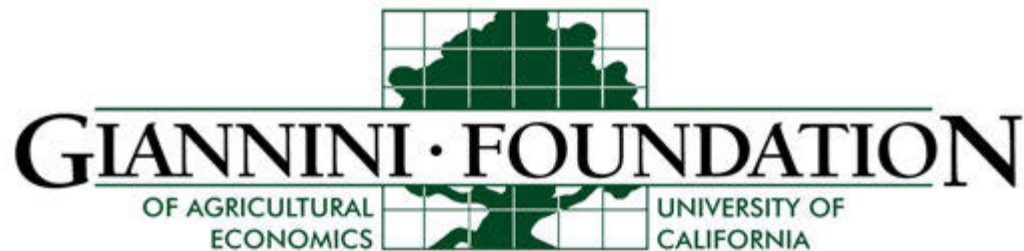


The Giannini Foundation and Marketing California Farm Products

Julian M. Alston and Richard J. Sexton
Department of Agricultural and Resource Economics
University of California, Davis





Scope and Limitations

- What's marketing?
 - Supply and demand for agricultural products
 - Structure, conduct, performance
 - Space, form, time dimensions
 - Market mechanism substitutes and complements
 - Government intervention
- What's economics worth?
 - Pardey and Smith



Main Points

- Influences on marketing economics in the Giannini Foundation from changes in
 - California agriculture
 - University and experiment station
 - Economics and agricultural economics
- Marketing economics in the Giannini Foundation
 - People
 - Publications
- Collective action by farmers
 - Cooperatives
 - Marketing orders



Influences . . .

- Economists at the Giannini Foundation influenced by events and evolution in
 - California agriculture
 - California Agricultural Experiment Station
 - University of California more broadly
 - Agricultural economics and general economics
- Big changes in all these influences since 1930.....



Influences . . .

Features of California Agriculture

- California agriculture is
 - Large and diverse
 - \$30 billion, 12 % of U.S
 - 250+ commodities
 - Dynamic and evolving (indexes in 2002 based 100 in 1949)
 - Fruits & Nuts: 404
 - Vegetables: 421
 - Field Crops: 240
 - Greenhouse & Nursery: 1,442
 - Livestock: 430
 - Productive
 - Total Output: 448
 - Total Input: 167
 - Productivity: 269



Influences . . .

Features of California Agriculture (continued)

- California agriculture is different
 - Many diverse products
 - “Large-Country” and perhaps main producer
 - Distant from markets
 - Perishable products
 - Perennial crops
 - Capital intensive
 - Dynamics of supply response

- Differences have marketing implications
 - Supply and demand elasticities
 - Potential for marketing problems

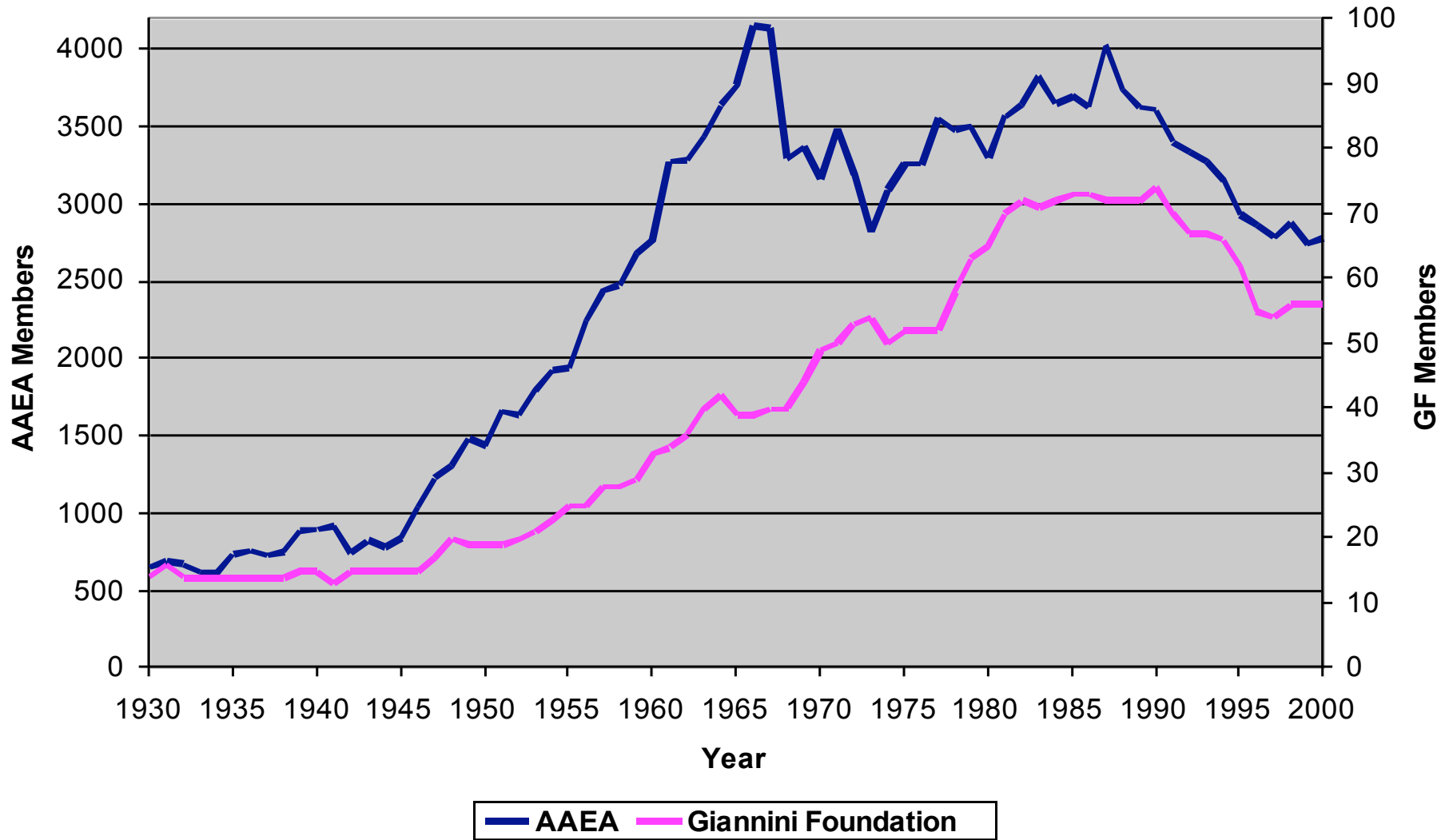
- Issues neglected by economists elsewhere



Agricultural Economics at the University of California

- Within agricultural economics?

