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# Canada's Chicken-and-Egg Problem

## The High Cost of Price and Output Controls

Paul K. Gorecki

**I**N THE UNITED STATES, official interest in agricultural regulation—even the relatively obscure part of it called marketing orders (see page 30)—is gathering a head of steam. Last year, at the behest of President Reagan's Task Force on Regulatory Relief, the U.S. Department of Agriculture conducted its most intensive economic review in many years of all federal marketing orders in fruits, vegetables, and related specialty crops. (Milk, the most important commodity subject to such control, was not included.) The review found both good and bad in the orders studied, prompting the department in January to issue guidelines aimed at reducing the inefficiencies that such orders cause.

The more restrictive of the U.S. marketing orders—those for milk (particularly when combined with price supports) and for a few fruits and vegetables—resemble a system of commodity price and output regulation initiated in Canada in the 1930s. This article summarizes Canada's recent experience with that system.

Canada uses supply management boards to control the prices, production levels, and imports of six agricultural commodities—fluid milk, industrial milk (processed into products

*Paul Gorecki is a senior research officer at the Economic Council of Canada. The views here are his.*

such as butter, yogurt, and ice cream), eggs, chicken, tobacco, and turkeys. This type of regulation grew rapidly in the 1970s, particularly at the national level. The six commodities accounted for 22 percent of all farm cash receipts in 1979, whereas in 1966 the two commodities subject to such controls (fluid milk and tobacco) accounted for only 10 percent of receipts. Furthermore, recent proposals would extend the controls to beef cattle and potatoes, which represent another 24 percent of farm receipts. These developments have aroused not only controversy within Canada but also the interest of scholars—who have by now produced a considerable body of knowledge on the controls' effect on prices, output, costs, income levels, and efficiency.

### How Marketing Boards Work

Marketing boards are organizations of producers formed to market a particular primary or processed natural product. They are operated under authority delegated by the federal and/or provincial (equivalent to state) governments, and generally are responsible to a supervisory body—for example, at the federal level, the National Farm Products Marketing Council (NFPMC). Such bodies have quite limited

powers, however, and in any case are dominated by producers. Typically, commodity boards come into existence only after approval by a majority of producers. Like cooperatives, they are run in large part by their memberships; unlike cooperatives, they usually subject all producers of the commodity in a specified area to their rules.

Most marketing boards are intended to give producers bargaining power in negotiating price and other conditions of sale with a small number of buyers. But their powers to coerce the decisions of individual farmers vary considerably. At one extreme, the boards only impose small levies to fund product promotion and development; at the other, they rigidly control price and output. In between are boards with powers to establish prices, but not output, by assuming a selling responsibility or negotiating on behalf of producers. Here I address those boards that exercise the most stringent controls over the economic decisions of the individual producer—setting both the sale price that all producers receive and the specific output (or quota) that each may produce. Boards of this kind are referred to as having supply management powers.

A supply management scheme may be national or provincial in scope. A national scheme is based on an agreement, or marketing plan, between provincial governments (which have power over intraprovincial trade) and the federal government (which has power over interprovincial and international trade). The plan specifies, for the relevant commodity, the quantity that can be produced nationwide and in each of the provinces. The federal board administers the supply management powers—setting prices,<sup>1</sup> marketing the regulated commodity, and so on—while the provincial boards allocate their respective quotas to individual producers within the province and help to enforce the national plan. A provincial scheme differs from a national scheme only in that all supply management powers are exercised by the provincial board. Provincial supply management has developed for fluid milk, because it is perishable, and for tobacco, because its production is concentrated in the province of Ontario.

In administering national or provincial plans, the provincial boards use various control powers such as seizing and disposing of

“surplus” supplies and inspecting individual producers to make sure they do not exceed their quotas. There are also import controls, run at the federal level but with the advice and assistance of the national or provincial boards, that buttress the “management” of the domestic market. Indeed, before controls can be placed on imports under the General Agreement on Tariffs and Trade, a supply management scheme must be in place.

