Comments on the Proposed Hops Federal Marketing Order

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Today's hop industry is highly dynamic. In the words of the hop industry Proponent Committee, the industry has experienced "tremendous technological breakthroughs" and a "65 percent reduction in grower numbers in the 17 years since the last marketing order." International competition is keen.

The dynamic nature of the industry thwarts efforts of a central committee of growers to regulate hop markets to best serve the interests of producers and consumers. The difficulty can be illustrated by some of the objectives outlined by the Proponent Committee for a hops federal marketing order. Price objectives include to:

- Provide stable and fair prices for merchants and end users, and
- Enable a more equitable price for growers from year to year.

Supply objectives include to:

- Set an annual saleable amount [of hops] to satisfy anticipated world demand,
- Enable a grower to plant to accurately meet the needs of the market from year to year, and
- Ensure the needs of the market are met every year.

Words and terms such as "stable and fair", "equitable", "saleable amount", and "needs of the market" are arbitrary and subject to a wide variety of interpretations in the hands of those who administer a hop marketing order. A committee running a cartel is not adept at setting production to accurately target a specified price, let alone a vaguely defined "fair and equitable" price.

Many shortcomings of the proposed hops marketing order are addressed in *An Economic Analysis of an Allotment-Based Marketing Order for the Hop Industry* prepared by Sparks Companies Incorporated. That analysis along with responses to questions raised by USDA/AMS (during the January 9, 2003 meeting with hop growers) made the important point that the overall demand for hops produced in the United States is price-elastic when account is taken of the very elastic export market. It follows that supply management in the form of production restrictions imposed on producers would diminish revenue for producers under the proposed hops marketing order.

A marketing structure serving the public interest would promote economic efficiency, economic equity, economic stability, family farming, and freedom in making production and marketing decisions. As noted in the following discussion, the proposed hops marketing order does not measure up by any of these criteria.

Economic Efficiency. With hop prices held higher and output lower than under a well functioning market, the proposed hop marketing order would impede economic efficiency and reduce national income. Raising prices while cutting output is a formula for inflation, not for economic progress. Higher prices, reduced output, and inefficiencies in American hop production under a marketing order would compromise the industry's competitiveness and market share in international trade.

Economic Equity. Revenue to hop growers as a whole would decline with an elastic demand as growers cut production under a marketing order, but prices of hops would rise to benefit initial recipients of allotment bases. Any economic benefits from the marketing order would be lost to renters and new allotment holders as they bid expected future benefits into allotments. Thus the initial allotment holders would receive not only the present but also all expected future benefits. After the new hop allotment holders pay the cost of allotments, their net incomes would be no higher than without the marketing order.. The new allotment holders and potential allotment holders who cannot afford the price of entry would in many cases be able, ambitious, and innovative but less wealthy young operators who in the absence of allotments would constitute the future of the United States' hops industry. Thus income and wealth would be transferred from lower wealth, young hop growers to more wealthy operators who were initial recipients of allotments.

Although initial recipients of allotment bases would reap windfall gains, even here there are problems. One is that there are arbitrary winners and losers. Producers who have innovated rapidly and expanded to seize market opportunities would be disadvantaged by the way proposed allotments would be set. Also as happened when wheat allotment were established in the 1950s, operators who historically had restrained production to avoid oversupplying the market would be penalized with lower allotments.

Economic Stability. Just as a building must be constructed using flexible steel rather than rigid stone to be "stable" in the face of earthquakes, so survival of the hops industry requires it to adjust to change. The Proponent Committee does not recognize the failures of the hop industry's past marketing order and of worldwide experience with command and control regimes when it states "They [the growers] know they need a permanent solution to their problems" and lament that "There is no structure or authority to use this [supply and demand] information to manage the marketing of the hops the industry as a whole produces." The annual 1 percent proposed adjustment in aggregate allotment beyond the full saleable limit would allow little flexibility to expand production in a rapidly expanding market. For example, the American hops industry could be ill equipped to increase output in response to higher hop prices resulting from the expected future decline in the value of the dollar in world markets.

Family Farm Preservation. The United States has spent nearly $1 trillion since 1933 on commodity programs ostensibly intended to save family farms. One, perhaps the principal, objective of the hop marketing order is to provide an economic inducement for marginal farms to exit hop growing. By providing an inducement for established hop producers to sell their allotment and exit production while at the same time creating a barrier (perhaps $1 million in allotment purchases alone before any outlays for machinery and equipment) for a young family farmer to form a new economic farming unit, the downturn in number of hop growers seems destined to accelerate under a marketing order. Should a public program intentionally reduce the number of family farmers?

Freedom to Make Production and Marketing Decisions. In 1963, wheat growers engaged in a bitterly fought referendum over whether government programs should be voluntary acreage set-asides or should be mandatory supply controls. Farmers voted in favor of voluntary programs in that bitterly contested referendum, and they never looked back as programs became increasingly more market oriented over the years. The proposed hop marketing order runs counter to the trend.

In summary, the proposed hop marketing order fails all economic tests of desirable features in a program serving the interests of growers and consumers. A mandatory supply-control, centrally planned marketing order would be an anachronism applied to today's dynamic hops industry characterized by rapid technological change and subject to intense international competition. The "old marketing order" could not cope with change; the new promises little better performance. If the world has learned anything from the real time experience in recent decades, it is that in a dynamic industry (1) command and control bureaucratic regimes have failed whereas (2) producers and consumers responding to prices set by market supply and demand in free enterprise economies have succeeded in creating wealth and meeting the needs of people. Instead of placing the industry in a straightjacket, emphasis needs to be on improving market outlook, technology, and contracts for better industry performance.