

THE POLITICS OF AGRIBUSINESS:

**Agribusiness Association of Australia and
New Zealand**

**The Politics of Agribusiness:
Marketing Structures and Systems
in Australasia**

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MARKETING STRUCTURES AND SYSTEMS IN AUSTRALIA

1. INTRODUCTION

When invited to participate in this conference I asked myself whether it was possible to say anything new or different about developments and opportunities in Europe post-1992. Having considered the array of research and commentary on the issue to date, and the range of expertise assembled at this conference, I decided to approach the subject from a slightly different angle.

What I want to concentrate on is not the politics of Europe but the politics of agribusiness marketing structures and systems down-under, and how they influence our approaches to capitalising on Europe post-1992.

In Europe the interaction of politics and commerce has been, and will continue to be, important in shaping the region's future. Similarly, the interaction of politics and commerce will be a key influence on agribusiness marketing structures and performance in Australasia. It is this subject I intend to consider today.

What I want to explore is the extent to which politics has become entwined into the commerce of agricultural marketing in Australia and New Zealand and the consequences of this phenomenon. I will be arguing that the future success of our agribusiness sector depends critically on getting politics out of marketing. If we fail to do this, then our politicised marketing structures and systems will, as we have recently seen with wool, bring themselves down.

I believe it is very important that we do not fall into the trap of spending too much time agonising over what may or may not occur in the European Community where we have only limited influence, while avoiding major beneficial reforms in our own backyard where we do have the ability to make changes.

However, before turning to this subject, a few comments and a conclusion about Europe post-1992.

2. THE EUROPEAN COMMUNITY POLITICAL MACHINE

At last count the European Commission's headquarters in Brussels housed over 11,000 Eurocrats. A proportion of these European public servants make the rules and their remaining colleagues administer and police those rules.

The two species - that is, the rule-makers and the rule-policers - enjoy a very successful symbiotic relationship. Complicated rules require intensive administration and policing. Intensive administration and policing, among other things, identifies where the rules need strengthening or extending.

The relationship is symbiotic because each species provides a powerful growth promotant for the other. Furthermore, both species receive additional husbanding from an array of vested interests wanting the rules and the policing to favour them.

However, these bureaucratic arrangements are only part of Europe's political machine. The Community also has a Council of Ministers - which comprises the representatives of the governments of the member states - and the European Parliament. These two institutions house European politicians - the people elected supposedly to ensure that what happens in the European Community is in the best interests of the people of the region as a whole - some 320 million of them.

The European Parliament has over 500 members drawn on a proportional basis from the member states. In all, about 70 national political parties are represented in the Parliament, although they have arranged themselves into 8 transnational political groups. For example, the 'Rainbow Group' comprises around 40 members of the Parliament and is drawn from national parties concerned with environmental issues, and Spanish and Italian regional parties.

Forecasting Western Europe's future and, in particular, market opportunities and how to exploit them, must take into account and assess the impact of this political machine on the rate and direction of change.

Many expert prognoses of where Europe is heading post-1992 have highlighted an 'either/or' conclusion. Either outward looking and competitive, or a protected economic fortress. This was well encapsulated by the Australian minister for trade negotiations in 1989 when he said:

"The effects on Australia of Europe 1992 will largely depend on whether integration turns out to be genuine elimination of barriers and discriminatory regulations, resulting in a self-confident, internationally competitive Europe, or whether it will simply be the pushing out of the internal walls of protection to the Community's external frontiers".

The minister's latter alternative would not be particularly good economic news for Australasian agribusiness. However, because developments will be dominated by the European political machine, political accountability and self-interested behaviour, this alternative is the more likely in my opinion.

It is my observation that whenever politics is a dominant influence on economic and commercial behaviour, it is common for vested interest outcomes to prevail until such time as economic pressures are sufficient to bring existing structures tumbling down. I think Eastern Europe and the Soviet Union are the biggest and best case studies of this phenomenon around at the moment. The wool industry is a good example closer to home.

To finish my brief remarks on prospects in Europe post-1992, let me offer the following single, subjective, and very generalised conclusion.

I believe that over the next decade the most exciting prospects in the European section of the Northern Hemisphere will be emerging in parts of Eastern Europe. That region has started to dismantle its political machine and breathe air back into the role of the market as the dominant influence on economic and commercial decisions. Western Europe, on the other hand, has not yet got on top of the processes of economic sclerosis which accompany extensive political involvement in the marketplace. In twenty years from now, Western Europe will probably be

commencing a process of institutional demolition and regulatory reform, a process which Eastern Europe already has underway.