In determining prices, supply management boards increasingly make use of cost-based formula pricing. That is, the board commissions periodic surveys of cost for the “average” or “reasonably efficient” or “representative” producer, in order to arrive at a “reasonable” price. Using the formula, prices are changed to reflect changes in interest rates and in such inputs as feed prices. Quotas are set to meet the expected demand at a fixed price. Surpluses are stored or sold on the world market, while shortages are met by drawing on inventories or by purchasing from abroad. The exercise of these price and output powers is exempted from the provisions of Canada’s antitrust statute, the Combines Investigation Act.

### **Income Redistribution and Quota Values**

To the extent that a supply management board succeeds in raising the price of its producers’ output above their production costs, including normal returns to capital and labor, it creates a stream of returns that is capitalized in the form of a quota value. The quota, in effect, gives the holder the right to sell a specified volume of output through the board, even though the quota might be specified in terms of a particular input (such as the number of laying hens permitted, where eggs are being regulated). The value of the quota is not included in the cost-based price formula. This should theoretically cause quota prices to drop toward zero; since they have not, it can reasonably be deduced that the formula overstates actual costs of production for at least some producers.

There are well-developed markets for the buying and selling of most commodity quotas. Some quotas are freely transferable. Others, however, can only be sold in connection with

<sup>1</sup>This power now exists for eggs and industrial milk and appears to be emerging for chickens and turkeys.

# U.S. Agricultural Marketing Orders

Marketing orders are issued by the U.S. secretary of agriculture at the request of producers. The orders authorize certain restrictions on the quality and quantity of products that can be marketed. These restrictions vary from order to order and may include packaging standards, minimum requirements for grade and size, limits on the amount that can be shipped during certain periods within the marketing season, limits on the amount that can be sold on the fresh market and, in a few cases, limits on the total amount that can be sold at all. The cost of administering the orders is paid by growers and handlers themselves, through assessments. In some cases these fees also finance research and promotion activities.

Each marketing order applies to one commodity grown within a specified geographic area. The order is usually proposed by a producer group, examined at a public hearing, and evaluated by the Agricultural Marketing Service which, on finding the proposal necessary to achieve orderly marketing, recommends it for adoption. The secretary of agriculture, after reviewing objections to the order, submits his final decision to a producer referendum. Two-thirds of the eligible producers, or producers accounting for two-thirds of the total volume, must approve an order before it can take effect. Once it is issued, a marketing order is binding on all growers and handlers of the product in the covered area. The secretary of agriculture may suspend or terminate an order at any time if he finds it is not fulfilling the intent of the act or that a majority of the growers favor ending it.

Marketing orders got their start in the 1930s after voluntary marketing agreement programs failed because of the "free-rider" problem—that is, growers who did not participate in a program could gain its benefits without meeting its restrictions or sharing its costs. The current law governing the orders is the Agricultural Marketing Agreement Act of 1937 (as amended). This law has been strengthened modestly over the years and its coverage has been extended to additional commodities, but its basic provisions have remained unchanged.

Congress provided for marketing orders primarily as a way to ensure orderly marketing conditions and secure parity prices for farmers. ("Parity" occurs when the price of farm commodities has risen as fast as the prices paid by farmers, with reference to prices in a base period.) The act instructs the secretary of agriculture to look out for consumers' interests as well, by raising prices only gradually, by not using marketing orders to maintain prices above parity levels, and by ensuring that the actions are feasible in view of current demand in domestic and foreign markets. In practice, parity prices are seldom attained under marketing orders, and orderly marketing is more commonly cited as their purpose.

