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**FOOD FOR PEOPLE AND PROFIT: THE ETHICS OF
A CAPITALISTIC FOOD SYSTEM — AN
ALTERNATIVE INTERPRETATION***

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"The suggestion that America's system can work without anyone having good motives — without public-spiritedness — gives people an easy conscience about pursuing private interests through public policies."

— George F. Will

"Present-day society [is] 'rent-seeking,' everyone out for incomes in excess of what can be earned in a competitive market."

— Anne Kreuger

"The most absolute contradiction in the universe must be that the individual human being seeks a private existence in a public world."

— Harold F. Breimyer

Almost 20 years ago the National Commission on Food Marketing summarized the findings of its study of the food marketing system in these terms:

The American food industry . . . represents one of the outstanding achievements of the American economy.

[It] has developed under a system in which individual business firms have made virtually all operating and investment decisions within general limits established by public policy.... The role of Government has been to provide certain services and to establish rules to assure that the competitive system operates in the interest of the public and of the industry itself.

Our studies have convinced us of the vitality of the food industry. . . . [However,] we are of the view . . . that a truly competitive environment, appropriate services to consumers, and equity for producers can be more fully assured by certain modifications of existing statutes, regulatory activities, and governmental services....¹

As the quotation indicates, the Commission gave the food industry a high

*See last page for explanation.

mark. It also noted exceptions and opportunities for improvement. In academic terms, the Commission assigned a grade of about B⁺.

That overall judgment is still valid today. The food marketing system performs technological marvels. How well it meets welfare criteria for all its members — producers, consumers, and marketers themselves — is less certain.

Most disputes about the system revolve around that question, not technical performance. The question takes on more force in the 1980s than it did in the 1960s. Most of the recommendations made by the Food Commission were not acted on, and the criteria for a competitive marketing system are not met as well today as they were then.

Faith in Competition

The Food Commission was indeed dedicated to the principle of competition. The food industry that the Commission endorsed with reservations is "a product of a competitive economic system." Such a system, the Commission was quick to note, "requires competitors." That is to say, "it works best when the number of competitors is sufficiently large so that they impose mutual restraints on each other, with the result that their collective activities are guided along paths consistent with the public interest."

This axiom is the purest check and balance concept. The Commission stressed numbers first. It wanted many firms battling to serve farmers, consumers, and each other. In its text it also called for information, grading, and other traditional supporting services. The Commission did not inquire further into the meaning and significance of a competitive system for marketing the food products of agriculture. It did not emphasize how very demanding are the terms of a competitive system, or how hard — even guilefully — the participants in the system will try to manipulate it to their individual benefit.

The Heroics of Competition

The idea that individual producers — and individual consumers too — can interact competitively in a manner to drive and guide the economy to meet the objectives we set for it is heroic. It is almost other-worldly. The idea is heroic first of all because competition marshals not the nobler instincts of human beings but their selfish aggressions, yet it does so for primarily social rather than private purpose. Its object is not to enable the successful few to exploit all others, but to let all citizens contribute to social output and share in its consumption.

It follows that competition is heroic because it succeeds socially only as it partially fails privately. It achieves social goals by means of individual frustration. Competitors try to outcompete their rivals, that is, to eliminate them. The system works only insofar as they fail to do so. Economic competition, unlike the law of the jungle, succeeds not primarily by elimination of rivals but through reciprocal checkmating. This is indeed heroic!

Economic competition is like a game of marbles. In the game, the object is for each player to win the others' marbles. But if one player wins all of them, the game ends. Competition in the economy continues only insofar as no

competitor wins all the economic marbles. Quite literally, whenever too many economic marbles get into too few hands, it becomes necessary to introduce either social (governmental) control, or programs to redistribute wealth and income.

Yet another moral follows. Big firms or powerful labor unions or cartel-like market groups may say, "We are justified in making extraordinary returns because the system is supposed to work that way." Wrong. A truly competitive system works in exactly the opposite way. In it the great benefits are social, not private.

