

## part three

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### INSTITUTIONAL STRUCTURE OF AGRICULTURE

## chapter eleven

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### GOVERNMENT, AGRIBUSINESS<sup>1</sup>, AND FARMER ORGANIZATIONS

In this chapter we confront one of the most difficult and contentious problems addressed by the Task Force—the formulation and implementation of agricultural policy. In the chapter on Goals we have discussed some general objectives—many of them somewhat abstract—and in the several chapters on commodities we have considered in detail what policies or programs the Task Force thinks ought to be undertaken in regard to wheat, milk and so forth. Policy making however is not a once-and-for-all matter but one that must be continuous intelligent formulation and implementation of policy involving understanding the system, sensing change in it, anticipating and recognizing problems and opportunities, analyzing and planning concerning them, implementing plans and evaluating results and then (usually) amending plans and programs. New problems and opportunities arise and create a new environment in the light of which old programs must be re-assessed.

To the Task Force it appears that improvements in *How* policy is formulated and implemented (the rationale and the machinery) are if anything more important in the long run than improvements in *What* policies are adopted. So far as the Task Force is concerned the long term contributions it makes will arise from the advice it gives concerning the process of making policies and the organizational structure for implementing them. The wheat

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<sup>1</sup> Throughout this report we have used the term "agribusiness" to refer to those firms which provide farm supplies and certain direct services to farmers as well as those firms which market farm-produced commodities. This use of the term "agribusiness" is the common one in Canada but it differs from the original definition formulated by Professor John Davis of Harvard who included commercial farm firms as well as farm supply and marketing firms.

crisis will pass away and new and unforeseen crises will take its place; the continuing questions relate to the process and machinery for coping with them; if the process and machinery are satisfactory, the decisions themselves are likely to be satisfactory.

Policy making is only part of a satisfactory whole. Few exercises are as pointless as recommending objectives, policies and programs without agreement as to who has responsibility and authority to implement. Thus not only must satisfactory decisions be made but there must be clear-cut responsibility and authority for implementation and review.

## A. THE AGRICULTURAL SYSTEM

In this section we turn to a brief discussion of agriculture as an organized system. The circular flow diagram of Figure 1 illustrates the interdependence of the various component groups in the agricultural system whereby each component is directly dependent upon the group behind it for inputs and upon the group ahead of it for markets. Farms, marketing firms, consumers and industry (including farm supply firms) are each an essential part of the circular flow. As Figure 1 indicates, governments have an important role in affecting the relationships between any two groups as well as the actions and performance of any group.

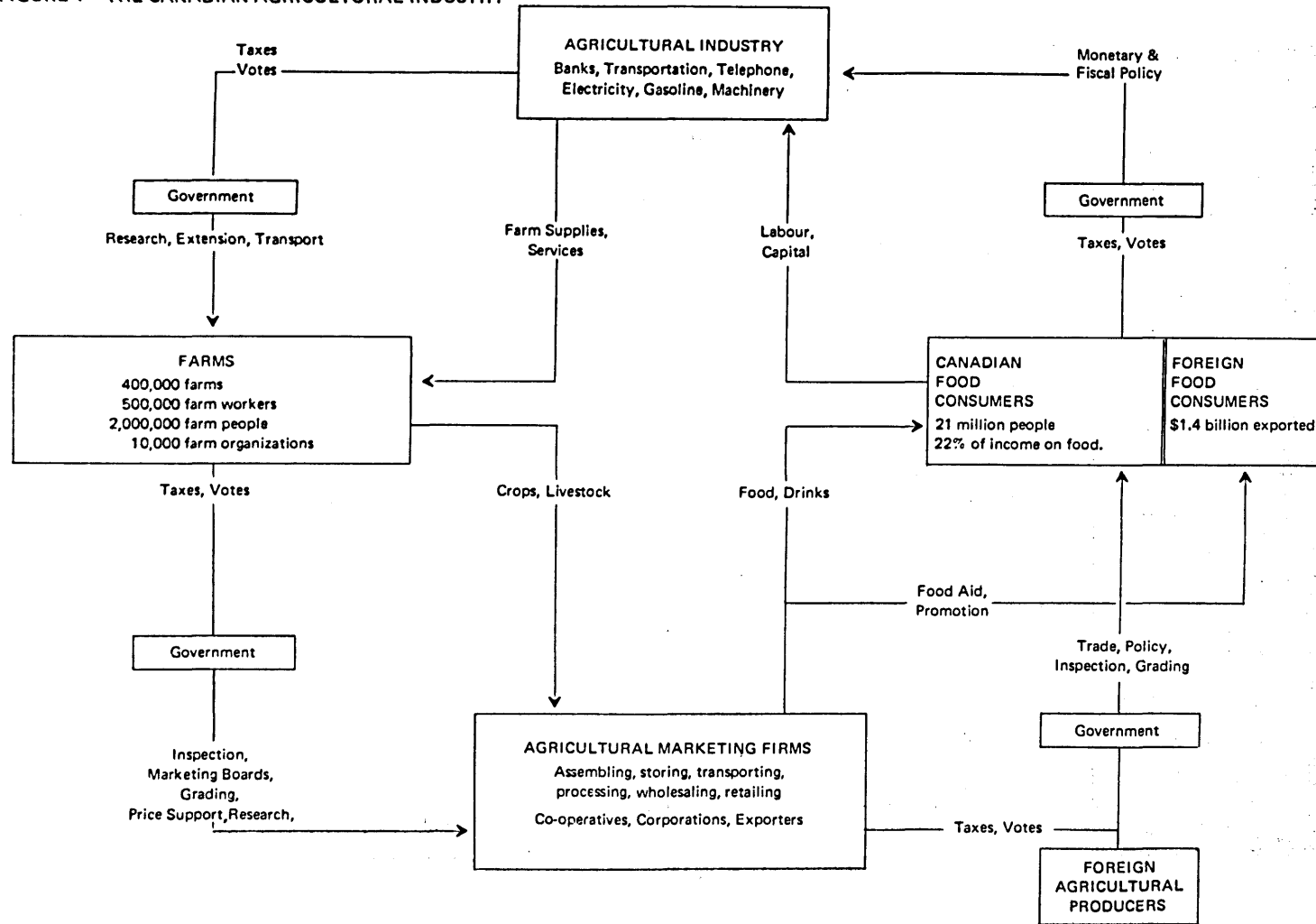
In the industry are 400,000 farms, 500,000 farm workers and close to 2,000,000 farm people. Farmers sell about \$4.4 billion of farm commodities per year. Providing supplies and services to farmers are thousands of firms: in 1968 farmers bought about \$425 million of farm machinery<sup>2</sup>, \$212 million of fertilizers, \$54 million of pesticides, \$568 million of feed (through commercial channels), and spent \$245 million on new construction. They spent other millions on electricity, telephones, gasoline, banking services and so forth. Total farm operating expenses were estimated at \$2,681 million in that year, excluding depreciation on buildings and machinery. All these purchases represent a substantial amount of demand for Canadian labour and investment in the non-farm sectors of the economy. These purchases represent essential demand for the farm supply firms. Buying and selling however, is not a one-way street in which one party is doing the other a favour. Farmers presumably needed or at least found it advantageous to buy, \$425 million of farm machinery etc. Without it, and the fertilizers, pesticides and so forth, farm production costs would have been higher.

In 1968 farmers paid about \$185 million in taxes on land and buildings to municipal governments.

Marketing firms involved in assembling, transporting, storing, processing, wholesaling and retailing farm products constitute another major sector of agricultural industry. Table 1 gives an indication of the magnitude of this sector of agriculture; firms processing farm products only into basic foods and feed had sales of \$4.8 billion in 1966 and paid \$665 million in salaries

<sup>2</sup> This is the figure for sales by manufacturers to dealers and not necessarily equal to sales to farmers. Data from C.D.A. Outlook 1969. Page 209-211.

FIGURE 1 THE CANADIAN AGRICULTURAL INDUSTRY



and wages to 146,000 employees. This does not include the wineries, breweries, distilleries, tobacco manufacturers and a number of other firms which also use farm products nor the retailers and traders in processed products.

About 21 million Canadian consumers spent \$8.5 billion on food and another \$2.5 billion on tobacco and alcoholic beverages in 1968.

Along with farms, farm marketing firms, and farm supply firms there is another major participant in agriculture—government. A quote from a research paper written for the Task Force in 1968 is relevant here:

The Canada Department of Agriculture now employs more than 12,000 people full-time, of whom more than 2,000 are professional scientists. The Department operates more than 200 separate establishments, including 27 experimental farms, 13 research stations and 8 research institutes. In addition, the Rural Development Branch in the Department of Forestry and Rural Development spends \$6 million on central ARDA research and about \$33 million on participating projects with provinces.

It administers as well the Fund for Rural Economic Development (FRED) which amounts to several hundreds of millions. Other important federal agencies that are part of the agricultural community include the Canadian Wheat Board, the Farm Credit Corporation, the Canadian Dairy Commission, the Canadian Livestock Feed Board, the Board of Grain Commissioners, and the Veterans' Land Act Administration, to list only the most important . . .

The agricultural community includes as well ten provincial departments of agriculture with a combined budget in excess of \$200 million annually and employing an estimated 30,000 persons. Six provinces maintain university establishments in agriculture, while all provinces have secondary and post-secondary vocational agricultural colleges, schools or institutes.<sup>a</sup>

## B. GOVERNMENT

### *The Role of Government in the Organizational Structure of Agriculture*

One of the most basic questions in Canadian agriculture relates to the extent, nature and effectiveness of government involvement. It is obvious that action—perhaps drastic and far-reaching—must be taken by many individuals and organizations to help define the problems of agriculture and formulate and implement the policies and programs necessary to bring about improvement. Few exercises are as pointless as recommending objectives, policies and programs without agreement as to who has responsibility and authority to implement. The Federal and provincial governments have become deeply involved—many argue primarily responsible—for the overall well-being of agriculture. Government power over agriculture includes the right to decide and/or influence objectives and policy, legislate and implement programs and through the distribution of tax revenue, allocate funds to agriculture and from one province to another.

Such extensive political power is offset by checks and balances that tend not only to guard against its abuse but also sometimes to obstruct its purposes. Nevertheless, no organization exercising this kind of power can absolve itself of responsibility for results.

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<sup>a</sup> Paper prepared by Professor H. Whalen of Memorial University.

TABLE 1  
Statistics Relating to Certain Manufacturing Industries, Canada, 1966

	Value of Shipments	Total Value Added	Total Employees	Total Salaries and Wages
	\$'000	\$'000		\$'000
Slaughtering and Meat Processors.....	1,632,830	305,249	30,289	163,539
Poultry Processors.....	227,776	41,301	6,699	22,238
Dairy Factories.....	1,070,972	286,790	31,845	147,202
Process Cheese Manufacturers.....	85,467	36,996	1,710	11,181
Fruit and Vegetable Canners and Preservers.....	470,298	200,311	20,558	81,739
Feed Manufacturers.....	468,850	113,844	8,869	40,310
Flour Mills.....	263,689	59,339	4,350	22,300
Breakfast Cereal Manufacturers.....	48,503	30,954	1,361	7,550
Biscuit Manufacturers.....	109,051	58,055	6,636	27,857
Bakeries.....	463,442	247,541	34,092	141,419
Sub-Total Foods.....	4,840,878	1,380,380	146,409	665,335
Distilleries.....	263,188	186,275	5,398	33,957
Breweries.....	321,314	232,880	9,391	64,495
Wineries.....	25,059	14,029	755	4,425
Sub-Total Beverages.....	609,561	433,184	15,544	102,877
Leaf Tobacco Processing.....	128,225	19,779	1,494	5,379
Tobacco Products Manufacturers.....	301,591	151,243	8,683	47,750
Sub-Total Tobacco Products.....	429,816	171,022	10,177	53,129

SOURCE: Patterson R.A. "A Survey of Selected Segments of Canadian Agribusiness" Material compiled from DBS data.

In view of the deep seated problems and sombre prospects of Canadian agriculture, we must attempt to resolve several basic issues in regard to the roles of the Federal and provincial governments. Some of these are as follows:

What ideally should be the roles of government in agriculture?

What is the nature and extent of the involvement of Federal and Provincial governments in agriculture?

What criteria should be used to evaluate the performance of governments in agriculture?

How well have governments performed their roles in agriculture?

Who ultimately is responsible for diagnosing the problems of agriculture and taking the action to solve them?

What kind of overall structure and relationship for the key groups in agriculture would be best?

How should governments, farmers, farm organizations and agribusiness fit into this ideal organization?

Until these issues have been researched, communicated and debated, at least to the point of a workable consensus, Canadian agriculture will probably continue in its present state. No one will be able effectively to assign responsibility for the problems relating to unsatisfactory income performance on any individual and/or organization, nor will any one have a mandate to bring about needed improvement.

## *Current Issues*

Study of research reports, press comments and statements by farmers and farm leaders make it clear that there are many issues being raised in regard to government participation in agriculture. We present a number of quotations to highlight four main issues and to show the diversity of opinion on these.

### *1. Extent and Nature of Government Involvement*

In regard to government involvement, farmers seem divided: Some western cattle and grain farmers are vocal supporters of less government involvement. As one western cattleman put it:

There is nothing much wrong with agriculture that wouldn't be improved if the government moved out.

The opposing point of view was stated by a turkey grower:

Let's face it, the only way out of this mess is for the government to take complete control. They have to say what to produce, how much to plant, when and how it will be sold and what the price will be. Otherwise you have farmers fighting each other.

### *Effectiveness of government involvement*

Consideration of the issue of the effectiveness of government involvement leads to questioning whether the government is doing the right things. For example, one well known authority on agriculture has written about poverty as follows:

The rural poverty problem has been around a long time and it remains a hard-core, unsolved problem in the 1960's . . . There have been policies and there have been programs for combating rural poverty. But it is a sad story of ineffective policies and programs; it is a record of *too little, too late*. (Cochrane, Willard W., *The City Man's Guide to the Farm Problem*, P. 194).

An allegation of lack of effectiveness in government policy related to research was:

For some years now, attention has been drawn to the lack of co-ordination between research in the field of physical and biological sciences and in the socio-economic field. Very often, research is not at all oriented toward the solution of problems of competition that face the country of a given region. It even seems that too many resources are used on certain projects which are not economically viable, either on a short-term, middle-term or long-term basis. (M. Daneau and Y. Dube, *Federal Provincial Relations in Agriculture in Canada*, Ch. V. A study for the Task Force.)

### *Efficiency of government involvement*

Many farmers are sceptical that good dollar value is derived from government agricultural expenditures. One provincial official stated that there could be considerable waste and graft in his province's production subsidy program.

There have been few known and publicized in-depth reviews of existing programs and their results. Programs like PFAA, PFRA, MMRA etc. have been in existence for years; they may have good results or bad results or (more likely) both but the point is that adequate reviews of these good or bad results have never been made and publicized.

It is, of course, impossible to poll all the stakeholders in agriculture to find out what all the issues are and what the consensus is on each. Comments such as those above are, however, frequently repeated. In spite of the fact that it is impossible to judge whether they are truly representative or not they represent the attitudes and conclusions of many farmers, government officials and responsible observers of government agricultural policy. As such, they deserve consideration. If they are wrong the reasons why should be spelled out publicly; if they are not wrong the underlying problems should be diagnosed and corrected.

## 2. *Lack of Integrated Objectives*

For many years governments have been following a haphazard approach to agricultural problems. The general policy has been to attack individual problems as they appear. Many programs end up conflicting with each other. Worse yet, they often conflict with the ultimate objective of increasing farm incomes. (Report of the Special Committee on Farm Income in Ontario, p. 27).

The basic conflict in Canadian agricultural policy has been an *implicit* cheap food policy and an *explicit* small farm maintenance policy. The developmental policies of research, extension, subsidized credit, settlement expansion and resource development, actually contribute to and constitute the so-called 'implicit' cheap food policy.

The provisions of various acts favoring small farms, such as the Homestead provisions, Agricultural Stabilization Act provisions, P.F.A.A. provisions, credit ceilings and cash grants, are evidence of the existence of an explicit small farm maintenance policy.

Not only have the two policies been pursued simultaneously in Canada but are in direct conflict with each other. This is the heart of the basic conflict in agricultural policy, a cheap food policy together with a small farm maintenance policy. (Philip J. Thair, *Goals for Agricultural Policy*, a study undertaken for the Task Force).

As for the programs connected with the development of resources, irrigation and drainage programs, community programs relating to pastureland, conservation programs, these have double objectives: (1) to increase the efficiency and yield of the farming sector by an intelligent use of soil and water; (2) to protect, if not increase, the national heritage in these areas. None will doubt the validity of these objectives. But there can be no doubt that they may conflict with the objectives of other agricultural programs. For example, certain farm programs aim at increasing both prices and the earnings of farmers. How are these objectives consistent with those aimed at increasing production, at developing resources? (M. Daneau and Y. Dube, *Federal Provincial and Interprovincial Relations in Agriculture in Canada*, Ch. 8.) op. cit.

## 3. *Expediency in Decision Making*

Canadian farm policy since 1930 . . . has been largely one of providing expedient measures to meet crises of depression, drought, war inflation and surpluses . . . There is little evidence that Canada has had any overall national policy based on clear thinking and economic and sociological research facts. (Lorne Hurd, *Policy Research is Agriculture's Greatest Need*, *Agricultural Institute Review*, Jan.-Feb. 1960).



#### 4. *The Issue of Independence*

Some people have argued that government involvement in agriculture has become so pervasive that it has reduced, perhaps considerably, the will and ability of the farmer to stand on his own. Government responses to farm problems have, for better or worse, resulted in a system where many farmers hold the government responsible for solving their problems. A major difficulty arises, of course, when individuals or organizations in the government, justifiably or not, have a very different view of their role and do not accept such a responsibility.

As a result of the political reality that Canadian voters are divided 92% non-farmer and 8% farmer and as the government increases its influence in agriculture it must give primary attention to the views of the urban population<sup>4</sup>. This political reality applies, of course, to all minority groups.

It is also perhaps worthwhile to speculate about the effect of government involvement on farm organizations. It is noticeable that farm organizations often place their fate in the hands of the government to a much greater extent than business and unions, the other major countervailing powers in our society.

#### *Government Involvement in Agriculture*

While it is practically impossible to describe accurately the total government involvement in agriculture ranging over the Federal, provincial and local levels and from formal, direct, open and legal control to informal, indirect and subtle influences, a short summary of the more obvious aspects has been stated by Garland and Hudson<sup>5</sup>:

The traditional structure of agriculture, consisting of a large number of independent, small-scale, family-operated farm units, plagued by variable yields and variable prices and under pressure to make continual adjustments to keep pace with technological and economic development, has invited a much greater degree of governmental involvement than is the case with other industries.

Land settlement programs providing for grants and sales of land to prospective settlers during the first 60 years following Confederation were the first form of government involvement in agriculture in Canada. During those early years of settlement government assistance to increase the production of crops and livestock was provided through grants to agricultural societies whose aim was to improve production and marketing efficiency.<sup>6</sup> The Health of Animals Act of 1879 involved the federal government in the control and prevention of livestock diseases. The establishment of the federal experimental farms system in 1886 was the beginning of the experimental and scientific research work which has played such a large part in the development of the agriculture industry in Canada. It was during the

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<sup>4</sup>The 92:8 ratio gives an erroneous impression. Rural-urban representation in the House of Commons is of the order of one-third *versus* two-thirds. In a free vote on an issue involving a clear conflict between farm and urban interests almost all of the members from the Prairie provinces and large numbers from other provinces would vote rural. (David L. MacFarlane).

