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**A NOTE ON THE ECONOMY OF QUALITIES:
ATTRIBUTING PRODUCTION PRACTICES TO
AGRICULTURAL PRACTICES***

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ABSTRACT

Agricultural products are valued for many attributes including those that describe production practices. These production attributes are established through public and private efforts to promulgate standards and labels that differentiate products based on labor treatment, environmental impact, animal welfare, and other practices that occur *during production*. Organizations, like third-party certifiers, coordinate information and give credence to products in a way that enables consumers to differentiate products by production practices. Libertarian and utilitarian arguments may be used in the normative debate surrounding the appropriate role of government in sponsoring standards and labels that inform consumers about the modes of production.

The contemporary agrifood system is increasingly responsive to concerns about production practices. For example, the 2009 McDonald's Corporate Responsibility Report highlights that 98 percent of their fish is sourced from fisheries with "favorable sustainability ratings" (McDonald's 2009). The report also notes that 97 percent of the abattoirs in their supply chain were audited and 99 percent passed. The USDA's National Organic Program (NOP) is also concerned with production practices and process standards as the basis for labeling. The NOP differentiates products based on production processes; organic certification does not subject the product itself to regular testing (see Deaton and Hoehn 2005). Fair Trade

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Associations and retailer groups have developed labor and environmental standards to govern production practices over a range of agricultural products – from bananas to coffee – and market this information to consumers through labels and direct sales (Blowfield 1999).

The institutions and organizations that enable producers and consumers to differentiate their choices based on production practices are part of an *economy of qualities* (Cidell and Alberts 2006; Cochoy 2002; Eymard-Duvernay 1995). We use the term – *economy of qualities* – to emphasize the various dimensions of quality attributed to products, producers, and consumers in the economy.¹ Throughout this note we contrast one general dimension of quality – i.e., that which differentiates goods based on production practices – with more conventional measures of quality that emphasize the differentiation of products based on the physical characteristics of the product. With eggs, for example, a more conventional measure of quality is recognized by egg grades, which classify eggs by physical characteristics.

In the economy of qualities consumers, retailers, and producers differentiate products by qualities that can be attributed to the physical product – e.g., the character of the shell for USDA egg grades – and the *production practices* by which it was produced. Organic standards and labels allow consumers to differentiate products by production practices even if more conventional measures of quality (e.g., grades of eggs, taste, color, etc.) remain similar or unaltered. Fair trade coffee allows retailers and consumers to judge coffee using traditional standards for quality as well as the salaries earned by farm laborers. New standards and labels for animal welfare and biotechnology provide additional means of quality differentiation that, like the above examples, establish quality differences by differentiating products by production practices.

STANDARDS OF PRODUCTION

Adam Smith (1937 [1776]) did not explicitly recognize the role of production standards but they figure prominently into his examples of technological innovation and the division of labor. In Smith's (1937) famous description of a pin factory "One man draws out the wire, another straightens it, a third cuts it, a fourth points it, [and] a fifth grinds it at the top for receiving the head..." (p. 4). Smith recognized eighteen distinct operations. Absent from Smith's discussion is the important role that product standards play in supporting each distinct operation. Each production

¹ Our focus here is on the agricultural sector and food production though the issues we address extend beyond these areas.

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task requires a standard of some sort.² For example, each wire must be cut at a standard length and the head of the pin must be of a standard size to ensure consistency and compatibility in the assembly of a pin. In short, the successful division of labor is achieved, in part, through a corollary set of standards.

The production practices implemented by Smith's pin factory though standardized were not generally attributed to products through labels. For Smith's generation and for generations to come, the role of standards in production was not a dimension of quality readily attributed to products by consumers. This is particularly the case in the agricultural sector where producers and consumers, until relatively recently, have not generally sought out standards and labels that would allow them to differentiate the product by the way in which it was produced. Over time, particularly in the first part of the twentieth century, grades and standards were used to establish product quality along physical dimensions of the product (e.g., moisture content of grain).³ The central role of the U.S. grain standards, for example, was to homogenize grain within certain categories, ensure consumers of product quality and consistency, and promote fair competition. In this setting, from the consumer perspective, one load of number 2 red winter wheat is equivalent to any other load of number 2 red winter wheat, regardless of the production practices.⁴

THE ECONOMY OF QUALITIES – MODES OF PRODUCTION AS QUALITY ATTRIBUTES

In today's economy of qualities, standards, labels, and certification systems allow consumers to choose among products based on alternative production practices or modes of production. With respect to the agricultural sector, prominent examples include "organic," "fair trade," and "local." Developing the example of wheat further, a load of wheat that obtains a similar grade, will, sometimes, be differentiated from another based on production practices.