Giannini Foundation and AAEA Membership, 1930-2000

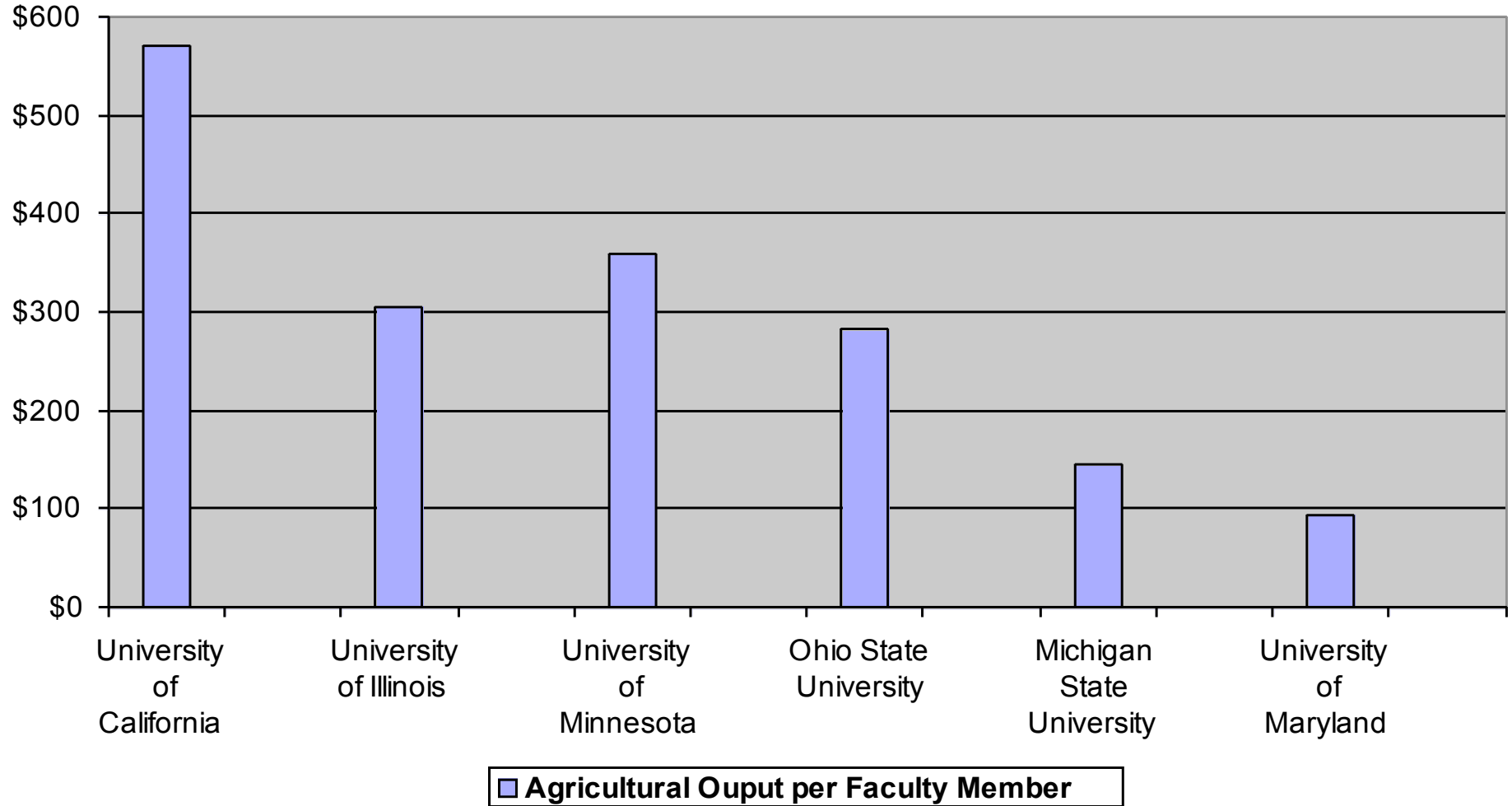




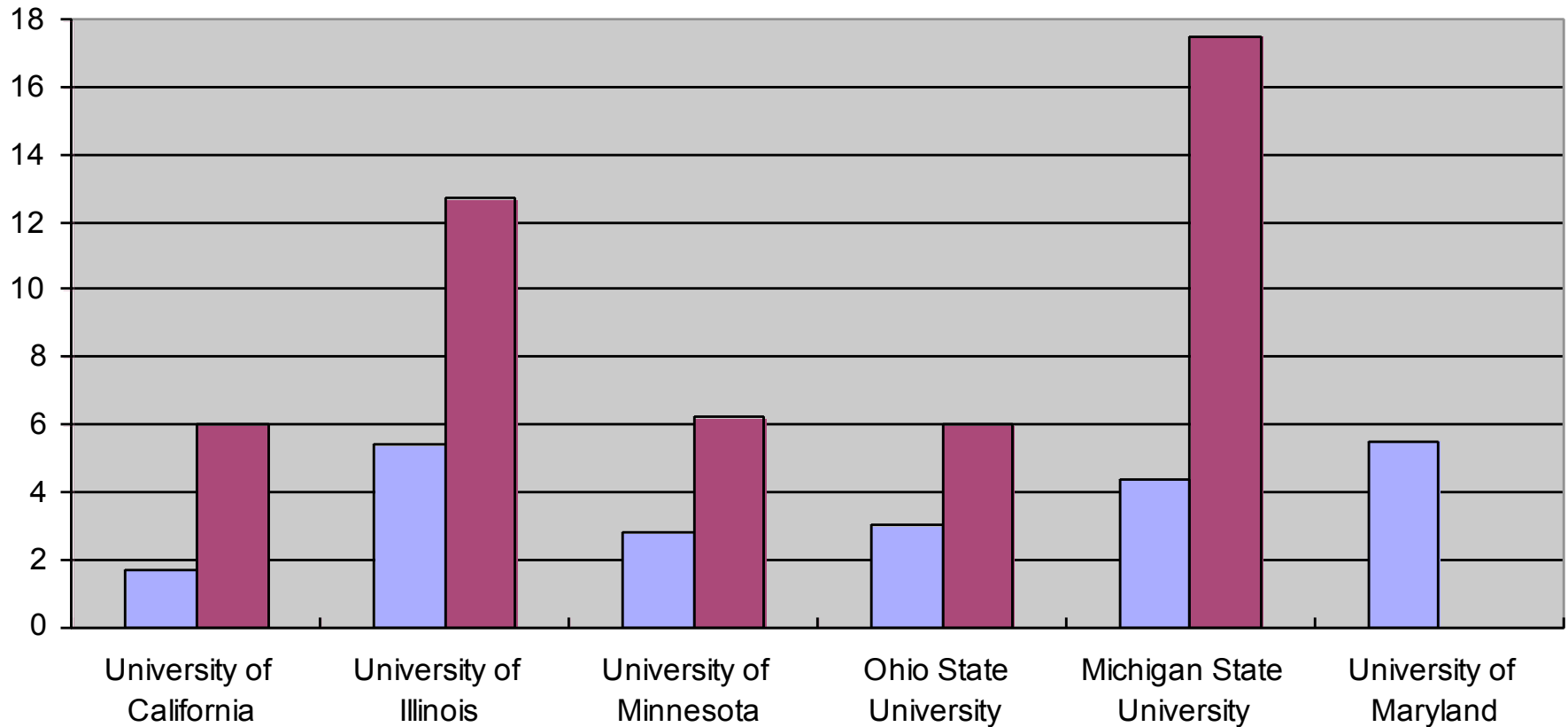
Agricultural Economics at the University of California