Fruit and vegetable marketing orders functioned for more than three decades with relatively little controversy. But during the 1970s, concerns arose about their effects on food prices and availability. On January 25, 1982, the Department of Agriculture, following a study of the marketing orders for fruits, vegetables, and specialty crops, issued a set of guidelines to govern their operation. The guidelines endorse marketing orders as a possible way to stabilize the market for farm products. But they declare that the producer allotment system, a U.S. variation on the Canadian quota system, is "contrary to the general policy of this administration," even though "it does have a statutory basis." Existing allotment programs will be carried out "in a manner that will eliminate barriers to entry." The guidelines also took a mildly skeptical line on such supply management devices as stockpiling, import restrictions, and "shipping holidays."

As of mid-1981, the only marketing orders having the authority to use producer allotments were those covering cranberries, Florida celery, hops, and spearmint oil. Other marketing orders covered citrus fruits (nine orders), potatoes (six orders), peaches (four orders), pears (three orders), grapes, cherries, prunes, onions and tomatoes (two orders each), plums, nectarines, apricots, papayas, melons, avocados, olives, lettuce, dates, raisins, almonds, walnuts and filberts (one order each). [See "Dispatch from the Nut Wars," *Perspectives, Regulation*, January/February 1982.]

This summary is adapted from Department of Agriculture, *Review of Federal Marketing Orders for Fruits, Vegetables, and Specialty Crops: Economic Efficiency and Welfare Implications*, October 15, 1981, and *Guidelines for Fruit, Vegetable, and Specialty Crop Marketing Orders*, January 25, 1982.

AGGREGATE QUOTA VALUE OF  
SUPPLY-MANAGED COMMODITIES IN CANADA,  
MID-1978

Commodity	Aggregate Quota Value (\$ millions)
Fluid milk	637.4
Industrial milk	609.4
Eggs	197.4
Chickens	304.4
Turkeys	100.4
Tobacco	247.3
TOTAL	2,043.3

Source: G. Brinkman, *Farm Incomes in Canada* (Ottawa: Economic Council of Canada/Institute for Research on Public Policy, 1981), Table 3-21.

the specific farms to which they apply, or can only be sold to a farmer whose total quota, after the transfer, does not exceed a specified maximum. Despite these limitations, quotas usually command a substantial price, suggesting that consumers of the regulated product are paying more than the actual cost of production.

Quota values represent substantial sums.<sup>2</sup> Some indication of how large they were in mid-1978 is found in the table below. Moreover, in the 1970s these values often rose faster than the consumer price index. For example, from 1972 to 1977, the price of quotas for fluid milk, eggs, chicken, and turkeys in British Columbia increased by 97, 129, 57 and at least 100 percent, respectively, while the CPI increased by 53 percent. Between mid-1978 and 1980 the aggregate value of quotas in Canada increased from \$2.0 billion to about \$3.0 billion, and aggregate egg and chicken quota values increased from \$197 million and \$304 million, respectively, to \$282 million and \$441 million.

Another way to look at quotas is to compute the annual income stream that they provide to a typical producer, by multiplying the producer's quota value by an appropriate interest rate. The resulting figure represents income producers receive over and above what they would have received if commodity prices had reflected true social value as measured by the market.

- In early 1980, the quota held by the average egg producer was worth \$123,000 and that of the chicken producer was worth \$193,000. This implied annual income streams of \$20,000 and \$31,000, respectively, per producer.

- In 1977 the average tobacco grower in Ontario held a quota worth \$84,000, with an implied annual income stream of \$7,500.

- In early 1981, the quota in Ontario for a single farmer was worth \$100,000 for milk, \$500,000 for eggs, \$250,000 for turkeys, and \$500,000 for chickens, with implied annual incomes of \$15,000, \$75,000, \$38,000, and \$75,000 respectively.

These figures suggest that established owners who receive their quotas for free when a supply management system is created (or do not have to pay when the quota is increased) benefit substantially from the system. However, the would-be producer, who must buy the right to operate from an established producer, faces a significant cost of entry over and above the cost of buying, equipping, and stocking a farm.