The Object of Economic Competition

Competition is a process. It has form and substance but it does not itself establish objectives. The National Commission on Food Marketing endorsed the virtues of competition as a process and said a lot about how to improve its functioning, but did not say why it was good in the first place, or what common objectives are held for it.

Both economic writings and the mores of our nation say much about what we seek in our economic system, and therefore also in marketing the food products of our agriculture. As the title to this paper tells us, we want "food for people." For the reasons just named, we introduce "food for profit"—included in the title — not as a companion goal nor even as an alternate one, for it cannot be either. It is subordinate, instrumental. Profit enters into the system not as a goal for it but as an integral part of the competitive instrument.

At this point we get into one of the touchiest and most misunderstood principles in the economics of competition. Profit is morally ambiguous. What really counts is pursuit of profit, not its realization. A modest rate of profit arising from its motivating role is not merely acceptable, but essential. Yet anything more than that is dirty, anti-social, and a threat to continuation of the competitive system itself.

What is meant by food for people, as our wish for the food system? In simplest terms, what we want is to utilize our resources for producing and distributing food in a manner that balances twin goals of meeting at least the minimum needs of human beings, and rewarding participants proportionately to their contribution.

These are two goals, not one. Often, only the second is named, and it frequently is couched in terms of marginal return for marginal contribution. To address only the second goal is wrong. We must always recognize both.

The most obvious example of meeting basic needs for food irrespective of economic contribution is that of individuals who are unable to earn enough income to buy the food they need. They may be unable to do so because of physical handicaps, or because the economy is in recession and does not offer opportunities for employment. So it is that we provide for orphans, the aged, the infirm, the emotionally unstable. We soften the consequences of industrial unemployment, by means of unemployment insurance, Food Stamps, and other grants that make it possible for individuals to have food even though lacking the wherewithal to buy it.

We do not confine our humanitarian considerateness to our national boundaries. We give a modest amount of food to poor people of other nations, or sell it to them at a concessionary price.

Enhancing the Capacity to Produce and to Buy

The second of the twin goals is fundamental. Its simple phrasing can hide its significance. Making it possible for individuals to earn food via their own economic contribution is a grand principle. But how can it be realized? In particular, how can people develop the capacity, and be assured the opportunity, to earn an income that will enable them to buy food for a good diet? This is a powerful question, and therefore gives rise to major public issues.

In our high-technology world, individuals are not natively equipped to be productive. They must be trained, educated. And the door of opportunity must be open, allowing them to use their talents. It's a tall order!

It is worth noting that competition is not only a process, but pretty much a process of the moment. It does not project well in time, backward or forward. It deals better with events in the here-and-now, than with futurity.

Yet education is futuristic. To develop the capacity of individuals to produce, and thereby to be able to consume, requires action outside the competitive sphere. It calls for social — public — action.

Competition falls short too of bringing about the development of physical resources that have long term benefits. Hydroelectric facilities are a familiar example. In food production, conservation of the soil resource is equally illustrative. Some conserving practices yield contemporary returns to the farmer who performs them and the competitive system can be relied on to bring them about. But others require installations that are more in the interest of future generations than of the farmer of today. We can get them only if we invest socially — via government.

Another feature of projects to develop physical resources is that their benefits often cannot be channeled solely to the sponsors but instead become social property. This is a second reason for using public funds for hydroelectric development, and for highways, public health services (as spraying for mosquitoes), and agricultural experiment stations.

This is the principle of externalities. Competition, being a private process, works well only to reconcile costs and benefits that are internal in nature. It does not bring spending for public benefit — positive externalities. It can also lead, if unrestrained, to action for private benefit but social injury — negative externalities.

The Burden of Information

A competitive food system imposes yet another requirement for its effective operation. It is the requirement of information.

Knowledge is the necessary companion of high technology. As our food system is now one of complex techniques and many highly processed food products — indeed, some fabricated ones — it will work well only if accurate information about it is disseminated widely. Information ranges from market

news to product labeling to providing data about opportunities for investment and employment.