Let me now turn to the subject I intend to address: the influence of politics on agribusiness marketing structures and systems in Australasia and the implications for exploiting European opportunities - or, for that matter, any market opportunities.

3. APPROPRIATE MARKETING STRUCTURES AND SYSTEMS - WHY ARE THEY AN ISSUE?

One would have to live as a recluse in Australia or New Zealand not to be aware that the types of agricultural marketing structures and systems best suited to our needs is a hotly and continuously debated topic. The debate is complex, detailed and, at times, heated and doctrinaire. What is in dispute is the role of statutory legislation as a requirement, and an influence, on agricultural marketing structures and systems and their performance. Essentially, it is an unresolved debate about the pros and cons of restricting choice in agribusiness marketing activity.

It is not necessary to spell out to a conference of agribusiness practitioners and analysts the importance of successful marketing to the agricultural industries and economies of Australia and New Zealand. Investors in agribusiness marketing, from the farmer to the retailer, have one prime objective and that is to make money. Put more technically, the objective is to maximise net returns from the resources being used.

The general principles of successful marketing are also widely understood and agreed. The importance of meeting consumer needs, supply reliability, unambiguous and 'true-to-label' price/quality relationships, innovation, branding, promotion, and the efficient provision of marketing services generally, are recognised by all successful marketers.

Differences of opinion emerge when marketers relate these general principles to the characteristics of the market to devise the best type and mix of marketing strategies and activities. Individuals differ in their judgments about what to sell, to whom, and how. These differences derive from differences in opinions and ideas about what particular commercial and marketing strategies are best, as well as the fact that each participant is seeking to do as well as, and preferably better than, everyone else.

At this point I think it is important to distinguish between marketing systems and structures, on the one hand, and the actual marketing functions and activities on the other. In essence, marketing systems and structures determine the particular strategies and approaches taken to marketing, how well they perform, and how effectively this performance can be assessed. Conversely, a marketer's judgment about the best marketing approach has an important influence on the characteristics of the marketing structure and system which will be necessary to put it into practice and sustain it.

Consequently, the variety of ideas and judgments about how to market would be expected to result in an array of marketing structures, systems and participants. In essence, the agricultural marketing debate gets underway the moment any individual or group asserts that a particular approach to marketing is best and, as a

consequence, that the structures and systems necessary to implement that approach must exist by right, and alternatives be restricted or prohibited.

Clearly, advocates of restricting choice must hold the view that, in some way, they would be relative winners in the marketplace if choice were restricted and certain types of marketing arrangements favoured over alternatives. From the perspective of commercial self-interest, it is a reasonable and understandable position to take and one that you would expect to see pursued with some vigour.

Those who believe choice should be restricted, and certain marketing arrangements preferred over others, put forward the following three major propositions:

- politicised export markets involving subsidies and entry controls need to be managed and this can only be done in a manner which ensures benefits are maximised by large, government-backed marketing organisations either doing the marketing or controlling it extensively;
- private or corporate marketing organisations do not have producers' interests at heart and will compete with each other to drive down prices received by Australia and New Zealand in export markets ('weak sellers') and/or grow to dominate the industry and commercially exploit small, vulnerable farm businesses; and
- fluctuations and differences in short term market circumstances, between markets and over time, commercially disadvantage farmers, depending on what they produce, where, and when, and farmers want to 'pool' these variations because of the importance they are said to attach to 'equity'.

Those who take a contrary position usually put forward three counter-arguments:

- the management and control of access to politicised or distorted markets, including any market premiums, can be achieved at least as well with competitive and commercially-oriented policy instruments that may require some degree of statutory intervention but considerably less than at present, or can result from natural incentives to collude;
- statutory monopolies and other forms of control over entry and commercial freedom lead to organisational cost-padding and the suppression of risk taking, diversity and innovation associated with competitive marketing structures; and
- pooling distorts price signals and leads to resource misallocation and, therefore, economic efficiency losses.

Associated issues include the extent to which statutory arrangements combine the roles of market participant and regulator, and the merit or otherwise of a 'Country Incorporated' approach to marketing as a form of countervailing power to size and concentration internationally.

It is not my intention in this paper to enter into the detail of the debate over the propositions I have just summarised. What I intend to do is look behind them and examine why the debate occurs, is so vigorous, and seems unable to be resolved. In particular, I will examine the consequences of introducing politics into marketing?

4. HOW POLITICS BECOME INVOLVED IN MARKETING, AND THE CONSEQUENCES

A market is nothing more than a collection of human beings with opportunistic tendencies, trading with each other. They prefer to be better off than worse off. They respond to the incentives they face.

