in the case of stabilization efforts. But the problem is to keep the government operations "in bounds." When government boards operate in competition with the private trade they seem to operate more efficiently than when they are complete monopolies.

Open Discussion

1. The reasons why the government operations tend to take over is not quite clear. Do they outcompete the private trade or do they take over to obliterate competition and get monopoly control, taking over by decree rather than competition?
2. If government takes over by fiat, the question is what can you substitute for the particular forms of organization and operation that have been used to operate the government monopolies which will be made effective in achieving objectives.

3. We must keep in mind that many interventions in the form of setting rules of the game and weights and measures are not competition-displacing in nature. They facilitate private trade. But in the displacing activities motives often involve ethnic minorities which dominate the trade, such as Asians in Kenya, and assertion of economic independence. But one of the problems is that the existence of a particular commodity board often obscures more attractive economic opportunities in other commodities.
4. The question still remains, what are the viable alternatives given the constraints in the local situation; what are the limits within which we can in some degree improve the situation.
5. There is in this whole discussion the implicit assumption that what we have is somehow best for other people--which is highly questionable both on welfare economics grounds and because our circumstances are very different. The Commodity Credit Corporation has its problems, but we are not concerned too much about it because we have a very elaborate set of safeguards that prevent abuses and institutions to define and limit its role.
6. We must avoid the conclusion that all such efforts have been unsuccessful. The Indonesian effort at stabilization had important side effects of integrating markets, breaking down regional barriers to trade, etc., that may justify the effort (even when the stated purposes were different?). Importantly, the government served as a buyer of last resort, one that attempted no comprehensive takeover of the market, and modest commitments of government resources were required.

7. Anticipating the next discussion somewhat, it is extremely important to recognize that when massive intervention is involved the demands put on the production and price information system are compounded. Even acting as a balance wheel in market with a government appropriated fund is not feasible if you have no data on the size of the crop or the marketable surplus.
8. While ideally plans for such "balance wheel," buffer stocks or similar operations should be guided by good data, as with most policy, action can be taken on a conservative scale experimentally. In fact all policy is to some extent experimental. We try something and then try to learn what went wrong or right, hence the need for continuous monitoring by researchers as programing evolves, especially when data are deficient.
9. Returning to the theme of achieving local goals, we can at least measure to what extent stated goals are achieved and the cost of achieving them.
10. Looking at tools of analysis, in addition to the perfect market concept we need studies of what might be called the morphology of marketing systems, their modes of behavior and measures of market power.
11. In line with the above point and our concern with goals, it would seem that a study of what has been done, why it was done, what goals have emerged and why they have emerged would begin to identify some of the common threads among what appear to be fairly heterogeneous goals and objectives. But, in the short run at least, the goals and the constraints of a system are merely opposite sides of the same thing.

Session III - Public Investment in Information to Aid  
Marketing in Developing Countries

Lead-off Paper: Harry Trelogan, United States Department of Agriculture

(Note: This summary combines ideas which were contained in a paper submitted in advance of the meeting and informal supplementary comments made by Dr. Trelogan.)

In this discussion the focus was primarily on crop and livestock estimates, not on market news and census materials. In general, public investment in information to aid agricultural marketing has been regarded as a thing to be accepted on faith, and no attempt to provide quantitative estimates of its value has occurred until the Hayami and Peterson article in the March 1972 American Economic Review. In general, the rationale for improved market information has been to equalize access to information on the part of farmers and various elements of the trade, hence more closely approximate the conditions of perfect markets, not equalize supplies of information completely.

The fact that we in the U.S. were able to develop a system which was quite reliable and generally supported legislatively was a result of (1) favorable attitudes toward farmers and farming, (2) high degrees of literacy among farmers, (3) a political environment in which issuance of objective data was condoned and encouraged, (4) a postal service which provided a dependable inexpensive way of getting data, and (5) quinquennial census benchmarks which gave fairly reliable results at low cost. In the United States general support of this kind is waning somewhat, and we must now have more objective justifications for expenditures, and the problem of data collection is becoming more complex with rapid changes in organization and technology of agriculture. Hence, sampling systems of various kinds

have supplemented and partially supplanted the older methods which relied heavily on mail questionnaires.