<sup>5</sup>Garland, S. W. and Hudson, S. C., *Government Involvement in Agriculture*, a study for the Task Force, pp. 314-318.

<sup>6</sup>W. M. Drummond, et al, *A Review of Agricultural Policy in Canada*, The Agricultural Economics Research Council of Canada, June 1966.

last decade of the 19th century,<sup>7</sup> when financial assistance was provided for the establishment and operation of dairy plants and equipment that the federal government introduced its first real program to improve the quality of farm products.

The expansion of agriculture on the Prairies in the early 1900's brought grain marketing problems, with resultant pressure from producers to improve marketing facilities and the subsequent involvement of both the federal and provincial governments in marketing. The Manitoba Government operated country elevators in 1909 and 1910, and in 1913 the federal government undertook the operation of terminal elevator facilities.

The 1920's saw an expansion of the research work begun with the establishment of the experimental farm system. Inspection and grading which had previously been largely confined to products for export were extended to many agricultural products sold for domestic use.

The depression of the 1930's with the accompanying drought in the Prairie Provinces gave rise to various forms of relief assistance and thus involved governments in income maintenance payments as well as in conservation and rehabilitation programs. The Canadian Wheat Board, the Prairie Farm Rehabilitation Administration and the Prairie Farm Assistance Administration which were established by the federal government during that period are still operative.

Price controls and programs to stimulate production as part of the overall war effort were introduced in the early 1940's by the federal government. Cash payments were made to farmers to supplement their incomes in lieu of price increases and to encourage shifts in production from one product to another and quality premiums were introduced to obtain the type of product required. Public funds were also used to subsidize the purchase of a wide range of agricultural production inputs including feed, seed, fertilizer, limestone and machinery.

During the early post-war years, price controls were relaxed and eventually eliminated. Subsidies were reduced and most were eventually discontinued. However, agricultural limestone subsidies, freight assistance on feed grain shipped to eastern Canada and British Columbia and hog quality premiums are war-time programs that became a permanent part of the post-war agricultural assistance program. Legislation passed in 1944 to provide for the support of prices of agricultural products during the transition from war to peace was given continuing status in 1950. The Farm Improvement Loans Act of 1944 provided a federal government guarantee for short and intermediate term loans to farmers. Financial assistance was provided for veterans of the armed forces for land settlement, under terms of the Veterans' Land Act. Provincial governments assisted by making new lands available for settlement, often with special provisions for financing clearing and breaking. The rapidly changing technology in agriculture brought increased requirements for capital to finance farm operations in the 1950's. To assist in meeting this demand the federal government and almost all provincial governments introduced new farm credit programs. During this decade the provincial governments intensified their extension activities with increased emphasis on conservation, quality improvement, eradication of disease, increased production and farm management.

The Agricultural Prices Support Act of the federal government was replaced by the Agricultural Stabilization Act in 1958, making price support mandatory for nine key commodities. The Crop Insurance Act, Farm Machinery

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<sup>7</sup> Ibid, p. 21.

Syndicates Credit Act, Agricultural and Rural Development Act and the Canadian Dairy Commission Act have been enacted by the federal government during the past decade as part of the effort to improve the economic welfare of the agriculture industry.

An indication of the extent and rate of growth of government involvement in agriculture can be obtained from a comparison of federal and provincial government expenditures on agriculture during the three years 1964-65 to 1966-67 with government expenditures on agriculture during the 1930's. Total government expenditures on agriculture amounted to \$442 million in 1966-67, \$387 million in 1965-66 and \$323 million in 1964-65 compared with \$22 million in 1933-34, \$62 million in 1937-38 and \$66 million in 1943-44.

The factors responsible for the phenomenal growth may be determined by dividing expenditures into *three broad groups based on the nature of the individual program*. These groups are (1) those intended to facilitate the production and marketing of farm products; (2) those concerned with producer price and income maintenance; and (3) programs of research, education and extension. Production and marketing programs accounted for 60 per cent of government assistance in 1933-34 as compared with 35 per cent in 1966-67. At the same time expenditures for price and income maintenance increased from 16 per cent in 1933-34 to 41 per cent in 1966-67. Large relief expenditures in rural areas of western Canada during the 1930's and wartime expenditures in connection with agricultural production caused the percentage distribution for 1937-38 and 1943-44 to depart somewhat from the overall trend. Expenditures on education, research and extension accounted for 19 per cent of expenditures in 1933-34, essentially the same proportion as in the years 1964-65 to 1966-67.

Table 2 helps to put government expenditures on agriculture in perspective. The total of \$442 million in 1965-66 does not include expenditures for the benefit of agriculture in a variety of other federal or provincial departments such as Industry Trade and Commerce, Post Office, Forestry, Energy Mines and Resources and the like.

This total represents an expenditure of about \$20 per capita for the total Canadian population. To see this figure in perspective it can be compared to per capita expenditures of roughly \$8 on the C.B.C. and \$90 on National Defence.

Another way of viewing this situation is to see government as a collector and allocator of revenues and resources. Although it is not necessary for us to evaluate the rationale of the collection method—this was presumably covered by the Carter Commission—we should assess the effectiveness and efficiency of the government as an allocator of resources (a) from the rest of the economy to agriculture and (b) among competing projects in agriculture. Some of the other chapters in this Report indicate that a considerable number of programs are of dubious value. Many programs are apparently being carried on without the tough minded, systematic procedures desirable for evaluation of total costs, benefits and return on investment. There does not seem to be enough pressure to cancel programs that have either served their purpose or proven unsatisfactory. Lacking tight criteria and practical routines for evaluation, programs tend to be carried on from year to year.

Perhaps the most difficult aspect of government involvement in agriculture is that it has become so extensive and complex that it is impossible to

TABLE 2  
Distribution of Government Expenditures on Agriculture by Major Category, Selected Years, 1933-34 to 1966-67

Year	Production and Marketing		Price and Income Support		Education, Research Extension		Administration		Wartime		Total Amount
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	
	(thousand dollars)		(thousand dollars)		(thousand dollars)		(thousand dollars)		(thousand dollars)		(thousand dollars)
1933-34.....	13,040	60.3	3,414	15.8	4,140	19.1	1,039	4.8			21,633
1937-38.....	20,631	33.3	33,814	54.5	6,482	10.4	1,115	1.8			62,042
1943-44 <sup>1</sup> .....	24,788	15.9	34,358	22.0	5,630	3.6	1,487	1.0	89,813	57.5	156,076
1943-44 <sup>2</sup> .....	24,788	37.4	34,358	51.9	5,630	8.5	1,487	2.2			66,263
1964-65.....	130,713	40.4	116,069	35.9	67,831	21.0	8,720	2.7			323,362
1965-66.....	136,613	35.3	162,178	41.8	76,237	19.7	12,314	3.2			387,342
1966-67.....	156,339	35.4	180,329	40.8	89,190	20.2	16,197	3.6			442,054

<sup>1</sup>Including wartime expenditure.

<sup>2</sup>Excluding wartime expenditure.

SOURCE: Expenditure data for 1933-34, 1937-38 and 1943-44 from *Agriculture*, Reference Book for Dominion-Provincial Conference on Reconstruction, 1945, Tables 1 and 5, pp. 82 and 84.

Reprinted from Garland, S. W. and Hudson, S. C. *Government Involvement in Agriculture*, a study for the Task Force.

describe and assess it. Due to the complexity and fragmentation of Federal Government departments and agencies concerned with agriculture, as well as the problems of federal-provincial co-ordination, no structure of authority and responsibility exists for integrating and co-ordinating government activities.

Recommendations as to how to change and integrate the organizations involved to bring the functions of government in agriculture under better control are presented in the last section of this chapter.

### *The Political Bargaining Arena of Canadian Agriculture*

In order to understand the role of government, it is necessary to begin with an overview of the organizational system which constitutes "Canadian Agriculture".

Although there are literally hundreds of significant groups involved, Canadian agricultural policy is governed primarily by the interplay of the following interests and points of view:

- farmers and farm population divided into sub-groups relating to commodities, regions, income classes and political-economic biases.
- agribusiness divided into sub-groups relate primarily to commodities and functions.
- provincial governments standing both individually and combining in groups related to regions and common problems.
- consumers whose desires are made known through independent consumer associations and the Federal Government Department of Consumer and Corporate Affairs.
- Federal government departments and agencies who present and defend points of view related to various functions, departments, programs and policies.

In addition there are many jurisdictional questions associated with the federal-provincial division of responsibilities in agriculture.

The constitutional division of jurisdictions in agriculture sets up a joint assignment of authority with priority to Federal legislation. The pertinent legislation, section 95 of the B.N.A. Act, describes the relationship as follows:

In each Province the Legislature may make laws in relations to Agriculture in the Province . . . and it is hereby declared that the Parliament of Canada may . . . make laws in relation to agriculture in all or any of the Provinces . . . and any law of the Legislature of a Province relative to Agriculture . . . shall have effect in and for the Province as long and as far only as it is not repugnant to any Act of the Parliament of Canada.

Despite the apparent clarity of this text, many legal issues have arisen, especially in regard to the scope and nature of activities that constitute "agriculture", and what constitutes legislation that is "repugnant" to a Federal Act. As agricultural affairs have worked out in practice a complex mix of joint Provincial-Federal responsibilities has evolved. It is important to note that all eleven governments co-operate with cordiality and a real degree of success in attempting to work out mutually acceptable policies and solutions.

### *Philosophy—the Role of Government*

There never has been and there never will be full agreement about the proper role of government in relation to an economy or a sector of an economy. Obviously a great deal depends upon the political philosophy of the people, the social structure, the distribution of wealth, the capacity and honesty of the civil service and even seemingly non-political events like droughts and inventions. In a country like Canada, governments provide certain services exclusively (post office), control partly public, partly private enterprises (airline franchises), support some prices (butter) leave other enterprises almost completely free (beef) and operate monetary, fiscal and commercial policies. In a pluralistic<sup>8</sup> society, it is natural that the role of government will be conceived quite differently by different groups and in regard to different sectors. Yet some generalization is necessary if the question of the role of government is to be seen in perspective and general guidelines developed for action.

Table 3 presents a rough spectrum of government involvement in agriculture, varying from the minimum in Stage One to the maximum in Stage Five. Table 4 spells out some of the major characteristics of these five stages especially as they relate to farmers. Obviously these two tables are entirely arbitrary in their numbers and description of stages but they help to put the extent of government involvement into perspective.

It is instructive to attempt to place different countries in the various stages of Table 3 and to attempt to determine whether they are moving in the direction of more planning or less. However, any attempt to make such a generalization runs into problems because of the complexities involved and a lack of the hard research data necessary to make judgments that are more than rough approximations. Countries such as Mainland China and the U.S.S.R. are in Stage Five, with almost total government planning and control. In a mixed economy in which ownership and control are divided between the government and private owners it is difficult to generalize with confidence because the type and extent of government involvement varies so much among different sectors of the economy.

The most important controversy in regard to government involvement—the basic issue between the approaches of communist and western countries—relates primarily to the ideal model to be sought in the organization of a political-economic-social system. The western assumption is that a democratic political system ensuring the highest practical degree of individual freedom is of primary importance and that government economic planning must be conditioned by this supreme principle. The guiding principle in communist countries, opposing this western concept, holds that rationalization of the socio-economic system is of primary importance and that the form of government should be the one that is best suited to implement the ideal (socialized) economic system. Although there are many other basic economic, social, cultural and technological differences between communist and

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<sup>8</sup> A pluralistic society is one in which there are many groups and organizations serving many different purposes. A typical Canadian belongs to many bodies—political, social, religious, financial—all competing for his support and sometimes in conflict with one another.

TABLE 3  
Five Stages of Government Involvement in Farming  
Degree of Government Planning and Control

Stage One	Two	Three	Four	Five
Minimum	Medium	High	Public Utility	Nationalization
General Characteristics				
—Laissez-faire —free markets —little if any direct government involvement.	—Government involvement in research special problems and in emergency situations —no continuing support programs —selective international tariffs.	Continuous government involvement in subsidies, regulation of supply and marketing becomes taken for granted.	Private Ownership but state control of marketing (products, prices, service, etc.) and profits.	—Government ownership —state monopoly of output —state control of all input and outputs.
Scale and extent of Government planning and control				
General Position of Selected Countries on Spectrum				

TABLE 4  
Major Characteristics of Farming Systems in the Five Stages of Government Involvement

Stage	One	Two	Three	Four	Five
Major Characteristic	laissez-faire free enterprise	medium government involvement	heavy government involvement	public utility	complete government control
Role of Farmer	on his own with almost complete freedom and risk	on his own but looks to government for limited help	runs farm in context of government plan- ning and welfare	owns farm but works for government with output, marketing wages and return on investments regulated	farmer and employee of government
Role of Government	no involvement except for basics such as favourable environ- ment, statistics, import regulations and the like	government gets involved in research, special problems, welfare on a discontinuous basis	government becomes responsible for supply-demand, wel- fare, continuous government involve- ment taken for granted	control of production, prices, quality	complete ownership and control
Supply Management	none	suasion but no control	government control	government control and plan	government control and plan
Input Control	none directly	suasion but no control	government plans resource inputs but no control unless neces- sary	human inputs con- trolled in number and education; non human inputs planned	all resource inputs (including labour) government planned and controlled
Marketing	farmers compete on open market, no marketing boards	marketing boards optional	national marketing boards for all com- modities	government control of prices	total government control of allocations, prices, etc.
Structure	result of free enter- prise	government suasion but no control	some regulations regarding size and integration	comprehensive plan- ning and control of structure	total government plan
Farm Prices	determined on open market	some supports in case of emergencies	complex structure of government supports nearly in all com- modities	government regulation of all farm prices	government regula- tion of all farm prices
Income	farmer on his own in free market	government assists in income problems	government supports income at definite level	government regulates income	government pays wages



western countries, this fundamental difference in ideological commitment is the most important and is reflected in the extent and nature of economic planning and control by government.

The Task Force opts for a position between Stage Two and Stage Three—but closer to Stage Two than Three.

Stage One—the free enterprise option—has great attraction for those who desire maximum individual freedom and have little confidence in the effectiveness and efficiency of bureaucracy, government or otherwise. It is also attractive to those who retain a simplistic Adam Smith concept of economics. It obviously appeals to farmers who are doing well as they see it, stand only to lose, in one way or another, if government planning and control are increased.

The problems of this approach are also obvious. It is not feasible. To reach this system farmers would have to go through the wringer in adjusting to a free market. This would almost certainly invite crisis and disaster. It is out of tune with the realities of government-business-union interactions circa 1970.

Stages Four and Five, at the other extreme, also stand out in black and white. Their major attraction is for those who favour a planned, socialistic, utopian, 1984 approach to solving the problems of society including agriculture. Whatever its merits in other sectors, it is clear that socialism has not worked well in agriculture. Complete planning and control assume a kind of human nature and motivation which have been generally rejected in North America. Moreover, it is clearly out of tune with the environmental systems in which Canadian agriculture exists.

An advantage of Stages Two and Three is that they so closely resemble the status quo in Canadian agriculture that they do not imply drastic change in the system. In spite of the many problems involved, they have been proven to work after a fashion. However, their main disadvantages are that they are not working satisfactorily and there are few responsible observers of Canadian agriculture who advocate continuance of the status quo.

Thus not only does the Task Force opt for a stance of medium government involvement (Stage Two plus a small amount of Three) but it also opts for vastly improved performance in these stages. Ways in which performance may be improved appear in most chapters of this Report and particularly in the last section of this chapter. In summary then, the general role of government should be to produce a favourable economic climate for farmers and agribusiness but not to attempt to "manage" or "direct" agriculture. Many basic decisions must still be made by hundreds of agribusiness firms and by thousands of individual farmers and their families but governments must do a better job of ensuring a higher degree of knowledge and possible co-ordination among agribusiness, farmers and government. We discuss this subject in the last section of this chapter.

### *Operational Functions of Governments*

There appear to be four main operational functions for governments whether they are dealing with such tangible things as wheat marketing or such intangibles as education and welfare.

### *1. Forecasting problems and opportunities*

The first question to be raised in evaluating a government organization is: How well do the staff size up the situation and forecast problems and opportunities in the near, medium and long-term future? All planning of policies and programs should be related to present realities and future problems and opportunities. If government organizations cannot forecast future problems and opportunities, their planning activities are bound to be late, wasteful and relatively ineffective.

### *2. Planning policies and programs*

The second question is: How well do they plan policies and programs designed to solve future problems and take advantage of future opportunities? It is obvious that if one can forecast major problems and opportunities the next challenge is to plan for them. For government organizations this means formulating the policies and programs necessary to solve problems and perhaps more importantly, capitalizing on the opportunities that will develop. As a (successful) campaign poster put it in 1968:

We expect government organizations to offer clearly defined, practical solutions.

### *3. Implementation of policies and programs*

The third major criterion for appraisal is: How well do they implement the policies and programs planned to solve future problems and take advantage of future opportunities? Without ability to put solutions into action through the appropriate legislative and administrative process and channels, government department is powerless to solve the grass roots problems that created the need for government involvement in the first place. Moreover, without effective implementation even a well planned, logical program will fail.

### *4. Program and budget review and evaluation*

The fourth important measure of any government or department is its ability to appraise and improve its operation. This implies that budgets and results should be carefully measured in terms of performance indicators that can be related to stated purposes. Programs with unsatisfactory payoffs should be improved or cut. Programs that have served their purposes should be terminated.

The Task Force places particular emphasis on these four operational functions of government. It should be clear however, that they apply not just to government but to all decision making bodies. Farmers should judge their elected representatives and employees by these criteria; shareholders in agriculture should do the same.

### *Requirements for the Performance of the Four Functions of Government*

*Forecasting problems and opportunities* involves among other things a research organization to anticipate problems rather than just to describe them once they have arisen. Obviously something was wrong in regard to wheat and coarse grains which are now problems of the imminent and overwhelming variety. Obviously too, something was wrong when the opportunities for

increased beef production were not identified several years ago; while much more is being done on the breeding and crushing of rapeseed, the economic and market aspects deserve much more study if potential opportunities are not to be missed. As we point out in our chapter on Research, there has been misplaced emphasis among research fields. In the chapter giving the Materials Balance Tables (Chapter 10) we have found ourselves breaking new ground in attempting to forecast the likely shape of agriculture in 1980. This kind of work, with additional man years of time, will help to identify problem and opportunity areas in advance rather than in retrospect.

*Planning and implementation* have sometimes been dissipated among various levels of government and departments of the same government. Take wheat for example: We now have three ministers of the Federal Government involved—Agriculture with its research staff, credit, Board of Grain Commissioners, etc.; Industry Trade and Commerce with its trade counsellors overseas and its substantial Grain Division; and now a Minister responsible for the Canadian Wheat Board. One province conducts small barter deals; several provinces support programs of land clearing and one million acres of improved land is added to prairie farmland each year.

No other commodity seems to have been quite so subject to a proliferation of conflicting jurisdictions and policies as wheat but milk probably runs it a close second. It is perhaps no accident that the two most serious problem commodities are these. Table 2 above indicates the size and categories of government direct expenditures on agriculture. Not included, of course, are expenditures on programs such as general education, welfare, transportation subsidies and so forth in which farm people may participate along with others. Table 5 shows that Federal Government expenditures have been about 70 percent of total government expenditures on agriculture, with the provinces supplying the remaining 30 per cent.

