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A Critique of the Current Food System

by

Ronald W. Cotterill

Food Marketing Policy Center
University of Connecticut

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Tel (860) 486-1927
Fax (860) 486-2461

email: ***fmpc@uconn.edu***
http://www.are.uconn.edu/fmktc.html

Food Marketing Policy Center, Department of Agricultural and Resource Economics, University of Connecticut, 1376 Storrs Road, U-21, Storrs, CT 06269-4021

A Critique of the Current Food System

By Ronald W. Cotterill*

The U.S. economy is enjoying the longest economic expansion in history. Inflation is at an historic low, unemployment is also low, governments at all levels are enjoying surpluses, and the top 1% of the population, or some number thereabouts, are now millionaires due to the unprecedented advance of the U.S. stock market. Many of the poor and many minorities are now working rather than existing in a state of dependency. Crime is down.

On the down side, income distribution has worsened, the rank and file working household has, to a large extent, only benefited by giving more hours to the labor market. And the focus of this conference, rural America, its farmers and related agribusinesses, have not participated in the economic boom of the 1990s. What is the problem?

The fundamental problem is not new. It has plagued agriculture since the 1920s when Thomas Nixon Carver, a professor at Harvard, wrote about a two-sector economy that had an inherent tendency to disadvantage agriculture as economic growth and progress provided great rewards and wealth to the industrial sector. Farmers are inherently disorganized, small-scale producers that have historically sought competitive market channels to assemble, process and distribute their products. Even such powerless channels, however, can generate unacceptable prices and incomes for agriculture because of the asset specificity problem in agriculture. Farmers are committed to production with

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physical, human, and what I will call locational capital that simply cannot quickly be redeployed to other economic activities. This generates the classic overproduction trap. When faced with declining prices and incomes, farmers can only do one thing–produce more, which exacerbates rather than mitigates the problem.

In economic parlance, the farm market equilibrium is dynamically unstable. In the 1920s, the farm cooperative marketing movement recognized this and sought to organize commodity cooperatives that could control the supply to market in an attempt to stabilize the markets. Absent an ability to control production on farm, they failed. Franklin D. Roosevelt's genius was to solve the final link. When antitrust lawyers in the government said one simply could not give farm cooperatives the right to control production on farm, FDR said, "ok, then let the government do it and let it do so in the public's best interest."

For all their shortcomings agricultural commodity policy and related marketing policies that supported cooperative marketing as a competitive yardstick, and maintenance of competition in the market channels, i.e., a rigorous antitrust policy, provided the infrastructure for an agriculture that rapidly adopted new technology, outpaced productivity gains in the industrial sector, became the marvel of the rest of the world, and afforded farmers a reasonable income at the same time as their numbers declined dramatically. Rural America discounting Appalachia and the black south, was reasonably prosperous.

So what changed in the 1980s and 1990s? In short, a lot of things changed to destroy the infrastructure for family farm agriculture and small towns that provided the agribusiness services to those who worked the land. The list includes the demise of the

New Deal era agricultural commodity policies in return for programs that promote global agricultural trade. The final move was the 1996 Freedom to Farm Act with its legislated move to withdraw all price stabilization and price support programs. This has been a dismal failure. As the plight of farmers has worsened since 1997, Congress has simply thrown billions of dollars at the problem in crude transfer programs.

Downstream from the farm other changes have disadvantaged the farmer. Concentration in food processing and retailing has radically transformed the price system, ultimately to the detriment of the family farmer and the agribusiness system that serves them. One common form of concentration is vertical integration and contract coordination as seen in broilers, pork, fruits and vegetables, and dairy. In these latter two commodities the integrators are often farmer owned cooperatives, but in the former they are investor owned firms. My local Wal-Mart supercenter carries only Perdue fresh chicken, Tyson frozen chicken and Smithfield Farms pork. All other producers are foreclosed from selling at Wal-Mart.

