The Current Status of Consumer Food Policy

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Introduction

There are definitely going to be some sharp differences between the Reagan and Carter Administrations in consumer food policy. For example, the administrator in the U.S. Department of Agriculture (USDA) primarily responsible for consumer food policy is the Assistant Secretary for Food and Consumer Services. In the Carter Administration this was Carol Foreman, a former consumer advocate from the Consumer Federation of America. The Reagan appointment is Mary Jarrett from the House Agriculture Committee staff who is known as a food stamp critic. If most of Secretary Foreman’s opposition came from producer groups, most of Secretary Jarrett’s is likely to be from consumer and nutrition groups.

What is meant by consumer food policy? The goals of U.S. consumer food policy can be summarized in a sentence: The U.S. should have an adequate, safe, high quality, and reliable food supply available to all Americans at reasonable cost. But in the translation of the simple statement and in its fulfillment the issue becomes much more complex. The policy’s status under past and present Administrations and what the future might hold for it are explored here.

Food Safety and Quality

As a society gains affluence, consumer concern shifts from getting enough to eat, to what is eaten. Consumers’ heightened concern about food safety and quality is also a product of the increasing evidence linking diet and health and the diet’s increasing proportion of highly processed, manufactured products. For example, a consumer may feel quite comfortable judging the quality of a fresh apple, but a frozen pizza is a different matter.

Food safety and quality is primarily dealt with through regulatory action implemented within guidelines established by earlier legislation. The regulatory authority over food products is split between USDA and the Food and Drug Administration. The debate and action in recent years regarding food safety and quality has focused on three areas:

- food additives: action has been taken against various additives which have been linked to health problems

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• food labeling: action also has been taken to improve the information available to the consumer regarding the product
• overall diet: considerable debate has been generated, particularly by the Dietary Guidelines of the Senate Select Committee on Nutrition, which advocated a change in the American dietary pattern to improve health

Consumer-oriented actions in the food regulation area probably reached a peak in the 1970s. Much of the debate was unnecessarily strident with consumer advocacy groups lined up on one side and producer groups on the other. Consumer advocates became increasingly sophisticated at working for their objectives. However, the actions taken are ultimately a reflection of the public's strong concern regarding health and environmental issues, which developed in the 1960s. As economic concerns have become dominant, public support in these areas has weakened.

The basis for much of the regulatory action taken against food products is the Delaney Clause of the Food Additives Amendment of 1958 to the Pure Food and Drug Act. The clause states that "no additive shall be deemed safe if found to induce cancer when ingested by man or animal..." The Delaney Clause embodies a zero tolerance philosophy. Much of the debate arises when tests on animals show an additive produces cancer at high intake levels.

The Delaney Clause has prompted a number of well-publicized actions against various additives. Cyclamates, a noncaloric sweetener, were banned in 1970. DES, a growth hormone used in livestock and poultry feed, was banned in 1972. (The ban was subsequently partially lifted and later partially reimposed.) Red dye No. 2 was banned in 1976. Saccharine, a noncaloric sweetener, was recommended for banning in 1977. However, due to public outcry, only a warning label appeared on products containing saccharine, such as low-calorie soft drinks. And finally, perhaps the longest running and most heated controversy arising out of the Delaney Clause, is the issue of nitrates and nitrates in pork products. Sodium nitrite is the major preservative in bacon, for example.

In recent years an anti-regulatory mood has spread in the U.S. The Reagan Administration arrived in Washington strongly espousing deregulation. On February 17, President Reagan issued an Executive Order (No. 12291) which instructs executive branch agencies to take regulatory action only when "the potential benefits to society from the regulation outweigh the potential costs to society."

The idea of applying cost-benefit analysis to regulatory proposals is appealing, certainly to an economist. However, regulatory decisions must ultimately remain political because costs and benefits cannot be measured precisely and entail value judgments. How much is a human life worth? In addition, costs and benefits may fall on different groups: The question is whose benefits, whose costs?

The Reagan Administration has already indicated its desire for repeal of the Delaney Clause. There is probably support in Congress for some modification of the zero tolerance approach of the Delaney Clause.