In this setting, consumer and producer concern with production practices draws attention to the interface between individuals, society, and things. An individual's perception of a thing depends on both the attributes of the thing itself and a host

²For our purposes here, standards may be understood as exemplary statements of quality against which products, practices, and/or persons are judged. Grades are the various quality distinctions made. For an overview of the changing role of standards, see Busch (2011).

³See Hill (1990) for a historical examination of grades and standards in the agricultural sector.

⁴Number 2 refers to a grade that differentiates wheat by its physical characteristics.

of individually held social concerns that can be (and increasingly are) attributed to production practices and ultimately to the thing itself. The capacity to attribute this broad array of qualities to things involves standards, certification processes, and labels.

Product differentiation based on production practices challenges contemporary approaches to marketing and trade. For example, two bottles of canola oil may be physically identical (i.e., the same color, fatty acid composition, packaging, etc.). Therefore, their intrinsic quality would be the same. However, as the contentious debate surrounding genetically-modified foods attests, the quality attributed to the oil differs if one oil is produced from oilseeds whose genetic composition was derived from rDNA technology and the other through traditional breeding techniques (McHughen 2000).

The effort to attribute production practices to products presents transacting parties with both empirical and perceptual problems. The empirical problem – to assure transacting parties of production quality claims – is addressed by standards, labels, and a group of organizations promulgating and verifying these standards. These organizations include international standards bodies like Codex Alimentarius, federal standard-setting bodies like the USDA, private clubs like GlobalGAP (Good Agricultural Practice), and third-party certifiers like the Food Alliance.

Producer claims regarding adherence to a standard set of production practices may not be credible without third-party certifiers. In other words, lacking an effective third-party certification system, some producers may have an incentive to make false claims regarding their production practices. Consumers may anticipate this problem and this may diminish the amount they are willing to pay or lead them to avoid purchase of the product altogether. Even in a situation where only some firms make false claims, their presence can ultimately lead to a situation where exchanges fail to occur altogether.⁵ Third-party certifiers overcome this problem if they ensure consumers that quality claims (e.g., labels) will not be assigned to products that do not meet the production standards.⁶ In this way, standards and third-party certification systems are part of the social technology that both characterize qualities regarding production practices and allow for their exchange. Perceptions of “good” production practices differ across consumers and producers

⁵ Akerlof's (1970) discussion of the market for “lemons” provides a theoretical treatment of this situation.

⁶ See Deaton (2004) for a theoretical overview of third-party certification.

and are subject to change. While some consumers and producers may invest standards with almost sacerdotal status, others will approach the matter instrumentally or pragmatically. The U.S. National Organic Program (NOP) provides an example of the latter. The initial set of proposed NOP standards was contested. Many people objected to the use of certain technologies, such as genetically engineered seeds. Consequently, the proposed standards were substantially revised. From the outset, the NOP standards – that became law in 2002 – were contested. Some have argued that the NOP standards favor large farmers and retailers; or that they do not go far enough to ensure sustainability. Consequently, some have argued for additional requirements that go “beyond organic” (Robinson 2010). This situation is unlikely to stabilize because each new set of standards and associated labels opens the possibility of further differentiation and new market niches to be addressed by producers and marketers.

GOVERNMENT, LAW, AND ETHICAL PERSPECTIVES

Government and law are deeply involved in the social construction of the economy of qualities. This section provides a brief example of the type of conflict that may emerge between producers when one firm differentiates a product by production practices. We also discuss regulated claims in which government enables producers to use certain labels if they adhere to a set of standards. In this context we explore differing ethical positions regarding the extent to which government should set out to ensure consumers the right to differentiate agricultural products by production practices.

