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The Food Commission: Its
Product and Its Role

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At least two kinds of questions can be raised about the work of the National Commission on Food Marketing. The first concerns the work as an economic study: What did it contribute to an understanding of the industry, and what did it suggest about ways to improve the industry's performance? The second class of questions concerns the Commission as an instrument of policy-making: What is the place of such an appraisal, was the Commission the right way to go about it, and what influence will it have on government policy, the industry itself, and farmers and consumers? Most of this paper is devoted to the first topic. Some comments are made on the second, but other participants in this program can more appropriately discuss it.

I. The Commission's Work
as an Economic Study

The law establishing the Commission assigned it some elusive and controversial questions. The Commission was to study and appraise the changes taking place in the "marketing structure" of the food industry and where they might lead; efficiency; services to consumers;

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market power; regulatory activities; services such as market news; and the effects of imports. The legislative history of the law showed strong interest in farm-retail price spreads and the position of producers. The central question was the nature of competition in the food industry and how well it comported with goals of efficiency, equity, and diffusion of power.

The Commission's final report, published this past June, summarizes its data and presents findings and conclusions [1]. A series of ten technical studies, containing detailed data and analyses, is now coming off the press [2]. My paper is restricted to the final report. Time does not permit a systematic summarization, so this part of the paper will only comment on the more significant developments in the food industry and the Commission's conclusions as to what should be done about them. Six of the Commission's 15 members disagreed with the report, but no attempt is made here to summarize the dissents.

Developments in the industry

Its market orientation

In much of the food industry, selling--as contrasted with production and physical distribution--is becoming increasingly decisive in business success. The industry and the agriculture that supplies it are highly productive; differences in operating efficiency do not sharply distinguish the principal competitors. High consumer incomes,

wives' desire to spend less time in the kitchen, and other attributes of our affluent society create a market in which ability to make effective nonprice appeals and to influence consumer preferences is a potent way to get and hold markets.

Thus, emphasis on product differentiation by creating new products, by brand advertising, and by other forms of promotion plays a steadily larger role. Retailers similarly seek to differentiate their services by store improvement, trading stamps, supermarket bingo games, and other attractions. The public is benefited by useful new products and better stores; it pays for much promotion and trivial product proliferation without receiving corresponding value. Inefficient methods of distribution to stores are retained in part because manufacturers seek to influence store display of their products. Advantages of large size in selling may overshadow economies of scale in production as a determinant of firm size, and access to consumers is a leading source of market power.

Market structure

The top 20 to 50 firms are acquiring a larger share of the business in most fields of the food industry, while small firms--which operate under several handicaps--are generally declining in number. The share of business controlled by the top four firms is rising in some fields and declining in others; antitrust action has held down four-firm concentration in some cases. One of the strongest and most

important trends toward concentration is in purchasing by chain retailers and group wholesalers. This is constricting alternatives available to suppliers and tends to beget concentration on their part.

In no important part of the food industry do economies of scale in processing and distribution require firms to become so large that there is room in the national market for only a few. But neither do diseconomies of scale restrict expansion motivated by other reasons. The potential public benefit from horizontal mergers on the part of the largest firms in already-concentrated fields is virtually nil, while the erosion of conditions necessary for effective competition and a diffusion of power is a significant loss. Since much of the food industry is not yet highly concentrated, prevention of such mergers--one of the mildest of antitrust restraints--can be an effective if not wholly sufficient policy.^{1/}

Vertical integration has attracted wide attention in food and agriculture. Frequently it has meant economies that are ultimately reflected, at least in part, to consumers. Costs of selling, procurement, and physical distribution may be reduced, operating efficiency may be increased, quality control may be improved, or the adoption

^{1/}Some of the Commission's critics have argued that antimerger policy is not warranted until high concentration demonstrably impairs performance--that is, lock the stable after the horse has been stolen.

of new technology may be hastened. Vertical integration often upsets the previous power balance in the industry. Integration by retail chains, or the threat of it, has at times forced processors to yield to chain demands for private label goods with no advertising costs or excess profits loaded into prices, or to adopt more efficient distribution methods. Apparently the same power has been used at times to exact less justified concessions from suppliers. Vertical integration both backward and forward--and by retailers, manufacturers, or farmers through cooperatives--opens up new business strategies that may violate the canons of fair competition.