Finally, with regard to dietary patterns, the American diet is far from static. Between 1960 and 1979, per capita consumption of the following increased by the percentages noted: chilled citrus juices, primarily orange juice, 167 percent; cheese, 115 percent; chicken, 85 percent; and beef, 24 percent. Yet, per capita consumption of the following decreased by the percentages noted: lard, 66 percent; butter, 39 percent; lamb, 65 percent; and eggs, 15 percent. A number of these dietary changes follow recommendations of the Dietary Guidelines, some of course, do not. The Dietary Guidelines advocate a diet which lowers fat, sugar, and cholesterol and increases whole grains and fresh fruits. Concern over diet will continue, particularly with the medical community's increasing emphasis on preventive health care.

**Food Prices**

Consumers are particularly sensitive to rising food prices, because this involves a large chunk of the household budget. The 1981 Gallup Poll survey of weekly food expenditures showed the median amount spent by a representative (nonfarm) household is $62. The figure was $34 per week in 1970.

The current level of food prices exceeds the 1967 level by more than 2½ times. The Consumer Price Index (CPI) for food stood at 266.4 at the end of 1980, for all urban consumers, with the 1967 figure equal to 100. This change means that what cost the consumer $1 in 1967 cost $2.66 at the end of 1980. The similar CPI for all items was 258.4. The closeness of these two indices indicates a remarkable long-run correspondence between the general inflation rate and increases in food prices. The similarity also means that overall, food has become only marginally more expensive in relation to other consumer goods during these 13 years.

From another perspective, food remains a remarkable bargain in the U.S. By 1970, the proportion of disposable income spent on food had declined to 17 percent. This figure has held at roughly this level during the last decade. In comparison, food expenditures accounted for 25 percent of disposable income in 1929. Also, the average American household spends a smaller portion of its income on food than almost any other country in the world. The figure for France is 30 percent and for Japan almost 50 percent. However, in the U.S., food can still represent a large drain on low income families' budgets. In 1979 the bottom fifth of families, in terms of income, spent 35 percent of their pre-tax income on food.

Farmers and agricultural policies have little effect on three-fourths of what U.S. consumers spend for food. In 1978, only 27 percent of the total expenditure for food at home and away from home ended up in the hands of farmers. For this reason, the major long-run force pushing up retail food prices is the general inflationary pressure on costs added after the product leaves the farm.

Food prices are affected by costs of processing, transporting, and retailing. Labor costs, which have increased over 150 percent since 1967, are responsible for the largest share in increased food marketing costs. As in many areas of the economy, labor productivity in the food marketing system has improved only erratically in the last decade. The key to controlling food prices is to reduce the inflation rate and improve productivity in the marketing system.

However, since the basis of the food system is agricultural production, food prices retain a unique volatility. Fluctuations in basic commodity prices due to weather and foreign demand can have a sharp short-run impact, especially on certain food prices. This was clearly demonstrated following the Russian
Grain Deal of 1973, with exports to other countries also booming. The general inflation rate was only 6.2 percent in 1973 measured by the CPI, whereas the food index increased 13.2 percent. And in 1974, the increases were 11 percent and 13.8 percent, respectively. Beef and veal prices rose 29 percent during the first nine months of 1973.

Food prices advanced 10.2 percent in 1980 which meant it had a slight moderating effect on the overall inflation rate of 12.4 percent. At the Outlook Conference in November, a USDA official predicted the cost of food would rise 12.2 percent in 1981 mainly due to sharp increases in the prices of meat, poultry, eggs, and sugar. More recently, with the combination of record 1981 plantings and a sluggish U.S. and world economy, projections are somewhat lower. Food price increases for 1981 are currently projected at about a 10-12 percent level.

However, the catch is that buffer stocks of feed-grains are at near-record lows. A repeat of last summer’s drought or some other crop disaster could send prices through the roof. The probability of such a worse-case scenario is low, but certainly not zero. If food prices were to explode upward as they did in 1973-74, especially if the general inflation rate were cooling off, the pressure on the Administration, even with its strong free market philosophy, might become too great for inaction.

Imagine the effect on public opinion of the evening television news reporting the price of food was up sharply for the fourth straight month, at say a 20 percent annual rate of increase, while showing a picture of grain for export pouring into the bin of a ship. Effective action to hold down prices under a true shortage situation is limited. However, politically the need to show some action exists. Recall the 1973 soybean embargo of the Nixon Administration. The Nixon Administration also tried price controls to contain inflation; the record is especially poor in the food sector.