- Compared with other land grants
 - Economies of scale?
 - Economies of scope?

Agricultural Ouput per Agricultural Economics Faculty Member, 2004 (\$US million)



Number of Agricultural Economics Faculty Members per Significant Agricultural Output, 2004



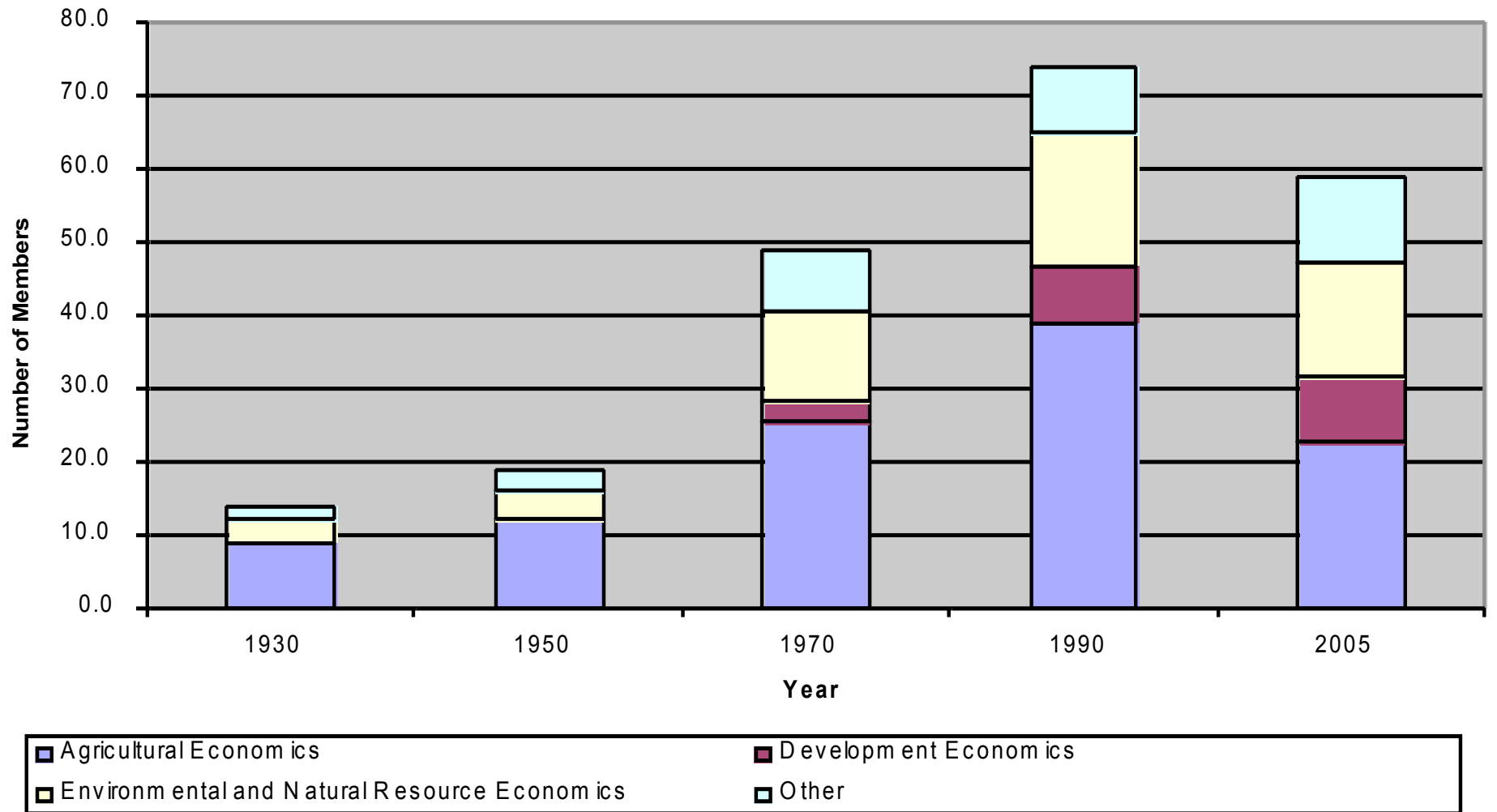
■ Faculty Members per Agricultural Output with Revenues in Excess of \$100 million
■ Faculty Members per Agricultural Output with Revenues in Excess of \$500 million



