Perspectives on Global Concentration and Public Policy

Presented at the Global Markets for High-Value Food Workshop
United States Department of Agriculture
Washington, D.C.

February 14, 2003

by

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Abstract

This paper is an essay in political economy. It defines globalization and discusses its key role in economic development over the past two centuries as well as today. Globalization may have broadened markets, thereby affecting the nature of competition within those larger markets, or it may have simply introduced more trade or foreign direct investment to existing markets. One conclusion is that there is no global market for high value food, or for any particular high value food. To date the impacts of multinational firms in political forums at the state, regional or national as well as the global level have been in many instances as important as their impacts on economic markets. Issues and concerns discussed range from general observations on governance of the global economy to the impact of global concentration on specific problems in the agricultural and food markets of the United States. We conclude that the scope and extent of public policy is a direct function of the degree of development and globalization in an economy.

Perspectives on Global Concentration and Public Policy

By Ronald W. Cotterill

I. INTRODUCTION

Global concentration is not a new concept. Neither of course is public policy a new concept. Economists from the time of Adam Smith forward to leading 20^{th} century economists such as George Stigler have thought and written about the relationship between the globalization of economic activity and economic concentration in industries as well as in countries and the entire world. Most recently Joseph Stiglitz has written a provocative book entitled "Globalization and It's Discontents". This paper will review what leading economists have said on these issues over the past two centuries and discuss current conditions. Those who would look for tables and charts documenting the latest market shares for leading multinational corporations will be disappointed, for there are none in this issue-oriented paper.[1]

The approach assumes that the current economic and political uncertainty over war in Iraq dissipates in the near term future with no permanent damage to the trend of globalization in the world economy. This may not be the case. Consider the following quotes from a recent news story on Attorney General John Ashcroft's rocky appearance at the annual World Economic Forum in Davos, Switzerland.

> "Paul Sagan, an American technology executive from Cambridge, Mass., for instance, told Mr. Ashcroft after lunch in an luxury hotel: "I'm concerned about the way Americans are perceived. Why do you think we are perceived as being not on the right side by a lot of the world? Often we are seen on the wrong side."
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> …
>
> At a separate session yesterday, Anne-Marie Slaughter, a professor at Princeton, said the central issue being debated in the world now was American power and the opposition to it."

[1] See Cotterill (1999) for a review of such empirical data. Also see Reardon (2003).

…

> "As the United States prepares for possible war with Iraq, the challenge facing Mr. Ashcroft and other American officials is to counter the argument from critics in Europe and the Arab and Muslim world that the twin wars on terror and Iraq will create so much resentment that it will breed a new generation of anti-American terrorists.
>
> While Mr. Ashcroft said that the American aim was to prevent acts of terror before they took place rather than prosecute the perpetrators afterward, Mahathir Mohamad, the prime minister of Malaysia, turned to the attorney general across a stage and, in front of hundreds of participants, said, "To say you must do preventative actions irrespective of the causes is wrong." (Cowell, p. A8, 1/25/03)

We are in truly difficult times. Coca Cola and McDonalds recently announced that they are no longer issuing short term sales and earnings forecast because there is too much uncertainty (Baldwin). These two corporations are perhaps the most global firms in the world. What more convenient target for anger against the U.S. in a foreign country than a local McDonalds restaurant or Coca Cola distribution facility?

The presentation in this paper is organized as follows. In the next section we define globalization and discuss its key role in economic development over the past two centuries as well as today. Then we analyze whether globalization has broadened markets, thereby affecting the nature of competition within those larger markets, or whether globalization has simply introduced more trade or foreign direct investment to existing markets. This discussion leads us to the conclusion that there is no global market for high value food, or for any particular high value food.

Next we move on to explore the relationship between globalization and concentration of economic activity in large and powerful multinational or global firms. To date the impacts of these firms in political forums at the state or regional and national as well as the global level have been in many instances as important as their impacts on performance in economic markets.

The paper continues to discuss the evolution of public policy as economies develop and identifies several key public policy areas that are important for overall economic performance. Adam Smith first suggested that economic specialization is limited by the extent of the market. We propose a parallel theorem for public policy specialization: the evolution and specialization of public policy into several distinct sub-areas is also a limited by the extent of the market. As economic growth and development occur public policies also grow and develop.

In the post World War II global economy we have completed the first phase of the evolution of public policy and are now entering a second phase that will see considerable and rapid development of additional and more subtle public policies.

We next present an assessment of how global public policy has performed to date. The issues and concerns presented in this section range from general observations on governance of the global economy to the impact of global concentration on specific problems in the agricultural and food markets of the United States.

Finally in the last section of the paper we offer some conclusions and call for more progressive economic research. Although some may find this paper critical it ultimately is a very optimistic paper from at least one standpoint: economic research. As the global economy continues to grow the demand for public policy oriented research increases. That research will not focus on globalization in an exclusive fashion. Rather research will continue on many seemingly unrelated and often local issues; but, will now address those issues within the context of a more global approach. Within that global context there is a continued and critical need for research that addresses issues of concern to stakeholders other than corporate managers and ownership interests of large corporations. Public research is needed not on how to market more products and increase investors' returns. Private interests are sufficiently motivated to do that.