While original justifications were in terms of farmers' interests, much of the support for continuance and expansion of data services now comes from private traders as being "part of the fabric of rules of the game in competitive markets. Once data services become sufficiently reliable to be widely used, their deterioration or termination can be as disruptive to business as a change in the applicable laws.... New data services typically get introduced during periods of stress.... Those who seek publicly supported data services must exploit these opportunities as they become available. I suspect that this will be true in both developed and undeveloped countries."

Byproduct data from efforts to check reliability of supply estimates against data on disappearance have often been published with the result that new demands from traders for continuance of these data series were created. Hence, data demands are often rather unintentionally created.

It is useful to distinguish the purposes of public information. In our country it is mainly intended to facilitate free enterprise trading with information accessibility on more equal terms than otherwise. "The alternative to market information from public services is not the absence of information. Traders always have information."

"Lack of public information makes competition less dependable and growers more vulnerable to exploitation."

In addition to these private uses, information is needed for "direct management purposes." "Today in this country as well as in developing countries it appears to me the governments want for market information services for decision-making is rising relative to the wants of the private

trade. The data collection agency must be prepared to deal with recalcitrance when asking traders to yield a source of monopolistic advantage."

In all marketing information there is the question of the trade-off between accuracy and timeliness within cost constraints. In addition, in developing countries many of the methods by which we in the U.S. get quite reliable and meaningful data are not available because of unreliable communication systems, lack of grades and quantity standards (weights and measures). Moreover, not all agencies are uniformly objective. "All techniques, methods, procedures and approaches...need to be selected consciously and deliberately based upon policies and objectives adopted by the government or public agency intending to provide the service."

The new satellite systems of remote sensing offer possibilities of very large amounts of data which can supplement present survey methods. While the accuracy expected is lower than we normally can tolerate in the developed countries, the 80-95 percent accuracy in identifying crops and reading acreages could be very appealing to the developed countries.

#### Supplementary Comments

Experience indicates that the data system must evolve as the organization of agriculture changes. With the new sampling systems the area samples have been less satisfactory for livestock estimates. Where there are very large aggregates scattered about and where small area samples give unreliable results because of the low occurrence of these operations in the total population simple expansion of an area sample is very expensive to achieve greater accuracy. List samples have been adapted to supplement area samples in a multi-frame sampling scheme. Size stratifications have been necessary. New needs for breakdowns of animals by age, sex, days on

feed, etc., have had to be handled. Dairy beef messed up the basis for some estimates in earlier years. We have been fortunate in that the statisticians were mostly also economists, so the data services were somewhat attuned to what data users needed.<sup>1</sup>

Commentary: William Jones, Stanford Food Research Institute

Trelogan's paper brings to our attention the important role that informed observers can play as reporters in a crop information service.

The problem of literacy can be overstated. Many peasants are at least semiliterate, and sampling can be coupled with informed reporters, e.g., school teachers. The farmers, while illiterate, still know the condition of their crops.

In looking at the value of information, we must recognize that information has no value unless tradesmen and farmers are in a position to take advantage of an economic opportunity when they find out about it.

My ranking of information priorities differs from that of Trelogan. Price information seems to rate a higher priority than production information and is usually easier to collect. From that we come down to (second priority) actual production and stocks. The latter are difficult to estimate because of on-farm storage of staples, but knowledge of them is extremely important to the allocation system. Crop prospects and estimates of consumption or effective demand rank third and fourth.

Marketing information is most important in facilitating government

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<sup>1</sup>For two recommended references Dr. Trelogan suggests: K.E. Hunt, Agricultural Statistics in Developing Countries, Oxford Institute of Agrarian Affairs (30 shillings); and K.E. Hunt, Desirable Developments in Market Intelligence for the Livestock Industry, Institute of Agricultural Economics, Little Clarendon St., Oxford, U.K., December 1971 (1.00 pounds sterling).

monopolies and other marketing activities that are a threat to private traders. It is a strange paradox that countries with absolutely the worst and the least information about production, marketing, and consumption of agricultural commodities are just those countries that are most hell-bent for complete government control and monopoly.