Informational services are engaged in both privately and by agencies of federal and state governments. A public role is essential, and it definitely must counteract damaging misinformation that may be put out privately.

Institutional Complexities

Still another consideration enters into the attractive principle that participants in our economy shall earn their food by means of rewards they get for their own economic performance.

It is that everyone who works (or manages, or invests) must therefore be paid off accurately in line with his contribution, and further that the products that are produced (food in this case) must be priced in line with cost of their production.

In other words, the principle carries a heavy institutional obligation. It is the obligation of accurate pricing of services contributed, and of product produced and sold. It permits no anti-competitive practices that distort the pricing process.

This condition is met most readily in an economy of small entrepreneurs selling their products in open markets. A soybean farmer who gets 30 bushels of beans per acre can live better than one whose harvests average 20 bushels. A cobbler who makes one pair of shoes in a day can buy more beefsteak than one who requires a day and a half.

Only a small part of the economy of today works that way. Instead, it is highly institutionalized. Many wage rates are negotiated in collective bargaining. Prices of most industrial products, including processed foods, are arrived at not in open auction but "administratively" — that is, by administrative decision in a corporate business. This is not to suggest that the many ways wages and prices are determined nowadays are suspect, or that they always violate the principle of reward commensurate with performance. But they could fall short of what is desired.

The institutional organization of the food marketing system is not neutral; it affects the performance of the system. Also, its complexity adds to difficulty in making accurate judgments about it.

Moreover, most processed food products are now turned out by firms that produce a large number of products by using large, costly capital installations. In other words, they are highly capitalized industrial firms. To say that products shall be priced equal to the cost of inputs used in their production is an empty phrase, because so much of the cost structure spreads over many products, or over an indeterminate number (of units) of a given product. Theoretical economists have tried to resolve the puzzle by inventing a formula for equating costs and returns "at the margin." But the marginal cost of producing an automobile, a cotton shirt, or a one-pound can of luncheon meat depends on whether it is the thousandth unit to come off the production line and be sold, or the ten-thousandth.

Moreover, as was observed above, every person and firm in the system tries to avoid having his services priced at the margin. We may teach in our economics classes that marginal-product pricing characterizes the marketing system for farm products. It would be more accurate to say that marginal pricing is carried on wherever it cannot be avoided.

Where, and how often, textbook-competitive pricing "at the margin" is engaged in is a question of empirical fact, to be determined only by observation. The principle being explained here is that persons and firms behave competitively only insofar as the competitive make-up of the system forces them to do so.

To repeat, these reminders of flaws and complexities in the system for marketing farm products are not to be interpreted as general disapproval of the existing system. They do warn against making easy judgments about whether our food system effectively and efficiently produces food for people.

Not Generalized, but Particularized, Judgments

This essay addresses the principles — the ethics — of our food system and is not itself an evaluation of the system now in operation. Question naturally arises, though, about how well our system of today conforms to the idealized criteria that have been established for it.

No all-inclusive, sweeping judgment will be offered. If one were necessary, it would be about the same as what the National Commission on Food Marketing said nearly 20 years ago. The system accomplishes wonders. It also has its faults, failures, imperfections.

So where does that leave us?

It leaves us first with the stern instruction that adverbs of general approval or disapproval of the marketing system as a whole are next to useless. No person or firm markets a composite of all foods. All marketing is of a particular commodity done by a single marketer at a given time and place. The appropriate question is how well that selected transaction is carried out.

A naval experience provides an analogy. Years ago a flag officer, confronted with an obvious miscarriage of justice at the expense of his own coxswain, blindly refused to intervene on grounds that "the Naval system of justice is the best in the world." No room for error in his pontification or cause for expression of concern.

Perhaps our markets are among the world's best. But if a Tennessee cattle feeder must accept below-market prices for his cattle owing to quiet collusion among local buyers, if a food processing industry is so oligopolistic as to overprice its product, if a small food firm is frozen out by a big competitor's sales below cost, the deficiency in each case is genuine and harmful irrespective of the praise that may be sung — perhaps with good cause — about the system as a whole.