The market-oriented food industry, engaged as it is in mass merchandising, contains numerous incentives for vertical coordination of one kind or another. Integration through ownership will selectively increase in the food industry; less formal coordination through contracts and standing business arrangements will become more pervasive. The gains and losses from vertical integration are complex, and the Commission found no general basis for opposing it.

High diversification, especially among manufacturers, is becoming more widespread in foods. The reasons are numerous: desire to move into the most rapidly growing parts of the industry, aversion to present fields if price competition is keen, efforts to put highly developed selling skills to wider use, reduction of business risks, and fear of antitrust action if market shares in the principal fields of operation are increased. The conglomerate giant has great resources

and an opportunity to use a wide range of competitive practices, some of them potentially pernicious. But no clear, general case either for or against conglomerates has yet been made, and they will become more important in the food industry. The growth of these firms is a reason why concentration in the food industry as a whole is increasing although trends at the four-firm level vary among particular fields.

Market power

Two groups in the food industry have substantial market power--retailers and large manufacturers, usually diversified, with strong brands. Market power is, of course, affected by the firm's own size and structure and by the structure of the market in which it operates. Increasing concentration of retailers' purchases has been a plus factor in retailers' position. The large, diversified manufacturers in the dry grocery field derive power from the high concentration in the various subfields in which they sell.

Yet market structure alone does not fully explain relative bargaining strength when buyers and sellers meet. Access to consumers in the market-oriented food industry is highly important: retailers operate the stores in which consumers shop; strong manufacturers' brands are created mainly by intensive promotion. In the national market for dressed meat, the selling side is more concentrated than the buying side, and in local markets for fluid milk the same situation usually exists; yet buyers commonly are in the stronger bargaining

position. Nor is product differentiation solely or always mainly the result of a tendency for oligopolists to forbear from price competition; the nature of the consumer market makes it an attractive strategy in many other cases.

Aspects of performance

The Commission found the food industry generally efficient and progressive. Of the specific inefficiencies noted, most involved distribution from manufacturers' plants; and as has already been indicated, manufacturers' desire to influence store display usually was a factor in holding to costly methods. Advertising and sales promotion were considered valuable for information purposes, especially in introducing new products; but little or no public value was credited to the substantial though immeasurable costs incurred to persuade consumers to select rival goods or services when in the absence of promotion one would be as satisfying as another.

Profit levels in food retailing, comparatively high in the late 1950's, were more nearly in line with other branches of retail trade in 1965. In some branches of food manufacturing, high profits attested to substantial ability to administer prices, but earnings on net worth were modest in several important fields--meat packing, canning, freezing, dairy products, bread baking, flour milling, and others.

The Commission found that, "Lower farm-retail price spreads would be possible (though means of doing this might be very difficult)

without reducing services to consumers or unreasonably lowering earnings of the food industry. This is particularly true of a few products for which specific inefficiencies or unusually high selling costs have been noted. But farm-retail price spreads would remain high because processing and distribution are costly even when efficiently performed."

In this connection, regularly published farm-retail price spread data for meats and poultry were found far from satisfactory. Data collected by the Bureau of Labor Statistics and used for price spread calculations by the Department of Agriculture overstate retail prices and tend to understate short-term price changes because price "specials" are not adequately taken into account. The overstatement of the retail price of beef was almost 10 percent in 1964. Apparently, retailers' gross margins on beef widened considerably less during the price decline of 1963 and 1964 than the published price spreads showed.

The food industry appears to have its share, but perhaps no more, of unfair trade practices, power plays by the strong against the weak, discriminations, and other forms of commercial sin (if I have the right term). A persistent problem appears to be price discrimination induced by buyers although only proscriptions against sellers have much effectiveness. This remains a major weakness of the Robinson-Patman Act. The Act is distinguished by being poorly conceived in many details and yet having a generally constructive effect on competition in the food industry.

