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FOCUS ON SOME ELEMENTS OF FOOD POLICY

by

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For most people in the world, concern about food supplies has always been a number one issue. And it's no different today. During the past 25 years most Americans have come to take their food supply for granted. People would complain about high prices and occasional shortages of such things as onions or potatoes or lettuce at different times. But most peoples' incomes were rising faster than food costs. In fact, our nation was plagued with apparent problems of overproduction. We developed programs to limit acreage of individual crops, buy and store surplus commodities and looked for ways to stimulate consumer demand. Our agricultural "surpluses" were a kind of international blessing. The nation took pride in our capacity to distribute food grains and products to those in need overseas.

During the last two or three years the American public has been reawakened to the central importance of food in our land. Food supplies have been front page news. Everyone has an opinion about Earl Butz, even our national comedians. Rising prices have hit us in the pocketbook where it hurts. We are slowly learning again how complex and vulnerable is the food industry in all its parts throughout the world. The notions of inelastic supply and demand are not just idle concepts in a textbook. Short supplies combined with rising demand exploded stable prices for wheat, rice and soybeans. With grain stocks in the United States at their lowest levels since 1957, instability and uncertainty seem to rule our central markets. Consumers, producers and all those people we like to call "middlemen" are now busy trying to find someone to blame for the current situation. We seem to be good at pointing our fingers in various directions. But all the talk doesn't provide simple solutions.

This presentation is intended to do three things: (1) Provide perspective on some much publicized statistics on expenditures for food, marketing margins and changes that have occurred in the food industry; (2) Consider the shifts in public policy from emphasis on agriculture and farming toward consumers and the food industry as a whole; and (3) Review government storage policy as an example of the problems of reaching direct solutions to complex situations.

Changes in Food Expenditures and the Structure of Costs

No one likes to spend more of their income to get less. Many people have done this around the world when food supplies have been short. For the last 30 years we've grown accustomed to something quite different. Food took less and less of most people's budgets until 1972. Since then food costs have risen more rapidly than other major groups of things we buy. That caught everyone's attention. Public discussion of food prices, industry costs and margins, export, and import policy and world hunger has increased many fold. The need for understanding the standard statistics we've almost taken for granted is highlighted. The following four tables attempt to provide general perspective.

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Table 1. PERSONAL DISPOSABLE INCOME AND FOOD EXPENDITURES
United States, 1965-74

Year	Disposable personal income	Personal consumption expenditures for food	Food expenditures as a percent- age of income
	<u>Billions</u>		<u>Percent</u>
1965	\$473	\$ 86	18.1
1966	512	92	18.0
1967	546	94	17.2
1968	591	100	16.9
1969	634	104	16.4
1970	692	112	16.2
1971 I	729	115	15.8
II	744	117	15.7
III	751	118	15.6
IV	762	118	15.5
1972 I	775	119	15.4
II	790	122	15.5
III	807	124	15.4
IV	838	128	15.3
1973 I	870	135	15.5
II	892	140	15.7
III	914	148	16.2
IV	939	152	16.2
1974 I	951	158	16.6
II	967	161	16.6
III	991	167	16.9

SOURCE: National Food Situation, ERS, USDA, November 1974.

In the aggregate food expenditures have required a decreasing share of personal disposable income in the United States. In the 1940's total food expenditures equalled about 25 percent of total disposable income. By 1960 this figure had dropped to 20 percent. The slow decline continued until the fourth quarter of 1972. Since then the direction has been reversed as food prices and expenditures have increased more rapidly than the average of other items consumers buy.

This percentage has been widely quoted by Secretaries of Agriculture, politicians, agricultural businessmen, farmers and college professors to demonstrate how efficient our agriculture and food industry is compared to other nations throughout the world. The trend is truly impressive. The actual percentage overstates reality for most families because aggregate income is so heavily influenced by those families with high incomes.

Table 2. PERCENT OF DISPOSABLE FAMILY INCOME SPENT FOR FOOD
Median Income, Four Person Family by Thirds of U. S. Population
Representative Diets, U.S.D.A., 1957-73

Year	Income Group			Food expenditure as percent of disposable income
	Lowest third, low cost diet	Middle third, moderate cost diet	Highest third, liberal plan	
Percent of Total for Food				
1957	54.7	32.4	20.6	20.7
1958	56.9	33.5	21.4	20.9
1959	53.1	31.0	20.2	20.3
1960	51.2	29.7	19.8	20.0
1961	50.8	29.2	19.3	19.8
1962	48.1	28.3	18.5	19.3
1963	46.0	27.3	17.5	18.9
1964	44.5	26.2	16.9	18.4
1965	42.8	25.3	16.4	18.1
1966	40.6	24.5	16.2	18.0
1967	37.4	22.9	15.3	17.2
1968	36.4	21.6	15.7	16.9
1969	35.4	21.0	14.6	16.4
1970	35.8	20.9	13.9	16.2
1971	35.4	20.5	13.5	15.7
1972	34.2	19.8	12.9	15.7
1973	35.2	20.4	13.5	15.8

SOURCE: Blakley, Leo V., Domestic Food Costs, Department of Agricultural Economics, Oklahoma State University, A.E. 74-10, August 1974.