The question of who gains most from the market information is not so important as the effect of information on the facilitation of optimum resource allocation over time, space, and form so as to benefit the public or the nation.

Commentary: David Gaumer, USAID

We have had a good review of history and problems encountered in the data services of the United States. Despite the fact that these data services tend to equalize access to information in situations where the traders have very effective sources of information of their own, it seems clear that the most important uses of data are by government agencies.

A prime reason for this is the fact that major breakdowns in the marketing system are more often a result of inadequate infrastructure than of local knowledge of market conditions or collusion. This includes a lack of communications infrastructure, as in India where local traders know a lot about local areas but not much about regional and national market situations. Also there is lack of transportation and other requisites which allow them to respond to the situation as was mentioned in the cases in South America. So the major reason for concern about data services is in planning, i.e., the identification of needs for infrastructure investments and the like.

## Rejoinder: Harry Trelogan

While the immediate users of data may be trade associations and government agencies, indirectly a great deal is used by farmers, especially through the radio news reports and through analysts' speeches and publications. Interviewing semiliterate farmers is feasible but far more expensive than mail questionnaires sent to literate farmers, the method originally developed in the U.S.

## General Discussion

1. In planning market information services, it must be established that there exists a malfunction in the marketing system attributable to deficient marketing information before there is a basis for saying that the expenditures are justified.
2. Difficulty of entry which may cause impure competition is also sometimes a result of deficient information.
3. The problem of political bias is a difficult one. How can we cope with it? Trelogan says that stable government makes it possible to have objective statistics. However, some methods of estimation are more easily manipulated than others. The informal procedures with national estimates built up from village headmens' estimates would be easier to "adjust" than those based on samples. Also, when you have an independent data-gathering agency the temptation to bias results to make them look good is partially removed.
4. The likelihood of political bias is also a function of the importance of the commodity or industry. In most subsistence crops 10-25 percent really enters into commerce and the input markets are politically unimportant.

5. We cannot speak of the problem intelligently in terms of individual statistics. We have to think of a system of market intelligence, the categories of facts which are together a means of identifying problems, guiding private decisions, planning government programs, etc. Each piece is valuable only in relation to the other pieces of data. Also the frequency of collection or length of run is determined by the dynamism of the industry. In effect, the problem of estimates involves anticipation of the analytical models that we will use and what are the sensitive elements in these models, i.e., what is really essential to solving problems.

Trelogan Commentary:

Based on what I have seen, I would initially emphasize a census approach because it provides a basing point for other procedures and I would try to get most of the data services in one agency to avoid jurisdictional struggles and to get coordination. Many of our most difficult problems here are a result of having responsibility for one set of statistics in the census, or some other agency, while we have responsibility for a related set.

General Discussion (continued):

6. Of the statistics that we may gather, it would appear that price and supply estimates are complementary. Therefore, they should be gathered simultaneously and for the same commodity classes.
7. We must continually emphasize that information just like other expenditures must be justified. In the case of marketing margins, we must first determine whether excessive margins exist and if

they do exist, to determine whether they are a result of deficient transportation, monopolistic practices, licenses which limit entry, etc. Moreover, the real explanation of what appear to be excessive margins may be a statistical illusion. However, when there is great uncertainty about supplies, etc., it increases the likelihood that traders can take advantage of the situation.

8. Isn't there a good chance that our own political biases are part of the problem, i.e., isn't the adequacy of advice we give about information systems dependent upon whether the relevant decision parameters are taken into account. Isn't there the real possibility that we simply superimpose an arbitrarily defined set on a situation where decision makers, quite properly, should be concerned with others.

Session IV - Public Investment in Marketing  
Facilities--Panel Discussion

Discussion: Richard Phillips, Kansas State University

In speaking of our subject it is important to make clear distinctions among the various roles of government vis-a-vis the private sector. The following seem pertinent: (1) public ownership of facilities versus public control or conduct of marketing operations; and (2) public ownership of marketing facilities versus public investment in privately owned marketing facilities through loans, etc.