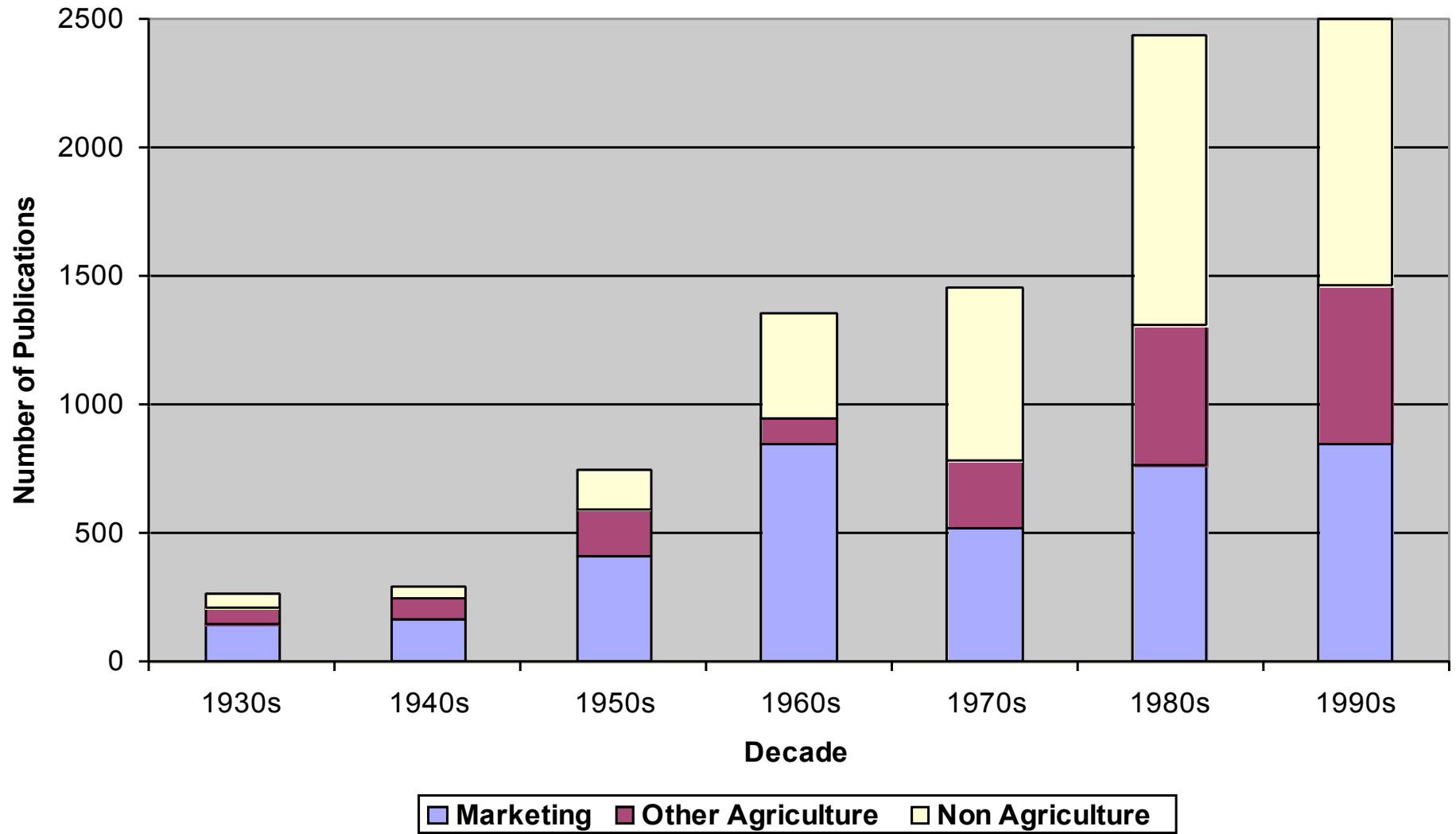
Agricultural Economics at the University of California

- Changing field emphasis
 - Environmental and Natural Resource Economics
 - Development Economics
 - Agricultural Economics
 - Marketing
 - Other agricultural economics

Giannini Foundation Members by Field for Selected Years



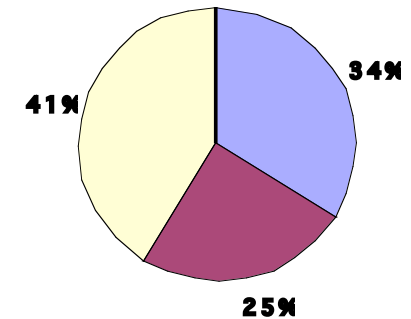
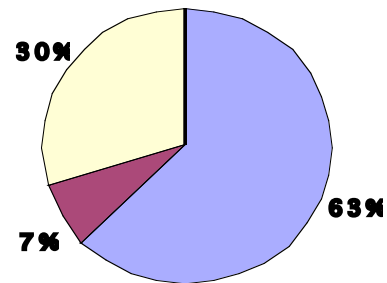
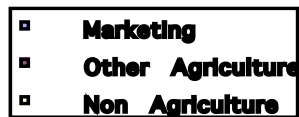
Giannini Foundation Member Publications: by Field and Decade