Rather public research by economists is needed on the organization and control of the economic system, and issues that are critical to disorganized stakeholders such as consumers, non-unionized unskilled and super-skilled workers (college trained engineers and scientists), farmers and peasants.

II. DEFINING GLOBALIZATION

Stiglitz defines globalization as follows:

> "Fundamentally, it is the closer integration of the countries and peoples of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders. (Stiglitz, p. 9)

Globalization of economic activity is not a new phenomenon. Writing in the 18th century Adam Smith described the expansion of trade that came with advances in water transportation. Trade increased because maritime interests were able to build larger ships and advance the science of navigation by finally devising a system for measuring a ship's longitude. Bulky agricultural products for example could easily be shipped from Glasgow, Scotland to London by water. Similarly it was cheaper to transport manufactured goods by water between these cities as compared to transferring products between London and land locked cities such as Birmingham by wagon. The advantages of water transport led to the construction of several canals in the European countries and in the United States as well. That technology however was soon replaced by the invention of the railroad, a faster system for moving bulky goods. Since then of course we have seen the invention of the automobile, the airplane and more recently the Internet.

Each of these transportation enhancing devices has led to significant economic growth and development.[2]

Basically globalization has come to be synonymous with an increase in the trade of economic products such as agricultural products and manufactured goods. Globalization, however, has also affected the trade in inputs. Most notably during recent times it has broadened the flow of capital around the globe. Direct foreign investment is a very special form of capital flow i.e. one with management attached. During the 1990's we also witnessed the continued globalization of a critical labor market i.e. the free flow of educated professionals and students between countries. The United States has especially benefited from the brain drain from less developed countries. More recently however larger America corporations have reversed the flow by outsourcing sophisticated tasks such as computer programming to less developed countries such as India. This process of course was preceded by the outsourcing shift to unskilled labor in third world countries.

III. WHAT IS THE RELATIONSHIP OF GLOBALIZATION TO THE STRUCTURE OF THE ECONOMY?

Globalization most certainly has had an impact on the structure of the economies of the U.S. and other countries in the world. Basically, if we answer three questions one obtains an understanding of how globalization has affected the economy. The first question is do we have more trade between countries today than in the past? The answer of course is yes. The second question is do we have more foreign direct investment between countries today rather than in the past? Again the answer is yes. The third question is more subtle and deserves more careful explanation. Has globalization broadened markets? For example is there now a global market

[2] For the classic exposition of the economies of creative destruction of new technology see Schumpeter (1954). Also see Chandler (1977) for the classic business history of how new technologies led to the growth and development of the U.S. economy in the 19th and 20th centuries.

for capital? Is there now a global market for cheddar cheese? Is there now a global market for food retailing?

Answering these questions leads us to a very fundamental activity that is often at the forefront of public policy and analysis of market performance. That activity is the definition of product and geographic markets. Industrial organization economists have traditionally defined markets as a break in the distinct chain of substitutes that exist for an array of products. For example, white fluid milk products are sold in a distinct product market. This is the case even though consumers drink many other products such as orange juice and soda because there is a distinct break in the chain of cross price elasticities between these products. The break in cross price elasticities between fluid milk and other drinks would allow a hypothetical monopolist who controls all fluid milk in the market to raise the price of fluid milk. Similarly breaks in the geographic patterns of economic activity define geographic markets. For example, rivers, mountain ranges and oceans limit the ability of buyers and sellers when distributing product. Also man made barriers such as interstate highways that split a neighborhood in half and make it difficult for the buyers to get from one side of the market to the other helps to delineate geographic markets.

Given this approach to product and geographic market definition one can see that even in a global economy there exist local, regional and national as well as possibly international markets for finished products, intermediate products, and inputs such as capital, management and labor. Seen in this context there are very few global or completely international markets.

Perhaps the strongest case for a global market can be made for the capital market given recent advances in communications related to the Internet. American investors can invest in

Europe and other countries and investors in those countries can quite easily invest in the United States.

If one examines a high value added food product such as cheddar cheese, for example, it is clear that the market is not global. Even at the commodity cheese level one has a cheese market in the United States for this product and one also has the cheese market in the United Kingdom and other countries for cheddar cheese. Of course these markets are linked by trade and by transport differentials; however, that linkage can at times be imperfect. As one moves down the distribution channel towards consumers the relevant market becomes even more local.

For a distribution industry such as food retailing it truly is a misnomer to talk about a global market. Certainly one can talk about multinational food retailers however the performance of these retailers is determined in the final instance in local retailing markets such as Willimantic, CT where they sell their products. Of course the cost that retailers incur supplying these markets also is an important determinant of their ultimate performance.

As one looks back up the channel from the local retail market one certainly does find that integrated retailers or their large-scale cooperative wholesalers are operating in much larger regional and national and sometimes international markets. Nonetheless we retain a healthy dose of skepticism that supply chain management that stretches to a truly global scale does so in such fashion that it is decisive for the organization and performance of the food distribution system in any country,. To date most of the globalization that has occurred in the distribution channel has been direct foreign investment where large firms from one country have entered another country by purchasing a large firm in that country.

