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CHALLENGES FOR THE FOOD INDUSTRY IN THE NORTHEAST DURING THE 1980's

Jarvis L. Cain

INTRODUCTION

If all the speeches with similar titles, delivered at the beginning of each decade during the twentieth century, were assembled here, they would doubtless fill this room to overflowing. Although each would have its "special touch," common threads of growth and optimism, appeals to God and Country, as well as self-interest would be woven throughout.

What's going to be different about the decade of the 1980's and what can we as agricultural and resource economists do to help solve the anticipated problems? Within the eleven general areas of difference during the 1980's discussed here, the well informed reader will find little, except the author's perspective and method of presentation to be startling, new or unique. The main thesis of this paper is that the 1980's is the decade when we must take new, positive steps to solve a series of complex, inter-related problems which have been developing for some time (certain areas over most of the century). The basic means that will be suggested as a partial solution to our food related problems is the development and implementation of a regional food plan, as a part of a national food plan. The author's perspective involves fulfilling a long-range food policy objective:

"To provide adequate supplies of safe, nutritious food and food products with desired service levels at prices that reflect true value to the consumer, at minimum total resource cost."

In short, what is the least resource consumptive way to feed our region's people by 1990?

WHAT'S GOING TO BE DIFFERENT ABOUT THE 1980'sEnergy

United States oil consumption actually fell from 18.8 million barrels per day in 1978 to an anticipated 17.0 million barrels per day for 1981. Imports of oil also fell from 8 million barrels per day in 1978 to an estimated 5.4 million barrels per day in 1981. Some people take this condition, along with increased U.S. drillings and anticipated fuel consumption savings from Detroit, and are starting to beat the "energy independence" drums again. This is a classic example of using short term trends and wishful thinking to develop misguided long range energy policy.

The basic economy and society of our country has not changed. We must not be lulled into a false sense of security only to have the hammer fall upon us later on in the decade. We must use this period of relative petroleum energy abundance to hasten the transition from the petroleum age to the hydrogen age.

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Shortages

Material shortages (primarily metals and minerals) will begin to appear toward the end of the decade. Part of the problem is similar to petroleum - increasing rates of use for products with finite supply. Also, we must increasingly depend on foreign sources for much of our mineral consumption. Another part of the shortage situation will stem from increased distribution problems - due to increased fuel costs and institutional breakdowns.

Transport System

The Eastern rail system is in a shambles, the interstate highway system is falling into disrepair, mass transit moves slowly - but with enormous cost - and airports are overcrowded. Con-rail has been bankrupt for years, both managerially and financially. Only massive Federal subsidy keeps it afloat. Congress has set a timetable for the sale of Con-rail. The entire rail system needs to be completely rethought and revamped. However, between the government, the unions and totally inept management, chances of this happening are remote.

We are finding the interstate highway system to be extremely expensive to maintain, and could very well end up with a highway network and no fuel to run vehicles over it.

Mass transit is developing at a snail's pace. People cling to their cars, as developers and politicians "fiddle while Rome burns." Costs escalate out of control, and one wonders if it will be "too little, too late."

For the 1980's, the entire "cheap petroleum energy based" food distribution system in the Northeast faces a series of dramatic changes. What's even more frightening is that so little is being done to solve the problems.

Capital

Contrary to recent administration pronouncements, capital costs are not going to come down for sustained periods. There is simply too great a demand for money and no significant structural changes are being made that will allow for lower cost of money. The longer range outlook is little different. This is not a condition which is unique to the Northeast. What is different here is potential investors in the food industry (particularly farming) are looking at the returns compared to opportunity cost and are not investing. Investments are being made by those already in the business. What does this forecast? Increasing probability of capital shortages in the food industry toward the end of the decade.

Having to Say, No!!

How do you say NO! to two generations of Americans who have never wanted for anything physically (with selected noted and regrettable exceptions)? The 1980's will bring a period of individual, and, more importantly, group choice-making that the majority of people alive today have never faced. Economics, "dismal science"

though it may be, will find itself in the center of the public controversy. Will we be ready?

Population

The Northeast is basically an urban community. Seventy percent of our people still live in metropolitan areas - down from 80 percent in 1970. Migration to the suburbs continues; movement from rural areas to cities has finally stopped; unfortunately, inner cities fester. Although several cities show signs of rebirth, we have a long way to go in urban redevelopment. What is pertinent here, population is moving from North and East to West and South in the country. Implications for our food distribution industry are two-fold. With regional population leveling and specific areas dropping, there won't be as many people to feed. Many of our suburban areas are "over-stored" and over populated with fast food outlets. Future emphasis will not be on expansion, but on consolidation of holdings, efficiency of operation, competition (within the oligopoly that characterizes major eastern metropolitan area food distribution). The most recent example of concentration is the entrance of major oil companies into convenience store businesses.