In market economies, competition exploits this behavioural trait by stimulating enterprise, effort and ideas. The consequence of individual advantage being pursued is collective economic gain. However, not everyone necessarily wins. The unregulated market is a transparent and impersonal adjudicator in the competitive contest.

In the pursuit of individual gain, people choose to adopt, or participate in, a wide variety of different organisational structures. In the main, their decisions on how, and with whom, they will pursue their commercial objectives is determined by where they think the rewards to them will be greatest.

If an individual or group is dissatisfied with market outcomes, for whatever reason, one option is to modify behaviour and improve performance. Their alternative is to call for government intervention. They ask politicians to make rules designed to favour them. However, they frequently argue that such intervention is also in the interests of the overall industry and the nation.

When governments agree to intervene - and in agricultural marketing in Australia and New Zealand they have agreed very readily in the past - there are three important consequences:

- the statutes become rallying points around which those who benefit from the legislation, and those who believe they are disadvantaged, gather to lobby governments and politicians for rules which are believed to favour them;
- significant changes occur in the types of performance indicators available and their value in providing accurate and useful assessments of performance of the bodies created by the legislation; and
- the organisational structures which are created by legislation, and the resultant changes in performance indicators, lead to political forms of accountability; 'political accountability' figures prominently in the debate over the pros and cons of restricting choice.

The nature of the marketing debate, and the approach taken by the various participants, is influenced very much by these three major consequences of intervention. To understand the debate it is necessary, therefore, to consider them in more detail.

5. WHY ARE POLITICIANS LOBBIED?

Governments, and the politicians they comprise, have the ability to influence market outcomes and confer favours because they have the power to make laws which all must follow. Legislative power attracts all market participants to lobby for laws that will advantage them. This leads to 'rent seeking' - the use of resources to make profits without creating any useful output. The extent of rent seeking will be influenced by the willingness politicians show in catering for sectional interests when they enact laws.

Generally, politicians have a poor track record in resisting the lobbying activities of rent seekers. There are two main reasons why this is the case and they epitomise what I have labelled 'political accountability'.

First, a political system contains inherent incentives to bestow favours. Political success - being re-elected - depends on the politician's ability to keep the electorate satisfied. In particular, it is important that those on whom a politician's success depends are kept happy.

Second, once legislation is in place its removal or significant modification will commonly disadvantage some people or be perceived to do so. Often it will remove or reduce the advantages which it was providing to a particular group. As a general rule, these circumstances result in lobbying which is considerably more intensive than occurs when intervention is initially being introduced.

For politicians there is only one thing potentially more dangerous than refusing to confer a benefit, and that is proposing to take one away. Consequently, when politicians agree to intervene they set the scene for very intense lobbying over whether the intervention should continue.

The current debate over agricultural marketing arrangements is essentially about the pros and cons of less intervention and control and more choice. Politicians are being asked to remove rules - many of them longstanding - which have created extensive economic rents and well-entrenched perceptions of what is good and bad for those who are affected. Vested interests can be expected to resist vigorously such changes because they believe, often very genuinely, that they will be losers.

In summary, politicians have legislated forms of intervention in agricultural marketing which encourage and facilitate political rather than commercial decision making. An environment has been created where market pressures for change most commonly elicit political rather than commercial responses and decisions. It is this very important difference in how market participants respond to pressures for change when the environment is politicised, and its consequences for our marketing systems, to which I now turn.

6. STATUTORY INTERVENTION, PERFORMANCE INDICATORS AND ACCOUNTABILITY

When statutes are used to intervene extensively in the operation of markets, the basis on which change occurs in response to market pressures is altered fundamentally. In

particular, the extent to which the impersonal market, and so-called 'market forces', determine the rate and direction of change is diminished and the influence of political considerations is increased.

This relative balance of power between commercial and political influences on change is fundamental to understanding the ongoing debate about the best approaches to agricultural marketing and the consequences of intervention. Most importantly, it requires an understanding and appreciation of the differences between 'commercial accountability' and 'political accountability' - differences which only take on significance when statutes are used to restrict commercial choice extensively.

The joint stock company is a common form of organisational structure to emerge as a result of people with opportunistic tendencies pursuing individual gain. I want to use that form of commercial structure, and the performance indicators and systems of accountability associated with it, as my benchmark in what follows. This is the so-called 'corporate model'. I will be comparing and contrasting it with the 'political model' which characterises markets where there is extensive statutory intervention.