In many ways both Federal and provincial departments of agriculture deserve credit for their co-operative approach to problems for which both levels of government could have responsibility and authority. Provincial departments can be expected to have narrower and more limited objectives than the Canada Department of Agriculture, and without considerable co-operation and consultation, there could easily be open conflict of objectives

TABLE 5  
Federal and Provincial Governments Net Expenditures in Agriculture

Year	Federal		Provincial		Total	
	\$	%	\$	%	\$	%
1960-61.....	269	78	77	22	364	100
1961-62.....	295	79	77	21	371	100
1962-63.....	240	77	72	23	212	100
1963-64.....	295	78	81	22	376	100
1964-65.....	237	71	100	29	337	100
1965-66.....	266	68	127	32	393	100

SOURCE: *Financial Statistics of Government of Canada*, D.B.S. No. 68-211 and *Financial Statistics of Provincial Governments*, D.B.S. No. 68-207.

and programs among provinces and between Federal and provincial governments. In our chapters on Credit and on Crop Insurance we have emphasized ways in which further co-ordination may be brought about.

Finally the Task Force notes with approval that C.D.A. has created a small Planning Unit in the Economics Branch. Its main function should be to anticipate problems and opportunities and make proposals as to action designed to meet them.

*Evaluation* is often tiresome, irksome and even agonizing for the program or agency evaluated. Yet it is absolutely essential for good operational performance by government. The Task Force proposes that regular Evaluation Conferences be held annually at which a number of existing programs and policies would be examined by impartial teams of researchers and administrators. These Evaluation Conferences should be sponsored by the National Agricultural Advisory Council, described below.

This section has indicated the operational function of government in anticipating problems and opportunities, planning, implementing and evaluating. Agribusiness and farmers have a role here too and we now turn to a consideration of their roles in the following two sections. Co-ordination is the subject of the final section.

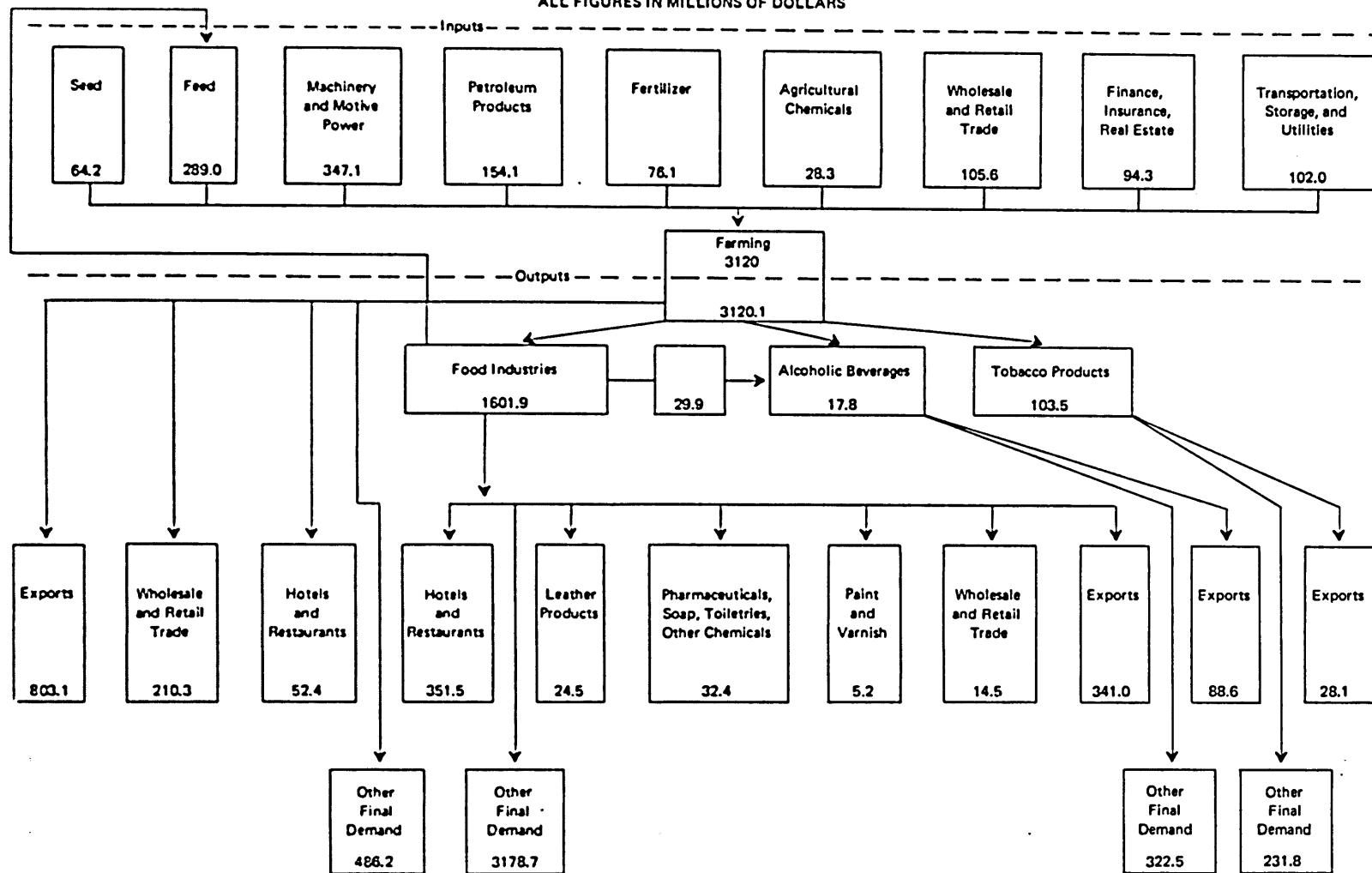
### C. AGRIBUSINESS

Although the main reason for the appointment of the Task Force was to study, analyze and recommend solutions primarily for the farm problems of agriculture, it became obvious that any useful study of agriculture must describe, analyze and treat the problems of farming as part of an overall system that processes a flow of resources from farm inputs to the final consumer. Although the several reasons for this are fairly obvious it is appropriate to review them briefly:

1. Farming is a specialized but not isolated activity. Farmers, as any other socio-economic group, interact—maintain economic, social, cultural, and political relationships—with the rest of society.
2. The important segments of the total agricultural system are mutually dependent. The chain is only as strong as its weakest link and if one segment of agriculture is inefficient, unprofitable or unjust, all other parts of the total system are affected.
3. When one important segment such as farming in a system such as agriculture experiences severe problems and faces the necessity to change, there is always a tendency to blame other parts of the system or to hope that problems can be solved by forcing other segments to compensate. Some farmers blame others for their problems and assume that other segments of the total agricultural system are more profitable than is actually the case. Sometimes farmers and farm organization leaders make the statement that industries providing farm supplies and transporting, processing and marketing outputs are "making money at the expense of the farmer". In addition, such statements often imply that the input and output segments related to farming are doing well in spite of inefficiency because of protection

TABLE 6 AGRICULTURAL FLOW CHART - 1961

ALL FIGURES IN MILLIONS OF DOLLARS



Source: Patterson R.A. - "A Survey of Selected Segments of Canadian Agribusiness", a study done for the Task Force.

from competition. Farmers also frequently take the position that the consumer unjustly receives the benefit of a government-sponsored "cheap food" policy. These charges are worthy of analysis and research.

The Task Force commissioned one study on Canadian agribusiness. One of the results of that study is contained in Appendix A to this chapter. It consists of an input-output table relating to 1961 and shows the dollar flow into and out of various subsectors of agriculture (agribusiness and farming), from other sectors and to other sectors. The importance of agriculture in providing basic materials and in maintaining the demand for output of other sectors becomes apparent from this Appendix.

#### *A Flow Chart of Agriculture, 1961*

For indicative purposes only—indicative, that is of the disparate and far-flung sectors which make up agriculture—we refer to Table 6. This table was derived from the input-output data in Appendix A and presents in graphic form the flow of resources from various industries to farms, the combining of these resources with land labour and livestock on farms to produce an expanded flow forward to intermediate and final users.

#### *Efficiency and Profitability*

It is not easy to assess the levels of efficiency or profitability of firms and industries. The concept of *efficiency* is fairly straightforward; if one firm can obtain greater output from the same inputs than another, it is more efficient. However, when one compares firms and industries using dissimilar inputs and resources and selling quite different products, it is necessary to introduce prices and values. These may be affected by the degree of competition, the level of tariffs, aggressiveness of labour unions, government programs of manpower training, transportation, taxes etc., degree of integration, the age of the industry or firm and so on. Thus it is difficult to find a fully satisfactory measuring rod for efficiency.

One measure of efficiency or productivity is the value added per man hour. While this is an adequate measure of performance in manufacturing over a period of time for any one industry, it does not tell us if full advantage is being taken of opportunities for increased efficiency and profits in the form of new investment.

On the basis of value added per man hour as a measure of manufacturing efficiency, the operating efficiency of agribusiness industries can be rated as good and improving.<sup>9</sup> The managers in the industries are, on the whole, intelligent, capable, hard working men. They are doing the best they can with what they have in the system as it exists. However, increases in efficiency might be achieved with new investment in plant and equipment and rational planning. Due to lack of integration the segments of the system are limited in planning inputs and outputs.

Because of this structure, several industries have overcapacity, too many small plants, and too many marginal operators barely hanging on.

<sup>9</sup> See Patterson, R. A., "A Survey of Selected Segments of Canadian Agribusiness" a study done for the Task Force.

It would be wrong however, to assume that the bigger the plant or firm the more efficient it must be. Small fertilizer distribution plants may well be more efficient than large ones. Similarly it would be wrong to assume that the newer and more highly capitalized an industry's plant the more efficient it must be. The fertilizer industry in Western Canada provides an example of new, technically efficient plants operating with high levels of overcapacity and consequent economic inefficiency. On the other hand studies of dairy processing firms (see Chapter 7) confirm the usually-expected relationship between small size, inadequate physical plant and high costs.

The measurement of *profitability* also has its pitfalls when one is attempting to compare firms and industries. The most satisfactory measure is rate of return on invested capital but variations in accounting practices among firms, the possibility of maintaining "internal reserves" and so on make it difficult to be precise about relative profitabilities.

Table 7 presents data which indicate rates of return in Taxation Year 1964 for a number of Canadian industries. Columns 1 and 2 are obviously more satisfactory measures of profitability than Column 3 but the latter is perhaps a better indication of the degree to which particular industries account for the marketing margin between original producers and final consumers. In Table 7, the rows which present totals (e.g. Row 12, Total Manufacturing) refer to all industries in that category, not just those given in the table. The date of Table 7 should be read in conjunction with the extensive footnotes appearing in the same Commercial Letter.

Table 7 shows a somewhat better rate of return on investment for agribusiness firms than did a study done for the Task Force<sup>10</sup>. The latter showed below-average rates of return for many agribusiness industries.<sup>11</sup>

Obviously, a profitable industry of firm can attract more capital or retain more earnings for investment in new plant and equipment and for expansion than can an unprofitable one. If reasonably attractive profits are not foreseen, new investment will not be attracted to an industry. Industry returns must be evaluated against alternative forms of investment. In 1969 an investor can get before-tax yields of eight or nine per cent on government bonds with little risk, and ten to 15 per cent on mortgages and a good stock portfolio. In the light of opportunities for returns such as these, an industry after-tax return of less than ten per cent can be said to be unattractive.

<sup>10</sup> Patterson, R. A., op. cit.

<sup>11</sup> In the United States, Moore and Walsh (*Market Structure of the Agricultural Industries*, Iowa State Press 1966) drew on separate studies of 14 agricultural industries to carry out a cross-sectional analysis of market conditions in them. Using a seven point scale ranging from very inadequate to optimum they rated each of the industries on the following aspects of performance: (1) efficiency of the organization of the industry in terms of scale of plant, utilization of plant, procurement and distribution; (2) promotion expenses; (3) product quality; (4) improvement of product and technique; (5) output consistent with the optimum allocation of resources; and (6) profits at levels which reward investment, efficiency and innovation at necessary but not excessive rates. Based on their evaluation of the foregoing factors, their rating of net market performance for most of the agricultural industries varied around "inadequate". Only one of the 14, apple processing, was rated as high as "adequate". The separate case studies were carried out and published by separate authors in the late 1950's and early 1960's. The 14 industries covered are grocery retailing, meat, broiler chickens, fluid milk, ice cream, vegetable processing, apple processing, baking, soyabean processing, grain procurement, mixed feed, cotton, farm machinery and fertilizer. Many of the studies are from PhD theses or books.

TABLE 7

## Corporate Ratios From Selected Canadian Industries Taxation Year 1964

Industry	After-Tax Profit as % of Net Worth	% Return on Total Invested Capital	% Profit on Sales
<b>MANUFACTURING</b>			
1. Slaughtering and Meat Packing.....	8.1	8.1	.9
2. Dairy Products.....	9.5	9.2	2.0
3. Fruit and Vegetable Canners and Preserves.....	7.7	7.2	3.4
4. Grain Mill Products.....	8.5	8.5	1.5
5. Bakery Products.....	7.6	7.0	2.6
6. Distilleries and Wineries.....	21.8	20.9	12.6
7. Breweries.....	10.1	9.4	6.8
8. All Clothing and Apparel.....	10.7	10.6	2.4
9. Agricultural Implements.....	6.0	5.7	3.2
10. Motor Vehicles.....	13.4	13.3	3.7
11. Fertilizers and Industrial Chemicals.....	9.7	9.1	5.8
12. <i>Total Manufacturing</i> .....	8.5	7.9	3.8
<b>TRANSPORTATION AND DISTRIBUTION</b>			
13. Railways.....	3.4	3.4	7.8
14. Truck Transport.....	14.2	13.2	3.7
15. Pipelines.....	16.7	9.2	21.5
16. Grain Elevators.....	7.1	7.2	12.1
17. Radio and Television Broadcasting.....	24.3	20.1	11.1
18. Electric Power.....	6.6	5.6	11.1
19. Gas Distribution.....	4.6	4.9	4.7
20. <i>Total Transportation and Distribution</i> .....	6.5	5.7	8.3
<b>WHOLESALE TRADE</b>			
21. Livestock and Grain.....	7.8	7.7	1.1
22. Food Products.....	10.9	10.6	1.1
23. Clothing and Dry Goods.....	9.6	9.2	2.1
24. Electrical and Farm Machinery.....	14.4	13.9	2.4
25. Lumber and Building Materials.....	10.5	10.2	2.1
26. <i>Total Wholesale Trade</i> .....	12.0	11.7	1.9
<b>RETAIL TRADE</b>			
27. Food Stores.....	10.0	8.9	1.5
28. Motor Vehicles Dealers.....	11.8	11.5	.9
29. Fuel Dealers.....	10.3	9.7	2.3
30. <i>Total Retail Trade</i> .....	10.9	10.3	1.8
<b>SERVICE</b>			
31. Advertising.....	16.3	15.4	3.7
32. Restaurants and Taverns.....	16.2	15.1	3.5
33. Funeral Directors.....	16.5	15.5	10.5
34. <i>Total Services</i> .....	13.2	12.1	5.7
35. <i>Total All Companies</i> .....	6.8	6.0	3.8

SOURCE: The above Table has been taken from statistics presented by the Canadian Imperial Bank of Commerce in their May, 1967, Commercial Letter. Rows 12, 20, 26, 30, 34 and 35 refer to all industries, not just those listed in this Table.



A measure of profitability based on taxation statistics is not precise; it is an average for a whole industry and does not indicate the range of profitability. If an industry shows a return on investment of nine per cent, it is likely that there are at least a few companies within it making from 15 per cent to 20 per cent and others making little or nothing.

### *Vertical Integration*

Vertical integration is usually looked at from the farmer's point of view and particularly from the point of view of farmers who are not themselves directly involved in it. It is often condemned unless it is farmers themselves who, through their co-operatives, are doing the integrating. Vertical integration is occasionally looked at from the total efficiency point of view, at which time the virtues of improved scheduling, more widespread use of technical know-how, credit for expanded operations and the favourable effects of all of these on costs and efficiency are noted. Examples quoted are of the greatly reduced costs of broiler production in the United States. The converse side is emphasized by anti-integrators, who point to the transition of once independent farmers to the status of non-unionized employees working on commission, who are even then not rewarded very handsomely.

Vertical integration should also be looked at from the point of view of the agribusiness firms doing the integrating. Why integrate? Obviously integration would not occur unless the integrator estimated that integration would be more profitable than non-integration. This situation may arise for several reasons. (1) A marketing board may have succeeded in raising the farm price sufficiently high that there are profits for an agribusiness firm which enters the farm production stage. This seems to have been the case for a number of vegetables processed in Ontario. (2) Existing producers have failed to adopt available technology which would reduce costs. This has been partly the case with the broiler industry. (3) Processors are unable to secure a continuous supply of the desired grade of a farm product. These may be isolated cases illustrating this reason but they are not widespread. (4) Agribusiness firms want an assured market for their output of feed, chicks or other products. This is probably the dominant reason for vertical integration in poultry production although (2) above probably applies as well.

The Task Force has taken the position that government should regulate and manage agriculture as little as possible but rather attempt to provide a satisfactory climate for low cost and stable production and marketing. Translating this principle to the question of vertical integration implies that governments would take no continuing action either to promote or prohibit vertical integration by agribusiness. Governments should however, continue to provide the legislation under which marketing boards operate, and may create other institutions which affect the spread of vertical integration.

### *Government Services and Agribusiness*

It is natural that government activity in agriculture has been oriented toward the farming sector rather than toward agribusiness or even consumers. Farms, after all, are small and cannot afford to undertake research as some of the large agribusiness firms can. Competition among farmers is taken for

granted and is in fact reduced or modified by the creation of marketing boards made possible by legislation; by contrast agribusiness firms are subject to the Combines Investigation Act. The result of this orientation may be seen in the Canada Department of Agriculture which has few specialists in the problems and opportunities of agribusiness.

The Task Force proposes that the name of the Canada Department of Agriculture should be changed to the *Department of Agricultural Industry* to emphasize the fact that "agriculture" is much more than "farming" and that an industry-wide approach is desirable in our present interdependent and sophisticated economy. In keeping with this change of name, an Agribusiness unit should be created in the Economics Branch (to become the Economics and Business Branch). It is desirable that some of the specialists from the Department of Industry Trade and Commerce be brought to this unit and that co-ordination between the two departments be emphasized.

Exporting of agricultural products is done primarily by agribusiness firms, although some marketing boards have been involved. The importance of exports to all stakeholders in agriculture, and the close relationship of agribusiness firms and export activity make it logical that there be an International Trade Branch within the Canada Department of Agricultural Industry. As with the Agribusiness unit, it is essential that some of the specialists from the Department of Industry Trade and Commerce be brought to this new unit in Agricultural Industry. These people should work very closely with Canadian International Development Agency in regard to shipments of food aid, and with the new Export Development Corporation in regard to credits and assistance in exporting.

#### D. FARMER ORGANIZATIONS

There are over 10,000 identifiable local, provincial and national farmer organizations. Most of the provincial and national farmer organizations have district or local units; for example a provincial marketing board may have county committees and a regional co-operative may have many locals. In addition to strictly farmer organizations such as co-operatives, marketing boards and breed associations, there are thousands of local bodies such as horticultural societies and community improvement associations which draw upon farmers for membership. As a result of there being two general farm organizations at federal and provincial levels, many local units of each and large numbers of co-operatives and specialized commodity and breed organizations (some also with local units), two fundamental questions arise, "Are there too many farmer organizations?" and "What would be the most rational system of organization?" Before turning to these questions, it may be useful to compare farmer organizations with those in other sectors.

In professional associations such as those of doctors, lawyers and accountants, members normally must be accepted by the association in order to practise, and they must abide by the regulations and be subject to the discipline of the association. Thus associations exercise power over entry and impose discipline for non-professional behaviour of members. Farmer organizations do not have these powers except to a limited extent in those provin-

cial marketing boards in which a quota is necessary for production. Quota transfers are normally subject to board approval and thus there is some possibility of restriction on entry. There is no discipline exercised over members' actions by farmer organizations.<sup>12</sup> This is as it should be.