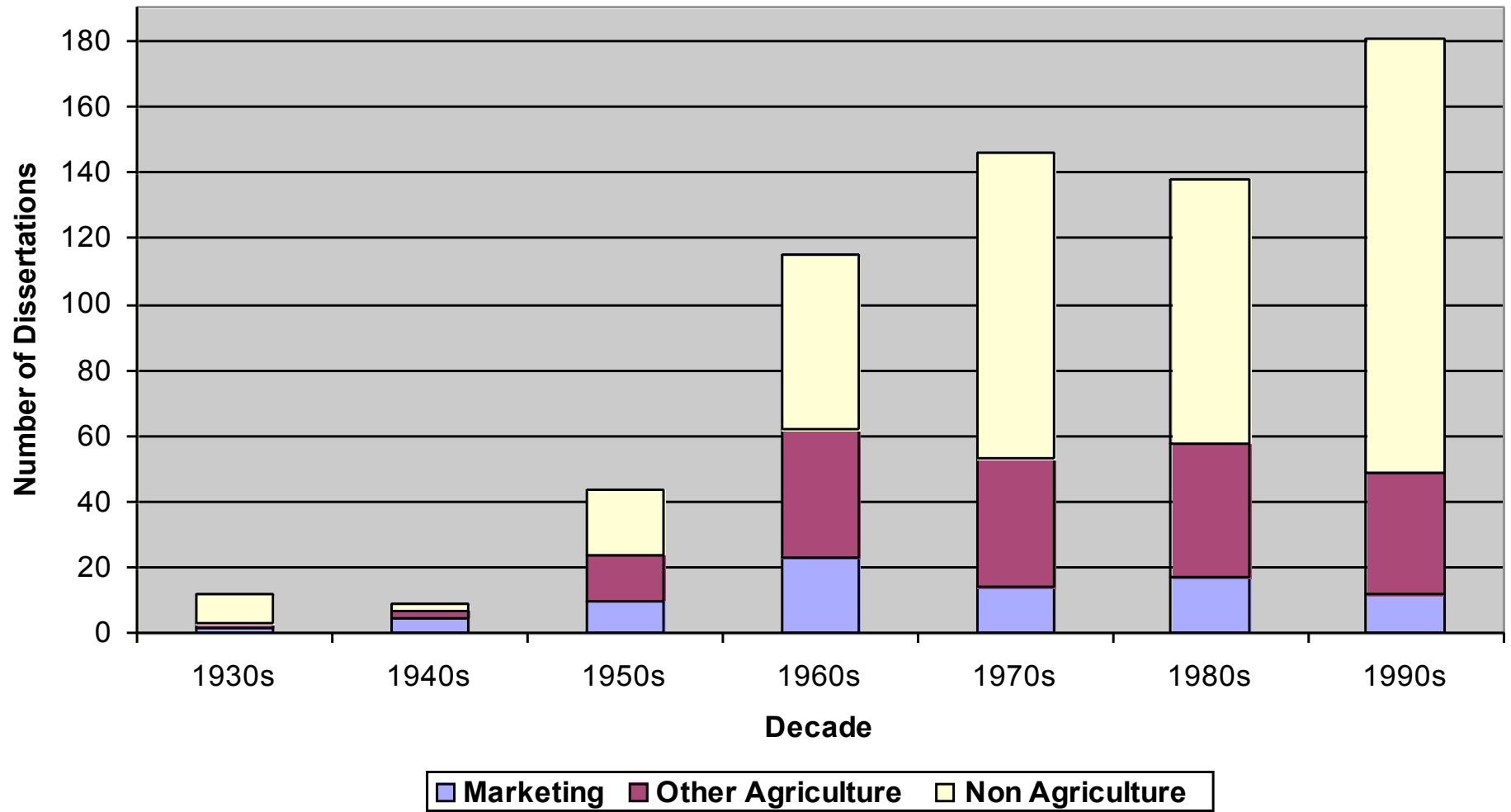
Publications by Giannini Foundation Members, Fields of Emphasis, 1960s and 1990s

**Number of Publications by Giannini Foundat
Members: 1960s**

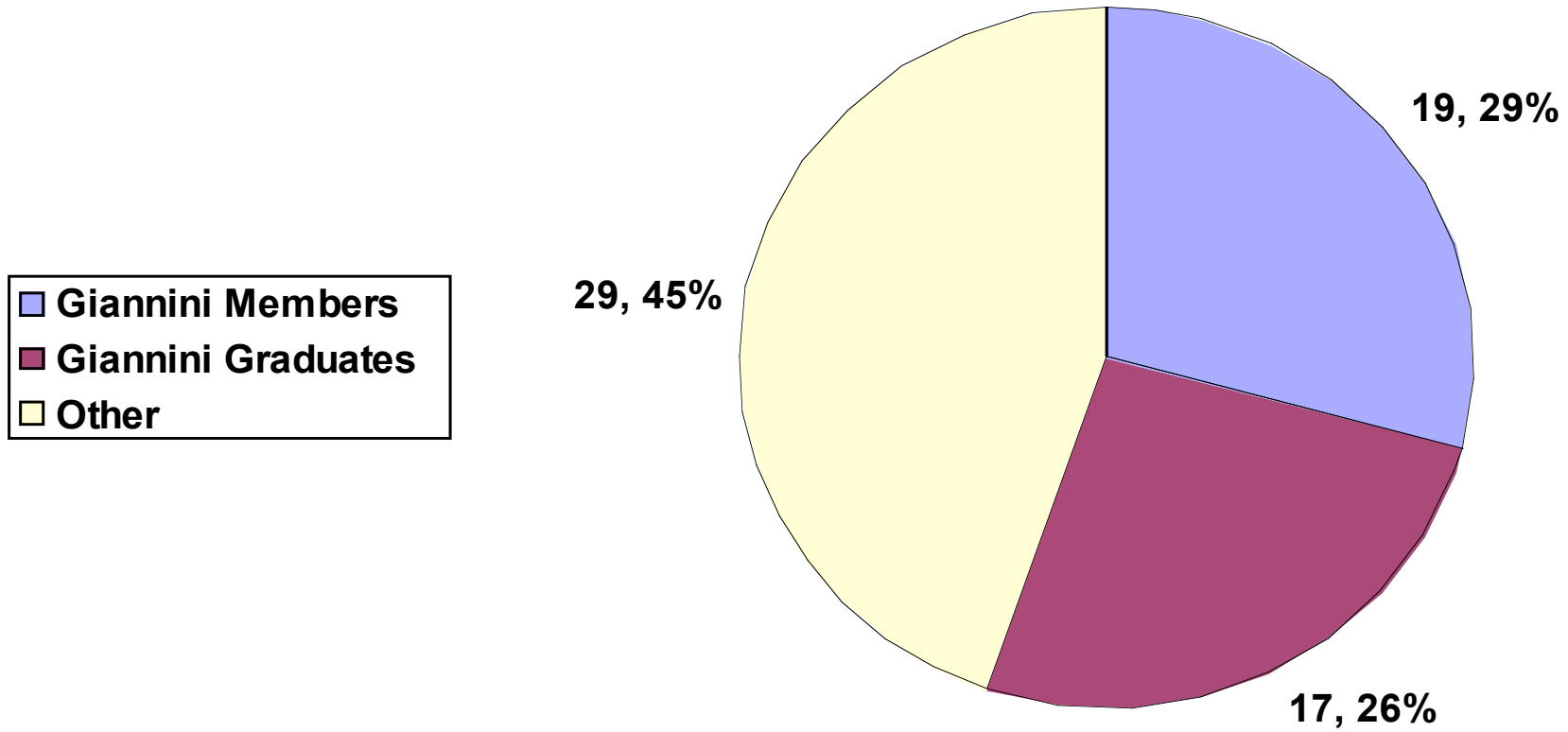
**Number of Publications by Giannini Foundat
Members: 1990s**