There is also the need to recognize that public and private roles are different with respect to particular facilities. Public facilities are sometimes operated privately under franchise or simple rental, whereas private facilities are often leased and operated by public agencies.

Whatever the arrangement we need to look at the decision criteria to be employed. I would list the following:

1. In general I would look at marketing in terms of the performance of a total system for the particular commodity.
2. Intervention would be dictated by a social rate of return that is high relative to the internal rate of return. (However, this would not necessarily dictate public ownership--possibly subsidy, regulation, improved infrastructure, etc.) But account must be taken of:
  - a. The distribution of benefits among consumers, producers, public accounts, etc.
  - b. Time distribution of benefits--the discount rate is usually high.

- c. Complementarities between public and private investments may yield high social rates of return.
- d. The possibility that scale economies may be sufficient to make efficiency inconsistent with competition. Elevators and abattoirs sometimes fall into this category.
- e. Demonstrations and testing of new technology may create excessive risks for private investors. (The appropriate role may be to get the enterprise started and then use it as a demonstration and pace setting unit, or ultimately turn it over to private industry.)
- f. Due to lumpy capital and other entry problems government action may be required to enhance competition.
- g. There may be goals, e.g., increased employment which cannot be achieved in a competitive situation in the private sector.

In these situations intervention of some type may be fairly clearly indicated. In other instances the decisions may fall in the gray area where trade-offs are difficult to determine and are crucial to the decision. But it should be emphasized that ownership and operation are not necessarily tied together.

Commentary: John Moore, University of Maryland

While generally the private sector of the marketing system is likely to be more allocatively efficient because of the stronger incentives for efficiency, and to be so with respect to time, space and form (net welfare to the consumer greater), the problem of identifying conditions under which public investments in marketing facilities are justified must be recognized. Criteria for optimum public investment in marketing facilities include:

1. The investment must increase the general welfare, i.e., benefits must exceed the harmful effects.
2. The (discounted) returns from the investment must be greater than the tax money used to finance it (a positive benefit-cost ratio).<sup>1</sup>
3. The returns to investment must be as high as in any other alternative investments the government might make (discount rate must reflect the opportunity costs of capital to the government).

Conditions under which public sector investments might contribute more to general welfare than reliance on private sector investments include the following:

1. When externalities are important, e.g., employment, environmental pollution, worker and management education (values of which may be captured by other firms by hiring skilled manpower away from firms which develop it), competition in the market place (pace-setting roles in pricing or innovation), improvement of income distribution, facilitating or providing bases for market information services (to members of the trade or farmers not getting adequate information), provision of buffer stocks in areas of variable weather and yields, and provision of transportation networks shared by others.
2. Where collective action among marketing firms is needed to make a change. (Examples: development of new market sites and movement thereto, or shifts from bag to bulk handling in the marketing system.)

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<sup>1</sup>Partheses indicate the paraphrasing of the terminology used by the commentator.

3. Where special knowledge is available that is not (and cannot feasibly be) available to private firms or where required scale of investment is such that only government agencies can finance it.

(Note: This was followed by a colored slide presentation of the variety of government investments in the grain trade which evinced a felt need to improve the system. These covered transportation, storage, processing and transactions.)

Commentary: Elon Gilbert, Stanford Food Research Institute

(The focus of this discussion is on applications of multiple criteria, for individual commodity groups for evaluation of government involvement, not necessarily government investment or operation of marketing facilities, as such.)

The problem here seems to be quite different in the various classes of markets. Therefore the discussion will separately consider import markets, export markets, nontraditional input markets and markets for domestically consumed and produced food commodities.

In general, the experience seems to indicate that we get higher returns from government investment in the export, import and input markets. They are more amenable to government action because most are channelled through ports, the data are better and there is more agreement as to the nature of the problem. In the case of exports, in particular, you have a port, a specific place where control over operations can be effected.

In the case of imports, policy objectives are clear, or reasonably so. They include saving foreign exchange, maintaining reasonable domestic prices, providing incentives for import substitution and expansion. Data

is usually fairly good, and policy instruments, e.g., import licensing, duties and quotas are fairly clear-cut, although data requirements are much greater for quotas and import licensing.