In labour unions individual workers cannot choose whether to join Union A or Union B. They can belong to only one union and federal and provincial labour legislation provides for voting procedures to determine what that union shall be. There are close structural parallels between the Canadian Labour Congress on the one hand and the Canadian Federation of Agriculture on the other. Both are federations whose members are organizations, not individuals and each claims to speak for a majority of union members and farmers respectively. Because there are no farmer organizations with power comparable to that of, let us say, the United Auto Workers or the Steelworkers, the Canadian Federation of Agriculture tends to have a more influential place within its sector than does the C.L.C. It becomes involved in preparing and presenting briefs to governments concerning commodities (such as wheat) as well as principles (such as taxation).

In business associations such as the Canadian Chamber of Commerce or trade associations such as the Meat Packers Council of Canada, membership (by firms) is entirely voluntary and no control can be exercised over members or over non-members in that sector. Attempts to exercise control over members would involve violation of the Combines Investigation Act. This situation is quite contrary to that in farming, in which governments provide the enabling legislation under which farm firms are able to work in combination through marketing boards to attempt to achieve their ends. Trade associations frequently are able to play a role useful to their members, but by its nature, much of the benefit accrues also to non-members. The same may be said to be the case with a number of farmer organizations—The Farmers' Unions for example. This is at the root of one of the primary financial problems of either trade associations or "direct membership"<sup>13</sup> farmer organizations, namely, that non-members frequently receive almost the same benefits as do members, thus reducing the incentive to join.

This brief review of the organizations of professional people, labour and non-farm businesses points up some of the present features of farmer organizations. These features are:

1. Farmers may be members of many organizations, some of which may be in opposition to others. This is less likely to be the case with direct membership organizations. It is especially the case when marketing

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<sup>12</sup> An exception arose in 1969 in the Ontario Farmers' Union during the provincial vote on a General Farm Organization. Members of O.F.U. provincial and local executives were removed from office for favouring the G.F.O. This in no way, however, interfered with their ability to continue farming.

<sup>13</sup> The term "direct membership" refers to those organizations whose members choose voluntarily and periodically to join or continue their membership. The Farmers' Unions have annual memberships and fees; membership in a co-operative is voluntary but once this step is taken further decisions to continue membership are not necessary. At the other extreme from direct membership organizations are provincial marketing boards. In some cases they were last voted upon fifteen or more years ago; it is unlikely that a majority of present producers of the commodity regulated actually voted in favour of the marketing board. This is not necessarily a criticism because it is possible to petition for a re-vote.

boards make deductions per unit of product or when property taxes are used to finance farmer organizations. The principle that farmers should be free to join as many farm organizations as they see fit is in contrast with the "no dual membership" rule of labour unions. A "joiner" could have a field day as a farmer.

2. There are no restrictions on entry into production except for those few products for which marketing boards have created production or sales quotas. This is in contrast with professional associations and unions with "closed shop" arrangements.
3. The two contrasting principles of organization appear to be those of a) voluntary, direct membership as in co-operatives and Farmers' Unions, and b) compulsory participation, for instance by majority (or greater) vote on the establishment of a marketing board. The first has the advantage that those induced to become members are likely to be actively interested in the organization. It has the advantage also that the executive and directors are always aware of the necessity of maintaining member (and potential member) interest and involvement.

An advantage of the second form of organization is that there is not likely to be the same scramble for funds and preoccupation with internal financial matters as in the case of direct membership bodies. Another advantage is that, for certain activities, compulsory features are necessary and voluntary membership and participation are unlikely to be successful. Compulsory powers stem from governments. The possibility of a voluntary membership body achieving lasting success through collective bargaining or withholding members' output from market is limited.

Direct membership bodies such as the Farmers' Unions are likely to be more militant, in order to stimulate interest and support, than are indirect membership bodies like the Federations. The desirability of militancy varies depending upon issues and conditions and no blanket support or condemnation of it is intended.

One of the most relevant developments in the history of farm organizations occurred in the summer of 1969 when farmers in Ontario were asked to vote on the principle of creating one General Farm Organization which could have been financed by a levy on all farm products sold. The fact that almost 60 per cent of those voting were opposed to the G.F.O. indicated an unwillingness to try anything radically different from the conventional farm organizations to which they were accustomed.

### *Are There Too Many Farmer Organizations?*

In principle the answer is "yes" because the existence of a large number of organizations dissipates leadership and organizational resources in too many directions. It becomes almost impossible to speak with a unified voice to governments or to other sectors when two or more farmer organizations are attempting to "represent" farmers and often to bid for their support. Cynics

say that governments prefer that there be more than one organization representing a given sub-sector of farming so that one can be played off against another.

There is another side to the coin. Most farmers are not single product producers; a farmer in Quebec may market industrial milk, hogs, beef, and pulpwood or a farmer in Ontario may sell soybeans, white beans, corn, winter wheat and hogs. The most appropriate marketing institutions for soybeans are likely to be quite different from those for hogs or pulpwood. There is an essential difference between a multi-product farmer and a single-activity person like a carpenter or an accountant. For the latter a single organization is certainly more appropriate. For the former, who is a soybean producer and a hog producer, there is at least a better case for having separate organizations to concern themselves specifically with each activity.

Nevertheless it is probably the case that many farmer organizations were born to meet a specific need but have persisted long after the need has disappeared and their role had been fully played. Too often executives of an organization do not want to be the group responsible for its final dissolution and they keep it going for "one more year". Vested interests, especially among employees and older directors, add to the apparent permanence of supposedly temporary bodies. Just like government programs, however, farmer organizations need periodic evaluation.

#### *What is The Most Appropriate Form of Farmer Organization?*

This question is certainly a legitimate one but any final answer must ultimately come from farmers themselves, because the most ideal form of organization can be successful only if it is wholeheartedly accepted by its members. In the United States there are four major farmer organizations and in Great Britain there is one.<sup>14</sup>

There are three major alternatives in farmer organizations. One is, of course, to continue the present structure. The rivalry of the direct membership Farmers' Unions with the indirect membership Federations of Agriculture in seeking programs advantageous to farmers probably means that the two bodies, working separately, are less effective in the short run than if they could speak as one. Yet the same rivalry helps to keep both more active than would otherwise be the case and over a period of years the results may be favourable.

A second alternative would be to merge all existing organizations into one big body similar to the National Farmers' Union of England and Wales. Commodity marketing boards would become adjuncts of the main body and there would be commodity committees for those products and provinces for which there were no marketing boards. Thus the "Beef Committee" of the main body would be allocated specific responsibility for all action on behalf of farmers concerning beef production and marketing. This type of organization would be the type appropriate to a widespread system of supply manage-

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<sup>14</sup> This is not quite true. There are two National Farmers' Unions—one for England and Wales and one for Scotland—but they work together closely and harmoniously.

ment in which the effects on other commodities of supply management of one product would be taken into account. It would be the kind of all-pervading farmer organization discussed in Chapter 12 on Marketing Boards.

Regardless of the merits of this kind of organization—and the Task Force has very serious doubts about it—it is virtually out of the question because most existing organizations and especially marketing boards, would be unwilling to merge themselves in any way which would seriously reduce their autonomy. Much of its financing might come from a compulsory checkoff, which has the merit of ensuring that funds will be available but the disadvantage that the organization may lose its aggressiveness and drive. If financing comes from voluntary direct membership then the problems of unstable finances and unequal sharing of costs between members and non members become relevant.

The third form of organization would be to retain almost all the existing bodies but for the Farmers' Unions to enter the provincial and national Federations of Agriculture as *the* direct membership bodies. The Farmers' Unions would then be a part of one federated body and the duplication of voices and of effort would be eliminated. Attractive though this structure appears, it suffers from a possible defect. As part of the Federations (provincial and Canadian) the Farmers' Unions might find that they had lost a good deal of their appeal to members and potential members because there would presumably be identity of policy between the Federation and the Farmers' Union. The result might well be the decline of the Unions.

### *The Role of Farmer Organizations*

The key to a discussion of the most appropriate structure of farmer organizations appears only when one turns to the question of objectives. What objective should organizations play and are the objectives identical for different organizations?

Basically the general objective of every farm organization should be to improve the economic lot of its members and in some cases also to improve social and educational standards of members and perhaps of communities. Generally speaking, farmer organizations are not and should not be philanthropic agencies. When they appear before governments they must always keep the welfare of their members in mind. Obviously there are many times when it would be self-defeating to push for special treatment; good strategy and tactics both demand flexibility.

Now if the purpose of a marketing board is to increase the income of its members as much as possible and over a period of time, then one cannot expect marketing boards to sacrifice members' interests for the national interest. This is well illustrated in the case of the Ontario Flue-cured Tobacco Growers Marketing Board, whose actions have been designed to benefit the 4,500 tobacco growers, not the farmers who might have benefitted from more liberal tobacco quota policies. Since the powers of such boards are derived from provincial governments, whose responsibility it is to be concerned about all of the people of the province, then it is the government of the province which should be concerned, and possibly take action, if a marketing board injures others.

A farmers' Union, being a direct membership body and without specific commodity biases, has very little scope to act for its *own* members only. Any benefits and any harm, which it produces fall alike on the heads of the members and non-members. Only a body like a present Federation of Agriculture can claim to represent all farmers—whether all farmers *want* to be so represented is another question and one to which the answer is not clear.

For effectiveness in dealing with governments and other sectors however, there is a great deal to be said for having a federated structure which can lay legitimate claim to speak for all farmers without farmers having chosen to pay dues for direct membership in any component of the organization.

Thus the Task Force is driven to the position of concluding that there must be a federation, that there should be a direct membership body, that there must be autonomous co-operatives and marketing boards. In other words, the present structure may be as good as any other so far as the main bodies are concerned. There are many smaller, antiquated bodies, however which may be as out of date as some agricultural programs, some farmers and some economists. Such organizations should be subjected to careful evaluation by their members.

In the final section of this chapter, we turn to the question of attempting to relate farmer organizations and farmer representatives to agribusiness and to government. This is probably a more important matter than the particular form or number of farmer organizations.

Of equal importance is the capacity of farmer organizations to perform the four operational functions discussed early in this chapter. They must be able to anticipate problems and opportunities, plan and recommend programs, implement programs themselves or persuade others to do so and evaluate.

## E. THE CO-ORDINATION OF POLICY MAKING

After the rather prolonged discussion in the preceding three sections on each of government, agribusiness and farmer organizations, we come at last to the subject of co-ordination of the three. How can farmer organizations best provide an input into the policy-making process? Does the fact that governments are responsible to parliaments rule out lengthy and detailed discussion of policy decisions between governments and agribusiness and farmers? How can there best be an intelligent responsible input of views and information by these three groups, all of which will be vitally affected by the decisions made and by the attitudes of the other groups?

Figure 2 is central to the answers the Task Force proposes to make to questions concerning co-ordination in policy making at the national level. To have introduced the relationship with provincial governments into Figure 2 would have made it too complicated visually for presentation. We turn now to a discussion of Figure 2.

1. The Minister of the Department of Agricultural Industry must occupy the key place in agricultural policy making. Some one person—in this case

the Minister of Agricultural Industry—must be held responsible for seeing that the four operational functions discussed above are in fact adequately performed. The “Troika” for wheat and coarse grains must disappear in favour of one seat of ultimate responsibility. As noted above, the Department must include responsibility and concern for agribusiness and trade as well as for farming.

2. Government service units are shown on the left hand side of Figure 2.

- (a) The Research Branch has been discussed in Chapter 15 on Research; it has become a major centre for high powered scientific researchers. Much of the research is fundamental, as opposed to mission-oriented and some shift in emphasis toward the latter seems to be appropriate.
- (b) The Economics Branch should become the Economics and Business Branch, and a new unit working on problems and analysis relating to agribusiness should be formed in the Branch. This Agribusiness unit should draw much of its staff from the Department of Industry Trade and Commerce.

In research there has never been adequate integration of the C.D.A. economists with the scientists and engineers of the C.D.A. Research Branch. Not only must there be an increase in the amount of research in economics and rural sociology but there must be on-going machinery for co-ordination between the economists and other researchers. Many statements of good intention in this regard have been made in the past. The Task Force proposes that the heads of these two branches be requested by the Minister to produce a joint proposal as to the machinery which will ensure co-ordination.

The Planning Unit recently created in the Economics and Business Branch should have as one of its duties the improvement and up-dating of the Materials Balance approach of the Task Force. This unit should be the nerve-centre of the whole Department in anticipating problems and opportunities.

- (c) A new International Trade Branch should be created to ensure the required level of knowledge and analysis within the Department for all matters connected with trade. Some of the specialists on wheat and coarse grains now in the Department of Industry Trade and Commerce should become part of this Branch.

4. A Federal-Provincial Agricultural Credit Board is proposed in Chapter 13 on Credit. This Board would co-ordinate joint credit programs between the Federal and various provincial governments (or regions).

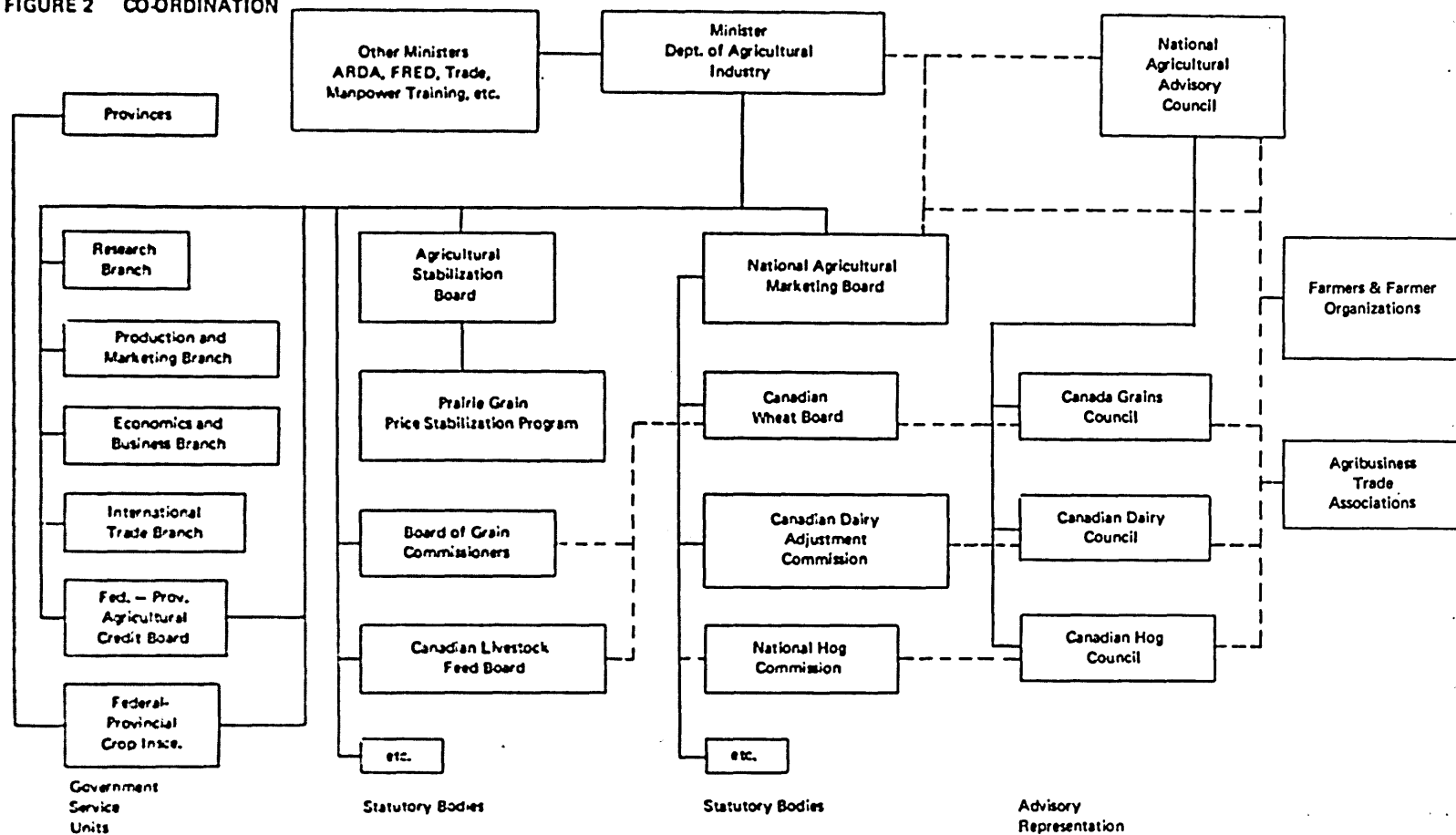
5. Federal-Provincial Crop Insurance is recommended in Chapter 14.

6. The Board of Grain Commissioners would retain its present shape and function but should be more closely related to the Canadian Wheat Board, which would become part of the Department of Agricultural Industry, under Task Force proposals (See 10 below).

7. The Canadian Livestock Feed Board should be phased out. The Task Force proposes to free coarse grain marketings on the Prairies and to reduce and transform Feed Freight Assistance. (See Chapter 5).



FIGURE 2 CO-ORDINATION



8. The Agricultural Stabilization Board should remain in approximately its present form but to its duties should be added the very important new role of operating the Prairie Grain Price Stabilization Program which is a key recommendation of our chapter on Wheat, Feed Grains and Oilseeds. The Program is intended to provide an important element of price stability and (with the Federal-Provincial Crop Insurance program) to provide greater stability of farm income. Furthermore, it should be responsible for the short-term emergency Wheat and Barley Acreage Diversion Program (Chapter 5).

9. National Agricultural Marketing Board. This is one of the two most important bodies proposed in Figure 2. The N.A.M. Board would fulfil a function in the national scene very similar to that of the Ontario Farm Products Marketing Board in Ontario and the other government-appointed boards responsible for provincial commodity marketing schemes in other provinces. The N.A.M. Board would be responsible for all national marketing boards, including the Canadian Wheat Board and so long as it is in existence, the Canadian Dairy (Adjustment) Commission. This responsibility would entail administering national marketing board legislation, issuing regulations, deciding upon the appropriate form of commodity boards,<sup>15</sup> reviewing their activities, appraising their plans and maintaining general supervision of their operations. The N.A.M. Board must also appoint the members of the councils discussed below.

The N.A.M. Board must be a statutory body; we suggest that it have 8 to 12 members appointed by the Federal Government on a rotating basis. Members should not be appointed as "representatives" of any group, but should be appointed for their qualities of judgment, experience and ability. Alternatively, if a larger number of members is considered desirable, a small executive committee would be necessary. The N.A.M. Board would require a small secretariat and a number of researchers, the latter preferably co-opted for several-year periods from the Economics and Business Branch.

10. The Canadian Wheat Board and other national commodity marketing boards should be responsible to the N.A.M. Board and through it to the Minister of Agricultural Industry. Each of the national marketing boards may be different in structure and operation from the others. Very close co-operation is essential between national boards and provincial commodity boards as well as between the Federal and provincial governments.

Associated in an advisory capacity with each national marketing board should be a council, described below.

11. Canada Grains Council, Canadian Dairy Council etc. should be advisory bodies to the statutory marketing board or commissions to which they correspond. The Canada Grains Council, already in existence, is the prototype for these councils. They should consist of representatives of farmer organizations including co-operatives and agribusiness and in some cases of university and other interested groups. Appointment to such councils should be by the N.A.M. Board upon nomination of representatives by the appropriate groups as selected by the N.A.M. Board.

