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UNIVERSITY RESPONSE TO KEYNOTE ADDRESS

by

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I admire my friend Jarvis for his willingness to address difficult global issues. This paper is no exception. In examining the growth and distribution of power in the U.S. food system, Jarvis has taken on one of the major issues confronting our society in the years ahead. The issue is not confined to the food system, but if we understand and learn to deal with power in the food system, we may also be able to deal with power in the energy, motor vehicle, and other sectors. Thus, I give him a high grade for selecting a major issue and honoring his Cainsian philosophy of "Worry not about venturing into areas where others fear to tread."

How successful was he in accomplishing the task? Here I must confess some disappointment. Although it is a mammoth task, I believe the subject can be addressed in a more rigorous and enlightening manner. The major deficiencies of the paper are:

1. A strong tendency to generalize without adequate documentation. A more careful analysis of the facts would have revealed where there are problems of power and where there are not, and added much to our understanding of power in the food systems.

2. A heavy reliance on concentration as as indicator of power and an implicit assumption that increasing concentration--at any level--affects the distribution of power. Product differentiation, an important source of market power in food manufacturing, is ignored. In addition, the distinctions between market power, conglomer-

ate power, and economic power due to large size are never clearly drawn.

3. Reliance on a "grab-bag" of statistics on concentration, some of which refer to national concentration, some to concentration in "relevant markets," and some of which are essentially meaningless. Although I emphathize with the author on the difficulty of finding accurate concentration data, both the data and interpretations could have been improved.

4. The causes of increasing concentration are given little treatment. Yet, the consequences and the policy measures for dealing with increasing concentration are quite different if the causes are mergers, economies of scale, advertising, or market ignorance.

5. The interrelationship between locuses of power was not examined. Although I recognize that space and energy restraints prevent one from covering all aspects of the power question, the interrelationship of power in industry, government, and labor unions tells us much about whether those power centers are reinforcing, restraining, or countervailing.

These are the major limitations of the paper as I see them. They are substantial. At the same time, however, I find myself largely in agreement with the overall theme of the paper and with many of the author's conclsuions. Thus, my concern is not that a more careful analysis of the facts reveals a different scenario, but that such an analysis markes the scenario less vulnerable to attack and provides greater policy insights. In the remainder of my comments, I will flesh out some of the above points.

First let me back off and offer a few thoughts about power, the broad topic which we are really addressing. I see power as the ability to influence key decisions. In the economic system, some of the key decisions concern the allocation of resources to various products and services, the prices charged, and the distribution of returns to factor owners. Decision control depends upon authority, which is based upon the ownership of resources in some cases, on contractual rights in others, on granted or assumed authority in others (price leadership), and on sovereign authority in still other instances (government price controls). A competitive market is one in which prices and the aggregate quantity produced are outside the control of individual firms and are determined by the competitive behavior of many buyers and sellers.

The concentration of resources in a few firms or institutions tells us something about the locus of authority due to ownership of resources. However, it may tell us little about the distribution of other types of authority. Food retailers manufacture few of the private label products they sell, yet they largely control private label manufacturing decisions via contracts. Food manufacturers may own and operate processing facilities, yet are restricted in the ingredients they can use by government regulations. A fuller understanding of power requires a careful analysis of who has control over what decisions.

Power due to vertical integration, conglomeration, or multi-national organization is fundamentally different from horizontal market power and must be examined using different indicators. Economists differ greatly in their assessment of the incentives for and consequences of these organizational forms. Regulatory agencies such as the FTC and the Congress are also struggling to decide whose theories to believe. Does vertical integration occur largely to gain efficiencies and better coordination--with positive social benefits, or does it tend to foreclose markets, increase barriers to entry, and further entrench market power position--thereby creating negative social benefits. Similarly, do conglomerates and multinationals arise due to inefficient capital markets, lead to improved resource allocations and allow entry into industries with high entry barriers--with favorable economic benefits, or do they allow firms to engage in predatory cross subsidization, reciprocity, and mutual forebearance--with negative competitive consequences. Concentration data is helpful in assessing the market power of conglomerates and vertically integrated firms in the individual markets in which they operate; these data may also provide clues of how these firms, given their organizational forms, will or could behave to enhance their competitive position. However, to my knowledge, there is no meaningful way to measure the concentration of conglomerates or vertically integrated firms. And without additional information about their market setting, the organizational form by itself (conglomeration, etc.) tells us little about the effect on market performance.

Theory and empirical studies of the effects of concentration suggest that some level of concentration within relevant markets must be achieved before market performance is negatively affected. Although agricultural production is becoming more concentrated, it is far from the level necessary for farmers to realize market power. In addition, empirical evidence demonstrates that other structural dimensions of a market--particularly product differentiation and barriers to entry--also have important effects on market performance. Thus, concentration in beef slaughtering is likely to have quite different effects than concentration in breakfast cereals.