In conclusion the impact of globalization on the structure of the economy is very complex and one is hard pressed to find generalizations that hold across all situations. Globalization has increased trade. It's also increased foreign direct investment. It has also increased the mobility of other inputs. Finally it has broadened a few markets such as the capital market however discounting European economic integration, most food markets remain similar in size and scope to their structure 10 or 20 years ago. Specifically there is no global market for the buying and selling of high value food products. Also there is no global market for the buying and selling of a single high value added food products such as cheddar cheese or Kellogg's cornflakes. High value good products may involve trade and direct foreign investment but ultimately they are distributed at retail through local markets.

IV. THE RELATIONSHIP BETWEEN GLOBALIZATION AND CONCENTRATION ECONOMIC ACTIVITY

As discussed in the prior section globalization produces no simple direct relationship with a specific measure of economic structure such as seller concentration. Globalization is a factor that influences seller concentration, and for that matter buyer concentration in any given well-defined product and geographic market. It may increase or it may decrease the relevant concentration measure.

The situation is entirely different in the political dimension. Aggregate global concentration can be measured by the relative size of the world's top 500 multinational corporations. As we shall see below many observers from a nobel laureate economist to farm, labor, and environmental groups believe that large American corporations and a few European and Japanese multinational corporations benefit most from the recent trend towards globalization in the world economy.

V. PUBLIC POLICIES FOR A GLOBAL ECONOMY

Today as we continue to accelerate towards a global economy the general hypothesis is that we are locked into a virtuous cycle of ever increasing economic growth as trade liberalization and advances in technology provide a rising tide for all boats. In a small but classic article George Stigler (1950) described how globalization, driven by increased trade and technology, can lead to economic development and more specifically the development of complex market channels that link producers and consumers via several advanced industries in the marketing channel.

Stigler's theory of economic growth starts with the proto-typical household engaged undifferentiated economic activity such as milking a cow to obtain milk for its own consumption. One might think of this as the Mrs. O'Leary economy in Chicago before the great fire. Soon thereafter the railroad and refrigeration allowed creation of small dairy farms outside the city. Between these small dairy farmers and the consumers was a single firm monopoly the railroad. Antitrust policy was created to address monopoly issues. As the economy grew one had entry by other railroads, possibly creating alternative sources of supply and competition at the consumer end of the marketing channel. Farmer cooperatives and public policies, most notably antitrust policies, dealt with the monopsony power of railroads at the farm end of the market channel. As the technology of dairy farming advanced with vacuum milkers and farm mechanization, the size of the dairy farms increased. Similarly with pasteurization and homogenization the dairy processing industry grew in the central city area between the railroad and the consumer.

One can see from this sketch of the evolution of the dairy industry that as economic development occurs, one has a spin off of several industries and the creation of a complex market channel. Adding to channel complexity one has third party firms such as the market-consulting firms that provide services to milk processors, food retailers, and farmers to improve the performance of the channel. As this process of economic development occurs one can observe the development of several markets and exchange between distinct economic entities that exist between the cow and the consumer. Basically the world becomes more complicated.

One needs law, especially contract law, and one needs public policy such as cooperative-enabling programs, and antitrust policies to influence the performance of these markets in this more complex economy. This basic observation leads to a second political economic theorem. Public policy is limited by the extent of the market. As an economy grows and a market channel with complex exchange between many parties develops, there is a need for ever more complex public policies to ensure that the economy functions in an efficient and effective fashion for all parties involved.

Writing in Globalization and its Discontents, Stiglitz notes that the development and evolution of public policy and our current wave of globalization has distinctly lagged behind the advance of markets and exchange. He explains this situation as follows.

> "Today, with the continuing decline in transportation and communication costs, and the reduction of man-made barriers to the flow of goods, services, and capital (though there remain serious barriers to the free flow of labor), we have a process of "globalization" analogous to the earlier processes in which national economies were formed. Unfortunately, we have no world government, accountable to the people of every country, to oversee the globalization process in a fashion comparable to the way national governments guided the nationalization process. Instead, we have a system that might be called *global governance without global government*, (Stiglitz, p. 21).

Stiglitz maintains that three major institutions provide the structure for governance of global economy today. Those three institutions are the International Monetary Fund, The World Bank, and The World Trade Organization. These were established immediately after World War II along with the United Nations. Curiously Stiglitz ignores the United Nations as an institution for global government and focuses upon the global governance activities of these specialized players that are controlled directly by the United States and other G-7 countries (i.e. the developed economies of Japan, Canada, and Western Europe). The International Monetary Fund was founded and charged with responsibility for avoiding global economic depression such as we experienced in the 1930's due to improper monetary and fiscal policies by national governments. The IMF is essentially controlled by the United States and other large industrialized countries in Europe and Japan. The World Bank was established to foster economic development among poor countries. Its charge is to eliminate world poverty by helping less developed countries copy the economic miracles that have occurred in such countries as South Korea, Taiwan, and Malaysia. Finally The World Trade Organization was founded to advance free trade so that a reversion to autarchy as occurred during the 1930's would not contribute to another depression.

Over the past 50 years these three economic institutions have for better or worse governed the world's economy. We would describe this period as phase one in the current advance of globalization. We are on the cusp of phase 2 which will of necessity involve the expansion of public policy beyond these three institutions to include several other areas. Many of them have been in the news over the past decade. For example, it is commonly acknowledged that we now need an advance of securities regulation and accounting regulation so that the world's capital markets have a structure that instills confidence, or at least transparency and accuracy in reporting.