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<sup>15</sup> In Chapter 12 on Marketing Boards we point out that they may be of many different forms and with different functions and powers.

To take the Canada Grains Council as an example, it should be advisory to the Canadian Wheat Board in regard to prairie grain marketing. If a National Oilseeds Board were created to market let us say rapeseed and soybeans, the Canada Grains Council would be advisory to it.

The Council has members from interested groups outside the Prairies but if there were to be new national marketing boards created, the Council membership would probably have to be expanded to provide adequate representation.

Each council should appoint at least one member and perhaps more depending upon the importance of the sector, to the National Agricultural Advisory Council.

12. The National Agricultural Advisory Council should rank, along with the N.A.M. Board, as one of the two most important bodies in Canadian agricultural policy making. The N.A.A.C. would become the formal advisory body to the Minister of Agricultural Industry as well as to the N.A.M. Board. The N.A.A.C. would consist of a fairly large number of members, almost all of whom would be nominated by the various councils and farmer organizations and agribusinesses and trade associations. Appointment would be by the Minister of Agricultural Industry and for such periods as to allow rotation of membership.

The N.A.A.C. should conduct annual Policy Evaluation Conferences to receive and discuss evaluation reports prepared by independent researchers. These reports should be commissioned by N.A.A.C. to evaluate specific policies and programs of the Federal Government or to evaluate joint Federal-Provincial programs.

The N.A.A.C. should provide a kind of parliament for agriculture for the discussion of policies and problems of the entire industry.

13. The two general farmer organizations—The Canadian Federation of Agriculture and the National Farmers' Union—would of course be free to approach government but should play a prominent role in the activities of the N.A.A.C. The Task Force recognizes clearly that on some matters the corresponding farmer and agribusiness organizations may have opposing interests as well as common interests. Neither group can be forced to become participating members of the N.A.A.C. against their will and both must remain free to pursue their own objectives independently. Their participation in N.A.A.C., however, would give them an opportunity to discuss particularly those areas of common concern.

## RECOMMENDATIONS

1. The primary and continuing role of governments should be to produce a desirable economic and social climate for farmers and agribusiness. Economically, governments should promote the efficient use of resources through their support for research, extension, education, marketing services and from time to time, through legislation or funds to increase or stabilize prices and incomes. This role does not include "managing" agriculture any more than it is the role of governments to "manage" the steel industry or the

pulp and paper industry. Because the firms in farming are smaller than in other sectors, the kinds of government services required to create a desirable climate for them will be different from those of other sectors.

There are social as well as economic aspects to all policies. Governments and their officials must always be aware that they are dealing with human beings and not with abstract problems. Programs which call for changes in the way of life of the poor, the disadvantaged and the aged in particular, must reflect this point.

2. *Flexible Approach to Policy Making.*—Experience indicates that a doctrinaire approach to the development of agricultural policy is unsound. The diverse and dynamic conditions of Canadian agriculture makes a pragmatic approach desirable. This flexibility appears again and again in our recommendations.

3. *Stated Goals.*—The controversies which surround many agricultural policies and programs arise in large measure from their lack of clearly defined goals. The Task Force recommends that for each of its policies and programs, governments provide a clear statement of goals; such statements should be so explicit and sufficiently quantified that the degree of success in achieving them can later be measured. Goals should not be stated in such general terms as "to improve the welfare of farmers". These goals, and performances in achieving them are considered in Recommendation 14(b).

4. *Recognition of Commercial-Low Income Division.*—Programs which try to serve the interests of commercial farmers and to meet the problems of poverty-level farmers are unlikely to be as successful as separate (but co-ordinated) programs designed to serve each. The Task Force recommends that this distinction be kept in mind in all policy making. The government should not confuse economic and welfare problems and programs to overcome them.

5. The Canada Department of Agriculture should be renamed the Department of Agricultural Industry. All of its planning and operations for commercial agriculture must be integrated around a central concept of a profit oriented, self-sustaining industry serving the needs of all its major stakeholders adequately and fairly. A major function of the Department of Agricultural Industry would be to integrate all direct Federal government expenditures on agriculture through a centralized budgetary control system.

6. Overall authority and responsibility for commercial agriculture at the national level must be centred in and around the Department of Agricultural Industry.

7. The Economics Branch should be renamed the Economics and Business Branch. An Agribusiness unit should be created within the Branch to undertake research and analysis of problems relating to agribusiness. Its staff should be drawn from those specialists undertaking similar work in the Department of Industry, Trade and Commerce.

8. The Minister of Agricultural Industry should request the heads of the Research Branch and of the Economics and Business Branch to produce a joint proposal which will indicate the kind of machinery necessary to ensure co-ordination of research efforts between specialists in the two branches.

9. A new International Trade Branch should be created in the Department of Agricultural Industry and many of its staff drawn from the Department of Industry, Trade and Commerce.

10. A new Federal-Provincial Agricultural Credit Board should be created. At the Federal level it should report to the Minister of Agricultural Industry. (See Chapter 13)

11. The Canadian Livestock Feed Board should be phased out if the recommendations of Chapter 5 are implemented.

12. The Agricultural Stabilization Board should be given additional responsibilities in the form of the new Prairie Grain Price Stabilization Program and the short-run emergency Wheat and Barley Acreage Diversion Program.

13. A new National Agricultural Marketing Board should be created, to take direct responsibility for all statutory national or federal marketing boards including the Canadian Wheat Board and the Canadian Dairy (Adjustment) Commission. (See Chapter 7 for change in C.D.C.) The N.A.M. Board should be created by the Minister of Agricultural Industry and bear a relationship to him similar to that of the Ontario Farm Products Marketing Board to the Ontario Minister of Agriculture and Food.

14. A new National Agricultural Advisory Council should be created by the Minister of Agricultural Industry. It should have the following functions:

- (a) to act as the highest level farmer and agribusiness council, providing a forum for discussion and providing advice both to the Minister of Agricultural Industry and to the N.A.M. Board.
- (b) to organize and sponsor an annual *Policy Evaluation Conference* based upon intensive studies by independent researchers of a small number of existing programs of the Federal Government or of joint Federal-provincial programs. Further to Recommendation 3, the goals of the programs evaluated should be clearly and specifically stated.

15. Creation, by the N.A.M. Board, of commodity councils similar to the Canada Grains Council to act in an advisory capacity to the N.A.A. Council and also to their corresponding statutory marketing board (e.g. Canada Wheat Board).

16. The new structure of organizations proposed in the preceding recommendations should make possible vastly improved communication between all three of government, farmer organizations and agribusiness. The concept of the N. A. A. Council and the commodity councils involves participation by agribusiness and farmer organizations.

The Task Force recommends emphatically that the creation of councils should not prevent agribusiness or farmers from communicating directly with government or with one another. The Task Force further recommends that governments consult as often as possible with the other stake-holders in the agricultural industry: for the government to do so, however, implies a corresponding degree of sensitivity and responsibility on the part of the non-government groups.

17. The Task Force takes no position on the issue of "unity" between the general farm organizations. The fact is that this is a matter for farmers themselves to decide and furthermore, the pro's and con's of union appear to the Task Force to be evenly balanced.

18. Both Federal and Provincial governments should design short training programs to make government, agribusiness and farmer leaders and employees better aware of new techniques of management and administration. Management by objectives, program planning and budgeting and other techniques of rational management must be increasingly adopted to improve effectiveness and efficiency.

19. *Recognition of Regional Characteristics.*—While the Task Force warns against the dangers of balkanization of Canadian agriculture and of agricultural policy and emphasizes that increased attention be paid to national unity, it recommends that increased attention be paid to regional problems and disparities during the formulation of policy. We commend in principle those parts of ARDA and Regional Economic Expansion which are adaptable to particular regional conditions and which work through training and similar assistance to help the disadvantaged eventually compete on more or less even terms with those in more prosperous areas.

## APPENDIX A

### THE CANADIAN AGRIBUSINESS SYSTEM

Businessmen, government leaders, and others concerned with agribusiness, are constantly faced with the tasks of formulating plans, policies and programs at the national, industry and company levels to meet the everchanging needs of domestic and world food economies. If managers, public and private, are to develop effective strategies and policies, they must be fully aware of the total commodity system in which they participate and they must understand the interaction of its parts. What is required in Canada is comprehensive and penetrating presentations, analyses, and evaluations of the commodity systems in the agribusiness industries.

In the United States, pioneering work and some of the best research into agribusiness systems has been carried out at the Harvard Business School by Davis and Goldberg.<sup>1</sup> Although badly needed in Canada, we have no studies of our own commodity systems that approach the work of Davis and Goldberg in quality and comprehensiveness.

To carry out such a comprehensive analysis of the major commodity systems in Canada would require significant commitments of time and resources. Several major research projects would be required at a total cost probably in the range of \$75,000 to \$125,000 and three to five man-years of time. Equally vital would be the participation of industry and government.

Since its terms of reference were primarily concerned with farm problems, the Task Force limited its research to a relatively small three-month, one-man project aimed at approaching existing information. It is obvious, therefore, that this chapter cannot be a definitive analysis of any or all of the agribusiness industries. An attempt has been made, however, to make a brief survey of the major industries through organizing what data are available and to point the way towards further studies in greater depth.

Perhaps the best way to gain some understanding of the overall size, scope, and structure of Canadian agribusiness is to review an input-output matrix patterned after Leontieff's technique of interindustry analysis. The input-output matrix presented in Exhibit 1 was compiled from the computer printouts made available by D. B. S. officials, whose cooperation and assistance were of great help. Several matrices were available, in varying degrees of detail. The 65 industry by 65 commodity matrix figures were used.

On the assumption that most readers will be unfamiliar with such a matrix, we shall begin with a brief explanation of what it represents.

An input-output chart may be likened to a double-entry bookkeeping system which shows purchases from and sales to each of the sectors of the economy. Each sector will buy and sell from the others in varying proportions but the end result is that total purchases will equal total sales; that is,

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<sup>1</sup> John H. Davis and Ray A. Goldberg, *A Concept of Agribusiness* (Boston: Harvard University, 1957). Ray A. Goldberg, *Agribusiness Coordination: A Systems Approach to the Wheat, Soybean, and Florida Orange Economies* (Boston: Harvard University, 1968).

**EXHIBIT 1-65 INDUSTRIES X 65 COMMODITIES**  
**VALUES OF INDUSTRY INPUTS AND FINAL EXPENDITURES 1961 AGGREGATION N**

D.B.S. Table 8 Col. No.		1	8	9	10	11	12	13	14	15	16	17	19	50	51	52	61	62	55	66	67	68	69	70	71	72	28	29				
Column Number Industry (columns)		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20 (1-65)	21 20 minus 19	22	23	24	25	26	27	28 2-8	29 9-10		
Row No.	Commodity (rows)	Agriculture	Meat and Poultry Processors	Dairy Factories	Fruit and Vegetable Canneries	Feed, Flour and Cereal Mfg.	Biscuits and Bakeries	Sugar and Confectionery	Other Food Industries	Soft Drinks	Alcoholic Beverages	Tobacco Products	Leather Products	Paint and Varnish	Pharmaceuticals, Soap, Toiletries	Other Chemical Industries	Hotels and Restaurants	Other Services	Wholesale and Retail Trade	Sub Total	Intermediate Inputs	All Other Industries	Net Exports	Re-Exports	Imports	Inventory Change	Other Final Demand	Total Output	Food Industries	Beverages	Row No.	
(Millions of Dollars)																																
1	Agricultural Products	182.1	686.1	497.7	55.5	236.1	2.4	18.3	96.8	—	17.8	103.6	—	—	.5	.1	52.4	1.1	210.3	2,139.7	2,175.6	35.9	803.1	1.0	-252.0	-400.6	485.2	2,613.3	1,091.9	17.8	1	
2	Forestry Products	11.1	—	.1	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.1	14.4	782.6	768.2	42.9	1.0	-14.7	-12.0	38.3	536.1	—	—	2	
3	Fish and Fur	—	—	—	—	—	—	—	92.2	—	—	—	—	—	—	—	—	1.5	—	—	93.7	110.0	16.3	.9	-18.0	-5.5	5.8	—	92.2	—	3	
4	Metal Ores and Conc.	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	779.2	519.0	23.9	—	-126.6	19.4	1,192.6	—	—	—	4	
5	Non-Metal Minerals	.2	.9	.2	.3	1.1	.4	.3	.6	—	—	—	.1	.9	.4	18.8	.6	—	.1	24.9	161.5	136.6	153.0	4.3	-56.4	1.3	12.1	275.7	3.8	—	5	
6	Coal	3.7	.8	1.2	1.1	.3	.2	.7	.7	.1	.9	.1	.5	.1	.6	8.5	—	.2	.3	20.0	130.3	110.3	8.1	—	-119.4	2.4	47.0	68.5	5.0	1.0	6	
7	Oil and Natural Gas	.2	.2	.2	—	.1	.3	.1	.2	—	.1	—	—	—	—	5.3	—	.1	.1	2.0	8.9	801.2	792.3	208.5	—	-368.4	5.5	154.7	801.5	1.1	.7	7
8	Meat Products	2.4	212.0	.8	13.4	15.5	18.8	.2	11.7	.2	.7	1.6	24.0	—	3.6	1.1	121.6	—	4.0	431.6	453.2	21.6	60.7	1.9	-76.1	19.2	1,138.1	1,606.0	272.4	.9	8	
9	Dairy Products	—	1.3	64.8	1.6	1.4	5.6	3.7	3.4	—	—	—	—	—	.1	.2	87.2	—	4.4	173.9	187.0	13.1	24.2	—	-12.1	9.0	705.1	914.1	81.8	—	9	
10	Fruit and Veg. Products	—	.1	2.6	20.4	.4	11.4	.8	3.5	—	.5	—	—	—	—	—	39.3	—	—	79.0	85.4	6.4	8.8	.6	-110.8	16.7	335.9	336.6	39.2	.5	10	
11	Feed, Flour and Cereals	256.5	.9	.1	.3	38.2	60.3	.8	10.1	—	2.7	—	—	—	—	—	8.9	.1	5.0	384.3	383.0	8.7	68.9	—	-7.7	2.6	90.2	547.0	110.7	2.7	11	
12	Bakery Products	—	—	.3	—	.3	.2	.2	.2	—	—	—	—	—	—	—	53.1	—	.1	—	54.1	61.5	7.4	3.6	—	-11.6	5.7	386.9	455.8	1.0	—	12
13	Sugar, Confectionery	.7	.5	4.8	11.1	5.1	18.9	23.1	9.5	14.1	1.0	.5	—	—	.4	.1	10.2	—	.3	100.3	101.9	1.6	1.8	.2	-33.8	3.2	198.0	271.3	73.0	15.1	13	
14	Other Food Products	7.8	24.9	5.5	4.1	41.7	21.7	5.1	58.5	.9	25.0	—	.5	5.0	20.7	5.8	31.2	1.5	.8	280.7	283.8	23.1	164.0	2.0	-136.6	9.2	313.5	632.8	161.5	25.9	14	
15	Soft Drinks	—	—	.2	.1	—	—	—	—	18.7	—	—	—	—	—	—	19.2	—	—	38.2	44.7	6.5	.1	—	-4.7	1.4	133.8	175.3	.3	18.7	15	
16	Alcoholic Beverages	—	—	—	—	2.1	—	—	.8	.1	18.1	—	—	.2	1.1	.8	—	—	—	23.0	58.2	36.2	88.6	.2	-61.0	21.6	322.5	430.2	2.7	18.2	16	
17	Tobacco Products	—	—	—	—	—	—	—	—	—	—	75.8	—	—	—	—	—	—	—	—	75.8	75.8	—	28.1	—	-9.2	4.7	231.8	331.3	—	—	17
18	Rubber Products	6.7	—	—	—	—	—	—	—	—	—	—	10.3	1.8	—	.3	—	—	1.7	12.7	33.5	280.1	216.6	.6	-59.8	1.4	107.5	307.0	—	—	18	
19	Leather Products	—	—	—	—	—	—	—	—	—	—	—	61.4	—	—	—	—	—	1.6	.1	63.1	74.4	11.3	15.3	.8	-44.6	2.6	243.4	291.7	—	—	19
20	Synthetic Textiles	—	.1	—	—	—	—	—	—	—	—	—	.1	—	.2	.1	—	—	1.2	13.9	15.6	271.3	256.7	.7	-66.8	1.6	14.4	241.3	.1	—	20	
21	Cotton, Yarn, Cloth	—	.1	.1	—	.2	—	—	.2	—	—	—	5.7	—	2.3	.3	11.8	7.2	7.9	35.8	316.9	281.1	10.9	.8	-144.0	3.3	42.3	230.2	.6	—	21	
22	Knitted Products	—	.1	—	—	—	—	—	—	—	—	—	.5	—	—	—	—	—	—	.6	49.9	49.3	1.7	.4	-38.7	3.6	202.3	218.2	.1	—	22	
23	Clothing	.4	—	—	—	—	—	—	—	—	—	—	.6	—	—	—	.9	—	—	17.5	19.4	74.0	54.6	.8	-61.7	14.8	816.4	892.0	—	—	23	
24	Other Textiles	14.1	1.0	.1	—	10.4	—	1.0	1.4	—	—	—	4.1	—	.1	.7	4.7	8.9	16.8	63.3	386.3	333.0	11.8	2.0	-196.4	10.3	196.0	420.0	13.9	—	24	
25	Sawmill Products	.2	.1	—	—	.1	—	—	—	—	—	.1	.2	—	—	—	.1	—	7.3	8.1	367.5	359.4	364.9	.1	-38.2	13.7	6.7	703.7	.2	—	25	
26	Furniture Products	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	.6	—	—	.6	35.9	35.3	2.3	.2	-35.2	7.0	398.3	398.5	—	—	26	
27	Other Wood Products	5.5	1.7	1.3	—	—	—	—	1.5	—	2.7	.9	.8	—	.1	1.0	—	11.6	2.4	29.5	329.3	298.8	39.7	.6	-32.5	9.7	11.3	358.1	4.5	2.7	27	
28	Pulp and Paper	2.0	2.0	1.0	.2	1.1	1.7	1.8	4.0	—	.4	2.9	1.5	.2	1.2	2.0	7.8	1.1	19.9	48.8	562.5	513.7	1,113.9	.3	-65.0	2.4	31.5	1,645.7	11.8	28	28	
29	Other Paper Products	2.7	20.1	23.1	15.7	13.1	31.1	15.2	24.9	1.5	17.5	23.3	3.6	1.8	28.3	13.6	7.9	1.9	70.3	307.6	522.7	215.1	4.3	.5	-43.2	6.8	71.5	582.5	143.2	19.0	29	
30	Printed Matter	—	—	—	—	—	.1	—	—	.9	5.2	.9	—	—	.1	—	—	2.1	9.3	18.7	676.3	657.6	16.1	2.4	-144.7	6.4	298.7	855.1	.1	6.1	30	
31	Steel Mill Products	—	—	—	—	.6	—	—	1.3	—	—	—	.2	—	.1	5.1	—	.1	1.7	9.1												



total inputs equals total outputs. Again to use the accounting analogy, an input-output table is similar to a balance sheet in that it represents a state of affairs at one point in time. Exhibit 1 is based on 1961 data and the relationships shown by it will not be exactly the same for other years.

Exhibit 1 depicts, in summary form, the dollar flow of resources, goods and services through agribusiness and the rest of the economy in 1961, both by industry of origin and by industry of destination. The horizontal rows, as read from left to right, trace how the output of each sector of the economy is distributed among the other sectors. The vertical columns, as read from top to bottom, trace how each industry obtains or purchases its needed inputs of goods and services from the other sectors.