Position of consumer

The finding that the industry is generally efficient and progressive and that profit levels are about in line with other parts of the economy means that consumers are, on the whole, well served. Instances of inefficient distribution, excessive promotion, and unnecessarily high profits detract from the job that ideally might be done.

Consumer sovereignty is an essential organizing principle, but a major requirement is to enable consumers to have the unbiased information they need to play the role effectively. Standards of comparison become elusive when prepared and semi-prepared foods begin to replace staples, when sizes and shapes of packages proliferate, when strong impressions of differences among brands are created, and when retail prices are constantly juggled as a merchandising device. The finding that retail prices of advertised brands of common foods averaged about 20 percent higher than prices of comparable private label products is impressive evidence that better-informed buying could save consumers money. And it would compel a generally better performance throughout the industry through greater emphasis on price competition.

Position of producers

Numerous developments in the food industry are increasing the pressure on farmers to tailor production to markets, both as to quantity and quality. The traditional price system is less workable: increasingly inelastic demand at the farm level is forcing the major burden

for clearing markets on adjustments in production, but the necessary time lag is satisfactory neither to the food industry nor to farmers. A market-oriented industry tends to specify the raw materials it wants rather than making do with whatever farmers produce. Distribution efficiencies and other reasons lead to by-passing central markets; the closer relation between particular buyers and sellers encourages farm production for specific outlets.

Adaptation of farming to this changing environment is taking several forms. Cooperative marketing, vertical integration both backward and forward, contract farming, marketing orders, and government farm programs are all responses of a sort. Fewer and larger farms are conducive to most of these changes, and a few parts of agriculture are moving out of a purely competitive environment.

Especially in speaking to this audience, it is difficult to cut off this topic here, but I must move on to conclusions reached by the Commission regarding ways of improving or strengthening the food marketing system.

Commission conclusions

The Commission was specifically instructed in its statute to report findings and conclusions on, among other things, "changes in statutes or public policy. . . appropriate to achieve a desired distribution of power as well as desired levels of efficiency," and "the effectiveness. . . of regulatory activities of the Federal Government. . . ." The conclusions are conservative in the true sense of

the word, for they seek to assure the effectiveness of the competitive system under changing conditions and to retain it as the means of organizing the nation's economic activities in the food sector.

Industry structure and trade practice

The central conclusion regarding market structure was that horizontal mergers by the largest firms in already concentrated fields should not be permitted under the Clayton Act. The Department of Justice and Federal Trade Commission were urged to develop guidelines as to circumstances under which mergers would be opposed. Standards paralleling those in selling should be applied to purchasing. Corporations intending to merge should give advance notice, and the regulatory agencies should have power to issue temporary cease and desist orders to defer questionable mergers or trade practices.

Believing that public disclosure alone has salutary effects, the Commission suggested that large conglomerate and integrated firms should report operating results by major fields as well as for the total company. In order to avoid continued hit-or-miss attention to the food industry, the FTC should be charged with making a continuing review of market structure and competition in the industry, and to report annually thereon to the Congress.

In the Commission's view, the Department of Agriculture should exercise more initiative in administering the Packers and Stockyards Act and the Perishable Agricultural Commodities Act, and eggs

should be added to its jurisdiction. Responsibility for dressed meat and poultry, however, should be exercised only by Justice and the FTC. The Commission urged that the regulatory work of USDA should be administratively separated from other functions. Recognizing that terminal livestock markets now have strong competition from rival marketing methods, the Commission proposed relaxation of some stockyards regulation.

Consumers and producers

The Commission's conclusions gave heavy weight to measures to improve consumer information. These included compulsory consumer grading of well-established, nonperishable foods wherever feasible, the establishment of more standards of identity, and more informative packaging and labeling. A consumer agency in the executive branch of the government was proposed. The Commission put forward no measures to restrict advertising and sales promotion other than to give consumers better independent sources of information.