Supply management raises prices, partly by creating inefficiencies (discussed below) and partly because of the monopoly power reflected in the value of quotas. However, because there are many consumers and few producers, the amount each consumer pays in higher prices is small compared with the benefits received by each producer. For example, the annual cost of quotas to the average Canadian family in 1980 was \$11 for chicken and \$8 for eggs—amounting to 9¢ a pound for chicken and 13¢ a dozen for eggs.

In effect, the producer-dominated supply management boards impose a small per unit tax on consumers in order to yield substantial benefits to the producer. It is, therefore, not

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surprising that an NFPMC investigation into the egg board concluded that, despite the board's statutory duty to take consumer interests into account, its major policy documents "provided evidence of a total emphasis on producer matters." A recent formal inquiry,

<sup>2</sup>Estimates of quota values and the implied income from them are drawn from a variety of sources and are based on different approaches and methodologies, and hence may not always be exactly comparable.

headed by Justice H. Gibson, into the administration of industrial milk policy likewise concluded that "the interests of the consumer do not appear to have been a substantial concern...."

### Efficiency Considerations

As noted, supply management boards, by introducing quotas and attaching various restrictions to their use, not only redistribute income from consumers to producers but also reduce the efficiency with which agricultural goods are produced. In other words, too many resources—land, labor, and capital—are used to produce a given level of output. Furthermore, innovation may be discouraged.

An important source of potential inefficiency is the allocation of Canada-wide quotas among the provinces by nonmarket methods. The initial distribution of the quota for a commodity is usually based on each province's previous output of that commodity. A 1980 federal Department of Justice publication (*Securing the Canadian Economic Union in the Constitution*) outlined some of the resulting problems:

[T]here is considerable reluctance to reallocate market shares, and even more reluctance to base that reallocation on the principles of comparative advantage.

Some provinces that import under supply management arrangements feel that they should have preferred access in their local market. This would further impede interprovincial trade.

Since market shares are negotiated for one commodity only, these arrangements do not allow the advantages of specialization and trade to be fully captured.

Given such impediments to resource mobility, the sale price of quotas is likely to differ more and more from one province to another as population movements continue and factor prices change. This of course would be a signal of geographic inefficiency. One recent estimate (by the Department of Finance) suggests that \$4 million could be saved annually in resources if industrial milk quotas were tradeable across provincial boundaries. Furthermore, such costs are likely to increase over time as the allocations made in the 1970s become less and less realistic.

Inefficiency can also arise when supply management boards impose constraints on quota use that discourage producers from employing the most efficient combination of labor and capital. This occurs in a variety of ways. Quotas are often tied to an input rather than an output, where the former is easier to administer. Controlling the number of eggs is much more difficult than counting laying hens. Quotas on a single input, however, lead producers to intensify their use of other inputs. Thus, when tobacco quotas were specified in terms of acreages, producers boosted their output per acre, even though this reduced quality. Tobacco buyers then requested that the quota be specified in pounds of tobacco. In egg supply management, the number of laying hens is the variable under control, and producers naturally try to increase the number of eggs per hen. The result is periodic overproduction, with the surpluses dumped on world markets, flock sizes reduced, and egg barns left empty.

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Another obvious curb on efficiency is the frequent practice, usually provincial, of setting ceilings on the amount of quota that a single producer can hold. For example, the maximum chicken quota in British Columbia in 1977 was 51,400 chickens per eleven-week cycle. A B.C. legislative committee criticized this limit in its 1978 report:

There is evidence to suggest that the optimal size is far larger. . . . In the United States, for example, family farms producing 100,000 or more birds per cycle are common. In addition, both research and the U.S. experience confirms returns to scale continue beyond 200,000 birds per cycle.

By 1980, British Columbia had raised its maximum only to 56,000—while Ontario and Quebec, accounting together for 68 percent of the Canada-wide quota, had upper limits of 75,000 and 100,000, respectively. Although the declared

reason for the limits is to preserve the family farm, some critics claim they are chiefly designed to keep quota value from going even higher, and attracting further public attention and criticism.