In an ideal matrix or input-output chart based on interindustry flows, each industry sector would appear in identical form, both as a selling entity on the side and as a purchasing entity at the top of the chart. The totals of each sector—if expressed in dollar terms—would be equal when added vertically and horizontally, and the sum of all sectors, would be the input and output totals for the national economy. However, a matrix of such detail would be unwieldy for the purpose of this study in that it gives unnecessary emphasis to non-agribusiness sectors of the economy. Hence, in Exhibit 1, only those industry sectors of importance to agribusiness have been designated in the purchasing sectors across the top and other transactions have been grouped into summary sectors. Similarly, some groupings were made for the producing sectors down the side, although the complete D. B. S. listing of sectors is also shown. Thus, while in essence the whole economy is represented in the flow of goods and services shown in the matrix, this specific arrangement of sectors more or less limits the use of the matrix to the particular purposes of this study.<sup>2</sup>

The D. B. S. matrix we are using does not balance inputs with outputs perfectly on an individual industry basis because the columns (titled across the top) represent industries and the rows (titled down the side) represent commodities. The total for any one industry column will not necessarily balance with the total for the corresponding commodity row because a commodity may be produced by more than one industry. The differences are not great, however, and for descriptive purposes we shall treat the commodities as industries. For example, the total input to agriculture shows as \$3,-120,100,000 (row 75, column 1) while the total output of agricultural products shows as \$2,813,300,000 (row 1, column 27). Although there are these varying differences between industries and corresponding commodities, they are approximately the same and the final total inputs and outputs are roughly in balance (row 75, column 27).

At the top of Exhibit 1 are two rows of column numbers. The top row is the numbers of the columns in the D. B. S. matrix from which the figures were taken, a 65 industry by 65 commodity matrix. The second row is merely the consecutive numbering of the columns we are using and is the set of column numbers that we shall use. As mentioned previously, we have not

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<sup>2</sup> Davis and Goldberg, *A Concept of Agribusiness*, pp. 25-29. We have used and quoted liberally from the Davis and Goldberg explanation of the input-output matrix.

listed all of the individual industries as many of them are not part of agribusiness. Column 21 is the total of all other industries not listed in columns 1 to 18. Column 20 corresponds to D. B. S. column 66 which is the total for all industries (D.B.S. columns 1 to 65). Column 19 is the sub-total of columns 1 to 18. Column 21, which is column 20 minus column 19, is therefore the aggregate of all other industries not specified in columns 1 to 18. Column 28 is the total for the food industries (columns 2 to 8) and column 29 is the total for all beverages (columns 9 and 10). In the rows listed at the left the entire 75 D. B. S. listings have been shown and the aggregations we require for agribusiness have been derived from them as shown in rows 76, 77 and 78.

To facilitate an understanding of Exhibit 1, let us examine the sector of Feed, Flour, and Cereals, row 11, and trace selected input-output relationships pertaining to it. Reading from left to right along row 11, the transactions reflected in each column may be viewed either as sales or purchases (depending on whether they are approached from the viewpoint of the sector shown at the left or top of the table). To illustrate, column 6 of row 11 shows transactions between the Feed, Flour, and Cereals sector and the Biscuits and Bakeries sector in the amount of \$60,300,000. From the standpoint of the sector on the left this was a sale, but from that of the sector shown at the top it was a purchase. We first shall look upon transactions from the former viewpoint, thus considering them as sales.

Proceeding from left to right along row 11, the Feed, Flour, and Cereals sector of agribusiness sold \$256,500,000 of output to the Agriculture sector (column 1); \$900,000 to the Meat and Poultry Processors sector (column 2); \$100,000 to the Dairy sector (column 3); and \$300,000 to the Fruit and Vegetable Cannery sector (column 4). Column 5 indicates that the Feed, Flour and Cereals sector utilized its own products in the amount of \$38,200,000. Continuing along row 11, the Feed, Flour, and Cereals sector sold \$60,300,000 of output to the Biscuits and Bakeries sector (column 6); \$800,000 to the Sugar and Confectionery sector (column 7); \$10,100,000 to the Other Food Industries sector (column 8); zero volume to the Soft Drinks sector (column 9); \$2,700,000 to the Alcoholic Beverages sector (column 10); zero volume to the Tobacco Products (column 11), Leather Products (column 12), Paint and Varnish (column 13) and Pharmaceuticals, Soaps and Toiletries (column 14) sectors; \$400,000 to the Other Chemical Industries sector (column 15); \$8,900,000 to the Hotels and Restaurants sector (column 16); \$100,000 to the Other Services sector (column 17); \$5,000,000 to the Wholesale and Retail Trade sector (column 18); and \$8,700,000 to the All Other Industries sector (column 21). The All Other Industries sector (column 21) is comprised of those industries which purchase only minor amounts of goods and services from agribusiness sources.

Columns 1 to 18 (totalled in column 19) plus column 21 together represent all the processing or intermediate sectors of the economy (totalled in column 20); columns 22 to 26 represent categories of end-product demand. This end-product demand represents the final consumption of the goods and services produced in the processing sector. For example, the Feed, Flour, and Cereals sector sold \$68,900,000 to the Exports sector (column 22); zero

volume to Re-Exports<sup>3</sup> (column 23); it imported \$7,700,000 of its goods (column 24); it put \$2,600,000 of its goods into inventory (column 25); and it sold \$90,200,000 to the Other Final Demand<sup>4</sup> sector (column 26). Column 27, entitled Total Output, represents the value, at producer's prices, of all the output for each industry sector. The Feed, Flour and Cereal sector had a total output of \$547,000,000.

Having examined the output of the Feed, Flour and Cereals sector as distributed among the various processing and end-product sectors of agribusiness and the national economy in 1961, we next consider the vertical column of this sector and trace through the purchases. Continuing the use of Feed, Flour and Cereals as an example (following column 5 from top to bottom) we note that this sector purchased \$236,100,000 from the Agriculture sector (row 1); no goods or services from the Forestry Products (row 2), Fish and Fur (row 3), and Metal Ore and Concentrate (row 4) sectors; \$1,100,000 from the Non-Metal Minerals sector (row 5); \$300,000 from the Coal Sector (row 6); \$100,000 from the Oil and Natural Gas sector (row 7); \$15,500,000 from the Meat Products sector (row 8); \$1,400,000 from the Dairy Products sector (row 9); and \$400,000 from the Fruit and Vegetable Products sector (row 10). Column 5, row 11 relates to the same transfer of goods within the Feed, Flour, and Cereal sector mentioned earlier; however, when read down the column the transfer shows up as a purchase of \$38,200,000 of supplies rather than as a sale. Similarly, following down column 5 from rows 12 through 65, the purchases (inputs) by the Feed, Flour, and Cereal sector from the respective sectors of the processing or intermediate industries may be ascertained. The remaining rows (66-73) represent factor payments made by the purchasing columns. Factor payments consist of cost items not included in the transactions of the processing sectors and need not concern us here. Reading down column 5, row 75 shows the total outlays of this purchasing column. As mentioned earlier, the total outlays, or inputs (row 75, column 5), do not match exactly the total outputs (row 11, column 27) because the rows are expressed as commodities rather than industries. For our purposes we shall treat the commodities as if they were industries as the discrepancies in balancing in each sector are not sufficient to affect our illustrative use of the data.

Through interindustry analysis it is possible to determine the direct and indirect requirements from various sectors per dollar of final demand from any one particular sector. Such analysis takes into account the interdependence amongst the productive units of an economy and, therefore, can be applied to analysis of the economic structure, formulation of programs of action, and prediction of future events. Interindustry techniques are useful for both structural analysis and policy guidance but so far have been only of limited value for prediction.

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<sup>3</sup> Re-exports are imports that are subsequently exported, for example, auto parts that are imported to be incorporated in finished autos.

<sup>4</sup> Other Final Demand is made up of consumer purchases, government purchases, and capital formation. For the agribusiness industries we are examining, Other Final Demand is almost completely consumer purchases as the government expenditure and capital formation components are negligible.

## THE AGRIBUSINESS FLOW CHART FOR 1961

The Agribusiness Flow Chart for 1961 (Table 4 in this chapter) illustrates in graphic form the most important data contained in the Input-Output Chart, Exhibit 1. In the flow chart one can trace the major farm supplies items as they were utilized in farm production, and the movement of the resulting farm commodities through successive stages of processing and distribution. The pattern of this specific flow chart is but one of many that might be devised from basic matrix data to highlight different features of agribusiness or to amplify a specific segment of it.

The data for the Flow Chart, (Table 4), and for the Input-Output Chart, Exhibit 1, for the most part are the same and the source is the D.B.S. 65 industry by 65 commodity matrix for 1961. Table 4 is just one of many ways of presenting the data contained in Exhibit 1 to show the interrelationships and intrarelationships that exist within agribusiness and between agribusiness and the rest of the economy. The main purpose of the Flow Chart is to give some general over-all dimensions of agribusiness as it existed in 1961, using the best data and estimates available. This is not a complete or an exact picture of agribusiness, yet it does present a general outline of that part of the economy we refer to when using the term "agribusiness."<sup>5</sup>

The derivation of the Flow Chart from the Input-Output Chart is outlined in Appendix B.

From examination of the Agribusiness Flow Chart, we see that there are 9 industries supplying major inputs to agriculture. The principal one, machinery and motive power, is the subject of a Royal Commission whose final report is expected late in 1969. For many of the industries such as chemicals, trade, petroleum products, finance, and transportation, their outputs to agriculture are a relatively small part of their total outputs.

On the output side of the agriculture sector, the food, alcoholic beverages, and tobacco products industries represent the principal domestic markets in the processing-distribution sector for the products of the agriculture sector.

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<sup>5</sup> Davis and Goldberg, *A Concept of Agribusiness*, pp. 29-31.

## APPENDIX B

### RECONCILIATION OF THE AGRIBUSINESS FLOW CHART (TABLE 4) WITH THE AGRIBUSINESS INPUT-OUTPUT MATRIX (EXHIBIT 1)

#### Exhibit 2—Flow Chart

##### *Agriculture Purchases*

1. Agriculture purchased \$64.2 million from Seed Supplies.....
2. Agriculture purchased \$289.0 million from Feed Manufacturers.....
3. Agriculture purchased \$347.1 million from Farm Machinery and Motive Power Manufacturers.....
4. Agriculture purchased \$154.1 million from Petroleum Products Manufacturers.....
5. Agriculture purchased \$76.1 million from Fertilizer Manufacturers.....
6. Agriculture purchased \$28.3 million from Agricultural Chemical Manufacturers.....
7. Agriculture purchased \$105.6 million from Wholesale and Retail Trade.....
8. Agriculture purchased \$94.3 million from Finance, Insurance, and Real Estate.....
9. Agriculture purchased \$102.0 million from Transportation, Storage and Utilities.....

##### *Intermediate Activities*

10. Food Industries purchased \$1,601.9 million from Agriculture.....
11. Alcoholic Beverages purchased \$29.9 million from Food Industries.....
12. Alcoholic Beverages purchased \$17.8 million from Agriculture.....
13. Tobacco Products purchased \$103.5 million from Agriculture.....
14. Agriculture exported \$803.1 million.....
15. Wholesale and Retail Trade purchased \$210.3 million from Agriculture.....
16. Hotels and Restaurants purchased \$52.4 million from Agriculture.....
17. Hotels and Restaurants purchased \$351.5 million from Food Industries.....
18. Leather Products purchased \$24.5 million from Food Industries.....
19. Pharmaceuticals, Soaps, Toiletries, and Other Chemicals purchased \$32.4 million from Food Industries..
20. Paint and Varnish purchased \$5.2 million from Food Industries.....

#### Exhibit 1—Source

##### *Agriculture Purchases*

1. D.B.S. estimate
2. D.B.S. estimate
3. D.B.S. estimate
4. Column 1, row 48
5. D.B.S. estimate
6. D.B.S. estimate
7. Column 1, row 55
8. Column 1, row 59
9. Column 1, row 56 plus column 1, row 58

10. Column 28, row 1
11. Column 10, row 27
12. Column 10, row 1
13. Column 11, row 1
14. Column 22, row 1
15. Column 18, row 1
16. Column 16, row 1
17. Column 16, row 77
18. Column 12, row 77
19. Column 14, row 77 plus column 15, row 77
20. Column 13, row 77

*Intermediate Activities*

- 21. Wholesale and Retail Trade purchased \$14.5 million from Food Industries.....
- 22. Food Industries exported \$341.0 million.....
- 23. Alcoholic Beverages exported \$88.6 million.....
- 24. Tobacco Products exported \$28.1 million.....

*Other Final Demand*  
(effectively Consumer Purchases)

- 25. Non-processed foods \$486.2 million.....
- 26. Food Industries \$3,178.7 million.....
- 27. Alcoholic Beverages \$322.5 million.....
- 28. Tobacco Products \$231.8 million.....

*Agriculture Purchases*

- 21. Column 18, row 77
- 22. Column 22, row 77
- 23. Column 22, row 16
- 24. Column 22, row 17

*Other Final Demand*  
(effectively Consumer Purchases)

- 25. Column 26, row 1
- 26. Column 26, row 77
- 27. Column 26, row 16
- 28. Column 26, row 17

## chapter twelve

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### MARKETING BOARDS

#### INTRODUCTION

Marketing boards<sup>1</sup> were created partly because of producer dissatisfaction with prices and incomes and partly because of the wide disparity in numbers whereby large numbers of farmers must sell to small numbers of agribusiness firms. Early attempts to meet these problems took the form of marketing co-operatives. Although marketing co-operatives did many things successfully the fact that they could not make deductions from *all* producers nor bargain collectively for all producers nor manage the supply coming to market, led to the demand for farmer-controlled marketing boards with compulsory powers over all producers of a specified commodity.

Because of legal decisions concerning the constitution, all producer-controlled marketing boards are organized provincially. There are now about 120 such boards and they are involved in the sale of about one-quarter of the value of all farm products sold in Canada.

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<sup>1</sup>In this chapter we have not included among marketing boards such federally-appointed bodies as the Canadian Wheat Board and the Canadian Dairy Commission. For the early history of marketing boards see:

Poetschke L. E. and Mackenzie W., *The Development of Producer Marketing Boards in Canada*, 1957.

See also: Hiscocks C. A. and Walker H. V., *A Report on Marketing Boards in Canada*, 1969, a study undertaken at the request of the Task Force. For experience specifically in Ontario, where marketing boards have been more prevalent than in other provinces, see

Petkin, G. F. *Marketing Milestones in Ontario 1935-1960*, Ontario Department of Agriculture and Food, 1961. For details of voting requirements, administration and relation to governments, see

*A Comparative Study of Agricultural Marketing Legislation in Canada, Australia, United Kingdom and the United States*, University of Guelph, 1964.

This chapter examines the effectiveness of various marketing board programs which have been tried or proposed. These include product promotion, improvement in marketing channels, two-price systems, collective bargaining, input quotas, and sales quotas. It then examines several crucial issues: the appropriate type of national marketing boards, relations of boards with governments, and the relations of boards with other sectors.

### *A Note on Supply Management*

There is a great deal of confusion about what is meant by "supply management" and what types of programs could be regarded as programs of supply management. To avoid confusion we shall deal with this definitional problem at this point. Our definition is as follows: supply management refers to centralized control over the quantity and/or price of one or more commodities of specified quality coming from a specified group of producers to a particular market or markets in a given period. Given this broad definition, supply management may be brought about by four different types of programs:

- (a) two-price systems,
- (b) collective bargaining,
- (c) input quotas on the use of one or more inputs by individual farmers,
- (d) sales quotas on the amount of a commodity which may be sold by individual farmers.

These are dealt with separately below.

## GOALS AND PROGRAMS

Although the techniques and organization used to achieve the goals of marketing boards differ considerably, the goals are identical. The primary objective of any producer-controlled board is to increase the net income of its members. Some boards may fail to achieve this goal either because of adverse economic odds or of mistaken or poorly executed programs. In error, some regard "higher net income" as equivalent to "higher prices" and attempt to maximize the wrong thing. Because of the problem of estimating costs, most boards regard gross income of producers as being a good proxy for net income. In many cases this comes down to trying to get the best possible price for whatever their members decide to produce in a given year.

It should be noted that the goal of higher income (net or gross) for members (i.e. producers of the commodity in the province or area specified) excludes producers of other commodities even in the same province and it excludes also producers of the same commodity in other provinces. This is as it should be, given the fact that boards are provincial in scope and commodity oriented. The Ontario Soybean Growers Marketing Board, merely to use an example, must have as its prime concern the income of those Ontario farmers who choose to produce soybeans. The Board might co-operate with the Winter Wheat Board to save administrative costs (as it does), and contract with United Co-operatives of Ontario for certain marketing services (as it does) and contribute as a member of the Ontario Federation of



Agriculture (as it does), and, if there were a similar board in Quebec or Saskatchewan it might co-operate with it—but all of these actions should be taken only if it appears that they are in the best interest of Ontario soybean growers. The Board might attempt to get higher tariffs on soybeans or soybean meal even though these might hurt Ontario hog producers; it might, quite logically given its objectives, underline the acceptability of Saskatchewan-produced rapeseed meal.

#### *(a) Product Promotion*

Some marketing boards have limited their activities to advertising and other methods of promoting their products: for example the Ontario Cream Producers Marketing Board was a purely promotional board during its many years of existence. Other marketing boards often undertake promotion but only as one of several programs. The Ontario Milk Marketing Board budgeted about \$2 million for promotion in 1968-1969. It is impossible to generalize about the value to producers of promotion expenditures, but, because farmers are so far from the point of retail sale, the case for promotion would have to be unusually strong before it could be recommended.

#### *(b) Improvement of Marketing Channels and Institutions*

The use of teletype installations in marketing hogs comes to mind at once as a system pioneered by a marketing board which has greatly improved price making and rationalized the marketing of the product. There have been other, less dramatic, improvements especially in transportation (eg. of fluid and industrial milk), in assembly, storage, and forwarding of cash grains, and in providing market information, advice and forecasts. The possibilities for producer benefit arising from these kinds of marketing board activities are great. Each product and each province, however, is unique and it is most undesirable to conclude that any one program is appropriate for all situations.

#### *(c) Two-Price<sup>2</sup> Systems*

Two-price systems operate when a seller receives a higher net price in one geographical market than another, or when he charges a higher price for his product when it is used in one form rather than another. The former is the system used by the Ontario Winter Wheat Producers Marketing Board when it sells into export markets at lower prices than in the domestic market.<sup>3</sup> The latter is the system used by the Ontario Milk Marketing Board when milk used for fluid consumption is more highly priced than milk for industrial use.

Multiple pricing is quite common in non-farm fields. Industrialists sell products for a higher net price at home (behind a tariff) than abroad; a dentist charges a wealthy patient more than a poor one; a distributor sells the same physical product as a brand name high price product and also as a second line bargain counter product. All are examples of multiple pricing or "discriminating monopoly" as it is sometimes called.

<sup>2</sup>This is the commonly used term but "multi-price" is probably better.

<sup>3</sup>Some boards disclaim any action of a two-price nature. For example, British Columbia Tree Fruits issued a formal statement at the Canadian Agricultural Congress of March 1969, denying their use of multi-pricing.

There is no doubt that multiple pricing can often produce greater revenue for the same quantity sold. Usually this involves a high price in the domestic market and a low price abroad where one must compete with the products of other countries. Unfortunately multi-pricing discriminates in favour of foreign consumers and against Canadian consumers but this is usually true for any product (farm or non-farm) when the multi-pricing is done by Canadians. When it is done by others we call it dumping. The last sentence is, unfortunately, only too true, and indicates the way in which attitudes are shaped by words. A "two-price system" sounds perfectly respectable; "acting as a discriminating monopolist" has questionable overtones, but "dumping" seems a rather despicable action, performed only by our competitors (usually foreign). Yet they all refer to the same act, and they all discriminate against consumers in nearby or home markets.