For nontraditional inputs the policy objectives are very clear. However, experience has been almost uniformly bad. Timing of deliveries has been something that the bureaucratic process cannot assure, identification of demand by crop and region is quite difficult, and the government distribution programs have typically discouraged any private involvement. Subsidization at the port of entry avoids pushing the private trade out, but for improved seed varieties too much subsidy often means that good seed is sold for feed.

For domestic foods there is a multiplicity of poorly defined government objectives, data are uniformly unreliable and skimpy, administration is extremely complex for any type of program since much is consumed locally, and costs and benefits are very difficult to quantify.

In making all of these evaluations we should keep in mind the fact that the problem is not a matter of identifying and correcting any deviations from theoretical ideals, but that of identifying and weighing policy alternatives. In this regard policy objectives must be ranked and present values and trade-offs among them evaluated. Objectives are almost always multiple; socialistic systems have developmental objectives. Even the cost of independence can be evaluated.

Important in all such programs are the feedback effects on bureaucratic capability to do anything.

### General Discussion

1. As a result of the Stanford studies it was concluded that a good

case could be made for government in cooperation with brokers and assemblers to set up organized markets or exchanges in supply areas. This would provide a vehicle for brokers to compete in a central place for the trade of people who come to market, the ones that know the area, available supplies, etc. This would provide for a spatial arbitrage function. It would be a small, low-cost and low-risk "add on" to the existing system which would simply facilitate communication, brokerage and price-making functions. It would also provide a vehicle for possible introduction of commodity grades and standard units of measure.

2. The fact that you manipulate the market at the port may have quite different effects in different parts of the country even if monocultural.<sup>2</sup> However, the risk of error in decisions is much higher when we plunge into something with very limited knowledge, as in the case of domestic food products.
3. As a statement of short-run conditions and priorities the listing may be fairly adequate. However, it seems doubtful that this represents a good long-run appraisal. Since the export crops were the ones of primary interest to the colonial powers, it is true that we have much more highly developed markets, data systems, etc., for these crops. Thus it seems that we should

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<sup>2</sup>For excellent evidence of this, see, Chaiyong Chuchart and Sopin Tongpan, The Determination and Analysis of Policies to Support Agricultural Prices and Incomes of Thai Farmers with Special Reference to the Rice Premium (Bangkok: Ministry of National Development and SEATO, 1965).

view it from a public welfare standpoint as a problem in "catch-up football strategy." If we do not make efforts to improve the markets for domestic food products we miss the items of central concern from a human welfare standpoint.

4. While the statements of Ruttan and Mellor agree with the views in this paper about the difficulties experienced in public distribution of inputs and credit, there is doubt that there is a satisfactory alternative in many cases. And observation of the programs of selective distribution to demonstration package programs in Thailand, and the Taiwanese Farmers Association experience do not suggest that these efforts are inevitably or even uniformly ineffective.

Session V - Public Policy and Rural Marketing in Latin America

Lead-off Paper: David L. Peacock, Agency for International Development

The objectives of the paper are an assessment of (1) an appropriate role for the public sector in Latin American rural marketing; (2) some means by which international institutions can support this role; and (3) some research efforts which could serve to facilitate this public sector role.

The Role of the Public Sector

A major reason that policy makers have failed to see evidence of the contribution of marketing research and investment in LDCs is the unsystematic way efforts have been organized, efforts that have failed to recognize interrelations of factors affecting the rural marketing system. Examples include ineffective investments in grain storage for price stabilization because of inadequate organizational and financial capacity to purchase necessary amounts of grain.

What appears to be needed is a public or semi-public institution with the capability of professionally analysing marketing systems, and actually facilitating changes for their rational development. The suggested capability to identify constraints to effective marketing operations; (2) authority to develop and suggest marketing policies to the highest levels of government decision-making; (3) capacity to plan and implement public marketing programs; (4) the capability to mold private sector marketing development through policy formation, marketing services, training, technical assistance and credit.