Antitrust regulation is also becoming more global as American antitrust authorities cooperate with Canadian, European and Japanese antitrust agencies. That cooperation is not always seamless. For example, several recent major mergers have involved multinational corporations. The American government has signed off approving the mergers however the European antitrust agency has not and has effectively blocked a few of these mergers. The most notable example of this was the European Union's blocking of the GE Honeywell merger after the U.S. government had approved it.

The third general area where public policy will expand in the global arena is the area of product safety. For agricultural economists the issue of food safety and food security is paramount.

Another area is worker safety and wage levels. Consumers as well as displaced workers in industrialized countries are often concerned that products imported from less developed countries are produced under less than acceptable conditions for the workers in those countries. Concerns about the environment and civil rights round out my list of new areas where public policy will be active across national borders.

VI. AN ASSESSMENT: GLOBAL PUBLIC POLICY TO DATE, ISSUES AND CONCERNS

VI.a. Aggregate Concentration, Free Market Ideology, and Third World Impacts

An overarching concern about globalization is the impact of aggregate economic concentration on the governance of the global economy. An integral part of this concern is very deep concern about the dominance of ideas and underlying political economic ideologies that best serve the interest of the world's multinational corporations and their owners. Again I would defer to Joseph Stiglitz, a Nobel Laureate who has direct experience in the management of these three critical global economic institutions, i.e. the International Monetary Fund, The World Bank and The World Trade Organization. Stiglitz states:

> "Underlying the problems of the IMF and the other international economic institutions is the problem of governance: who decides what they do. The institutions are dominated not just by the wealthiest industrial countries but by commercial and financial interests in those countries, and the policies of the institutions naturally reflect this." (Stiglitz, p. 19)

Stiglitz goes on to argue that this dominance of global governance by essentially American and Western European industrial countries commercial and financial interests has led to a 19th century economic ideology. Stiglitz describes "The Washington Consensus" as follows:

> "The Washington Consensus policies, however, were based on a simplistic model of the market economy, the competitive equilibrium model … Because in this model there is no need for government – that is, free, unfettered, "liberal" markets work perfectly – the Washington Consensus policies are sometimes referred to as "neo-liberal," based on "market fundamentalism," a resuscitation of the laissez-faire policies that were popular in some circles in the nineteenth century." (Stiglitz, p. 74)

We would add that this 19th century focus is entirely consistent with the Chicago School of Economics as practiced in the area of industrial organization and regulation. (Martin, 1993, p. 9, Reder 1982).

Stiglitz continues by presenting a classic critique of the laissez faire competitive market model. There are many examples of the application of this free market approach to the economic problems of less developed countries. Consider the situation in Nicaragua as summarized in the box below.

NICARAGUA: An Example of Globalization
by Hazel Plunkett

A Rural Economy

Just a handful of crops dominates the Nicaraguan economy. Coffee is the most important and has held its position as its most valuable export for more than a century. But it is a business fraught with difficulties. A drop in the price on the world market or early rains, causing the beans to rot on the bushes and wiping out the whole crop, can spell economic disaster, such is the country's reliance on coffee sales. The prices of other key agricultural products, including sugarcane, bananas and meat also suffer from the vagaries of the international market and weather. Yet despite the inherent problems of cash crops, farming is the mainstay of Nicaragua's economy. It provides almost a third of the country's foreign earnings and is a vital source of employment. Almost half of the population of 4.4 million still live in the countryside, working as wage laborers on large farms or growing their own food on small plots of land….

Debt

…Nicaragua, along with numerous other developing countries caught in the vicious circle of growing indebtedness, was faced with no other option than compliance with IMF and World Bank policies of stabilization and structural adjustment….

Under IMF Tutelage

A full-fledged stabilization and structural adjustment program began in 1990. The UNO government, proclaiming its allegiance to the free market ethic, embarked on a course of public spending reduction, liberalization and privatization….

Public Expenditure Cuts

No time was wasted in cutting back on the apparatus and services of the state. Health workers, teachers, the policy and the army were laid off in growing numbers. By 1993 public expenditure was squeezed to 27 percent of Gross Domestic Product (GDP), compared to the record 59 percent of GDP spent by the FSLN in 1984….

…In a process known as the *concertación*, the government, trade unions and employers participated in talks to reach agreements acceptable to all sides. UNO suspended its cutbacks in the public sector, but introduced what it euphemistically described as a "job conversion program". Over 22,000 people were enticed into voluntary retirement by one-off payments of about $2,000 made by the U.S. Agency for International Development, which were intended to help in setting up small businesses. Most were unsuccessful and many participants in the scheme became unemployed….

Extended Structural Adjustment Fund (ESAF)

In keeping with the times, protesters in Nicaragua nowadays unfurl banners saying "ESAF kills" or "Adjustment costs lives". They are all too aware of the role of the IMF and the World Bank in the country's rising poverty and unemployment, and are almost as familiar with the workings of the international financial institutions as with those of their own government….

