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BOOK REVIEW

Philip H. Howard, 2016, *Concentration and Power in the Food System: Who controls what we eat?*

Bloomsbury Publishing Inc., London and New York, 216 p

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I have an introductory economics textbook on my shelves that uses as an example of perfect competition "Agricultural markets"; I doubt it is the only such text to use this example. The purpose of the book under review, on one level, is to provide a comprehensive challenge to this perception. At every stage, from seed to supermarket, from farm to fast food outlet, it is challenged. In fact, the author argues, these markets are increasingly concentrated into relatively few firms, although often the level of concentration is not apparent.

This is unashamedly an exercise in Political Economy, focusing on the questions of how concentration is changing in the food system and what enables or constrains the goals of dominant firms. The theme is that all such markets are becoming more concentrated, and that this is to be deplored. For much of the time, the focus is on the US market, but occasionally, the scope is worldwide. The book covers retailing, distribution, packaged foods, commodity processing, farming, agricultural inputs such as fertilisers and seeds, and the takeover and resistance of organics.

Let us examine the author's treatment of these various areas, starting with retailing. Once the province of local shops, retailing has moved to an activity increasingly controlled by national and even international store chains. As several scholars have noted, the most obvious development, of significance particularly in the USA but also worldwide, has been the growth of Walmart. Undoubtedly, Walmart's growth was facilitated in part by the efficiencies in supply chains it was able to engineer. It also led to consolidation amongst existing chains, forced to compete more vigorously to retain share. Behind this, and less obvious, were the legislative changes, local tax incentives and changes in labour practices which the book documents. The author points out that a key legislative change in approach was the downplaying of the Robinson Patman Act of 1936. Although the Act, which

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prohibits suppliers discriminating between customers (supermarket chains) based on volume of sales, has never actually been repealed, it is widely unenforced, leaving open the door for powerful chains to push suppliers for favourable deals. In other jurisdictions, where such an act did not exist, chains routinely use their power to screw down suppliers, so yielding a competitive advantage against smaller retailers. Another factor in concentration has been the position in relation to retail mergers, which has often been benign. A very powerful force, particularly in the USA, has been the de-unionisation and de-skilling of the employees within the retailer, again with the aim of driving down costs to maintain competitive advantage and enhance dominance.

In fast food, the book argues, the key force driving dominance has been the increasing use of franchising. To me, this argument is less obvious, because it requires the chain to attract additional franchisees. Unlike existing franchisees, who may find it difficult to refuse the chain's terms given their existing investments, new franchisees logically require the chain to provide an acceptable deal in order to take up a franchise and would be unlikely to accept a deal that leaves them in a worse position than being an employee of another chain.

So to distribution, the link between manufacturers and retailers. As is quite well known, through vertical integration, chains such as Walmart have attempted to disintermediate the distribution activity. The book is valuable in pointing to the less well-known cases where consolidation has taken place at one stage, leaving existing distribution arrangements disrupted, weakening the power particularly of smaller and more niche distributors. As a result, the largest broadline distributor in the USA has almost a quarter of the market, partly gained through a very large number of acquisitions. But legislation undoubtedly has had a particular impact on market structure in some markets, as shown in the book through the contrast with case studies of beer, with its unusual distribution legislation in the USA coming from the aftermath of the prohibition era.

Manufacturers, of course, do not take the increased market power of supermarket buyers lying down. A very successful strategy, it is argued, has been to colonise areas of activity formerly carried out within the home, at the same time de-skilling the domestic food preparer. Backed by advertising, packaged foods can become highly demanded items, ameliorating the power of supermarkets by rendering some at least "must stock" goods. Of course, this is a long-term trend, in line with the increased participation of women in the workforce and the development of various labour-saving devices. However, some of the effects of reducing preparation time, such as sales of pre-washed packaged salads and ready meals, have been to reduce the skills and food knowledge of preparers, as well as to encourage waste.

Much of what I have summarised so far would be well known to industry analysts. Starting with chapter 5, some lesser-known analyses of concentration and market practices are discussed. First comes commodity processing. Remarkably, basic activities such as soybean processing and pork slaughtering are areas where the largest firm has over a 25% market share, which with several other large players lead to a significant majority of all the activity in the hands of four firms. As a result, it is argued, price manipulation by producers has increased, both in terms of squeezing farmers and raising product prices.

So what of farmers? For many, there is an attachment to the land which in effect means they exploit themselves, working long hours for little pay. At the same time, as in many other countries, a general affection for the concept of the small farmer has led to a range of subsidies to farms in the USA. Yet it appears that the lion's share of the subsidies goes to the largest farms, which are best able to negotiate the complex system of applying for the range of money on offer under different programmes.

Then, there are the agricultural inputs, specifically fertilisers, seeds and animals for breeding. The most interesting example here concerns seeds. Agricultural crops of course naturally provide the means of self-perpetuation through the seeds they produce. Traditionally, farmers have saved a small proportion of their crop to propagate next year's crop. Starting with hybrid corn, superior seeds that do not have the same characteristics of self-propagation have been sold by the major agricultural chemical companies. Most of these have been the subject of intellectual property protection. Links between seeds and pesticides have been forged, so that genetically engineered soybean seed which was resistant to Roundup was developed by Monsanto following its acquisition of a seed company. Remarkably, Monsanto was able to enforce contractual restrictions on farmers prohibiting the saving of seed as well as imposing the requirement to purchase their herbicide. This went to the extent of filing numerous lawsuits and even led to imprisonment for farmers convicted of saving patented seeds! Hybridisation has also extended to livestock genetics, where the offspring do not exhibit the same characteristics as the patented breed. Clearly, this type of activity is facilitated by the relatively extensive coverage of US patents, compared with the European system.

Finally, large food firms have moved extensively into the organic sector, where the meaning of organic, probably always ambiguous, has been significantly stretched. Large players such as Coca Cola have acquired small organic producers and absorbed them in some cases by stealth, then reducing the organic component, according to chapter 8.

So where does this all lead? In Howard's view, the trend will be towards global duopoly, as with drinks such as cola and, probably, beer with the merger of InBev and SAB Miller in its final stages as I write. But so also with seeds, the two key players being Monsanto and DuPont. Alongside this, there will be pockets of resistance, trends such as "buy local" which are relatively more difficult to capture, negative feedback caused by increasing income inequality and the potential for disruption of time-sensitive systems of supply. But it is clear that the author views these as marginal.

Overall, the strength and value of the book lies in its detailed description of the various markets in food and documentation of their consolidation. Most readers will learn a good deal from reading this and gain a far greater understanding of the various forces at work. However, to my mind a weakness is that it is short on any aspect of formal analysis. So it rejects the common economist's assumption of economies of scale as a driving factor but does not engage for example with the more nuanced and challenging approach to understanding concentration pioneered by John Sutton in a series of books (1991, 1998). It is as if to describe is enough. More disappointingly, although clearly the increased concentration is deplored in general terms, and clearly is viewed as something the reader should deplore, no overall evaluation is developed. The arguments are persuasive, but if farmers had not engaged with technology, if retailers had not developed supply systems, the vast majority of us would be eating the poor and monotonous diet of the mid-nineteenth century. So the changes are not all bad, but how to separate the wheat from the chaff? It is disappointing that so little real guidance is offered. Moreover, having identified the problem, the author has very little to say about potential remedies. Perhaps that is still to come in a companion volume.

References

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