Yet another restriction, with a motivation similar to quota ceilings, is to attach the quota to a specific asset, usually the farm, so that one cannot be transferred without the other. This too prevents economies of scale from being fully realized. The availability of such economies is evidenced by farmer attempts, through bogus land deals and other legal transactions, to transfer quota independently of their farms. In one recent Ontario case, a farmer tried to increase his chicken quota holdings through ploys of this kind, hoping to fill up a half-empty barn.

The combination of the latter two restrictions—quota ceilings and the tying of quota to a particular farm—seems to have led to major inefficiencies. One report (by T. Borchering, with G. W. Dorosh) compared 1975 egg production in British Columbia and in neighboring Washington state, which had no such controls:

In Washington state about 66 percent of annual egg production is derived from farms having flocks larger than 50,000 birds, in B.C. only 5 percent. . . . More importantly, in B.C. 66 percent of egg production is derived from flocks which range in size from 10,000 to 50,000 birds. According to a report done for the Canadian Egg Marketing Agency, this is the least cost efficient production range. Both smaller flocks (12,000 birds or less) and larger flocks (more than 48,000 birds) experience lower production costs. The mid-range farms, so prevalent in B.C., experienced costs 8 percent higher than small farms and 16 percent higher than large farms.

No overall measure of all of these inefficiencies is available, but they are likely to be significant.

Quotas and the inefficiencies associated with them mean higher product prices, which means in turn that imports of the quota-regulated product will have to be controlled. Moreover, if that product is an important ingredient in a processed commodity, then the processing industry may itself become internationally uncompetitive and demand import controls for its products. This has occurred in the case of in-

dustrial milk: products such as butter, yogurt, and some types of cheese are all now subject to stringent import controls. A similar pattern may be expected to develop for processed products made from chicken, eggs, and other commodities subject to supply management.

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The supporters of supply management say it improves efficiency by reducing uncertainty about future prices and planned production levels, and thus bringing about "better" investment decisions and lower costs. However, certainty is an economic good, like any other, and buying too much of it is inefficient. The available evidence on the effect of supply management on price certainty is sketchy. The study comparing egg prices in British Columbia and in Washington state found that supply management narrowed price dispersion. On the other hand, a 1978 study that examined variability in output, producer and consumer prices, and industry gross revenues for tobacco, chickens, eggs, and turkeys in Ontario (one of the two biggest provincial markets) concluded: "the only verdict which is supportable at this stage is that found in Scottish jurisprudence, 'not proven.'"

In sum, the evidence on efficiency, although not as unambiguous and quantifiable as that for income redistribution, suggests that substantial inefficiencies have arisen, some of which are likely to increase over time, while any improvement in stability that may have occurred is of questionable economic value.

### Goals and Results

A major objective of supply management marketing boards—some would say the only valid one—is to provide adequate and stable incomes for producers at a rate of return on farmland, equipment, and labor broadly comparable with

that earned in other sectors of the economy. Two questions need to be asked. Have the boards actually raised incomes, either permanently or temporarily? If so, how have the gains been distributed?

Under supply management schemes, the regulated price is set higher than the unregulated price would be. What happens then, as we have seen, is that the difference between the regulated and unregulated price is capitalized in the value of the quota—and those who initially received their quotas “free” realize a capital gain when they sell them. Subsequent buyers of quotas in effect buy the right to produce the regulated product. Thereafter the market operates as usual, and the new entrant earns a competitive rate of return on *all* assets, including the quota. Consequently, supply management results in a one-time step up in income for established producers.