The Task Force can see no objection in principle to farmer marketing boards operating two-price systems especially when such pricing occurs also in other sectors of the Canadian economy. The only objection would seem to be when governments not only give central selling privileges to a board but also either ban imports or give that board the right to license (or refuse to license) imports. In other words, since there are no import quotas or licenses for the importation of soybeans, onions,<sup>4</sup> winter wheat and white beans, then boards should be free in principle to operate multi-price systems if they wish. The Canadian Wheat Board does have licensing privileges over imports of wheat and coarse grains.

The possibility of successfully operating a two-price system between two geographically distinct markets depends upon keeping the two markets separate. Obviously, the spread in price between the two markets could not exceed the cost of transport and tariff from the low priced to the high priced market or the product would flow to the latter. In the case of a milk board which operates a multi-price system depending upon the form of utilization of the product, the pricing program would collapse were it not for the authority of the provincial government which enforces the multi-pricing system. The argument for a two-price system for hard spring wheat is strengthened by current practice in regard to milk. Bread and fluid milk are more or less equally basic to Canadian diets, poor families spend much higher proportions of their incomes on both bread and milk than do rich families. If a two-price system on bread is regressive<sup>5</sup> which is the argument most frequently used against it, then so is price discrimination in milk sales since fluid milk prices exceed those of industrial milk of equal quality. A two-price system for wheat could work only because of federal government import licenses, but the two price system for milk *does* work only because of provincial government regulations. Seen in this light, it would appear illogical to support price discrimination for milk and deny it for wheat.

One of the most questionable forms of price discrimination is that of the Canadian Dairy Commission in maintaining the price of skim milk powder at 20 cents per pound to Canadians, while selling it to foreign consumers at six

<sup>4</sup> The Ontario Onion Producers Marketing Board sold at top price in Ontario, lower in Quebec, and lowest abroad. A producer vote in 1969 was unfavourable to its continuing to market onions.

<sup>5</sup> Falls proportionately more heavily on low income people.

to eight cents. This, of course, is true of all export subsidies and tariffs, and illustrates the far greater emphasis nations place on their citizens as producers rather than as consumers.

A two-price system involves some form of price pooling whereby those whose product is sold to the lower price market are not penalized. Because pooling is difficult to operate on a voluntary basis (since everyone would prefer to sell his product in the high price market) it usually involves the compulsory features of a marketing board.

#### (d) *Collective Bargaining*

To many people marketing boards represent the opportunity for collective bargaining which has done so much, apparently, for labour unions and trade associations. This is particularly appealing in an industry in which there are thousands of producers and only a few buyers. Some marketing boards bargain collectively with buyers concerning minimum prices and terms and conditions of sale (grades, discounts, permissible amounts of foreign material, time of payment and so forth). For example minimum prices of vegetables-for-processing in Ontario are established by collective bargaining well before the planting season begins; thereafter processing companies sign contracts with producers for specified numbers of acres to be devoted to a crop. Since it is very risky to produce such products without a contract, there is in effect, a form of supply management. Processors are able to contract in the way which they find most efficient or expedient—usually with the larger, more dependable growers. The number of acres contracted by each processor is well known and each probably takes not only the price but the acreage contracted by his competitors into account in deciding upon the total of his contracts. This procedure can bring greater stability and less risk to the producers of these commodities and higher quality to consumers.

There are two possible disadvantages to such collective bargaining. The first is a loss of efficiency. There is no way by which a new producer can break into this field of production except by persuading some processor to offer him a contract. It is illegal for him to offer to sell at less than the minimum negotiated price or to offer "kick-backs" of any kind. Furthermore, the minimum price to producers usually applies across the province regardless of farm production costs in different regions. The result is that production locations are determined by the processors exclusively on the basis of *their* harvesting, processing, and distribution costs. It is probably the case that, given their other alternatives for the use of land and labour, producers in lower income, lower land-value areas could afford to produce these commodities for lower prices than could those currently producing them. They cannot compete, however, by cutting prices because there is collective bargaining. Thus production may occur in the wrong areas, reducing efficiency and working against the competitiveness of the industry.

A second possible disadvantage is that the marketing board may insist on a price so high as to price local output out of the market, or, alternatively to make production so much more profitable than processing that processors move into the production phase. This has apparently been the case with several vegetables-for-processing in Ontario.

Collective bargaining may be involved in negotiating a one-price agreement, as in the case of Ontario vegetable-for-processing, or be a part of a multi-price system insofar as domestic prices are set by collective bargaining. Increasingly, however, it has been recognized that the bargaining power of marketing boards is limited unless they are able to control the supply of their products coming to market, as well as the supply of close substitutes. This has led to requests for marketing boards on a national scale.

#### *(e) Input Quotas or Rights to Produce*

Farm leaders have long recognized the importance of being able to control output or sales in order to increase the prices of farm products and the incomes of farmers. Early attempts to do so came through voluntary marketing co-operatives but these attempts were bound to be unsuccessful because they were voluntary; every producer had something to gain by remaining outside the organization and gaining the advantage of any higher prices which the program might produce.

The appeal of a program aimed at limiting output or sales in that it attempts to come to grips with the underlying problems of demand and supply whereas other programs such as price supports, input subsidies, marketing board sales promotion and so forth may be of limited benefit or great cost and do not affect the root problems of demand and supply conditions. The case for input or sales quotas is made usually on the grounds that the last two or five per cent of output is the critical amount, that it is in some sense "surplus"<sup>6</sup>, and if it could be eliminated, farm incomes would be much improved.

"Bargaining power", about which much has been written, is essentially dependent upon the ability to control supply.

Examples of input quotas are the acreage rights issued by the Ontario Flue-Cured Tobacco Growers Marketing Board, and broiler floor space rights by the British Columbia Broiler Growers Marketing Board. The delivery quotas of the Canadian Wheat Board are in a different but related category—different in that their purpose is to allocate scarce storage space among producers, similar in that quotas depend upon specified acreage per farm.

When the use of one input is restricted, thus reducing output and raising product prices, additional income accrues to the owners of the rights or quotas, the quotas acquire capital value, and the costs of production rise, both actual (for new producers) and calculated<sup>7</sup> (for existing producer-owners). The gain accrues almost entirely to the quota owner, not to his tenant. The agency responsible for the supply management program must establish rules by which quotas may be transferred among producers and by which new quotas may be allocated, and by which the agency may acquire or eliminate quotas.

Economically, the rise in the price of the quotas or the input to which the rights are attached leads to more intensive use of other inputs, resulting in increasing costs. Thus high prices for tobacco land lead producers to use

<sup>6</sup>That is, in excess of what can be sold at prices regarded by producers as satisfactory.

<sup>7</sup>In the sense of "opportunity cost", if a quota could be sold for \$10,000 today, to hold it involves an annual cost of about \$800 since the \$10,000 could be invested at about 8 per cent.

more fertilizer and irrigation per acre, with higher costs, than would otherwise be the case. From the national point of view, resources are allocated inefficiently. From the point of view of an owner of land with tobacco rights, the program probably has the happy result of providing him with a tax-free capital gain.

#### (f) *Sales Quotas*

Fluid milk producers in many provinces have sales quotas or specified amounts which they can sell in certain markets. This technique has the advantage that it permits the lowest cost combination of land, labour, and capital to produce a given amount of output on any one farm and in this way is superior to the control of inputs. Its chief disadvantage for many products would be that output cannot be fully predicted, and thus producers may find unanticipated surpluses or deficits relative to their marketing quotas in any one production period. This problem can be largely overcome by allowing producers to exceed their quotas in one year, but subtracting the excess in that year from the quota of the following year, perhaps imposing a modest penalty. In the case of fluid milk, a secondary low price market is available.

### ALLOCATION, TRANSFER, AND EXPANSION OF QUOTAS

For both input quota and sales quota programs, the quotas are held by individuals. Three vexatious problems arise concerning the initial allocation, the transfer, and the expansion of quotas. These are considered at this point.

#### *The Initial Allocation of Quotas to Producers*

There are three practical ways to allocate quotas initially: on the basis of production in a specified quota-setting period of the past, on the basis of present production capacity, and by auction. None of the techniques is ideal.

Basing the initial allocation of quotas on the *level of output or sales in a specified period* may be unfair to those who were investing in new facilities between the time that the quota setting period began and the time that the decision on the method of allocating quotas was announced. Others might be adversely affected by some temporary factors beyond their control, especially if the commodity is a crop and subject to unusual weather conditions. These problems can be overcome to some extent by some form of appeal system for those who feel themselves adversely affected by the program. More important is likely to be the lack of data on output or sales. Even with a product like eggs for which data are kept in order to calculate deficiency payments it is by no means clear that all sales have been recorded. For other products like beef, corn, and apples, it is unlikely that data would be reliable.

Basing the initial allocation of quotas on *present production capacity* has the appeal that asset-structure would bear some resemblance to initial quotas. This approach is probably more desirable for livestock and special crop facilities such as tobacco kilns than for most crops. There would remain some knotty problems of measurement and adequacy of facilities that would test even a Solomon. Adequate facilities unused for several years would be hard to classify and arbitrary decisions would abound.

Allocation by *auction* is probably the most open way, though this approach is unlikely to be popular among producers. Assuming that the quotas are valuable or will be valuable, why should they be given away? It is as logical and reasonable to have initial allocation determined by market prices as to have transfers determined in that way once the supply management program is underway. This argument would not apply, of course, in the case of fluid milk where quotas of various kinds have been in existence; nor, indeed, for any product with a quota system in operation. Revenues derived from quota sale might be held as a reserve by the agency for future use in market development, subsidized exports, research or administration. No one technique is likely to be entirely satisfactory even for one commodity. What is important, however, is to realize that quotas are possible only because of legislation and regulation by governments, that the money value of quotas represents windfall gains (unexpected and not worked for) and must be allocated with these two facts in mind.

### *Transfer of Quotas*

There must be some mechanism by which quotas may be transferred among producers. The agency must record and sanction all transfers. There are several possible techniques:

- (a) Rights attached to specific real estate. In this case the only way in which a producer can gain new or additional rights is to purchase a farm with rights or quotas whether or not the farm is likely to be an efficient part of the producer's enterprise. This is an inefficient system for transferring rights or quotas and results in fixed location of output geographically.
- (b) Freely saleable or transferable. Varying prices would be established by demand and supply. Some geographical or other basis of regulating transfers might be imposed (for example, preventing the transfer of tobacco rights to those who have no suitable land or, in the case of marketing quotas such as for fluid milk, to those in remote geographical areas).
- (c) Rights purchased and re-sold by the supply management agency. Prices might be set arbitrarily by the agency or established by auction; rights must be separate from real estate. This is a variation of (b).
- (d) Rights surrendered to and allocated by the supply management agency. Rights would be of use only and not of property but would have scarcity value. This technique lacks satisfactory and acceptable criteria and would lead to suspicions of favouritism and worse.

In Ontario, fluid milk quotas prior to 1967 were transferred as described in (a); since 1967 they are transferred according to (b); the Hop Marketing Board in the United Kingdom followed the procedure indicated by (c). Rights to produce and sell flue-cured tobacco are as in (a); rights for broiler production in several provinces are as in (b). Economically, there can be no doubt that (b) is preferable to (a) and, politically, that (d) is most undesirable.

### *Expansion of Rights*

The previous section dealt with the transfer of existing quotas or rights; in addition, as markets expand new rights must be created. These may merely be allocated to existing owners of rights on a pro rata basis, or allocated arbitrarily, or auctioned by the agency. The first technique has serious limitations for some products. For example, to add three to four per cent to a broiler grower's rights would imply an expansion in production of perhaps 1,000 to 2,000 birds per year; economic expansion would involve a new broiler house with 10,000 or more birds per year. The second technique—arbitrary allocation by the agency—is fraught with political difficulties. Only the third technique—auction of additional rights—can be justified economically and politically. The agency would receive the revenues and either pro rate them back to existing rights holders, or use them for research, market development, or other purposes.

### INTERPROVINCIAL FLOW OF GOODS

Provincial marketing boards often have found the effectiveness of their programs undermined by increased production and lower prices in other provinces. This has been especially true for programs of collective bargaining, two-price systems, and input or sales quotas if production can occur in other provinces. At such times, farm leaders often seek some restrictions on the inflow of goods from other provinces or advocate the formation of national marketing boards.

Provincial governments have occasionally restricted the flow of goods interprovincially by the use of "health" and "sanitation" standards and inspection. For example if Province B insists that milk sold in the province must be produced on farms which are inspected by Province B's inspectors, and these do not visit farms in Province A, then there can be no interprovincial movement from A to B. Similarly if a province insists that eggs must be inspected and check graded by its own employees, perhaps to slightly different specifications from other provinces, then that province can so harass importers that interprovincial trade is reduced. Actions like these are not common, fortunately, but have occurred in spite of the fact that interprovincial and international trade are constitutionally under federal jurisdictions.

The Task Force wishes to take a strong position in opposition to these types of restrictions. They invite retaliation and could produce a measure of economic Balkanization that would be totally undesirable.

### NATIONAL MARKETING BOARDS

Producers of many farm commodities look to the experience of provincial fluid milk boards and to the Ontario tobacco board in which high prices have resulted from production or sales quotas. Other provincial boards have had some success in raising or stabilizing prices to their members but in a number of cases have encountered difficulties arising from the inflow of similar commodities produced in provinces in which there are no similar programs.

Leaders of such boards, and other farm leaders, now look to national marketing boards to accomplish what they have found themselves unable to do in their own provinces only. Thus the desire for supply management, designed to affect farm prices and incomes, has become closely linked with a desire for national marketing boards. The two are not inseparable however, for national marketing boards might have other programs, such as sales promotion or improvement in selling techniques which are different from the various forms of supply management.

Different national boards might be of various structures and types just as provincial boards are. To be effective, powers would have to be delegated by both federal and provincial governments, however, and power that is delegated can always be withdrawn if one or more provinces feel that the arrangements are not in their interest. There appear to be three possible types of national marketing boards.

### *1. National Agency of Provincial Boards*

One possible kind of national marketing board is a national producer-controlled agency created by provincial marketing boards. The Government of Canada might give this national board the authority to regulate interprovincial trade and exports (but not imports).<sup>8</sup> Such a national board might co-ordinate provincial programs, operate national two-price systems and collective bargaining in addition to attempting to control output. In the latter case, the national body would set output quotas; the provinces (either the appropriate marketing boards or the provincial governments or both) would have to agree to a distribution among them of the total national quota. Each provincial producer-controlled board would allocate its provincial quota using whatever technique it liked for initial allocation, transfer and expansion of quotas by individual producers. The original division of national quota among the provinces would be set by negotiation, probably using some combination of present provincial consumption, capacity, and production as criteria. A formula might be devised to share expansion in each provincial market, perhaps according to growth in population or to give greater self-sufficiency provincially.

Economically, this system is likely to be a disaster, Balkanizing the economy into ten sub-economies and preventing the shift of production to those areas in which it can be carried out most cheaply and most profitably. If Province A were granted ten per cent of national output in the original allocation, it is most unlikely ever to agree to nine or eight per cent even though it loses all existing production advantages. Canadian productive efficiency would be seriously affected and in a few years one might expect to see increased low cost imports and then demands for higher tariffs and for import quotas.

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<sup>8</sup> Under the Agricultural Products Marketing Act the Federal Government now delegates to provincial marketing boards the power to control products produced within the province and moving into interprovincial and international trade. The constitutional issues of delegation to a national agency or of re-delegation by provincial boards to a national board, and the position of provinces which have no provincial board for a given commodity, are not clear.



This type of organization has the appeal of embracing existing producer boards and of bringing provincial departments of agriculture into the operation. There would be problems of protracted negotiations and possibly stalemate, given 11 governments and a number of provincial producer boards. Decisions of the national board would tend to reflect uneasy compromises under the ever-present threat that a provincial group might withdraw. These problems are likely to be much less severe for two-price and other programs than for those which involve quotas. Supervision and enforcement of provincial quota limitations could give rise to suspicions; one has only to imagine what would have been its problems if the Canadian Wheat Board had been operated as a federal-provincial scheme with provincial boards responsible for administration of delivery quotas and storage within their boundaries.

## *2. Federally-Appointed Commission like the Canadian Wheat Board*

Such a board would receive its primary powers and its structure from the Federal government but provincial government would have to delegate to it some of their powers relating to intraprovincial trade (within one province). Once again, the necessity for delegation of powers from different governments means uneasy compromise at best. Such a commission would, however, be able to control inter-provincial and export sales without depending upon provincially delegated powers. It could operate two-price systems and storage programs. If it attempted to control output it could do so by operating a nation-wide system of negotiable sales quotas, preferably facilitating exchange of quotas through a central brokerage.

Such a system may not be politically acceptable either to provincial governments or to any existing provincial marketing boards. The Canadian Wheat Board, so sacrosanct in the eyes of some prairie grain growers for the past 25 years, is in existence because of the unique developments of the 1930's, and being here, is unchallenged. To create somewhat similar bodies at present might be politically impossible.

## *3. National Producer-Controlled Boards*

A third type of national marketing board might be the national equivalent of one of the present provincial producer-controlled boards. It could resemble the Canadian Wheat Board in its powers and operation, except that its directors would be elected by producers rather than appointed by government.<sup>9</sup> Such a national board would have to obtain its powers and report to some form of government appointed National Agricultural Marketing Board similar to the government-appointed boards which now administer the provincial marketing board legislation. The constitutional position concerning this type of national board is not entirely clear. The old Natural Products Marketing Act of the Federal Government which made somewhat similar boards possible in 1934 was declared ultra vires in 1937. However there has been considerable constitutional evolution since that time and the constitutional position is not completely clear.

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<sup>9</sup> Other alternatives are possible of course; some might be elected and some appointed, or some might be producers and others might be dealers, processors and consumers.

The major weakness of this type of body, as with the federally-appointed Commission, is political. In the case of provincial marketing boards, no province has been willing to delegate authority to producer boards without retaining the power to review and supervise through a provincially-appointed Farm Products Marketing Board. Similarly there would have to be a National Agricultural Marketing Board appointed by the federal government to delegate powers to and review the operations of national producer-controlled boards. Thus the national commodity marketing boards would stand in the same relation to the Federal government and its National Agricultural Marketing Board as provincial producer boards currently do to a provincial government and its Farm Marketing Board. The legislatures delegating power to marketing boards have a responsibility to consumers, processors, retailers and others as well as to producers of other farm commodities who may want to produce the one in question.<sup>10</sup> Government attitudes and responsibilities toward these other interests and toward the "national interest" are not likely to be greatly different whether the producer-controller boards are federal or provincial as at present.

The major political problem is that the National Agricultural Marketing Board would have to be responsible to the Federal government, since it cannot be responsible to 11 legislatures. It is true that the Government of Canada could attempt to create advisory councils (see Chapter 11) and to consult the provincial departments of agriculture, but ultimate authority would rest with the Federal government. This was not opposed in the case of the Canadian Wheat Board, nor of the Canadian Dairy Commission, though the first was introduced in times of emergency and the second to assist the dairy industry and did not offer any threat to the continuation of existing provincial milk marketing boards.

In summary, political and constitutional problems will make it difficult to create effective national marketing boards. There are 120 provincial producer-controlled boards; vested interests have been created, both personal and organizational. Provincial departments of agriculture have a long involvement in marketing board legislation and operation and they would be reluctant to jeopardize the work of the past and turn over much of their role to the senior level of government. There is political appeal in the work done and there are personal vested interests.