There is one element of the 1981 agricultural legislation which could have an adverse impact on food prices, particularly in a severe shortage situation. The Reagan Administration has indicated its wish to continue the farmer-held grain reserve program. However, it wishes to eliminate the “call” level mechanism, which would mean the government could not “call” grain from the reserves by recalling the loans. The “release” price concept would be retained, so that at some price level farmers would be charged a higher interest rate on their loans and would no longer receive storage payments. The Administration does propose to retain authority to “call” the loans under unusual circumstances.

The Food Assistance Programs

The Food Stamp Program is currently the subject of debate in Congress as the legislative authorization expires this year. Moreover, by July at the latest, the program will have reached its spending ceiling and be out of money. Last year, Congress provided $9.7 billion for food stamp funding for fiscal 1981. However, another emergency appropriation will be needed at the current spending rate.

There are some powerful political forces involved. Senator Jesse Helms, chairman, Senate Agriculture Committee, is an outspoken critic of the program. Senator Robert Dole, chairman, Senate Finance Committee and the Nutrition Subcommittee of the Agriculture Committee, is a staunch defender of food stamps.

To review the program’s history, in 1970, there were 4.3 million food stamp recipients at a cost of $560 million. In 1975, there were 17.1 million at a cost of $4.58 billion. In 1980, average monthly participation was over 21 million at an annual cost of $9.20 billion. The 1980 expenditure included $8.46 billion in stamps and the rest in administration costs. In December 1980, one of every ten Americans, 22,186,000, received food stamps. Estimated participation was 205,000, with benefits of $7.96 million, in Minnesota in February 1981.

The Food Stamp Program has not only grown dramatically, but its purpose has changed, even if this is not always admitted. The original Food Stamp Program of 1939-1943 was to use up surplus commodities. When a Food Stamp Program was re instituted in 1964, the primary purpose shifted to nutritional improvement. During the 1970s the program, especially with the elimination of the purchase requirement, has become essentially a general social welfare program. However, many social-welfare experts consider food stamps one of the most effective of all U.S. welfare projects because food stamps are one of the few forms of relief available to the working poor.

Since January 1979, families have not had to pay cash for food stamps as they once did, but are simply given an allotment, if they qualify, based on family size and income. Applicants qualify for stamps if, after certain deductions, their net monthly income is below the Federal poverty level, which is presently $620 for a family of four. The value of the allotment is equal to the cost of the Thrifty Food Plan, reduced by 30 percent of the household’s net income. Because of this reduction, most households do not receive the maximum benefits. A family of four, with $400 in net monthly income, for example, qualifies for $113 worth of food stamps per month—or less than 35 cents per person per meal. A family of four with no net income receives $233 a month in food stamps. The average monthly benefit in the first quarter of 1980 was approximately $35 per person.

Food stamp benefits are subject to an annual adjustment, based on food price increases. Previously, the adjustments were twice a year, but to save costs, last year’s legislation went to a once a year basis. Benefit levels, therefore, increased 11.5 percent on January 1, 1981.

A $9 billion Food Stamp Program increases aggregate food expenditure by some $2 to $4.5 billion. The impact at the farm level is probably between $1 and $2 billion. The amount by which food expenditure expands per dollar increase in food stamp benefits is estimated at 20 to 50 cents. The lack of precision of this estimate reflects a shortage of knowledge about the effect on demand, especially since elimination of the purchase requirement. An effect of 20 to 50 cents per dollar seems quite low, but the marginal increase in food expenditure is only about 5 cents per dollar of increased income for higher income families. The farm value is about 40 percent of the retail cost for the average market basket.

There are also other major USDA food assistance and nutrition programs. During the first three months of 1980, an average of 27 million children received meals, many free or at reduced prices, under the School Lunch Program. Some 1.8 million indigent
women and young children received assistance through the Special Supplemental Program for Women, Infants, and Children, called WIC. And the list is much longer. For all the USDA food programs, including food stamps, spending was at a $15 billion annual rate during the first quarter of 1980, and is higher now.

The food assistance programs are a major target of the new Administration’s budget cutbacks. The Reagan Administration budget proposal released on March 10 called for reducing USDA’s food and nutrition programs by about $3.6 billion from the Carter Administration’s fiscal 1982 budget recommendation. In the first round of budget cuts announced February 18, the Reagan Administration called for a $1.8 billion or 14 percent reduction from the Carter Administration’s 1982 food stamp funding level of $12.5 billion. An additional $1.6 billion, some 35 percent, was to be slashed in the school lunch and other nutrition programs.