Nicaraguans in Exile

The clichéd vision of the U.S. as the land of opportunity has always attracted a steady flow of Nicaraguans. Like many people from the developing world, they went in search of a higher standard of living, but during the 1980s thousands left for political reasons. The vast majority headed for Miami, Houston or Los Angeles, where they largely worked in low-paid jobs in the service industry. In 1990 after the Sandinistas were driven from power, an estimated 120,000 Nicaraguans returned from the U.S. Many staggered through customs with huge American refrigerators, hi-fi systems, video cameras and even pedigree dogs in tow, the sort of fancy goods which most Nicaraguans had never seen before. Like many political migrants, they wanted to use their experience abroad and set up businesses in their own country. But for a large number of returnees the dream of riches in Nicaragua became a nightmare. Many lost money in failed business ventures, others just could not settle back into what they now regarded as a backward country. At least 30,000 disenchanted Nicaraguans packed their bags and returned to the U.S., where they picked up where they left off, serving at petrol stations and fast-food outlets.

Made in the USA

The influx of Nicaraguans more accustomed to pizzas, milkshakes and hamburgers than tortillas, beans and rice has had an extraordinary effect on the pattern of imports. Manufactured, processed and consumer goods are flooding the country. While the lifestyle of a small elite has resulted in a consumer boom, which has spurred the construction of malls, restaurants and leisure facilities, the import bill has rocketed to over $1 billion. Supermarket shelves are bulging with an impressive range of expensive American produce. Even ice cream has found a market. Shops selling electrical equipment and cellular phones are opening. Car sales are booming, with the number of vehicles on the roads doubling since 1990.

There has also been a considerable increase in private investment, reflecting growing commercial confidence in the country as the influence of trade unions wanes and wages fall. The efforts of the UNO and Liberal Alliance governments to shake off the image of Nicaragua as politically unstable have paid off….

SOURCE: Plunkett, Hazel, 2002. *Nicaragua, A Guide to the People, Politics and Culture*, Interlink Books, NY, NY.

The path of economic development that the UNO government, IMF and World Bank chose has clearly positioned Nicaragua in the global economy with a heavy emphasis on trade. The fate of rural and agricultural Nicaragua, however has an uncomfortable similarity to the fate of rural and agricultural interests in the United States and elsewhere. Globalization has created an imbalance in prices and purchasing power that transfers income and wealth from the agricultural economies of nations to other sectors of their economies. Unfettered, free if you like, commodity markets do not serve rural and agricultural interests. The recent crash in the world coffee market, due primarily to the entrance of significant production from Vietnam an new player, is well known.

Along with Stiglitz and other critics of management of the global economy we conclude that there is a need for a move from ideology to policy implementation based upon research and assessment. Moreover it is clear that one needs to move beyond the simple three objectives of phase 1 global policy which were full employment, elimination of poverty, and free trade. To achieve full employment and the lessening of global poverty one clearly needs to broaden public policy to include the phase 2 policies. They affect the distribution of income and wealth in an economy, and internalize market externalities to improve allocative and productive efficiency.

VI.b Impacts of Globalization on Specific Industries in the U.S. Food System

If one shifts from the issue of aggregate concentration towards an industry level analysis of market concentration and performance one quickly comes upon several other issues that demand more active phase 2 public policies. Here we will focus only on industry issues in the United States, which is the country we are most familiar with. Agricultural economists from other areas of the world most certainly could add to this list of public policy concerns in their countries.

Perhaps the most fundamental problem with globalization in practice over the past 25 years is the loss of information on economic activities in our economy. When a company such as Royal Ahold or Sainsbury enters the United States by acquiring a leading supermarket chain in a region of the country, one immediately loses a considerable amount of economic information about that chain and food distribution in that region of the country. For example, subsidiaries of multinational corporations are not required to file form 10k's with the Securities Exchange Commission. Consequently we no longer have income and expense information for that regional chain and we no longer have balance sheet information for that chain.

As food manufacturing and food retailing industries have become more concentrated. We have also lost access to other sources of market information such as scanner data from the Information Resources Inc. and the A.C. Neilsen company. Large supermarket chains i.e. key accounts are reluctant to release such information to public researchers. Similarly large food manufacturers prefer to keep such information private and available only to consultants and researchers under their control. Although some might disagree, we believe that the growth in privatized information is a direct function of the increase in concentration in food industries. Smaller firms in more deconcentrated industries have more need for public information on industry performance when planning their own activities. Witness for example how farmers plan their production processes based upon public information.

A second area of concern in the current globalization wave is the rising aura and power of the world's largest corporations in the world's courts and at the world's legislatures. Many of these corporations have literally billions of dollars at their beck and call to implement strategies that involve expensive litigation in courts and administrative proceedings before other public bodies.

Consider, for example, the relatively routine acquisition of a local supermarket chain by a large multinational retailer. Affected parties including competing retailers and consumers as represented by the State Attorneys General and possibly the Federal Trade Commission, have constrained legal and economic resources when compared to the same resources that can be brought to bear by a large corporation. Cases such as Microsoft, which involves the coalition effort by several states and the federal government, are the exception rather than the rule. Even there as one can see it is extremely difficult for public agencies to do battle with a large private firm. This is not to suggest that decision in the Microsoft case was necessarily wrong. All that we are suggesting is that there is tremendous imbalance in the amount of resources that are brought to bear on the making of such decisions in court.