Horizontal concentration has also occurred at retail and in many processing industries. Some claim that efficiency, economies of scale, scope, contract coordination, and the elimination of slothful, slow, management via the takeover and leveraged buyout market, have driven this trend to concentration. They claim that consumers and farmers have benefited from this more efficient market channel organization, but the very fact that we are here today belies this assertion. Concentration has done more than generate efficiency gains. It clearly has created a new much higher level of exclusionary market power in the food system.

This power has been deployed not only towards consumers by elevating prices above what they would be in a more efficient *competitively structured* channel, but also towards farmers via tactics that exacerbate excess supply conditions, lower prices, and redefine farmers as a modern equivalent of sharecroppers. The new high level of market power endowed on food firms has been used to break unions, and to secure wage givebacks, and to import immigrant labor to do many jobs that now are clearly more dangerous and debilitating than at any time since Upton Sinclair wrote, *The Jungle,* in 1914. The new level of market power has been deployed politically to sustain this transformation of the system.

So what can be done? Can we go back to a typical post World War II federal policy of commodity price stabilization given that we are now more firmly ensconced in global agricultural trade, which after all, does expand demand for at least some of our products? Maybe we can. Maybe we can't. Certainly we can devise some sort of agricultural income stabilization policy for farmers that are not large corporate entities. Environmental and health and safety regulations that ensure that corporate integrators and other very large processors pay the full social costs of their activity might also advantage family farm agriculture. Given the system is rife with market power that is systematically being used to force families from agriculture, why not give farmer cooperatives even greater public support to redress the power imbalance. On a similar front, why not strengthen the agricultural bargaining laws to give contract farmers more power to secure favorable terms? Alternatively, is there a way that contract farmers can become shareholders, possibly a special class of stock, that allows them to participate more fully in the benefits of vertical coordination?

On antitrust issues, more squarely, we need merger guidelines for oligopsony that can apply to the food industries. An oliopsony in practice is not the mirror image of oligopoly as it is in theory. For example, a horizontal merger that increases four-firm seller concentration to 60% in a local food retailing market, for example, Kansas City, would pass muster today. But what about market extension mergers that increases supermarket buyer concentration to 60%, i.e., four big chains buy 60% of the food sold in the U.S? This level of buyer concentration seems far more pernicious and probably should not be allowed to occur by merger. Today, there is no policy stance that would stop it.

Private antitrust enforcement and antitrust enforcement by the states needs to be encouraged as an outsourcing of federal government activity in this era of lean government. Along this line of reasoning the Illinois Brick restriction that allows only the first purchasers to sue and collect treble damages for antitrust injury should be repealed as it already has in several states. This allows class action lawsuits on behalf of farmers and consumers, those who often bear the ultimate burden, to be filed by the private antitrust bar. (These pass through lawsuits create another need for analysis of price transmission in food channels.) Such cases exist now in the courts, including a class action on behalf of farmers alleging that Kraft Foods depressed the price of cheese in the early 1990s and that this was transmitted back to farmers who received lower milk prices.

Related, somewhat subtle but very important issues are the Noer Pennington doctrine and the filed rate doctrines in regulatory/antitrust law. Basically, these exonerate any company from antitrust prosecution because the government has established or approved the prices for an industry. Kraft has, for example, successfully argued in a county court in Wisconsin that even if it did depress the cheese price, farmers cannot collect damages because the price they received for their milk, although based on this depressed price, was determined by the federal milk market orders, hence the company is shielded. This is a very pernicious extension of antitrust precedents, one that would effectively shield all companies in the food system from antitrust prosecution by farmers whose prices in any way are affected by the government.

In conclusion, the general public needs to hear about these issues. There is a considerable desire for basic fairness among the general public. This latent reservoir of political support needs to be mobilized. After all, farmers are only 1.5% of the population now. Any progress on the issue of economic parity for family farmers and rural America/agribusiness rests squarely upon the ability to convince the general public that public policy changes are needed. Alternatively, family farms are left to fend for themselves in markets that are more inhospitable than at any time since the 1930s.