Assuming that these political and constitutional problems can be solved, the most desirable form of organization seems to be a National Marketing Board delegating power to national commodity boards (Number 3 above) and to Commissions such as the Canadian Wheat Board. There seems no good reason why all commodity boards should be formed in the same way any more than there are any good reasons why they should have identical programs. Thus there could be a National Agricultural Marketing Board which might create a Product A Marketing Commission and appoint its commissioners, and create also a Product B national marketing board, all of

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<sup>10</sup> To give a specific example, the Ontario Farm Products Marketing Board has a responsibility to the thousands of Ontario farmers who would like to produce tobacco as well as to the 4,500 farmers who have acreage rights and who determine the policy in the Ontario Flue-cured Tobacco Growers Marketing Board.

whose directors would be elected by producers, and create a Product C national marketing board whose members would be provincial producer marketing boards.<sup>11</sup>

The important thing is that the N.A.M. Board should be in a position to act in the "national interest" in determining which powers should be delegated to the commodity boards, and in reviewing the programs of the commodity boards and withdrawing powers if necessary.

## RELATIONS OF BOARDS AND GOVERNMENTS

All producer-controlled boards are creatures of provincial governments, and depend not only for their powers but for their very existence upon the government of their province. In a certain respect, of course, the same is true of a corporation or co-operative incorporated under provincial legislation, but a government never feels any necessity to hold a plebiscite as to whether the corporations will continue or not as it does with marketing boards.

As discussed earlier in this chapter, marketing boards exist to act in the best interest of their members just as labour unions and trade associations do. Governments, however, have a responsibility to all members of a province or country and not just to one segment. Furthermore, their responsibility extends through time, not only to the present members but to future members. Thus it would be wrong to expect governments to turn over for any long period to any group those mandatory powers which belong uniquely to government. This is especially true in regard to limitation of imports, which the Task Force feels, should not be delegated to any producer board. The most that could be expected would be the temporary granting of various powers subject to constant or periodic review, and subject to withdrawal. This is the present situation for provincial boards.

What has been a source of weakness has been the tendency to underman and overwork the small staffs of the provincially appointed boards responsible for the administration of marketing boards legislation. If a National Agricultural Marketing Board were formed to be responsible for the creation and operations of single commodity boards, the Federal government must be prepared to provide sufficient funds to allow the National Board to hire staff and support research on the appropriate scale.

## RELATIONS WITH OTHER SECTORS

### *(a) Relations with Agribusiness*

Farmers who produce a commodity are only one of a number of groups in a process which eventually satisfies consumer wants. Others who contribute to this process, and who also make their income out of it, are those who assemble, transport, finance, process, package, store, and retail the product. Farmers and these other groups have some interests in common and some in conflict. To be able to sell a larger quantity at higher prices is of common interest but if this comes about only through advertising expenditures that

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<sup>11</sup> This alternative is unlikely because of the small number of products for which there are provincial boards in the important producing provinces.

reduce producer prices, then there is a conflict of interest. In recent years there has been a very desirable recognition that there were substantial areas of joint interest. The creation of marketing commissions with industry-wide representation rather than exclusively producer membership has resulted from greater appreciation of the existence of areas of joint interest. This development has been pioneered in Ontario, as has the development of advisory or industry committees consisting of representatives from agribusiness sectors along with marketing board representatives. The development of such a commission warrants some description at this point.

The Ontario Apple Marketing Commission was created in 1968 under the Farm Products Marketing Act<sup>12</sup> following a favourable vote of producers (other sectors did not have a vote.)

There are 23 directors of the Commission: 12 producers are elected by producers, five dealers by the dealers association, four processors by the processors association, and one retailer and one consumer appointed by the Ontario Farm Products Marketing Board.<sup>13</sup>

The Commission has the right to establish prices at or between the farm and retail levels; in fact it does so only for the retail level, with three geographic zones, and for apples sold for juice. This recent development is an important innovation that should be watched very closely; it represents a possible whole new direction for many marketing boards.

#### *(b) Relations with marketing co-operatives*

Certain marketing board programs result in conflict with co-operatives. One such program was the teletype system of selling hogs; in Ontario the board made concessions to allow the now-defunct co-operative to continue to handle members' hogs; in Manitoba the teletype system was not made compulsory for a similar reason. No criticism of these decisions is intended; the fact that these bodies were able to resolve their differences is to their credit. The main point we wish to make here is that if marketing board activities are expanded, it is likely that there will be increasing conflicts.

There are examples, too, of mutual co-operation. The Grain Division of United Co-operatives of Ontario has acted as the agent of the Ontario boards marketing soybeans and winter wheat. Unfortunately it appears that the areas of mutual benefit seem to be fewer than those of potential conflict.

#### *(c) Relations with other boards*

What should be the relationship of one marketing board with another? With the present structure whereby provincial producer-controlled boards receive authority from their provincial government for marketing their commodity, the "self centredness" of boards is inevitable. Nevertheless the actions of one board may have important and fairly direct repercussions on other boards and their members.

<sup>12</sup>This is the Act under which the 20 producer-controlled provincial marketing boards operate. The Act was revised in 1968 to accommodate the structure of an industry-wide commission rather than a producer-only marketing board. The amendment applies only to apples. The Ontario Farm Products Marketing Board administers the Act i.e. it delegates power and reviews programs of the commodity boards and the new apple commission.

<sup>13</sup>There seems to be no appropriate provincial retailers association.

Resources shift fairly readily from the production of one farm good to another. Thus if a board were to be successful in raising prices, not only would there be a tendency for producers of the same product in other provinces to increase output, but there would be a tendency for producers of other commodities in the same province to turn to the production of this commodity. Alternatively, if prices of product A have been increased by restricting output or marketings, the resources which can no longer produce A turn to producing B and the price of B will fall. The result of these actions is that gross and net farm incomes from all output might as easily be reduced as increased if the only criteria for marketing boards' actions were, as they presently are, administrative ease and producer pressure.

To restrict output of hogs might increase gross income from hogs if the supply management were properly operated but the resources released might then go to produce additional eggs or milk and the total income from hogs, milk and eggs might either fall or rise. The result is hard to predict. One can predict with confidence that if corn production were reduced by quotas there would be an increase in winter wheat production and gross income from corn and winter wheat combined would fall.<sup>14</sup> The effectiveness of these actions would increase with the advent of national boards.

It is reasonable to expect that the present restrictions on tobacco production force resources into the production of sweet corn and vegetables for which the extra value of output may be less than for tobacco; if so, aggregate gross incomes will be reduced. In the first year of controlled broiler production in Ontario, the output of turkeys increased dramatically as producers shifted resources to that product. The disappointing turkey prices which followed must have offset most of the higher prices experienced by broiler growers.

The question must be posed clearly and answered clearly. Is it desirable to have one general farm organization with (subsidiary) national and provincial marketing boards, managing supply (whenever feasible) in the interest of total farm income? Alternatively is it more desirable to have the present largely fragmented organizations—in some cases with national rather than provincial boards—in which each body does its best for its own members?

If one were to answer "yes" to the first question then the whole structure of institutions and criteria would have to be radically changed. This is not a matter of the desirability or necessity of *national* marketing boards as opposed to provincial boards, but of a national supply management agency which would encompass practically all of agriculture. Commodity marketing boards, whether national or provincial, might prove a political hindrance to rational supply management in the interest of *all* farmers and *total* farm income.

Such an organization would have to be huge, undertaking research, employing inspectors, and making decisions far beyond the scope of anything we have seen in agriculture to this time. As supply management proceeded

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<sup>14</sup> Since almost unlimited supplies of American corn are available without affecting import prices, corn prices in Canada would remain almost constant. Increased output of winter wheat would lower the average price.

from one product to another, resources would tend to be pushed into the production of those products for which there were no quotas (and of course some producers would rush into production to create a base on which future initial quotas might be established), prices would fall and producers of those commodities would demand supply management for *their* products too.

The Task Force takes a position on these two questions, answering "no" to the first and "yes" to the second. In other words, the Task Force feels that the dangers inherent in a huge centralized farmer organization in Canada's widely dispersed and dissimilar farm sector are so great as to outweigh all likely advantages.

Although the Task Force has opted against one huge national farm organization exercising supply management powers over most farm products this does not mean that the Task Force favours extreme fragmentation. It would appear undesirable to have a Wheat Board, a Barley Board and an Oat Board in place of the Canadian Wheat Board. The present situation in Ontario, for example, whereby the Tender Fruit Growers Marketing Board sells peaches, pears, plums and cherries for processing, the Fresh Fruit Growers Marketing Board sells them for fresh consumption and the Grapes-for-Processing Board and the Fresh Grape Board sell grapes for separate uses, seems to represent duplication of effort, especially since most of the growers are in the Niagara Peninsula. This kind of fragmentation is undesirable and unnecessary.

It is essential that the use by marketing boards, national and provincial, of powers delegated to them by federal and provincial governments should be carefully and continually scrutinized by the governments granting the powers. The provincially-appointed Farm Products Marketing Boards have not been greatly concerned about the interrelations of producer boards, each one of which has operated in what it regards as the best interests of only the producers of that commodity. This is quite reasonable on the part of the producer boards since they were created under government legislation to work in the interests of existing producers of the commodity concerned. It may be claimed that the government-appointed Farm Marketing Boards have operated reasonably in that whether or not producer boards are created is a decision of the producers themselves and if the actions of some boards hurt the producers of commodities for which there are no boards, it is up to the latter to petition, vote, and create a board of their own. This is not an adequate argument.

Producer controlled boards naturally operate in what they regard as the best interests of the present producers of a commodity, not necessarily identical with the interests of producers of other commodities, would-be producers of the regulated commodity, or the national interest. As George Mehren once said about marketing boards:

It is not society which should be protected from the use of monopoly in agriculture. It is agriculture which should be protected from its abuse.<sup>14</sup>

<sup>14</sup>G. L. Mehren "Some Economic Aspects of Agricultural Control", *Journal of Farm Economics*, Vol. XXX, No. 1, p. 42.

## STABILITY OF INCOME AND OUTPUT

Early in this Chapter we accepted the objective of increasing members' income as the primary goal of marketing boards. An important but secondary goal is that of stabilizing income and output.

Marketing board programs which bring greater stability to production, prices, and income will make for more rapid adoption of technological change, less overcapacity at the farm and processing levels, better opportunities for forward planning, sounder bases for credit, all of which contribute to more efficient and low cost operations. Consumers and the economy generally would also benefit from increased stability in the agricultural sector. It is probable that the prospects of increased stability would accelerate the "sorting out" process among farmers, making it possible for the more aggressive and more specialized to take over more of the market from smaller, less specialized producers.

The various forms of supply management—two-price systems, collective bargaining, input rights, and sales quotas—can all contribute to greater stability if used properly.

## CONCLUSIONS

1. The main objective of both provincial and national marketing boards should be to increase the incomes of their members as much as possible. A second objective is to stabilize incomes and output.

2. Single-commodity provincial boards have achieved a fair amount of success through a variety of programs. No one type of program is most desirable in all circumstances.

3. If output or sales of a commodity are to be controlled, a national approach is necessary except in the case of a small number of products locally produced (e.g.—tobacco in Ontario). If one or more provinces which are important producers of a commodity do not participate in such controls, the remaining provinces cannot be successful in controlling output or sales.

Unless imports are controlled, there are serious limitations on what can be accomplished through supply management. To control imports, however, would jeopardize our trading arrangements with other nations. Given our heavy dependence on international markets for exports, including agricultural products, this must be ruled out.

4. It is dangerous to advocate a program of supply control without being specific about the kind of administration, the techniques of control and the initial allocation and transfer of quotas which must be an integral part of such a program. Questions such as the inter-provincial allocation of quotas, transferability of quotas among producers, and many other comparable considerations dealt with in detail in the main body of his Report have a profound bearing on the success or otherwise of such a program.

5. Output control through input rights or sales quotas can raise the incomes of producers of a commodity but sometimes at the expense of the incomes of producers of other commodities into which production resources

tend to flow from the controlled commodity. The governments which give such powers to commodity marketing boards must take ultimate responsibility for the ways in which those powers are used and must consider their possible effects on other producers and other sectors.

6. Supply management of the all-pervasive type which would make it possible to allocate resources rationally would have to include most farm products, would involve inspection, research, administration and control far exceeding anything experienced in Canadian agriculture to date.

7. It is clear that supply management has a useful role to play in the stabilization of incomes, prices and output. If the objective is to stabilize incomes rather than to raise them by restricting output then supply management can operate successfully for one commodity.

8. The current attention being devoted to marketing boards and supply management has very desirably focussed attention on markets and marketing whereas the tendency in the past has been for preoccupation with production problems.

9. There are many useful functions which provincial and national marketing boards can perform in addition to attempting to manage supply. These include market promotion and research, improvement in marketing techniques such as the teletype system of selling hogs, fuller exploitation of different markets through product and price differentiation, dissemination of market information.

10. The growing responsibilities of provincial and possibly national marketing boards make it imperative that the government-appointed supervisory marketing boards be better staffed to evaluate producer proposals. This is particularly important because of the complex and far reaching ramifications of any given commodity marketing board on other sectors of the economy as well as on producers of other farm commodities.

## RECOMMENDATIONS

1. Legislation should be introduced by the Federal government to permit the creation of national commodity marketing boards. The Task Force recommends that this legislation include:

- (a) A National Agricultural Marketing Board, responsible to the Federal cabinet<sup>18</sup> and operating so as to benefit agriculture without serious adverse effects on the national economy.
- (b) Appointments to the N.A.M. Board should be made by the Federal government and should be drawn from several walks of life.
- (c) The N.A.M.B. should delegate powers and responsibilities to commodity marketing boards, scrutinize carefully the way in which these powers are used, and withdraw them when the "national interest" dictates.

<sup>18</sup>The N. A. M. Board would bear the same relationship to the Federal government as, for example, the Ontario Farm Products Marketing Board bears to the Ontario Government.



- (d) National commodity marketing boards may be of various structures and composition: some may be federations of provincial boards, some may be producer-controlled without provincial equivalents and some may be federally-appointed commissions.

It is important that the legislation permit the creation of commodity commissions similar in structure to the Ontario Apple Marketing Commission, with membership drawn from all groups who have a stake in the decisions to be made. No common kind of structure appears necessary.

2. The N.A.M.B. would require very substantial sums in order to undertake the appropriate research and reviews implied by its areas of responsibility.

3. If the N.A.M.B. permits any subsidiary commodity marketing board to impose quotas on inputs or sales, it should ensure that the method of doing so would freely permit the relocation of production in the lowest cost areas of the country. This virtually rules out the establishment of provincial quotas, but not of nationally negotiable quotas. Similarly the N.A.M.B. should prevent any barriers being raised against the holding of quotas by the lowest cost producers within an area.

4. Since the commodity marketing boards may be expected to make proposals and to work in the best interests of their own members, it should be the responsibility of N.A.M. Board to take into account the interests of other sectors of the economy including those potential producers (who are not now producers) of the commodity in question.

5. The power to control imports should not be given to N.A.M.B. nor to any national commodity board.

6. There should be no attempt made to create one huge national all-encompassing body with widespread controls on output.

7. Provincial governments should continue to resist the temptation to introduce grading and quality regulations aimed at reducing interprovincial trade.

## THE CAPITAL VALUE OF QUOTAS

The question of appreciation in the value of certain factors of production is much misunderstood. Perhaps an example may indicate the causes and effects of such appreciation. If the price of a farm product rises, farmers naturally try to increase their output of that product; in the case of crops they buy additional fertilizer, pesticides and herbicides, and buy better farm machinery. Almost all of these can be bought in increased total quantities without driving their prices higher. Land, however, is in more fixed supply than other inputs and consequently much of the higher income (arising from the higher price of the commodity) is reflected in higher land values. If unlimited supplies of land could be converted from other uses to the production of the higher priced commodity, land values would increase very little.

It is developments such as these which explain the ten per cent per year increase in prairie farm land values from 1962 to 1966. Improved market prospects and larger deliveries not only improved grain producers' incomes during this period but optimistic statements such as "there are markets for all the wheat that farmers can produce" provided the expectation that the higher farm incomes would persist. At some point too, speculation becomes a factor; if one expects land prices to increase by ten per cent this year as they did last year, why not buy now even if the price seems higher than is justified by potential incomes. From the sellers' side, why sell now unless one can obtain a price that is a good deal higher than one might have expected to receive a few months ago?

There is also, it is true, a tendency for land values to be increased due to technological change which generally results in lower average cost of production with increased size of acreage. By adding a small nearby farm to his existing acreage and with limited additional equipment and labour, an above-average farmer can increase his income considerably, and thus is willing to pay more for the extra farm than it would be worth to a farmer who planned to operate it as his only enterprise. This tendency is ever-present but it may be more than offset by a decline in optimism (as on the prairies at present) resulting both from reduced prices or sales and from a reversal in speculator's opinions.

Acreage rights or quotas such as those operated by the Ontario tobacco board make the supply of tobacco land completely inflexible. Thus tremendous appreciation of land values has occurred, since rights are attached to specific farms. Land with rights is now worth 8 to 12 times as much as equivalent land without rights.

If quotas are not connected with real estate, as with fluid milk quotas in several provinces, they become the factor of production which is in fixed supply, whereas the purchased inputs and to a lesser extent, land are readily available. The income earning capacity tends to be capitalized then into the factor in fixed supply—in this case the quotas. Uncertainty concerning future quota and price policies tend to reduce their market value from that which should prevail by rational economic calculations if there were no risk. In

Ontario, fluid milk quotas that sold for \$6-\$9 per pound in March 1969 and were worth two or three times as much were it not for the risk and uncertainty element sold for \$15 in September 1969. In British Columbia, quotas sell for \$25 or more per pound.

The capitalization of income earning capacity into quota values obviously affects costs just as higher land values affect costs. For a new buyer they represent an important cost; for an existing owner of quotas their present value represents what economists call "opportunity cost"—i.e. the possibility of income if they were sold today and the proceeds invested in the most profitable way possible. The capital value of quotas may have an important dynamic effect arising out of this opportunity cost concept. To a low income producer they represent the possibility of being paid a lump sum for leaving an industry. Thus dynamic change may be encouraged and the number of producers reduced even more rapidly than would otherwise be the case.

The question of international competitiveness and the effect of the capital value of quotas on it is another difficult question. How would one measure our competitiveness in producing a commodity such as wheat? The immediate answer is by comparing the prices of Canadian wheats in Liverpool, Rotterdam and Tokyo with American and other wheats of similar grade, both without subsidy (except for input subsidies such as research, extension, credit, and possibly transportation). Suppose then our prices are higher and we cannot sell; stocks accumulate and prices fall. As prices fall land values fall and costs fall. In a very real sense we remain competitive until lower prices force resources into the production of some more profitable alternative.

Ontario tobacco sells for 60 to 70 cents per pound, yet tobacco growers would not convert their resources to the next best alternative until prices fell to 30 to 35 cents per pound. According to the definition of competitiveness we would remain competitive right down to 30 to 35 cents. In the process the market value of land with rights would collapse and land with rights would be priced at about the same as land without rights. As prices of tobacco fall, the value of rights falls, and costs fall; and as prices of tobacco rise, the value of rights rises, and costs rise.

Quotas or rights are important in this picture in two ways:

1. they may result in built-in inefficiencies and higher unit costs of production as with the present Ontario tobacco rights,
2. because they are almost completely fixed in supply, their prices reflect almost entirely the changes in profitability and prospects in the industry. Fortunes, tax free, can be made in quotas as easily as in land if quota programs are not carefully formulated.