

MARKET STRUCTURE, ORGANIZATION, AND PERFORMANCE OF THE  
FOOD SYSTEM: GREATEST CONTRIBUTIONS BY AGRICULTURAL AND  
APPLIED ECONOMISTS

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We can think about this topic from the standpoint of:

- What were the greatest contributions
- Who made the greatest contributions

I will consider both.

Some of the things I believe are relevant are:

- Impact on our knowledge of how markets work----not just in theory but in reality
- Total quantity and quality of research output
- Peer evaluation of major works
- Influence on public policy
- Number and impact of students coming out of a program

It will come as no surprise that I will focus on the research program of the Food System Research Group at the Univ. of Wisconsin during the period 1974-2000.

Although I was director of the Group during this period, there is no question that Fritz Mueller was the magnet who created the Group, who opened the doors for funding, who provided much of the intellectual leadership for the Group, and who made possible much of our influence on public policy.

In 1974 when the Group was formed, Fritz was viewed as a leading voice in industrial economics and antitrust policy-----having served as the chief economist of the

Federal Trade Commission during 1961-1968 and as executive director of President Johnson's Cabinet Committee on Price Stability, 1968-69. Fellow economists and graduate students were anxious to work with Fritz. And importantly, Fritz had as much or more acceptance among industrial organization economists in economics departments as with agricultural economists. One indication of this is that Fritz is the only agricultural economist included in the 2007 volume, Pioneers of Industrial Organization.

I mention Fritz's role in the Food System Research Group because it was critical to its success. Other research centers or groups have been less successful because they did not have a Fritz Mueller.

Let me turn my attention now to the output of the FSRG----its quantity, quality and influence.

1<sup>st</sup>—the research was strongly empirical and was nearly always testing some aspect of industrial organization theory. To me, that was one of the biggest strengths of our research. I am reminded of the visit in the late 1980s by John Sutton, London School of Economics, when he was doing research for his book, *Sunk Costs and Market Structure*, in which he did a comparative analysis of about 20 food manufacturing industries across 6 countries. John had developed an international reputation for his theoretical contributions to industrial organization. In explaining his decision to commit several years to a massive empirical study he commented: "We have lots of theories---theories that can explain almost any market behavior. What we desperately need are empirical tests of those theories."

To me, that was one of the hallmarks of our Group's output---the testing of alternative hypotheses. Is the Chicago School interpretation of entry barriers correct---i.e., that they are generally low and of little consequence? Is market concentration positively related to profits because of market power and higher price-cost margins in concentrated industries or because of lower costs in these industries? Do vertical restraints largely impact efficiency or are there competitive consequences also? Does advertising improve the efficiency of markets by providing more information or does it increase product differentiation and enhance market power? During the 1970s and 1980s, there was a vigorous debate among I.O. economists----one side of which tended to be the Chicago "School". The market structure school often provided the alternative theories. Being a part of this on-going debate gave one the sense that we were helping determine the correct view of how markets work.

Another hallmark of most of our work was the passion for good data, our boldness and patience to obtain data, and the rigor of our analysis. In several cases we got our data through Congressional committees or government agencies. Good empirical research depends on good data and the resources and time to develop, clean and analyze the data. Our first big study---that of competition in food retailing---took 3 years to complete with a team of 5. The data were obtained through the Joint Economic Committee of Congress.

The study of the National Cheese Exchange, our last major study, took 4 years and a team of 4+. The Wisconsin Department of Agriculture, Trade and Consumer Protection was essential in obtaining the data.

While our research results were not always embraced by the Chicago School or the antitrust agencies----especially after Ronald Reagan came into office in 1980---I believe our results have stood up to the test of time. One might argue that the seeds of our current economic crisis took root during the Reagan administration when the Chicago School theory of markets was enthusiastically embraced. Their naïve faith in markets and in SR economic models led to a very passive attitude toward firm size and dominance, market concentration, predatory behavior, and vertical restraints. The tough antitrust enforcement of the 1960s was replaced by a view that government regulation is generally the problem. It was contended that markets will work things out in the long run if government just stays out of the way. We now know that this is a naïve and irresponsible view of markets. Markets often need some government oversight and regulation if they are to avoid running awry.

What were some of the FSRG's major contributions to I.O. economics and policy during 1975-2000? I have identified five.

1). *Study of competition in supermarket industry*. The "JEC study", as it became known, became the classic study of this industry during the last two decades of the 20<sup>th</sup> century. The data we had were unbelievably good and allowed us to test the relationship of market concentration and market shares to both prices and profits. At that time, many of the industry concentration-profit studies were under fire because critics argued that the higher profits were simply the result of superior efficiency in concentrated industries. The JEC study demonstrated that in the supermarket industry, this was not the case. Profits in

concentrated markets were higher because prices were higher. The study—published as a book in 1979-- led to 2 days of hearings in Congress in 1977. It influenced antitrust cases for at least 20 years and was the first of many concentration-price studies in a wide variety of industries.

2). *The Food Manufacturing Industries book published in 1985.* This was and still is the most comprehensive study of competition in food manufacturing industries that has ever been done. It drew on the research of several members of our group and was skillfully put together by John Connor. It demonstrated that food manufacturing industries vary widely from relatively competitive commodity industries to highly concentrated industries which generally have high product differentiation. High advertising is associated with high product differentiation, high entry barriers and high profits. It received the AAEEA award for Quality of Communication.

3). *Studies of thin markets in agriculture.* Although our 1996 study of the National Cheese Exchange is much better known, Marv Hayenga did an earlier study of “thin markets” when he was in our Group that provoked a good bit of interest. But our cheese study clearly became the elephant of thin market studies. It led to Congressional hearings, the closing of the National Cheese Exchange to be replaced by cheese trading on the Chicago Mercantile Exchange and a change in the way USDA calculates milk prices.

4). *Analysis of the competitive impact of agricultural cooperatives and the appropriate interpretation of the Capper-Volstead Act.* Over time several of our studies contributed to this subject: Fritz served on the National Commission for Review of Antitrust Law

Procedures and provided key input re cooperatives; Ed Jesse et al did a study on the antitrust treatment of agricultural marketing cooperatives; and Fritz and others did the award winning study of The Sunkist Case, published as a book in 1987.

5). *Studies of the factors influencing market structure and structural change*. Since market structure was found to impact market performance in most of our studies, trying to explain what drives market concentration and firm market shares was important. Over time we did several studies that became important parts of this literature (Mueller and Hamm, Mueller and Rogers, Marion and Kim).

In total, the Food System Research Group published 6 books, 12 monographs, over 50 journal articles and testified before Congress over 20 times during 1974-2000. AAEA awards were:

Distinguished Policy Contribution—1980

Quality of Communication---1985

Quality of Research Discovery---1987

#### Students who came out of the FSRG

Some of the better known include John Connor, Ron Cotterill, Julie Caswell, and Rich Rogers. But there were many others who have made their mark in teaching, business or as lawyers such as Brian Peckham, Tom Paterson, Bob Wills, Bill Sippel, Dave Rosenbaum, Donghwan Kim, and Maqbool Sial.