The situation is similar and if anything more disconcerting when one examines public legislatures and the lobbying game that large corporations play. One can easily construct a political economic model that is analogous to Salop and Sheffman's analysis of competition by large and dominant firms in product markets. Salop and Sheffman noted that large firms can raise rivals costs and thereby profit if they can shift competition from the price dimension to other dimensions where smaller firms have a distinct cost disadvantage such as television advertising.

In the political arena one can develop the same sort of model. A large and powerful multinational corporation with substantial resources will shift the focus of competition from a duel of economic experts that present economic analysis of a particular issue to a duel among public relation firms. Large corporations would prefer to compete in the mass media. Cleverly crafted sound bites shape public opinion. Large corporations have more money and resources to wage a public relations campaign than smaller and less well heeled adversaries.

This public relation process often generates what we would call cheap shots by economists. A cheap shot is a simplistic economic answer that serves a public relations purpose. See Cotterill (2002a,c) for an example of Professor Kenneth Bailey's conveniently sloppy analysis of the Dairy Compact's prices on consumer prices. His work was distributed by the International Dairy Foods Association and quoted in leading newspapers including the Wall Street Journal. He used a simple mark-up model to maintain that if the Dairy Compact was defeated and the farm price dropped, retail prices would drop 1.8 times the farm price drop. According to Bailey retail prices are mechanically "marked up" 80% above farm prices. In fact farm prices dropped 50 cents a gallon after the defeat of the Compact and retail prices have come down only 10 cents compared to Bailey's predicted 90 cent drop. See Country Folks (2002) for confirmation that this analysis was indeed a cheap shot. In that article Bailey retreats from his prior views to recognize that retail prices are sticky, however his earlier work was instrumental in defeating the Dairy Compact.[3]

Finally we would note that the legislature often encounters what can best be described as the arrogant corporation. Corporations are legally constituted as individuals such as you or I, however, of course they are much larger individuals than you or I. Consequently when they enter the room their aura precedes them. Even if a large multinational corporation says water runs up hill it must be listened to and accommodated when it represents a large and vital portion of a particular industry in our economy. A corollary to this point is that many public policy hearings before legal, legislative and agency staff are not conducted under oath with its threat of perjury if one lies. In this environment spokesman for powerful interests can engage in bluffing and lying to advance their cause. Again see Cotterill (2002a) for a Dairy compact example. Of

[3] For a progressive approach to lack of competition in New England milk markets, including proposed public policies to rein in monopolistic milk pricing go to our website http://www.are.uconn.edu/fmktc.html and click on milk price gouging.

course if one wants a more well known examples one can simply refer to the Enron and WorldCom fiascos. For Enron one could start with Kranhold et al. (May 7,2002).

Globalization has often been cited as a primary reason for the reconfiguration of federal agricultural policies that occurred in the 1995 Freedom of Farm Act. That law removed production controls from American agriculture. At the time prices were high and there was an unjustified euphoria that prices would remain high due to expanding global export markets. Soon thereafter supply far exceeded demand and farm prices crashed. The U.S. Congress then moved in with subsidies to support farm income. Since that time we have essentially had no supply controls, low farm prices, and extensive subsidies. A policy designed to exploit export markets that were perceived to be strong has now turned into what can best be termed a price war in export markets and a grab for profits by U.S. agribusiness firms in domestic markets.

Stiglitz and others have strongly condemned this agricultural policy as hurting the third world because subsidized low prices from developed countries including Europe as well as the United States crowd out third world farmers. The policy is also crowding out family farmers in the U.S.

At this juncture one should ask who really benefits from this type of policy? Ostensibly American consumers and consumers world wide would benefit from lower prices, however we strongly doubt that that is the entire story. First note that chronic excess supply persists in unregulated agricultural markets far longer than periods of excess demand. Therefore farmers experience low prices a disproportionate amount of the time. Agribusiness firms that operate in the food processing and distribution channel however are not effectively competitive and they do not pass on the full amount of those price decreases (Cotterill 2002b). Consequently, major and even primary beneficiaries of the current agricultural policies are not farmers and not consumers.

The beneficiaries are the agribusiness firms that process and sell products domestically and internationally.

One might ask how can farmers, who receive over hundred billion dollars in subsidies from these programs, not benefit? That question is perhaps best answered by asking are farm profits high? Have land prices risen as much as agribusiness stock prices? We think not. We think that the agricultural subsidies barely keep the farmer in business. They may cover the essential costs but often do not make a significant contribution towards covering his long-term investment. However the low farm prices have allowed agribusiness firms to profit handsomely because the markets in which they procure and sell these products are not competitively structured.

Again see Cotterill (2002a,c) and Cotterill and Dhar (2003) for examples from the dairy industry. Dean Foods/Suiza's stock price return has positively exploded relative to the S&P 500 over the past 1, 2, or 5 year period while dairy farmers have suffered low prices through most of that time. Leading supermarket chains in many local markets have the power to profit handsomely from low farm prices (Cotterill 2002d, Mohl) and they have the power to distort farm program impacts on consumers (Cotterill and Dhar 2003, Cotterill and Franklin 2001).

The current agricultural policies are the ultimate political coup by agribusiness. Agribusiness benefits to the tune of billions of dollars but farmers take the rap for over a hundred billion dollars in subsidies over the next 5 years to cover their below-cost production. Again one has a perfect public relations bonanza for the firms that truly want the programs, the agricultural exporters, food processors, and food distribution firms. Meanwhile rural America is decimated in the name of efficiency (Egan). Factory farms and huge plants owned by multinationals in very concentrated processing markets, operations that often generate substantial environmental and social externalities, are replacing family farms and open competitive marketing channels.