The fundamental characteristics of the corporate model are straightforward and well known. Investors monitor performance through profits, dividends, bonus issues and share prices. There are markets for capital and management. Investors 'vote' with their mobile capital exercising choice based on monitored performance, and their influence on the organisation is in proportion to their commercial stake as shareholders. Those who have to trade with such organisations 'vote' with their custom.

Provided there are no restrictions on contestability and choice, the net result is a collection of incentives faced by those responsible for the organisation's performance to get it right, and keep getting it right, or suffer the consequences. Directors and managers will employ rhetoric and all manner of persuasion to convince shareholders and customers that their performance is up to the mark. In the final event, however, it is the results they deliver, clear for all to see, monitor, and react to, which determine their fate and that of their organisation. This is 'corporate accountability'.

Much of agribusiness - such as the supply of inputs and services, including marketing services in some instances - conforms to this corporate model. However, it is in the provision of some marketing services where we depart most commonly from this approach.

It is axiomatic that legislation which restricts choice and directs commercial behaviour will change the nature and mix of performance indicators and methods of accountability. The institutions created by statute, either to administer the rules or participate directly, are subject to different types of assessment and sanction when their performance is being reviewed. As a consequence, they behave differently when subjected to market pressures for change.

Statutory organisations do not produce conventional commercial performance indicators. Their assets, including their management, are not traded and priced in an open market. They do not have to compete with others for capital. They cannot go

broke or be taken over like public companies. The measurement of their performance and the means by which they survive are very different from the corporate model.

It is my observation that those arguing in favour of extensive statutory intervention do not dispute the existence of these important differences in the means of performance measurement and accountability.

In fact, they argue that statutory marketing bodies compare more than favourably with accountability in most parts of the corporate sector. It is argued that producers have representatives throughout the system and very democratic processes are used in their selection. On this basis it is argued that statutory bodies and their performance are transparent and readily able to be influenced by 'shareholders'.

I contend that these assertions overlook the fundamental differences between commercial and political accountability.

Organisations created by statute are, by definition, political organisations. Consequently, the people responsible for these organisations are politicians. They act and behave like politicians and they employ the full array of political accountability techniques.

Political accountability involves the use of emotion and rhetoric, particularly calls for loyalty, unity and even patriotism, as well as the management of facts and information. The presence of any form of real or imagined 'enemy' is an aid to this type of accountability.

Political accountability involves one person one vote rather than influence through a commercial stake. Producer 'democracy' does not allow producer influence to reflect the individual's commercial stake in the industry.

Markets are dynamic - change is continuous and often unpredictable. Commercial success depends on market participants adapting to these changes. The participants themselves are important contributors to change, each trying to perform better than competitors through ideas, innovation and market differentiation.

With the commercial model, failure to adapt and keep up with the pace is quickly reflected in performance indicators. Tardy responses lead to loss of custom and dissatisfied shareholders seeking higher returns for their mobile capital. If poor performance persists, capital and management markets provide the means for changes in ownership and control.

The political model handles these market dynamics differently. While such organisations do change the way they conduct their business, the incentives and consequences of being tardy are considerably blunted compared with the corporate entity. Furthermore, their recourse to political accountability means it is common for slow changes to be defended, behind barriers which restrict competition and new entrants, and for this defence to succeed because calls for loyalty and indicators of activity can be substituted for conventional indicators of performance. Even where performance is demonstrably poor, the response is to debate the issues in the absence of market sanctions being able to deliver a solution.

The success of this political accountability process is aided and abetted by a 'shareholder' electorate which can be convinced that all is well and in their best interests. More often than not, this electorate comprises those who know that they could lose, or at least find commercial life tougher, if they were exposed fully and immediately to changes in the marketplace. They are naturally attracted to the apparently more 'comfortable' options they are offered.

The Australian wool industry and the New Zealand meat industry provide two examples of political accountability at work.

The Australian minimum reserve price scheme for wool eventually collapsed when industry politicians failed totally in their efforts to dictate to the market.

In the late 1980s the Australian government handed woolgrowers and the Australian Wool Commission the responsibility for setting the minimum reserve price. Between 1986/87 and 1988/89 this minimum was increased by over 70 percent. With the benefit of hindsight the increase was too much.

However, this was not the fundamental reason why the scheme collapsed - at the time the market price was well above the reserve. The reason it collapsed was that woolgrower politicians, having convinced their electorate that price had become less important in determining sales, found it politically untenable to correct the mistake quickly when its consequences became clear.

Part of the political problem was that over the years of the scheme's existence it had become accepted as an article of faith that under no circumstances would the reserve price level ever be reduced. No industry leader was going voluntarily to be responsible for breaking the faith - regardless of the evidence. Those responsible to woolgrowers for the scheme's operation sat and watched as demand contracted, stocks rose and farmers maintained record sheep numbers because they were getting the wrong price signals and did not appreciate what was happening in the market.

