Role of Government in Agricultural Markets

- Food safety and consumer protection
- Trade regulation and producer protection
- Research and education
- Market efficiency

Consumer Health and Safety

- Food and Drug Act
  - 1906, 1938
  - 1958 Delaney Clause
- Food Quality Protection Act
  - 1996 replaced the Delaney Clause
  - Initiated HACCP
- Wheeler-Lea Act 1935
  - Truth in advertising

Labeling Claims

- Trend to product differentiation
  - Evaluate label claims
  - Production claims
- Organic standards established
- Not all terms have standard definition
  - Natural
  - Grass-fed
  - Corn-fed
Regulations on Food Prices

- Price control or freezes
  - Typically war time and/or rapid inflation
  - Retail price freeze -> farm price impact
  - WWI 1917-18
  - WWII 1941-1946 also rationing
  - Korean conflict 1950-1953
  - 1971-1973 inflation

Economic and Social Progress

- 1862 Department of Agriculture
- 1862 Morrill Land Grant Act
- 1887 Hatch Act, experiment station
- 1914 Smith-Lever Act, extension
- Currently over 10,000 agricultural researchers employed by gov't

Regulate Competition

- US founded on private enterprise
- Concerns about market power
  - 1890 Sherman Anti-trust Act
  - 1914 Clayton and FTC Acts set rules
  - 1936 Robinson-Patman Act
    - Price discrimination illegal unless economically justified
Regulations of Monopolies

- Recognized natural monopolies and dealing with monopolies
- Capper-Volsted Act 1922
  - Right of farmers to collectively bargain
- Agricultural Marketing Act 1937
  - Established marketing orders for dairy and fruit and vegetables

Facilitate Trade and Service

- PSA 1921
  - Set standards for trade
  - Assured prompt payment
  - Changed to GIPSA in 1990s
- Grades, weights, & standards
- Promotion and research 1980s
  - Checkoff activity

Mandatory Price Reporting

- Federal law passed congress in 1999
  - Started with 7 Midwest states initiating new price reporting regulations
  - Industry and government found it “better” to have a single federal regulation
- Currently
  - AMS collects, reports summary, doesn’t keep individual company prices
  - GIPSA can demand all records from companies to do an investigation if they have just cause
Standardization and Grading

• Reduces marketing costs
  – Improves communication
  – Possible to trade on description rather than inspection
  – Grading sorts commodities by defined quality standards
  – Quality grades typically optional

Criteria for Grades and Standards

• Based on characteristics that
  – Are important to users
  – Are easily recognizable
  – Can be measured and interpreted by graders to reduce variation within a grade
  – Have common terminology
  – Represent the distribution of production
  – Make it cost effective to operate

Public or Private Grades

• Use differs by industry
  – Cattle use USDA grades
    • Grading done by USDA employee
  – Hogs use private grading
    • Grading done by employee of buyer
  – Grain use USDA standards but grading by the buyer
Examples of Grades: Beef

- Quality grade uses marbling as a measure of eating experience (taste, texture, juiciness)
- Yield grade is measure of retail meat yield in the carcass

<table>
<thead>
<tr>
<th>Quality Grades</th>
<th>Yield Grades</th>
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<tbody>
<tr>
<td>Prime</td>
<td>3-4%</td>
</tr>
<tr>
<td>Choice</td>
<td>60-65%</td>
</tr>
<tr>
<td>Select</td>
<td>30-35%</td>
</tr>
<tr>
<td>Standard</td>
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</tbody>
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Examples of Grades: Hogs

- Historically used USDA grades (US 1-2)
- Moved to objective measures of the carcass
- Measurement systems
  - Carcass weight ranges
  - Carcass Leanness
    - Backfat measure at 10th or last rib
    - Fat-O-Meter measure fat thickness and loin depth to estimate percent lean in the carcass
    - Ultrasound to estimate percent lean in carcass

Examples of Grades: Grain

Class: #2 Yellow Corn

1. BCFM (Max)\(^1\) 3.0%
2. Damaged Kernels (Max)\(^2\) 5.0%
3. Moisture (Max) 14.5%
4. Test weight (Min) lbs./bu 54.01

\(^1\) Broken corn and foreign material
\(^2\) Includes heat damaged kernels (0.2% max)
Examples of Grades: Grain

- Class #2 Yellow soybeans
- Foreign Material (Max.) 2.0%
- Damaged Kernels (Max.)\(^1\) 3.0%
- Splits (Max.) 20.0%
- Moisture (Max.) 14.0%
- Test Weight (Min.) lbs./bu. 54.0
  - \(^1\)Includes heat damage kernels (0.5% max)

Examples of Grades: Grain

- Class: #2 Soft White Wheat
- Protein: Ordinary
- Moisture (Max): 13.5%
- Dockage (Max): 0.6%
- Test weight lbs/bu (Min.): 58.0
- Falling Number (Min.): 300
- Wheat of Other Classes (Max): 3.0%
- Total Defects (Max):\(^1\) 3.5%
  - \(^1\) Includes damaged kernels, foreign material, shrunken & broken kernels

Mandatory v. Optional Grades

- Few precedents for compulsory
- Cost may increase if mandatory
- Industry may already have grades
- Grades may inhibit innovation
  - Produce to the minimum to make a grade
  - May not match convey value trait as well as another measure, i.e., tenderness
Problems of Grades and Standards

- Subjective nature of “quality”
- Made for industry not consumers
- Designing grades and grading methods
  - Accurate, fast, cheap, meaningful
  - Number of grades
- Implementing grades

Farmers and Grades

- Not always used
  - May not trust of grades or grader
  - Risk – reward
    - Large discounts on small percentage
    - Small premiums on small percentage
  - Direct measurement possible with new technology
    - Percent lean
    - Protein percent

Marketing Agencies & Grades

- May add value to commodity
- Role of private brands
- Larger firms may develop own grades
- Specification contracts with more detail may replace grades
Consumers and Food Grades

- Grades often confusing and offer little differentiation
- Consumers often do not understand grades
- Brand loyalty may replace uniform grades