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## Interpretations of Economic Evidence: The Report of the National Commission on Food Marketing

By Alden C. Manchester

EACH MAN--whether he be economist, businessman, or man of public affairs--looks at economic evidence from a different vantage point and draws his own unique set of conclusions. It would be surprising if this were not so. Nowhere is this more clearly seen than in the work of a bipartisan commission where opposing views are firmly held and vigorously expressed.

The National Commission on Food Marketing was established in late 1964. Funds and staff were available and it began work in January 1965. It consisted of 15 members--5 Senators appointed by the President Pro Tempore of the Senate, 5 Congressmen appointed by the Speaker of the House of Representatives, and 5 public members appointed by the President. Its Chairman was Phil S. Gibson, retired Chief Justice of the Supreme Court of California. The Executive Director was George E. Brandow, Professor of Agricultural Economics at Pennsylvania State University.

The Commission's duties were to "study and appraise the marketing structure of the food industry," including recent and prospective changes in the food industry, and "the kind of food industry that would assure efficiency of production, assembly, processing and distribution, provide appropriate services to consumers, and yet maintain acceptable competitive alternatives of procurement and sale in all segments of the industry from producer to consumer." It was also to appraise "the changes in statutes or public policy, the organization of farming and food assembly, processing, and distribution and the interrelationships between the segments of the food industry which would be appropriate to achieve a desired distribution of power as well as desired levels of efficiency," and "the effectiveness of the services, including the dissemination of market news, and regulatory

activities of the Federal Government, in terms of present and probable developments in the industry."

The final report of the Commission is now available.<sup>1</sup> Ten technical reports are being printed at the time of this writing and should be available before this article appears in print.

The basic concept of the Commission was that it would be a little TNEC for the food industry, modeled on the Temporary National Economic Committee of the late 1930's and early 1940's. The approach both in the legislation and in the report is structural. The key questions are: What is the present organization of each of the major food industries? How has it changed in the postwar period? What further changes can be expected? What is the nature of competition in these industries, and does it constitute "workable competition"? And, finally, what changes in public policy would contribute to making competition more nearly workable?

The Commission held public hearings on subjects ranging from the poultry industry to consumer problems, at which witnesses from trade organizations, farm organizations, consumer-oriented organizations, and Government agencies, as well as individual businessmen and farmers, testified. The basic materials for the Commission's study were derived from the work of its staff. The Department of Agriculture, the Federal Trade Commission, and the Bureau of the Census undertook numerous lines of research or special tabulations for the Commission. Many economists from land grant colleges carried out special projects. Much of the data necessary to the work of the Commission was collected through surveys of

<sup>1</sup> "Food from Farmer to Consumer." Report of the National Commission on Food Marketing, June 1966, 203 pp.

various portions of the food industry; some through formal interviews with representatives of major firms in the various industries.

The report of 203 pages contains 90 pages of findings, including 7 chapters on individual industries, 1 on marketing margins, and 1 on economic regulation. The majority appraisal and conclusions comprise 24 pages, and individual and minority views 76 pages. The 7 chapters dealing with individual industries are rather brief summaries of the forthcoming technical studies. There are chapters on livestock and meat, poultry and eggs, dairy products, fruits and vegetables, milling and baking, grocery manufacturing (primarily breakfast cereals, crackers, and cookies), and retailing. Each chapter treats market structure in terms of number and size of firms, making considerable use of measures of concentration, that is, the proportion of goods in a given market supplied by individual firms. Most deal also with vertical and horizontal integration, and with mergers and acquisitions. Conduct of each part of the food industry is dealt with fairly briefly in most chapters. Performance is discussed in terms of margins and profits and, in some chapters, promotional expenditures. These brief summaries obviously contain only a few of the highlights included in the technical reports. An evaluation of the staffwork will have to wait for publication of these technical reports.