Secondly, if population continues to move to the suburbs and energy is costly, larger retail outlet "superstores" that depend on long driving times for customers will not attract sufficient sales volume to make them profitable. Energy efficiency will dictate taking the food to the people and not people to the food, or locating stores within walking distance of the customers.

Stag-flation

Productivity is languishing (first quarter 1981 excepted) and inflation is becoming a fact of life. What is important here is that the causes are basically structural and institutional - with considerable help from an all but lost "work ethic." Necessary changes to alleviate both the physical and people problems are fundamental and will take a long time to implement. Nothing here is unique to the Northeast except that we could use a generous helping of "Yankee ingenuity and determination." As was mentioned previously, capital availability will be a problem due to relatively high risk and low return.

Leadership

Strong effective leadership in both the private and public sector is "noticeable by its absence." Presidents range from weak to authoritarian, congress has great difficulty doing anything but spending money it doesn't have. Nameless, faceless bureaucrats abound. In business, they are called "corporate types" or "company men." The quickest way to clear a room these days is to shout, "Who's in charge??" Collective responsibility (responsibility for the system) is avoided completely by all. Individual responsibility is taken only when there is no other alternative or there is high probability of grabbing some glory for "old number one." We are a rich nation floundering, lacking collective purpose, hobbled by the short range myopia of special interests; fat enough to complain, but without the courage to do anything about our long

range problems.

New leadership does not appear over night on a "white horse." It must be developed over time. Who knows how much time we have before chaos sets in?

Government

To paraphrase from the recent "Commission on the National Agenda for the Eighties," (1) people view government as both the cause of the problem and the solution to the problem, (2) government is desirable if it will do something for me, not if it will do something to me, (3) the question for the 1980's - what will be the appropriate role for government in various areas of the economy and country?

Government, at all levels, is currently omni-present in our lives. People raise questions regarding government's ability to deliver desired services effectively; worry about loss of confidence in government to do anything but grow and consume resources; are constantly buffeted and out-flanked by special interest groups in the quest for the ear of government officials.

We have asked government to do many things it cannot do or cannot do as efficiently as private enterprise could do them. The entire role of government in the food industry needs to be rethought and the perspective of the Northeast needs to be part of that process.

One can seriously doubt the wisdom or effectiveness of the current administrations's "meat axe" approach to control of government; yet must be sympathetic with the stated purpose.

In the sort of regional atmosphere present here, one thinks more of state and local governments. Can you imagine, for example, the land grant institutions and extension services of the Northeastern states willingly and actively co-operating in an effort to accomplish the objective listed on page one? The spokesperson for state self-sufficiency groups would have apoplexy.

Life Style Changes

The collective impact of before-mentioned challenges will be to drive us toward more group activity. This will require a significant attitude change on behalf of the fiercely independent on one end of the spectrum and the dependent on the other. We will have to "ask less of the system and give more to collective efforts for the common good." Less and less will we be able to afford the highly valued luxury of the special interest group. The author is fully aware that what he is saying strikes at the heart of our advocacy system of representation. What it boils down to is the "oft-preached," but seldom implemented principle of equitable distribution of the costs and benefits of our society. Unfortunately, equity is fine until "I must give up something or not receive something." The choices will not be easy and discomfort for some will accompany any changes that are made. The point is to minimize the pain of adjustment to gain the greatest benefit for the common good.

Our incentive system is designed to reward individual effort in the special interest. Until the reward system provides incentive for group

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action in the common good, progress in this area will be very slow.

End of an Era in Food

The era of "cheap food" and "food surpluses" has abruptly come to an end (current dairy products surplus notwithstanding). In fact, some scenarios imply serious food scarcities in the near future. It has been suggested by many that food could and should be used as a weapon in international policy. However, recent experience with the "grain embargo" was less than encouraging. "Food as a weapon" may offend traditional moral values, but reflects the realities of a rapidly changing situation.

What's Different? - In Summary

So, things are changing. What's the big deal? We have dealt with change before and can do it again. Case closed.

Mankind is faced with more change, more rapidly; more discontinuity; and a more fundamentally balled-up web of complexity than ever before. These changes have more longer range implications than any of the challenges faced by our forefathers.

We face these challenges with a series of short range solutions, lack of leadership, inflexibility of institutions and narrowness of perspective. It would be forgivable for a note of pessimism to creep into the presentation.

What to Do?