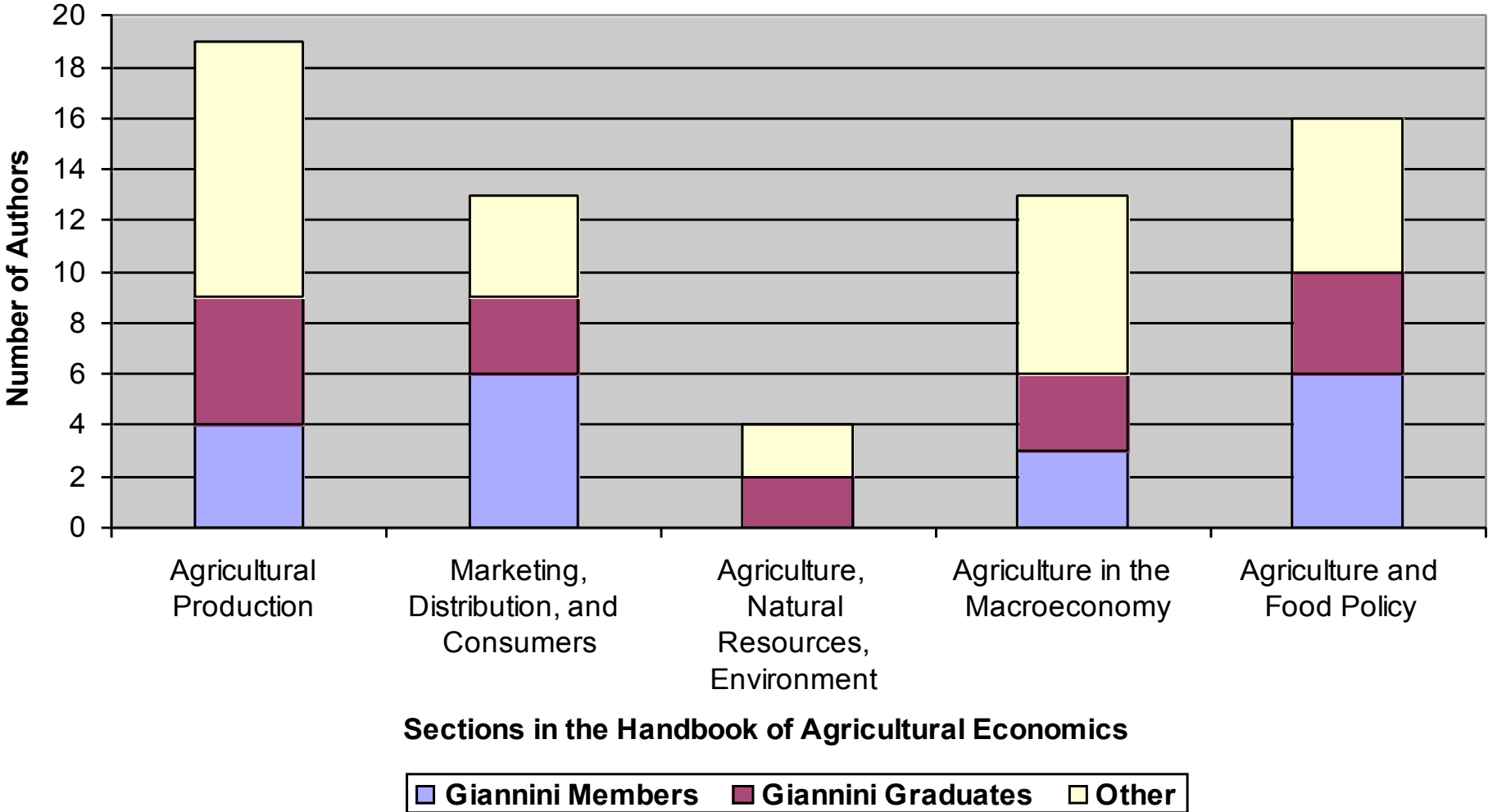
Dissertations by Students at Berkeley and Davis, by Field and Decade



Number of Authors in the Handbook of Agricultural Economics



Giannini Foundation Authors in the Handbook of Agricultural Economics





Giannini Foundation Studies of Collective Action Programs

- Collective action, a subset of “marketing”
 - Cooperatives
 - Marketing orders

- Issues
 - Competition (countervailing market power)
 - Supply management (pro-rates, reserves, etc)
 - Generic promotion (and other demand enhancements)
 - Other commodity collective goods



Giannini Foundation Studies of Producer Cooperatives

- **Early cooperatives**
 - Cheese factories in Santa Clara - 1876, 1877 (Moulton 1973)
 - California Fruit Union - 1885
 - California Fruit Growers Exchange => Sunkist Growers

- **1937-38, 489 active CA coops covering**
 - Fruits and vegetables (371)
 - Dairy products (33)
 - Nuts (30)
 - Grain (25)
 - Poultry and eggs (9)
 - Livestock (7)



Giannini Foundation Studies of Producer Cooperatives (continued)

- Aaron Sapiro (1923)
 - “California model”
 - Based on commodities, not proximity
 - Economic, not political entities
 - Success requires
 - Membership contracts
 - Liquidated damages provisions
 - Large market share
 - Emphasized producer-owned coops
 - Due to Capper-Volstead Act of 1922



Giannini Foundation Studies of Producer Cooperatives (continued)

- Practical Issues Facing Marketing Cooperatives
 - H.C. Erdman
 - Focused on issues like pooling and financing
 - Questioned potential for monopoly and other market-controls
 - A host of contributions, over 40 years, for example . . .
 - Erdman and Wellman (1925); Erdman (1935, 1941, 1950); Larson and Erdman (1962)
 - In Erdman's footsteps, in the early years . . .
 - J.M. Tinley, George Mehren, D. Barton DeLoach, Norman Collins, Varden Fuller
 - More recently, related issues were studied by
 - L. Garoyan (boards of directors), K. Moulton, J. Siebert, S. Sosnick (optimal pools), E. Thor, J. Youde



Giannini Foundation Studies of Producer Cooperatives (continued)

- **Collective Bargaining in Agriculture**
 - DeLoach (1961, 1962); Fuller (1962)
 - Helmberger and Hoos (1965)
 - Defining treatise on collective bargaining in agriculture

- **Pricing and Performance of Coops**
 - Emelianoff (1942)
 - Sosnick (1960)
 - Helmberger and Hoos (1962) (Also Helmberger (1964))
 - Defining treatise on cooperative theory
 - Short- and long-run equilibrium models
 - Sexton (1986a, 1986b, 1990); Sexton and Sexton (1987)
 - IO, game-theoretic approach



GF Studies of Mandated Marketing Programs – Legal Foundations

- **Federal Legislation**
 - Agricultural Adjustment Act (1933, 1938) - AAA
 - Agricultural Marketing Agreement Act (1937) - AMAA