The risks to food safety and security are also concentrated at few locations. One Dean super plant in Franklin, MA processes over 80% of the fluid milk sold in Beston and Providence supermarkets. Those market areas have over 6.3 million people. As few as four super plants supply over half of the Metro N.Y. area milk. The Metro N.Y. population is over 19 million. Tulare County, California,the epicenter of U.S. Dairy farming with its 14,000 cow milk factories, is now threatened with an outbreak of bovine TB. Recently California lost its TB free status and a Tulare County farm's 6,400 cows were destroyed (*Modesto Bee*).

Purveyors of the Washington consensus, i.e. the Chicago School acolytes, a group well represented in the Agricultural Economics profession, claim to seek consumer benefit. Yet they would get it by lowering farm market prices rather than by eliminating the increase in market channel profits that comes with concentration and market power. This choice validates the right of channel firms to ever increasing profits at the expense of the farmer. The farmers' only counsel is to get more efficient. The cynical core of this reasoning is the often-forwarded claim that the increased profits of market channel firms are evidence of their efficiency. Why are those profits not destroyed by competition that passes them on to consumers? Would that farmers could show their efficiency by capturing profits from the system. Power and the lack of power are the reality today. Efficiency is the rich man's counsel for the poor man, the counsel of the industrial elite for the family farmer.

Are there alternatives to this current agricultural policy regime? The primary alternative has to involve some form of supply control that results in higher market prices being paid to farmers and a reduction in the government subsidies paid out of the federal treasury to farmers.

One of the primary losers in this scheme would be concentrated agribusiness. Food market channel firms would no longer have access to raw materials at prices below the cost of production.

A beneficiary from a U.S. agricultural policy with supply control would be third world farmers who would be facing higher prices for their export products into this country and higher prices in markets of other countries that the United States supplies. Another beneficiary would be U.S. taxpayers who once again are facing run away federal budget deficits.

A second and equally important alternative is a reinvigorated antitrust policy in food marketing channels. The exercise of market power at the farm level by the government to control supply and elevate price in the public interest is now challenged by private power – downstream processing and or retailing markets dominated by very large firms. Double marginalization reduces everyone's welfare, so the question is which power authority is going to be dismantled, the public or the private (Cotterill 2002b)?

Alternatively are we going to see a strategic alliance of government and powerful firms to eliminate double marginalization and exploit monopoly positions jointly? Yet another option, one that resurrects the Sapiro commodity marketing cooperative movement of the 1920s, is the current Dairy Farmers of America cooperative thrust to unite all dairy farmers in a single monopoly cooperative that is in a strategic alliance with the nation's two interlocked and dominant fluid milk processors, Dean Foods and National Dairy Holdings. Government agricultural policies and antitrust policies be damned. Full speed ahead with complete vertical foreclosure and mutually beneficial entry limiting conduct. Processors limit farmers access to markets except via DFA, and DFA limits would be entrants to the processing industry by refusing to supply them milk on advantageous or even fair terms.[4] Welcome to the world of Robinson Patman.

The saga is equally suspect when one moves downstream and finds strategic alliances between Deans Foods and leading, dominant retailers such as Royal Ahold/ Stop & Shop and Giant Foods-Landover, MD. Are we so far gone into the Washington Consensus mode of thought that we abdicate public authority to establish agricultural policy in the public interest and public authority to maintain an effectively competitive economic structure? Are we willing to succumb to private economic power and allow strategic alliances, i.e. vertical and effectively horizontal cartels, to control pricing, allocation of resources and distribution of factor income in our market economy? These are institutional pricing issues that are pure power issues. Cost efficiency has nothing or precious liitle to do with them. (For example firms rarely if ever advance a cost defense in a merger case.)

A rereading of George Stocking and Myron Watkins "Cartels in Action" the classic history of US and European cartels between the two world wars is in order,. One might supplement it with John Connor's recent tome on more recent price fixing adventures, and our investigations into the operation of the New England fluid milk marketing channel. The link between these industrial pricing practices, deflation and economic stagnation/recession/depression may soon be a la mode, as it was in the mid 20th century.

CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH

[4] See the *Boston Globe* series by going to the Milk Price Gouging site on our website http://www.are.uconn.edu/fmktc.html. It chronicles the entry of a would be competitor in the New England fluid milk market. Midland Farms faced a regulation hurdle, however vertical foreclosure is a threat that looms in the future given increasing concentration at all three stages of the milk marketing channel, milk assembly, processing, and retailing.

In this paper we have argued that we currently are in a period of rapid economic change that can best perhaps be described as globalization of the world economy. The situation however is not new. Over the past 3 centuries we have experienced similar bouts of rapid economic change and economic instability due to new technologies and changing economic and political configurations. Adam Smith once noted that the division of labor and the gains from economic specialization are limited by the extent of the market. Stigler building on this concept provides us with a fairly and simple robust theory of economic development which explains how an agricultural economy develops from peasant households or pioneer households into a full blown industrialized food system.