In 2003, Monsanto took legal action against a small dairy in Maine who labeled their product as not being *produced* by cows treated with artificial growth hormones (Barboza 2003). According to Monsanto, the label was misleading because it suggests that milk from cows treated with artificial hormones is less healthy than milk from cows that are not treated with artificial growth hormones. In addition, they objected to the label because they did not believe there was any way to distinguish milk products by the use or non-use of artificial growth hormones (Barboza 2003). This legal dispute was ultimately settled out of court. One outcome of the settlement was that the dairy agreed to include the following disclaimer: *FDA* [Food and Drug Administration] *states: No significant difference in milk from cows treated with artificial growth hormone* (Endres 2008). Here, the FDA did not mandate labels that would distinguish milk by using the artificial growth hormone. According to the FDA’s guidelines, it is not able to mandate labels if the hormone

is not expected to have “impact,” though “voluntary” labeling is allowed if the label is not misleading (Endres 2008).

Sometimes governments provide the standards, certification processes, and labels by which producers can make regulated claims about their agricultural products. Labeling an agricultural product as “organic” is one example of a regulated claim. Firms may voluntarily decide whether they want to label their product as organic. However, if they choose to use the organic label they must be in conformity with the set of process-based standards and labels put forth by government (e.g., USDA in this case).

Should governments mandate labels that differentiate products primarily by production practices? What is the appropriate role of government? Utilitarian and libertarian ethical positions provide some basis for thinking about these questions.⁷ Utilitarianism is generally traced to Jeremy Bentham and John Stuart Mill. Bentham (1970) wrote, “[a]n action then may be said to be conformable to the principle of utility ... when the tendency it has to augment the happiness of the community is greater than any it has to diminish it” (p. 12). He went on to argue that “[a] measure of government... may be said to be conformable to or dictated by the principle of utility, when in like manner the tendency which it has to augment the happiness of the community is greater than any which it has to diminish it” (Bentham 1970:13). Bentham’s approach has a decision maker consider the impact of an action on pleasures and pains of individuals (and communities) using several criteria (e.g., intensity, duration, certainty, etc.) Given this information, if the decision is expected to be conformable to the principle of utility then the decision is described as having a “good tendency” upon the whole (ibid, p.40). Modern variants of this approach are reflected in cost-benefit analysis (Thompson 2000).

From a cost-benefit standpoint, government policies that support the differentiation of agricultural products by modes of production (e.g., promulgating standards, regulating certification systems, sponsoring labels, mandating labels that differentiate products by production practices) are justified when the benefits exceed the costs. However, several issues complicate this approach. For example, there are difficulties of measuring costs and benefits. There are also distributive concerns because the distribution of costs and benefits is not necessarily symmetric across the

⁷ Given the scope of this note we have limited our discussion to utilitarianism and libertarianism. For a much more thorough treatment of these ethical positions see Thompson (2010).

affected population.⁸ In this regard, questions about labeling and standards are of considerable interest. The costs, benefits, and distribution thereof, will vary greatly across different policy approaches. For example, a government requirement to label all agricultural products derived from genetically engineered seeds has very different benefits, costs, and distributive consequences than a policy that supports an “organic” label that disallows the use of genetically engineered seeds. A variety of potential policies with some benefits are unlikely to receive support because of the magnitude of the associated costs.

Libertarianism emerges from a different ethical tradition than utilitarianism. Representative thinkers in this complex philosophical tradition include Hugo Grotius (see Miller 2009) and John Locke (see Uzgalis 2010). Both philosophers held that human reason was endowed with an innate ability to grasp the moral order. The morality (or immorality) of an act or policy is an intrinsic property of the action itself, rather than being, as utilitarians might have it, a function of outcomes. Usually, libertarians want to protect the autonomy and sovereignty of an individual. From this perspective, it might seem that a libertarian should argue for government policies that play an active role in expanding consumers’ ability to apply whatever preferences they happen to have.