- **State Legislation**
 - Agricultural Prorate Act (1933)
 - California Agricultural Adjustment Act (1935)
 - California Agricultural Products Marketing Act (1935)
 - Agricultural Marketing Agreement Act (1937)
 - California Marketing Act (1937)



GF Studies of Mandated Marketing Programs – The Early Years

- Rapid Adoption . . .
 - C.C. Teague (1933), President of CA Fruit Growers Exchange wrote about the AAA:
 - “Practically all California Farm products are right now considering ways and means to come under the provisions of this Act.”
 - It will provide the means “to end that promiscuous overshipment that went so far to demoralize the market this past winter.”
 - Schneider and Alcorn (1940) reported, as of December 1939
 - 41 industry marketing programs, covering 21 commodities
 - Schneider (1942) reported, as of September 1941
 - 74 industry marketing programs (37 involving milk), 55 active



GF Studies of Mandated Marketing Programs – Current Coverage

- Significant Current Coverage
 - Carman and Alston (2005) reported 62 active programs
 - 12 federal marketing orders
 - 27 state marketing orders and agreements
 - 20 commissions
 - 3 councils
 - These programs covered 55 percent of California's 2002 agricultural production value
 - 78 percent of animal products
 - 73 percent of fruit and nut crops
 - 43 percent of vegetable crops
 - In 2003–04 California programs budgeted spending of \$208 million
 - 1.2 percent of the \$16.8 billion worth of crops covered
 - Includes \$146 million for advertising and promotion



GF Studies of Mandated Marketing Programs – Early Analysis

- Analysis began almost immediately
 - Stokdyk (1933a, 1933b); Erdman (1934); Wellman (1935)

 - They (and the next generation - e.g., Hoos and Mehren) found that
 - programs were in the interest of producers
 - volume controls should be used only in exceptional circumstances

- Subsequent work, beginning with French and Bressler (1962)
 - used econometric models of supply and demand to evaluate marketing program impacts
 - entailed progressive methodological contributions, especially on perennial crops supply response



Mandated Programs – More Recent Work on Supply Controls

- **Models of supply and demand and volume controls**
 - French and Bressler (1962) - lemons
 - French and Mathews (1971) - asparagus
 - Rausser (1971) - oranges
 - Minami, French and King (1979) - cling peaches
 - French and King (1988) - cling peaches
 - Dorfman and Heien (1989) - almonds
 - French and Nuckton (1991) - raisins
 - Alston, Carman, Christian, Dorfman, Murua and Sexton (1995) - almonds
 - Gray, Sumner, Alston, Brunke, and Acquaye (2005) - pistachios

- **Marketing order prorates - oranges and lemons**
 - Thor (1980)
 - Thor and Jesse (1981)
 - Shepard (1986)
 - Kinney et al. (1987)
 - Carman and Pick (1988, 1990)



Mandated Programs – Grade Standards and Quality Assurance

- Early contributions pointed out the potential role of grades and minimum quality standards as de facto quantity controls
 - e.g., Wellman (1935), Hoos (1962)

- More recent work
 - Varietal regulation for California Cotton
 - Constantine (1993)
 - Olmstead and Rhode (2003)

 - Adverse selection from grading errors in California prunes
 - Chalfant et al. (1999)
 - Chalfant and Sexton (2002)

 - Quality standards and assurance for California pistachios
 - Gray et al. (2005)



Mandated Programs – Generic Commodity Promotion programs

- Advertising and promotion are relatively important
 - Of 62 mandated marketing programs 42 have active advertising or other promotion programs
 - Of \$208 million spent by programs in 2003-04, \$146 million was for advertising and promotion
- Some early interest when programs were first introduced, much more activity more recently
 - “the 1980s and 1990s saw a swell of litigation, with nearly every commodity promotion program involved in lawsuits over their constitutionality” (Crespi 2005)
 - Five cases heard before the U.S. Supreme Court since 1999



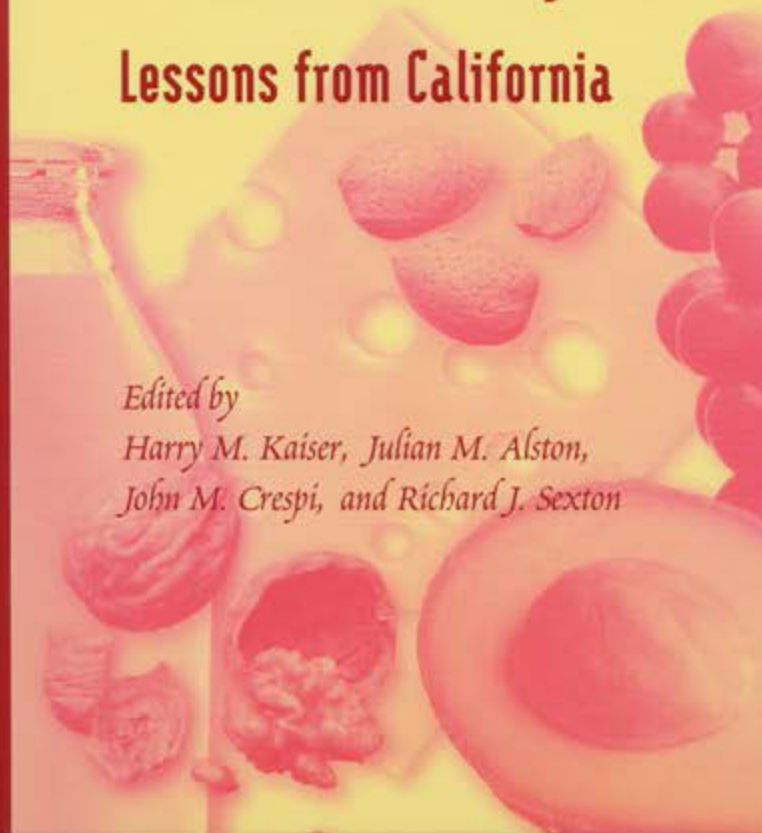
Mandated Programs – Generic Commodity Promotion programs

- Response by Giannini Foundation members
 - Several cases studies conducted and published, including five as Giannini Monographs or Research Reports
 - Cases assembled into a book: “The Economics of Commodity Promotion Programs: Lessons from California”
 - 17 chapters
 - 8 specific case-studies of CA commodity promotion programs
 - 4 case-studies of other demand-enhancement programs
 - Authors include seven current members of the Foundation