The new entrant—who, since his seller has made off with the monopoly profits attributable to the quota system, is now in about the same economic position as an unsubsidized producer—can be expected to press the board to widen the difference between the regulated and the market price. If he is successful, the value of his quota will of course increase at least until prices reach the monopoly optimum (that is, the price at which aggregate quota value is maximized). Unfortunately no studies have attempted to determine how close prices are to this peak.<sup>3</sup>

The second question is—who benefits? For the larger, more efficient producers, the subsidy takes the form of a “rent,” because their costs are low enough that they would be in business anyway. For the smaller farmers, the effect of the subsidy is to enable them to stay in business, because their costs are above the unregulated price but below the regulated price. The evidence indicates that commercial farmers hold the vast majority of the quotas. By and large, they earn adequate rates of return on

<sup>3</sup>In the case of industrial milk, a very large subsidy, which encourages output, substantially offsets the effect of supply management. Indeed, the quota serves not only as a right to produce and market a certain volume of milk, but also as a ticket to the subsidy. As a result, the implied average annual income stream from the quota per producer is much smaller than for other supply-managed commodities—under \$1,000 in 1977. Nevertheless, the large number of producers—66,766 in 1977–78—results in the large absolute aggregate quota value recorded in the table.

their assets and adequate incomes. The so-called income problem is confined mainly to the remaining quota holders who, while numerous,

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hold relatively small amounts of quota in all. Thus, even if supporting the incomes of small farmers is a valid objective of farm policy, supply management is an inappropriate means, since its benefits accrue largely to commercial producers.

### Prospects for Reform

Our analysis suggests that supply management is seriously flawed and that its flaws are likely to increase over time. Clearly, a shift to more appropriate policies is in order. The income problem, which principally involves relatively small farmers, could be better handled by direct income support. The instability problem could be addressed by extending Canada's existing stabilization programs (for example, the Agricultural Stabilization Act or the Western Grain Stabilization Act) to the six supply-managed commodities and by establishing, where possible, futures markets and forward contracts.

Unfortunately, regulatory programs, once started, are hard to stop. In the case at hand, abolishing supply management would inflict large losses on persons who bought their quotas in good faith. Quotas are often a big part of a farmer's total capital investment—for example, between 37 and 50 percent on average in 1977 for producers of fluid milk, eggs, and chickens in British Columbia. Thus the federal and provincial governments, unless they are prepared to break faith with the quota holders or to spend approximately \$3 billion to buy out their quotas, are locked into supply management schemes that, with the passage of time, benefit nobody and disadvantage many. The current federal minister of agriculture is well



aware of the problem. When speaking of the chicken quotas in a 1980 speech, he remarked:

We have been fooling around with this question of quota values for too long. We all know that the answer will in some cases mean reducing the wealth of the people who hold quota, and that is a difficult thing to do politically. Nonetheless, I fear that it has gotten out of hand.

Not only would it be costly to end supply management programs, but there is a further difficulty: the most obvious alternative—subsidizing all producers directly for each unit of output—is not attractive politically. Under this alternative all taxpayers, rather than just consumers of eggs, milk, turkeys, chicken, and tobacco, would subsidize the producer. The disadvantages for both politicians and producers are readily apparent.

One is that the federal and several of the provincial governments are too short of funds now, and were during much of the 1970s, to make the annual payments of several hundred million dollars implied by quota values of \$3 billion. Hence the increasing reliance on supply management in recent years. The industrial milk case dramatically illustrates the point. From fiscal year 1966 to fiscal year 1975, subsidies increased from \$19 million to \$251 million, or from 7 percent of all federal farm spending to 21 percent. Then in 1975 the federal government announced its Long Term Dairy Policy, which froze total subsidy payments at 1975 levels and began a system of supply man-

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There are other factors that favor the use of supply management. Producers, fearing the

market power of the food processors who buy their products, are inclined to rationalize supply management as a way to restore a fair balance of power and permit them a degree of control over the vicissitudes of the market. Many of the same producers, by contrast, would view direct cash subsidies as a form of welfare and hence repugnant. And politicians, worried that the direct transfers would be very large, highly visible, and perhaps difficult to justify to the public, find supply management attractive because its costs are largely hidden. From a political point of view, then, supply management has much to recommend it to both producer and politician.