Part of the reason for this suggestion is that the available

marketing expertise in Latin American countries is scattered about in various agencies where it cannot form a "critical mass" for effectiveness, and so that professional judgments can be translated into political and administrative action. Coordination must be effected with other institutions within the public agricultural sector such that programs developed are consistent with general rural development goals. Recommendations along these lines have been made by Lemley for El Salvador, and movements in these general directions were noted in Guatemala and Colombia. But the public sector "should pursue a role which emphasizes planning and facilitating the development of rational marketing systems with maximum private sector participation, as opposed to a role of regulation and direct participation....Public resources should be allocated among marketing projects in such a way as (to) maximize the total impact on development objectives resulting from both private and public resources....This may involve some degree of reorientation of public sector emphasis from what may be termed the 'hardware' of market development to greater 'software' activities (involving marketing research and planning, technical assistance, market information, institution building and credit)."

"Another role the public sector must assume is to assure equitable treatment in the market place of the poorest segments of the economy." Many examples of inequitable treatment of poor consumers and producers can be found. Price supports and administered price ceilings seem to be relatively ineffective in dealing with these problems.

#### International Institution Support of Public Sector Marketing Activities

In the present emphasis on sector analyses as a means of analysing development programs, comprehensive marketing analysis should be a part

of these efforts. This is necessary to assure that marketing improvement efforts fit into the context of a coordinated market development program to assure maximum developmental impact.

Instead of direct investment in marketing facilities subsector loan funds to support marketing approaches may be the more effective policy.

### Research Efforts

One of the explanations of lack of faith in marketing change as a means of stimulating rural development is a lack of monitoring research to ascertain whether the actual programs suggested by analysts as solutions to particular problems are effective in these regards. And such monitoring capabilities should be built into public sector programs which are supported by aid supplying programs.

### Commentary: Lehman Fletcher, Iowa State University

The anecdotal references to interrelationships affecting the rural marketing system which have been the causes of failures are suggestive, but are not substitutes for systematic evidence of the pervasiveness of these as problems.

The specification of what an analytical institution should be like ideally is interesting, but the questions more normally confronted are the ones relating to what things you can get along without.

There are a number of other troublesome issues involved in this paper, such as the positive versus normative roles of analyst staff. How far can we and must we go; how far can we be effective as researchers as we move into facilitating and implementing activities? It is clear that the role of "professionally analysing" gets us, in the Peacock context, over into the area of prescribing procedures. But what are to be the

criteria and how do we determine when there are multiple objectives when we actually achieve maximum effect.

In establishing a "marketing sector" we must recognize that the distinction between marketing and production is, itself, an artificiality. For many purposes it cannot be split off as a separate piece; it is part of a broader sector which has problems, part of which involve interrelations between production and marketing.

Finally, aside from some troublesome problems of defining "equitable treatment of the poor," "rational marketing systems," etc., there are some real problems of getting the support of financing agencies to pay for the monitoring of their own projects.

#### General Discussion

1. The issues seem to be what you do to improve the marketing sector versus what you do in the marketing sector that furthers the more general objectives of development. The question is not whether there will be a state role, but what that role is going to be and by what criteria it is to be determined.
2. While there obviously has to be some division of labor, which some interpreted to mean that researchers would not be involved in implementation, others felt that the planning-implementation-evaluation activity viewed as a continuum was essential to keep research as a part of the planning activity relevant to the issues confronted by decision makers. However, it was pointed out that while there was need for interchange among decision makers and scholars, they need not be the same people. But they can be institutionally linked. The concept of feedback linkages

and the need for a continuing analytical role as programs are initiated, new problems encountered, etc., was mentioned as very important and a serious shortcoming of most international technical assistance.

3. Another point of view expressed was that the function of the action agency and the function of universities which seek only to add to the body of knowledge are distinct and usually in conflict to some degree in the short run. However, in the longer run the additions to the body of knowledge are in the interests of action agencies.
4. We talk a lot about collaborative research, but this is mostly a fraud. Most scholarly research does not result in a product of the local agency which assists in building the institutional capability of that agency. We need to look for opportunities where there is a real trade-off, where we get something, but also add something to the country concerned.

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