The Economics of Commodity Promotion Programs

Lessons from California

*Edited by
Harry M. Kaiser, Julian M. Alston,
John M. Crespi, and Richard J. Sexton*



Conclusion

MARKETS, PRICES,
AND INTERREGIONAL
TRADE

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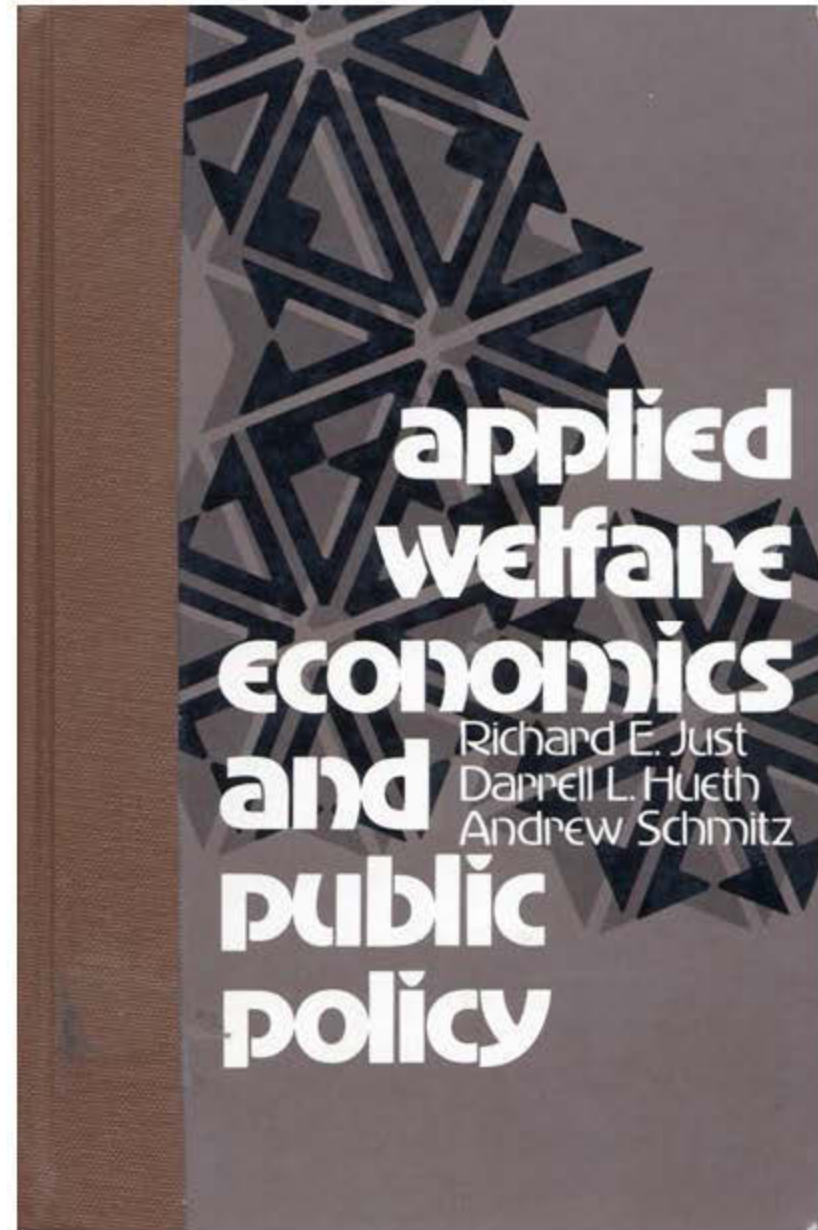
UNIVERSITY OF CALIFORNIA DIVISION OF AGRICULTURAL SCIENCES
GIANNINI FOUNDATION OF AGRICULTURAL ECONOMICS

Consumer Demand for
Food Commodities in the United States
With Projections for 1980

P. S. George and G. A. King

Giannini Foundation Monograph Number 26 • March 1971

CALIFORNIA AGRICULTURAL EXPERIMENT STATION



**applied
welfare
economics
and
public
policy**

Richard E. Just
Darrell L. Hueth
Andrew Schmitz



**Storage and
commodity markets**

JEFFREY C. WILLIAMS &
BRIAN D. WRIGHT

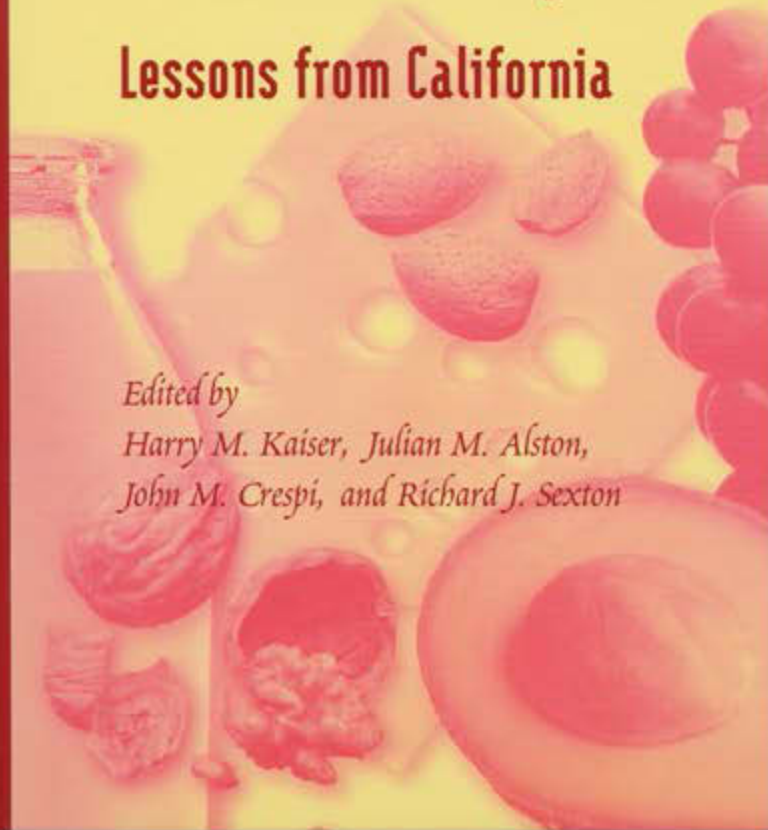
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The End