The further cutbacks announced March 10 would eliminate $287 million from the $1 billion WIC program and $90 million in milk buying subsidies for schools that also collect federal school lunch aid. Plans were also announced to reduce Puerto Rico’s federal food aid subsidies by about $290 million, or about 25 percent, in fiscal 1982. The remaining funds would be lumped in a single grant for dispersal by the island’s government. Currently 58 percent of the island’s 3.2 million residents receive food stamps.

The savings on food stamps would chiefly be achieved by tightening eligibility standards. Estimates are that about 1.2 million people of those now eligible would be cut from the program. The change would most affect households with wage earners, and those with high housing costs. Family food stamp benefits would also be reduced by the value of free school meals to their children.

The Reagan Administration says it intends to continue providing assistance to the truly needy, but to cutoff the undeserving. Of course, no one is in favor of giving food stamps or other welfare aids to the undeserving. The question is who defines the words? The line between the deserving and undeserving is essentially drawn by the political process in Congress. Since the new 97th Congress is a far more conservative body than the 96th, the definition of deserving will undoubtedly be tightened. Congress can probably be expected to enact a large portion of the proposed cutbacks in the food and nutrition programs.

Past Food Stamp Program reforms have been aimed at eliminating abuse and improving program effectiveness. The program has strict work requirements and asset limitations. The former are being tightened further. All able-bodied recipients between 18 and 64, who are not responsible for the care of dependent children under 12 or incapacitated adults, are required to register for work and to accept suitable employment. The asset limit is $1,500 for nonelderly households. The Food Stamp Act Amendments of 1980 contained additional measures aimed at reducing costs and misuse.

Currently more than 75 percent of all recipients are children, elderly, or single heads of households; most are truly impoverished. In February 1978, 87 percent of participating households had monthly gross incomes below the poverty level and 56 percent had incomes only three-fourths or less of the poverty level. Also in 1978, 54 percent of program beneficiaries were children 1 to 17 years old. Women headed some 68.8 percent of food stamp households and 32.4 percent of the heads of recipient households were disabled and aged persons.

Just how severe the reductions are will depend on the success of the coalition of interests and groups that has historically supported the food programs. The lobbying effort will be led by such groups as the Community Nutrition Institute and the Food Research and Action Center. The National Milk Producers Federation has already pledged its support for fighting the food stamp cuts, presumably in return for assistance in resisting milk support reductions. Recent U.S. agricultural acts reflect a trade-off of support between urban legislators supporting food programs and rural members boosting commodity programs. The strength of this coalition in the current Congress will play a significant role.

Finally though, the most painless and effective way to rein in Food Stamp Program costs is to reduce unemployment and inflation. Estimates are that each 1 percent rise in the unemployment rate adds some 1.25 million people to the food stamp rolls at an annual cost of around $600 million. Each 1 percent rise in the cost of food adds over $100 million to annual program costs. Food Stamp Program participation and costs also ballooned in the 1975-76 period under the impact of recession and sharp food price increases.

Closing Observations

Without too much exaggeration, one could say that consumer food policy enjoyed a certain vogue during Bob Bergland’s reign at the Department of Agriculture. Indications are that consumer-oriented issues will be out of favor during John Block’s tenure, in which the focus will be on commercial agricultural production issues. However, this oversimplifies the situation.

First, the problems faced and public opinion have shifted in four years. Currently, the fundamental underlying issues in the consumer food policy area are the dominant economic concerns, inflation, and unemployment. Reducing the general inflation rate is the longrun key to controlling food price increases. Reducing unemployment and inflation’s impact on food prices could have a sharp impact on Food Stamp Program costs.

Second, although there may be changes in approach and philosophy, there really can be no major backtracking in USDA’s involvement in consumer food policy. If USDA wants to retain an important role in the federal government, it must be an agency which represents both producer and consumer interests. The Department could not survive serving just the narrow function of advocacy of producer interests. Farmers constitute less than 4 percent of the U.S. population and that decline continues. USDA’s strictly agricultural programs account for only about 1 percent of the federal budget.

USDA has irrevocably become a Department of Food and Agriculture. As Don Paarlberg, one of the Republican deans of agricultural policy has said, “In fact, if not in name, the Department of Agriculture has become a Ministry of Food.” As a reflection of the expanded policy agenda, the major farm bills have truly become Food and Agricultural Acts.
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