However, as Rippe (2000) explains, the use of a libertarian perspective to support “positive” government action should be limited to certain domains, such as guaranteeing religious freedom or free speech (citing others he argues that there exists no general right to act freely, but only certain freedoms (p.76)). More generally, libertarians describe government’s role as one of protecting individuals from interference in the exercise of these freedoms by others (including government itself). The government is justified in taking positive actions (and in collecting the taxes needed to undertake these actions) only to the extent that its actions meet the requirement of protecting individuals’ political and economic freedoms (Nozick 1974). Hence, from Rippe’s perspective, the libertarian position does not necessarily

⁸This highlights the important distinction between a Pareto improvement and the normative basis for cost-benefit analysis: the potential-compensation criterion. A necessary condition for a Pareto improvement is that no one is made worse off. The normative argument for cost-benefit analysis relies on the potential-compensation criterion that is less restrictive than a Pareto improvement. The potential-compensation only requires positive net-benefits so that, abstractly speaking, gainers could potentially compensate losers. For a more detailed discussion on this issue, see Freeman (1986).

support positive government regulation to ensure that consumers have access to certain kinds of food (see also Thompson 2002).⁹

Libertarianism and utilitarianism can, but need not always, be in conflict. For example, utilitarian and libertarian arguments may agree regarding the role of government in developing standards for ensuring process-based labeling. Assume that a libertarian and utilitarian agree that we should *not* support a government policy that sponsors and promulgates a set of standards and labels that ensure a consumer's ability to purchase a food produced using a particular production practice. In this hypothetical case, the utilitarian argument might be based on a negative net-benefit calculation. The libertarian might agree with the utilitarian but for a different reason. He or she might argue that government regulation should be limited to protecting only certain liberties (Rippe 2000) and that this situation does not qualify.

We can also hypothetically imagine a situation where both philosophies *support* the role of government policy. The utilitarian position, in such a case, results if the net-benefits of the policy to society are positive. In this instance, a libertarian argument that government regulation is needed will require an additional argument that elevates this consumer choice to the other types of "liberty rights" that libertarians argue government has a duty to ensure (Rippe 2000).¹⁰

In the debate over labels for novel foods or GMOs – genetically modified organisms – utilitarian arguments are often offered against labels. Such arguments stress that since there are not health or sensory benefits from avoiding GMOs, costs due to segregation and labeling would be unjustifiable (Vogt and Parrish 1999). In another version of utilitarian reasoning, Kalaitzondanakes, Marks, and Vickner (2008) argued that even when presented with labels for GMOs, consumers do not make different choices. Therefore, the authors argue that the benefits do not justify the costs of mandatory labelling.

Those who have taken a more favorable view on required labelling have been far more likely to utilize the language of autonomy, choice, and individual rights (Jackson 2000; Rubel and Striefer 2004). Rippe (2000) differs from the mainstream

⁹There is a meaningful distinction between regulations that seek to ensure a consumer choice and those government policies intended to promote and allow competition in the market. Rippe (2000) is speaking to regulations designed to "ensure" such choices. Libertarians' view of limited government may result in limited government actions that ultimately allow for competition and expanded choice.

¹⁰With "novel foods," for example, Rippe (2000) argues that the liberal state does not have this duty.

because he lays stress on the claim that liberal governments cannot have a duty to ensure multiple dietary options, and interestingly, Thompson (2002) agrees. Still, Thompson also argues that the function of a label is not to ensure the ability to make a *choice* but simply to protect the right of *exit*, to protect consumers' right to "opt out"—though they must still take their own measures to find an alternative source of food. Hence, while for Rippe there are no important rights claims at stake in the novel foods debate, for Thompson there are.

SUMMARY

The use of process standards and labels enhances the desire to produce and sell by producers and the desire to purchase and acquire goods by consumers. Consumers no less than producers can benefit from the knowledge engendered by standards and labels that attribute production practices to agricultural products. In these situations, process standards become a marketing device for producers and a consumption criterion for consumers. Two other phenomena are worth noting in relation to the foregoing. The history of both non-governmental and governmental standards, perhaps especially the former, suggests that producers among themselves have seen the economic – production and marketing – value of standards. Also, the adoption of, and changes in, process standards can have important consequences for both the existence and structure of markets.

What the process standards should be and how they should be labeled are not solely scientific questions. The economy of qualities is being increasingly negotiated by using standards for production and products; standards that are being worked out among the interested parties. In this process, asymmetric information parallels asymmetric interests, as some economic agents have focused interests and others diffuse interests in what is going on.

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