It is quite likely that participants in an unregulated market could make similar mistakes about future demand and prices. However, responses to the emerging situation would have been faster and it is very unlikely that all participants would have behaved the same and brought the industry to its knees as a result.

The processing sector of the New Zealand meat industry has been plagued by overcapacity, poor productivity and lack of profitability for years. The commercial circumstances of the industry continue to deteriorate.

During this as yet unfinished saga of commercial decline, the Meat Board has had a firm and unyielding hand on the tiller, guiding and influencing developments supposedly in the interests of New Zealand livestock producers. The Board has proclaimed as a success the fact that producers now own and control over 70 percent of the meat processing industry - an industry which is currently unprofitable and highly geared. Wherever possible, producers continue to send their livestock to the processor who pays the most. They have little trouble in separating the commercial from the political.

It seems very likely that the end result of this commercial husbanding of the processing industry by the producer board will be an industry either owned by the

banks or having to accept extensive foreign investment. Surely producers will eventually conclude they have paid enough and lost too much?

Why do satisfactory commercial solutions still elude the meat processing industry? I believe the reason is simple - politicians do not like taking unpopular decisions. Capital write-offs are inevitable in the meat processing industry and attempts to avoid solutions the market has been demanding for some time mean they will be particularly painful when they eventuate. Instead of letting the market decide who succeeds and who fails, industry politicians have attempted to manage the industry to a 'soft-landing'. At the same time they further distorted investment and adjustment decisions by, for example, systems of freight and transport charging which advantaged some processors at the expense of others.

The problems of the New Zealand meat processing industry seem destined to be solved in a manner similar to that experienced by the Australian wool industry.

The producer politicians eventually have to let go, some dramatic consequences and a bout of severe commercial pain ensues, and then a market driven process of reconstruction occurs.

Both of these examples of intervention which eventually ends in a big 'bang' lead me to a final, and perhaps the most important, conclusion on the consequences of restricting choice and limiting competition in the marketplace.

7. INTERVENTION CONTAINS THE SEEDS OF ITS OWN DESTRUCTION

The main issue which all agribusiness practitioners, and farmers in particular, need to come to grips with is that the types of intervention and statutory structures which we tend to adopt will always become politicised.

As I have explained, this is axiomatic because they are creatures of statute - of laws which only politicians can put in place, amend, or remove. An inevitable consequence of this politicisation is that the arrangements will eventually seriously break down or lurch from crisis to crisis at considerable and unnecessary cost.

This inevitable consequence is a fundamental characteristic of their design. It derives from the constraints that are placed on the exercise of choice.

The constraints on choice and alternative forms of commercial enterprise lead to commercial pressures building both inside the system and from outside. This occurs without the commensurate and steady adjustments to structures and practices which occur in less controlled markets. The industry politicians use political tools, and make marginal changes to the arrangements, as they attempt to manage and reduce these inevitable commercial pressures. The stronger the 'pressure vessel' (the extent of controls and constraints on choice), the bigger the bang (disruption and economic damage) when the vessel finally bursts.

It is my casual observation that throughout the world every attempt to comprehensively constrain the normal opportunistic behaviour of people and the exercise of commercial choice eventually meets the same fate. It collapses under

pressure for change. I see no reasons, in principle or in practice, which would lead to the conclusion that the type of intervention in agricultural marketing in Australasia is an exception to this general conclusion.

For those who want to believe that the arrangements they hold dear have stood the test of time, consider the ability of the Soviet Union to constrain an entire economy for nigh on 70 years. Consider also the economic mess that country now has to set about cleaning up.

8 CONCLUDING COMMENTS

I would like to draw together the arguments and propositions I have advanced, and the logic that underlies them, into the following general observations:

- as we go about deciding how to benefit commercially, and minimise the pain, from Europe post-1992, let's remember that the politics and their consequences we observe in Europe have their parallels here in the approaches we take to agricultural marketing;
- it is a certainty that the current debate about the pros and cons of restricting choice in agricultural marketing will continue with its intensity being fairly directly related to the extent of controls and constraints that are imposed;
- it is equally certain that marketing structures and systems which exist by virtue of protective and restrictive statutes will eventually collapse, and the greater the controls the bigger the ultimate bang;
- why not, therefore, look to an approach which might avoid the need to suffer consequences that are inevitable? Achieving that would be relatively straightforward. We simply need to remove politics from the agribusiness marketing arena.