Finally, concentration must be examined within relevant economic markets. National concentration in food retailing may effect the buying power of retailers in national markets, the conglomerate power of food chains and their power in the political arena--but tells us little about the market power of food retailers as sellers in local metropolitan markets. For the latter, local concentration figures are obviously necessary. The fact that 93 percent of the convenience stores are corporate or franchised units tells us very little about market power in the convenience shopping submarket of food retailing. The same is true for national data on the fast food business and grocery wholesaling. I believe the level and trends concerning concentration in convenience food shopping, fast food restaurants, and grocery wholesaling probably warrant some public policy concern. Unfortunately, the concentration data presented by Jarvis is not for relevant economic markets and hence neither confirms nor refutes my expectations.

Both aggregate concentration and industry concentration in food processing are generally increasing (Parker and Connor, 1979). However, a more careful analysis reveals that producer goods industries declined in concentration from 1958 to 1972, that consumer goods industries with low and moderate levels of product differentiation have been relatively stable in concentration and that consumer goods industries with high product differentiation have experienced steady and significant increases in concentration (Mueller and Hamm, Mueller and Rogers). These results suggest that increases in concentration are not due to economies of scale in production, but to scale advantages in product development and differentiation. A recent econometric study by Mueller and Rogers found the level of television advertising was one of the most important explanators of changes in concentration in food manufacturing industries. A study by Parker and Connor (1978) indicated that the overcharge to consumers due to monopoly power in food manufacturing industries was strongly affected by both the level of product differentiation and industry concentration. Taken together with some evidence that highly advertised foods tend to be nutritionally inferior (Mottern), these results suggest that advertising created product differentiation may be one of the fundamental problems in food manufacturing; yet at this point, public policies are incapable of addressing this source of market power.

The performance trade-offs resulting from different market structures is basic to policy deliberations. Considering such performance dimensions as allocative efficiency, operational efficiency, ex-inefficiency, product and process progressiveness, selling costs, product quality, economic stability, and the influence on societal values and the political process, I believe there is little justification for high levels of concentration in the food system. Moderate levels of concentration in many industries maybe yield greater operational efficiency and progressiveness than low levels of concentration without serious negative effects on other performance dimensions. This is where I come out from reading the literature. The trade-offs vary, of course, from industry to industry.

Concentration in Government and Organized Labor

I have difficulty evaluating Jarvis' statements about these two sectors. I don't know how to evaluate power in government. It strikes me that the number of government employees or the size of the government budget may tell us little about power. A dictatorship may have few government employees but tremendous control over key decisions. Conversely, a socialist country may have many government employees, a large public budget, but decentralized decisions. Without evidence to the contrary, I cannot disagree with Jarvis--only raise questions.

I was inclined to agree with Jarvis' assertions concerning the power of organized labor in the food system. However, a call to two of our labor economists made me more hesitant. They indicate that unionization has not kept pace with the growth in the labor force during the last decade. There has also been a trend toward decentralization of union power and decisionmaking as workers have become more dissatisfied with contract terms. Data to check on these trends in the food industries are somewhat meager. The available data indicate a modest increase in the percent of unionized employees in food manufacturing industries during the last decade. Data are not available for food retailing. The power of unions may be increasing in the food system. However, I suspect it is at a modest rate and may already have peaked.

So What?

In the last three pages of his paper, Jarvis addresses the "so what" question. Here I detect a sense of despair and cynicism--largely because of the interrelationships of the big three power centers. I confess I share this feeling at times also. In spite of periodic attempts to control and make more accountable concentrations of power, such as occurred during the Populist and Progressive movements, historical evidence indicates that aggregate economic power has steadily increased and the concentration of wealth has changed little during the last 30 years. Powerful entities have a strong instinct for survival; they may lose an occasional battle, but their resources, endurance, and resilience make them betting odds to win the war. Unfortunately, even those public agencies whose explicit mission is the control of economic power, such as the antitrust agencies, are largely engaged in a game of charades. The rules of the game and limited resources prevent them from seriously attacking the citadels of power in our economy.

Although my moments of despair have increased with age, I still believe there are things that can be done:

1. We can pursue more vigorously some of the "holding actions"--such as challenging anticompetitive mergers--in order to slow the increase in concentration.

2. We can launch a campaign for increased information in many areas of government, labor, and business. Ralph Nader contends that power, to be responsible, must be insecure. I'm convinced that information is a powerful policer of power because it eliminates the security of ignorance. As a public, we have allowed much too much information to be protected by arguments of confidentiality. We are just beginning to learn the power of credible information in our food system.

3. We can work for a fundamental reappraisal of the distribution of power in our society and the rules of the game. There are many ways of attacking entrenched power--if we're really serious. Unfortunately, those in power have a rather strong say in rule changes. Such a reappraisal is unlikely without a strong and sustained public uprising.

4. We can pray that the trend toward "syndicalism" ignites an offsetting resurgence in concern for "the public good."

These, for what they are worth, are my comments on Jarvis' paper. Although the paper has some serious deficiencies, it addresses one of the most important issues facing our society and is certain to stimulate thinking and debate. I suspect this was Jarvis' intent. From this standpoint, he was certainly successful.

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