On the subject of farmer bargaining power, three measures representing ascending degrees of effective collective action of producers were suggested. The first was more emphasis on cooperative marketing; this was supplemented by a proposal for legislation protecting farmers' right to form cooperatives and bargaining associations. The second was extending eligibility for federal marketing orders to all regionally produced farm products. The third, a more nearly new idea, was essentially

an extension of marketing orders to include production and marketing control and to negotiate prices and other terms of trade. These instruments were called agricultural marketing boards and were to be brought into being and operated somewhat like marketing orders. A board, however, was to include representatives of handlers and the public.

The Commission pointed out that, historically, American policy has sought an equitable and workable distribution of power by restraining concentrations of great strength and by lending support to the weak. In this same tradition, it favored both antimerger policy and bargaining power for farmers. In recognizing the need for stronger group action by farmers, however, the Commission turned to a terminable government instrument under which the public interest might be protected rather than proposing blanket exemption for producer cooperatives from the antitrust laws.

Other subjects

The Commission emphasized the importance of better data about markets in several respects. It suggested that USDA be authorized to require submission of price, volume, and related information needed for its market news work. It urged the Bureau of Labor Statistics to review its methods of collecting retail food prices and the USDA to improve the accuracy of its price-spread data. Other comments were made on other subjects but are omitted here for brevity.

II. The Commission as a Policy Instrument

In principle, the idea of a Commission was excellent. In light of the importance of the industry and the extensiveness of public policy affecting it, an independent review of where we are, probable future trends, and the appropriateness of current policy makes a good deal of sense.

But how best to do the job remains an open question. The Food Commission model does not seem to be the correct one. Members of Congress are overworked and far too busy to give such an assignment the attention it should have. Furthermore, most of them--perhaps not all--are ideologically and politically committed in ways that make a fresh, independent approach to the subject next to impossible. Only in exceptional circumstances can one expect to assemble a committee that is at once informed, uncommitted, free to work on the problem, and influential in putting conclusions or recommendations into effect. Since the ideal is seldom practicable, the most valuable product seems likely to come from a largely professional group of economists and lawyers charged with making comprehensive analyses and with presenting as wide a range of ideas and proposals as the group thought merited public discussion.

The Food Commission's report came at a time when Vietnam was pushing all other matters into the background, when higher incomes were making farmers more content with the status quo than they had been for a long time, and when general prosperity was intensifying the

usual public apathy about antitrust issues. A modest wave of concern about consumer protection was the only currently popular topic to which the Commission report had much relation. The report itself was moderate and low-key; intended to be a responsible report, it was not a sensational one.

The treatment accorded even so restrained a report by the industry and some members of the Commission itself is instructive about the politics of an effort such as this. Early drafts of the report were "leaked," some trade association officials issued statements of shock and bewilderment, the trade press heavily emphasized and often editorially castigated those parts of the report critical of the industry, advertising media protested, and letters of protest went to the Commission and members of Congress. Rank and file members of the food industry--and, to the extent possible, the general public--were given a distorted and probably lasting impression of the report before it was issued.

In the immediate future, the report may well help to bring about several changes in government activities that can be made administratively. The possibilities include reorganization of USDA regulatory activities, some changes in procedures in regulating stockyards and the Perishable Agricultural Commodities Act, revision of the methods by which the Bureau of Labor Statistics collects retail food prices, revision of some USDA price spread data, and perhaps more specific attention to the food industry by the FTC. Immediate legislation seems

less likely, although the report may have some influence on such current legislative proposals as the Bandstra bill on packer feeding of cattle and the "truth in packaging" bill.

But the Commission's assignment was properly conceived in long-run terms, and evaluators will have to wait five to ten years to know whether it was worth the effort. Both the Commission's report and information contained in the ten technical studies may have widely diffused but nonetheless significant effects. If the Commission's work leads to more accurate appraisals of the numerous specific issues which legislators, administrators, businessmen, and farmers will face in the next decade, the most important potential result of the Commission's work will have been achieved.

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1. National Commission on Food Marketing, Food from Farmer to Consumer, U.S. Government Printing Office, 1966.
2. _____, Technical Studies No. 1 to No. 10, U.S. Government Printing Office, 1966.