In this paper we suggest a companion theory. The scope and degree of specialization in public policy are limited by the extent of the market. As a market economy develops one progressively has a need for more complex and detailed public policies.

Expansion of the global economy since the end of World War II gives evidence of the evolution of public policies for a global economy. At the advent of that era the International Monetary Fund, The World Bank, The World Trade Organization were put in place and commenced to govern the world economy so that we no longer would experience world depressions and so that we could alleviate poverty in less developed countries.

Stiglitz has soundly and roundly has criticized the governance of the world economy by these three institutions. He writes:

> "There are no smoking guns here. You won't find hard evidence of a terrible conspiracy by Wall Street and the IMF to take over the world. I don't believe such a conspiracy exists. The truth is subtler. Often it's a tone of voice, or a meeting behind closed doors, or a memo that determines the outcome of discussions." (Stiglitz, p. XV)

These are strong words coming from a Nobel Laureate economist who in fact worked in these institutions for several years during the 1990's.

Stiglitz continues by invoking Adam Smith.

> "Adam Smith was far more aware of the limitations of the market, including the threats posed by imperfections of competition, than those who claim to be his latter day followers. Smith too was more aware of the social and political context in which all economies must function. Social cohesion is important if an economy is to function" (Stiglitz, p. 219)

As the material from Nicaragua demonstrates the fiscal austerity that is often forced upon less developed countries really has not succeeded in advancing their economic development, and it has crippled their rural and agricultural sectors the most. U. S. agricultural policies have hardly done much better for large swaths of rural America. Consequently we have seen a rise in very vocal and often even violent opposition to globalization as envisioned by the three original agencies. Again quoting Stiglitz:

> "Opposition to globalization in many parts of the world is not to globalization per se – to the new sources of funds for growth or to the new export markets – but to the particular set of doctrines, the Washington Consensus policies that the international financial institutions have imposed." (Stiglitz p.221)

In this paper we have elaborated Stiglitz' call for a more democratic governance structure for the world economy by explaining how public policies need to expand into several new areas. Policy makers need options to the laissez faire prescriptions of the Washington consensus/Chicago School.

Others have been even more unvarnished in criticism of the global economy as it is managed to date. A law professor from the Yale Law School, Amy Chua, writes in her recent book "A Critique of Globalization":

> "To their credit, critics of globalization have called attention to the grotesque imbalances that free markets produce. In the 1990s, writes Thomas Frank in *One Market under God*, global markets made "the corporation the most powerful

> institution on earth," transformed "CEOs as a class into one of the wealthiest elites of all time," and, from America to Indonesia, "forgot about the poor with a decisiveness we hadn't seen since the 1920s." Joining Frank in his criticism of "the almighty market" is a host of strange bedfellows: American farmers and factory workers opposed to NAFTA, environmentalists, the AFL-CIO, human rights activists, Third World advocates, and sundry other groups…" (Chua, p. 12)

If the global economy is to advance it appears that we have no choice but to broaden economic analysis to include the public policy areas that we have described here as phase 2 policies on the top of the economic policy agenda. The critical question is how to do this. The Washington Consensus approach easily follows from the self-interest of the world's largest corporations and financial interests. As explained in this paper aggregate concentration is sufficiently high in the global economy at this time to ensure that their interests are expressed and acted upon at many of the agency's that govern the global economy. Other stakeholders in the global economy including small scale family farmers, peasants, commercial family farmers, unskilled workers, for that matter even skilled workers are not as well organized and consequently are not able to articulate their preferences in the appropriate forums. The best that they can do seems to be to protest in the streets at WTO meetings. This paper voices their concerns, concerns that are fundamentally populist and reminiscent of Robert F. Lafollette's progressive voice.

Positive as well as normative economic research on these populist and progressive concerns certainly can contribute to public debate and policy formulation. Moreover those of us who would do such research are no more "religious", value-laden, or captive to a normative or ideological creed than others in the economics profession who would advance the Washington Consensus or who would focus on the narrow economics of new product development to advance their pet commodity group's cache in the market place. Theory and empirical facts are the common ground for all economic analysis. We need a big tent approach to economic analysis and policy discussions to foster creative and rigorous thinking. Embrace diversity of opinion. Debate. Discuss, and argue in a constructive fashion. Compete in a fairly and as open manner with ideas and facts. Contribute to the policy process. Give policy makers and their constituents choices.

Ultimately any economy rests upon the property rights that are enacted by the body politic and the preferences that are aggregated through the body politic to set the rules of the game that define markets and delimit conduct in those markets. Public policies are the core of any modern industrialized economy. Perhaps the most basic conclusion from this essay on global concentration and public policy is that globalization is not identical to a world of unfettered multinational firm capitalism. Globalization is not identical to abandonment of public policies in all countries including the United States so that we can "compete" with each other in a raw 19th century fashion. Such Darwinian competition leads to monopoly capitalism not competitive capitalism. There are other more attractive paths. In fact since at least the 1930's the United States, Western Europe and other countries in the western sphere of influence have consistently opted for the social control of raw capitalism via the development of a vibrant public sector, antitrust enforcement, and regulation of industries and markets to improve economic performance. The challenge of social and economic progress is always before us and requires constant effort in the public policy arena as much as in the many private arenas that define our global society and economy. Really now, would we want it otherwise?

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