Families with different levels of income can not afford to spend the same amount for food. This basic item requires a larger share of family expenditures in low income families even when a low cost plan is followed. All income classes have been able to spend proportionately less on food during the past 20 years although the trend was broken in 1972-73. The total expenditures for food in the United States as a percentage of disposable consumer income is heavily influenced by high income families in the aggregate figures. While the basic trends are similar the proportion spent on food from this aggregate figure understates the importance of food in the budgets of most families.

What's ahead for consumers with respect to food expenditures and disposable income? Was 1972 the year that all income groups will look back to as the standard toward which we should strive? Or should 1973 and 1974 be considered as small breaks in a basic trend line upset by weather and international uncertainty. The answer isn't straightforward. Other basic necessities besides food also cost substantially more. Increased costs of labor and raw materials are being reflected in consumer durables, housing, clothing and personal services. But the basic components of food costs will not make it easy to get back on the old trend line.

Table 3. MARKETING SPREADS
Retail Cost and Farm Value of a Market Basket of Food Products
United States, 1963-74

Year	Retail cost of market basket ^{1/}	Farm value	Farm-retail spread	Farmer's share of retail cost
				<u>Percent</u>
1963	\$1007	\$378	\$629	38
1964	1009	377	632	37
1965	1037	416	621	40
1966	1092	445	647	41
1967	1081	419	662	39
1968	1120	441	678	39
1969	1179	481	698	41
1970	1228	478	750	39
1971	1250	479	771	38
1972	1311	521	790	40
1973 I	1414	617	797	44
II	1497	665	832	44
III	1604	779	824	49
IV	1635	724	911	44
1974 I	1720	780	940	45
II	1731	699	1032	40
III	1750	720	1030	41

^{1/}The market basket contains the average quantities of farm-originated foods purchased annually per household in 1960-61 by wage earner and clerical worker families.

SOURCE: USDA, Agricultural Statistics, 1973 and Marketing and Transportation Situation, November 1974.

Farm-retail spreads or "marketing margins" have been calculated by the USDA for a number of years for a market basket of food representative of what consumers buy. Similar tables are prepared for individual commodity groups like meat, dairy, poultry, eggs, bakery and cereal, fresh fruits, fresh vegetables, processed fruits and vegetables, etc. The "spread" or "margin" is the amount received by marketing firms for performing the services of assembly, processing, transport, manufacture and distribution to consumers. For individual commodity groups the number of services performed vary widely. Eggs at one extreme have low marketing costs. Wheat and other ingredients combined to make bread involve many more services. Proportionally marketing costs are much higher.

Marketing margins and the farmer's share of retail costs of food are the kinds of statistics which are widely quoted and cited by people with quite different objectives. The share of the market basket reflected in farm values has been remarkably stable. Immediately after World War II and throughout the late 1940's this "share" was about 50%. By 1956 it had dropped to 40 percent and has fluctuated around that level until 1972. Farm prices rose more than proportionally in 1973. During the last 12 months marketing costs have increased rapidly and the historical ratio of earlier years has been reestablished.

The remarkable stability of the share of retail food costs that have gone to farmers between 1955 and 1972 is not likely to continue. Productivity gains in the manufacture and distribution of foods combined with stable prices for many of the raw materials used in processing and packaging these products have kept marketing costs from increasing more rapidly. The competitive nature of most of the food industry has kept profit margins narrow in each of the service areas. Higher wage rates gained by other sectors of American industry are now being realized by workers at many levels in the food industry. Raw material prices are no longer depressed. Paper, glass, steel, and chemicals for example require much greater outlays than two years ago.

It is likely in the next two or three years that the farmer's share will decline below 40 percent and that marketing costs will rise more rapidly than farm prices. Farmers and consumers are apt to strike out at "middlemen" for unfairly increasing their margins. No doubt some instances of this kind of action will be discovered. But in most cases competitive forces and public review will make it difficult for marketing firms to increase margins without justification. That fact will not reduce public concern and outcry.

In this setting it is important to help people to understand the many components of this margin between farmer and consumer. The quarterly publication from ERS, USDA, called Marketing and Transportation Situation is as good a source of factual information as any. There is no magic number that is right as the farmer's share of the food dollar for any commodity group. If consumers want less services at retail, are prepared to do more in their own kitchens, and require less variation in sizes and amount of packaging for their purchases, marketing costs can be reduced. If consumers continue to vote for greater convenience and more choice in supermarkets and fast food outlets then marketing costs are likely to increase accordingly. The choices are finally in the hands of individual consumers and institutional buyers. More services, whether you view them as "wasteful" or not, will require greater outlays.