It is possible that we expect too much of our marketing system. Even as the system becomes more complex, as noted above, and therefore harder to evaluate, we lift higher our expectations for it. Environmental concerns are an

obvious example of a sensitivity that is now sharp. In earlier years it amounted to little more than making sure milk bottles were scalded before being filled. In a good resume of concepts and techniques in studying market performance, Marion and Handy write that not only are performance parameters now hard to estimate accurately, but performance has become "multidimensional."²

Probably everyone feels fairly comfortable about judging the quality of markets to the farm, where crops or livestock are sold in open trading and many buyers compete to buy a standard product. Marketing of that kind is textbook-traditional; it is understood well, and any flaws are readily observed.

But the largest part of the food marketing system is of a different make-up. At later stages firms are fewer, product is differentiated, and price is arrived at not in open auction but "administratively." This part of the marketing system is sometimes called merchandising-oriented. In technical economic terms, competition is imperfect. It is harder to judge performance of merchandising-oriented marketing than of traditional markets near the farm.

Eternal Vigilance to Monitor the System

Finally, the marketing system for food will be a system of food for people only if its performance is monitored to make sure it functions in that way.

The monitoring is necessarily done by government. The role of government is essentially to provide supporting services and set rules. Most of the services are of long standing and not generally in dispute. They have been catalogued often, most recently in a report, Federal Marketing Programs in Agriculture: Issues and Options.³ The repertory is familiar: market information, grading and standardization, promotion, research, provision for group action (as farmer marketing cooperatives), and trade practice regulation including protection of safety in foods.

The strongest instrument of government is anti-trust regulation. It can forestall or correct the most blatant violations of the many-firm competition that the Food Commission regarded as integral to our food marketing system. Unless government does that, there can be no hope for a truly competitive food marketing system that achieves the idealized goal of food for people. If participants in marketing are allowed to act noncompetitively without restraint, either the goals will not be met, or a governmentally regulated system will eventually prove necessary.

Yet from a different point of view, the basic issue, in the final sense, is not one of private vs. public confrontation. Instead, we find here the ultimate contradiction: the wisest and most effective action taken by government to keep the food marketing system efficiently competitive will in fact reduce the governmental presence.

To put it differently, a competitive food marketing system can effectively do just about everything except provide for its own preservation. Only a public involvement will establish the terms of competition and institutional structure to enable the system to be essentially private yet act to provide food for people -- and thereby earn its own continuity. A system that performs well is self sustaining without need for further public action.

Let it be said once more. To expect a marketing system driven by pursuit of private profit to provide food for people is nothing less than heroic. It is heroic because the participants individually seek other goals. They strive not merely for a normal or necessary profit but for more than that. As Anne Kreuger observes in an opening quotation, they are rent-seekers. They seek rent in any advantage they can get. Whether they are able to do so, collecting excess profit, or instead are mutually checkmated and act in the common interest, depends on the wisdom of the public action taken to keep the system competitive. It depends on whether a public concern is exercised responsibly. And the more responsibly that concern is exercised, the more private the system can be.

All of which testifies to the wisdom George Will expressed in an opening quotation. For the economic system to work someone must have good motives, public-spiritedness. In our democracy, that "someone" must somehow manifest the nobler instincts of all our citizens.

* This paper was written for a compendium, Extension Transitions, compiled by James D. Shaffer, Michigan State University. This is one of two papers presenting somewhat contrasting viewpoints on the subject of food for people and for profit. Hence the title.

Footnotes

1. National Commission on Food Marketing, Food from Farmer to Consumer, U. S. Government Printing Office, Washington, D.C., 1966, p. 105.
2. Bruce W. Marion and Charles R. Handy, Market Performance: Concepts and Measures, U. S. Dept. of Agriculture, Economic Research Service, Agricultural Economic Report No. 244, 1973.
3. Walter J. Armbruster, Dennis R. Henderson, and Ronald D. Knutson, Federal Marketing Programs in Agriculture: Issues and Options, Interstate Printers, Danville, Illinois, 1983.