The same reason that explains why reform is difficult to achieve helps to explain why the situation may actually get worse. The Standing Committee on Agriculture of the Senate is seriously considering the question of extending the quota system to beef cattle, as the minister of agriculture favors, while a board with just short of supply management powers will soon be created for potatoes. These commodities would probably be much harder to handle than the six already covered—beef cattle because of the integrated nature of the North American market, the long production cycle, and the diverse interests of the producers who would be subjected to the system, and potatoes because of the great variation in yields due to weather conditions. Furthermore, with Canadian agriculture increasingly controlled by a series of commodity cartels, another development bears watching: Parliament currently has before it proposals for a government-run Canadian Agricultural Export Corporation authorized to use "its financial strength" to help meet foreign competition (to subsidize exports), to "facilitate domestic production," and to act as agent for the government in state-to-state deals.

Yet, although the prospects for reform are not bright, there is some movement. In 1978 the federal and provincial governments were concerned enough about the general question of regulation in the economy to refer the matter to the Economic Council of Canada, an independent body that advises the government (and is composed of people drawn from labor, business, universities, agriculture, and consumer groups). In its final report of June 1981, the council made some modest recommendations. The government, it said, should be cau-



tious about creating new supply management boards, should expand the output permitted under quotas so that prices and quota values would fall, should make quotas freely transferable (eventually throughout Canada), should relax restrictions that damage efficiency, should introduce separate policies aimed at the problem of low and unstable incomes, and should widen the membership of the supervisory councils. Farm groups, supply management boards, and the federal minister of agriculture strongly oppose the recommendations, while food processors support them.

The president of the Treasury Board (an important post in the Canadian government) has been charged by the Prime Minister with coordinating the selective deregulation of industries and activities. It will be difficult. Producers naturally fear they would lose more than they would gain, while consumers who pay the tab are not aware of its size. But if those who are interested in consumer welfare and economic efficiency come to understand the implications of the system, reform may be possible. In any event, Canada's experience with supply management in agriculture provides those who are concerned about U.S. marketing orders with evidence of the adverse economic consequences of greater regulation. ■

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#### New York City Looks at Taxi Regulation

(Continued from page 13)

ual cabs has virtually broken down with the rise of "mini-fleets." By law, 4,969 medallions must be owned by individuals, and the other 6,818 by fleets of more than one vehicle. This division was originally meant to keep fleets from "taking over" the whole industry, but in recent years the trend has been in the other direction, because individual cabs, generally with non-union drivers, have lower costs than the large unionized fleets. An individual medallion can sell for \$10,000 more than a fleet medallion—\$60,000 versus \$50,000. The market has now found a way around the legal barrier, at least in part. During the 1970s, about 4,700 of the so-called fleet medallions were transferred to mini-fleets—corporations that generally own two medallions and have two corporate owners. In some instances the two owners never even meet each other, the whole transaction being arranged by a medallion broker.

Medallion brokers also perform various other tasks for cab owners, such as arranging bank loans and filing necessary papers with the authorities. In doing so, these brokers have attracted the unfavorable attention of the TLC, which has repeatedly supported unsuccessful attempts in the City Council to bring them under TLC licensing and regulation. The mayoral panel endorsed such regulation, explaining that brokers should, for example, be required "to explain to a medallion purchaser the nature and public service obligations of the medallion."

In some other ways, too, the panel would increase municipal involvement in the industry. It recommends that the city set up its own site for taxi vehicle inspections, which are now done at private garages and meter shops, and it proposes that the city start up a New York City Taxi Driving School that all new drivers would be required to attend.

Overall, the panel's work well illustrates the political dilemma posed by long-standing government barriers to entry. The new proposals would appear to ease entry only by slow and uncertain steps, if at all. But so long as the interests of current medallion holders are not to be harmed, it is hard to imagine how any bolder stride could be taken.