The work of the National Commission on Food Marketing does not provide all the answers to the questions posed in its charter. The 18 months available to the Commission, and its respectable but not overwhelming budget, limited the nature and extent of its inquiries. Within these limits, the Commission--and particularly its staff--has done a very creditable job. The major factors affecting the development of the food industry are all here.

The differences between the majority and minority views of the Commission--and to a lesser extent within these groups--as to the conclusions to be reached regarding desirable public policy emphasized the tenuous link between the findings of economic studies and policy conclusions. Both majority and minority were agreed in their praise of the staffwork and economic evidence presented. While there was

general agreement on the "facts," there was almost total disagreement on the importance and meaning of these "facts" and their implications for public policy.

Both majority and minority groups agreed that substantial changes had occurred in the food industry since World War II. With a few exceptions, the minority felt that these changes were beneficial and should be encouraged. Competition should be viewed in terms of a vigorous struggle for shares in the market. Such competition meets requirements of the antitrust laws and, hence, is in accord with desirable public policy. The American consumer demanded the great increase in variety of products and services of the last 20 years and has been well served by them.

The majority opinion was that competition should be viewed largely in structural terms. Public policy should resist further concentration in a market by individual firms because this condition would lead to poor performance. Regulatory agencies should, therefore, be given additional powers to prevent mergers in the food industry. To strengthen the bargaining power of farmers, the majority supported greater use of cooperatives and marketing orders, and a new device termed an Agricultural Marketing Board which would combine features of a cooperative and a marketing order with additional powers not now possessed by either. While consumers have not resisted, and in many cases have welcomed, the proliferation of products and services, these were primarily generated within the food industry as merchandising tools. They cannot be regarded as universally contributing to the public welfare. The nonphysical side of the marketing system should be regarded as a communication system and public policy should be bent toward improving the information available to all the participants in the system so that more rational choices become possible. To this end, the majority recommended increased grade labeling of consumer products, Food and Drug Administration standards of identity for many more consumer products, restriction on the proliferation of package sizes, and other measures to permit the consumer to make more rational choices. The minority regarded these recommendations as an infringement upon the rights of marketing firms.



Other recommendations of the majority were directed toward providing better data with which to appraise the performance of the food marketing industries. These included better measures of retail prices collected by the Bureau of Labor Statistics and used by the Department of Agriculture in calculating farm-to-retail price spreads, and separate reporting of lines of business of large conglomerate corporations. The problem of reflecting the effects of price specials on average prices paid by consumers, especially for meat, has long been recognized by both the originators and the users of these data.

As food manufacturing firms continue to diversify and extend their activities into an ever-widening variety of business lines both within and without the food industry, data on costs, margins, and profits on a company basis become less and less useful as measures of performance. The Food Commission's recommendations, if enacted into law, would provide a valuable tool for the analysis of the performance of specific industries. The Securities and Exchange Commission is studying such a move for all firms under its jurisdiction.

The conclusions of the Food Commission--both the majority and the minority--as to needed changes in legislation and administration are stated quite explicitly. The implementation or nonimplementation of these needed changes is largely outside the scope of the agricultural economics profession. The impli-

cations of the Food Commission's work for research are less explicitly stated. Inevitably with any broad view of agricultural marketing, the Food Commission's work stresses the necessity of considering the interrelationships between all of the segments of the system. Once again, it emphasizes the role of data on prices and price spreads as measures of industry performance and the continuing need to improve these measures for the specific purpose of judging performance. Not that prices and price spreads are the sole measure of performance. Measures of other aspects must be developed and refined to permit better evaluation of the effectiveness of the marketing system in serving the economy.

The emphasis both in the charter and in the report of the Food Commission is on the maintenance of alternative outlets for farmers and marketing firms, and of alternative sources of supply for marketing firms. These are regarded as crucial aspects of the organization of the marketing system with marked impacts upon performance. The Commission does not say that the maintenance of large numbers of competitors at every level is an objective to be sought above all others. It does say that our research must devise ways of evaluating realistically the alternatives available over time so that more meaningful conclusions can be reached as to changes in the actual state of competition.