Given the assumption that this list of challenges for the 1980's is formidable enough to necessitate large scale, concentrated, group action, what is the correct course for the Northeast to pursue?

1. Back to page one, our objective is to find the least resource consumptive way to feed our region's people.
2. The potentiality exists to:
 - a. produce more of certain items, in season.
 - b. provide a greater share of the "value added" in food processing...further processing.
 - c. improve the efficiency and effectiveness of our food distribution system (Northeast and U.S.A.)
3. Working toward the long range food policy objective listed on page one, a Northeast food plan should be developed (part of a national food plan).

This plan would:

- a. Start with food needs (nutrients) of our people (short range, intermediate and long range).
- b. Utilize locally produced and/or processed products when there would be a competitive advantage to do so. The "mix" of local products would change over time with energy, technological and economic conditions, as well as consumer demand.
- c. Present a series of alternative food production and distribution systems to take maximum advantage of a series of changes over time. E.g., super convenience stores in the inner city.

- d. Develop a series of meaningful criteria to measure the performance of the developing production, processing, distribution and consumption system, with minimum resource consumption system being high on the list.
- e. Implement the plan.
- f. Follow through, make changes and updates as conditions and introductions of new technologies warrant.

Role of Agricultural Resource Economists

Many of the problem areas just discussed are national or international in scope or technological in nature and an economist could justifiably become frustrated. What can I do about most of these issues? Economics deals with choices between alternative courses of action. If the 1980's is to be a decade of choice making, then economists have a right and legitimate role in the public policy making process as well as all aspects of the food industry system. The basic role of the applied economist will not change. However, the perspective breadth and depth of perception is what will be new for the 1980's.

Let the Market Do It!

There are those who say, "Let the market do the allocation job." Just get everyone else out of the market and all will be fine. If we are to measure progress in strictly economic terms, this is all well and good. Society has indicated that social and environmental terms are important criteria also. In addition, left to its own devices, the market's ultimate product is monopoly. Try as you will, you will never convince the author that the goals of a monopoly are always in the interest of the general public

Who Will Do the Job?

To identify the challenges of the 1980's and propose a plan to deal with them are minor accomplishments compared to having to deal with the next issue. Having to identify the appropriate mechanism and people to carry out a project of this scope and depth tends to "boggle the mind."

Let's talk about some conditions:

1. People
 - a. Breadth and depth of vision
 - b. Leadership
 - c. Representation - Food Industry, Consumer, Government, Labor, Universities
2. Organization
 - a. Regional/National, or International Status (Authority).
 - b. Funding
 - c. Flexibility
 - d. Autonomy
 - e. Location

The mood of the country and the author's private disposition are against the creation of another bureaucracy, on top of all the rest, to perform this task. With that option disposed of, we then open "Pandora's box" of reallocating existing resources to complete the project. We are all too familiar with the problems involved with doing this, as well as all the reasons why

everyone should change but me, and why this mechanism should be located at my institution and not yours.

We laugh, but isn't this sad? We have rather instinctively violated the basic tenet of this paper. Rather than focusing on the "common good," we look to help "number one." One of the greatest accomplishments we could make is to work toward the time when we can equate the "common good" with individual objectives and achievements.

The Case for Regionalism

It is easy to find reasons not to do "something." This is especially true when "the something" is large and difficult and will require much effort and pain. Let's try to find some reasons to move to a regional approach for satisfaction of the long range food policy objective listed on page one.

First of all, the food industry is regional, national and international in scope. Second, consumption patterns are regional in nature. Third, the current educational and governmental system is set up to focus on state and local conditions, with some rather loosely defined help from the national level. Fourth, most of our effort is directed to special interest and not to general interest. We are asking a system to solve a problem (regional food needs) with tools

of improper scope and magnitude (state and local units). It's not surprising that the job is not getting done efficiently.

An interesting paradox is forming. During the author's research life, advice has come from all quarters. Limit the scope of your problem. Narrow the inquiry to areas that are manageable or researchable. Get this problem to a level that your research tools can handle.

While we all are narrowing and specifying, who is addressing the broad, over-arching problems that may very well be our downfall? Maybe, the most important challenge of the 1980's is to focus attention upon the need to address broad systems-wide food industry problems on at least a regional basis. What could be a greater challenge? To identify the broad questions facing the food industry in the Northeast, develop appropriate tools to analyze them, and provide the results as input for public and private decision-making.

Summary

Are the challenges too great?
 Are the resources too meager?
 Can we get ourselves collected and committed for the common good?
 If Cain didn't think so, then what's the point of this presentation?
 Let's go for it!!!