Table 4. FEDERAL EXPENDITURES FOR FOOD PROGRAMS
U.S.D.A., 1971-74

Year	Food Stamps		Child nutrition	Other food distribution	Total federal expenditure
	Total value	Government subsidy			
	<u>Millions</u>				
1971	\$3,103	\$1688	\$ 793	\$655	\$3,146
1972	3,615	1980	927	594	3,501
1973	4,052	2211	1111	528	3,850
1974 I	1,314	792	412	186	1,390
II	1,349	795	336	113	1,244
III	1,487	882	216	68	1,166
IV ^{a/}	(1,500)	(900)	(420)	(160)	(1,480)
1974 Total ^{a/}	(5,650)	(3369)	(1384)	(527)	(5,807)

^{a/} Estimated by B. F. Stanton

SOURCE: National Food Situation, ERS, USDA, November 1974.

More than half of the USDA's total budget, including farm commodity programs, regulatory activities, research and administration, is now committed to food stamps, school lunch and food distribution programs. These federal expenditures have grown rapidly in the last decade in both absolute and relative terms. Congress and the American public look on these programs as among the most effective available mechanisms for combating poverty, improving nutritional standards and the diets of children. The total value of food stamps issued and used in 1974 will exceed \$5.5 billion dollars. Eligible consumers pay part of the cost depending on their income. The federal cost will be between \$3.3 and \$3.4 billion. Compared against total consumer expenditures for food of more than \$160 billion in 1974 this federal subsidy amounts to a little more than 2% of the total. The impact on total demand and prices in the aggregate is modest.

Historically, federal food distribution programs grew out of a desire to support low farm prices by providing a new market for "surplus" commodities and a concern to respond to the needs of families with very low incomes. Over a period of years the food stamp and child nutrition programs grew into reasonably effective and politically acceptable instruments of public policy. In 1974 some federal purchases for these programs have been made where commodities prices were depressed. Most purchases with food stamps and for school lunch competed in the market place with all other consumers and had some marginal impact on prices.

Summary comments: From the perspective of December 1974, a little optimism in the midst of recession should be in keeping with the holiday spirit. The food industry will continue in the public eye. Most investigations will help us realize that no single sector or special group is to blame for increased food costs. If the recession does not grow into something larger, expenditures for food should stabilize relative to disposable income. Productivity and good weather should help provide some balance. The farmer's share of the food dollar will probably drop below 40 percent unless a major change in consumer preference results from a new awareness of the cost of convenience.

Farm Policy and Food Policy

Over the past 50 years politicians and farmers have talked a great deal about public policy programs for agriculture or "farm" policy. Legislation has been passed and modified; new programs have been developed based on past experience and unanticipated needs. Competing interests, regional constituencies, and national objectives have all been recognized in the many compromises that have emerged as workable. For many the primary emphasis and purpose in agricultural policy has been to improve the incomes and welfare of farmers. In an industrialized nation with an urban majority, such a narrow focus for farm policy could never have been successful.

The public interest, in terms of taxpayer cost and consumer welfare, have rightly received increasing attention in both the public debates and the legislation enacted. Gradually and without much fanfare more and more emphasis has been placed on consumer issues. The food stamp program, initially conceived as a means of helping to dispose of surplus commodities and increase the welfare of poor families, is now primarily an instrument to combat poverty and improve nutrition. State and federal agriculture departments are responsible for inspection, grading, and regulation of the marketing of all perishable foodstuff. This major effort is now taken for granted - a necessary public service for farmers, processors, wholesalers, retailers and consumers.

Food and feed grains have been important components of the Marshall plan, PL 480 and most recently food for peace. Agricultural exports are important dollar earners. Concessional sales and gifts of food overseas have been important instruments of national policy both in terms of their impact on farmers and our influence and actions in other countries.

In many respects a number of elements of national food policy are slowly emerging. Increasingly people talk about food policy instead of farm policy. But not in a comprehensive sense. The switch in words, however, is important. The central emphasis is a little different. It recognizes where the interest of the majority of our people lies. Farm policy implies a narrower focus than we have had for many years. So called "farm" legislation has always faced critical questions from the urban majority with respect to effects on taxpayer costs and consumer prices. Our Westchester Congressman, Peter Peyser, sought his place on the House Agriculture Committee to be an advocate for the "consumer and public interest".

In the current period of economic uncertainty and rapidly changing prices at all levels in the food industry, we should not expect any sudden miracles. The elements of food policy, we have evolved by trial and error over a substantial period of time. We learned from our mistakes in regulation and administration. Change came after substantial experience. It seems clear that this same kind of gradual process will continue as we shape our food policy in the future. It will not be comprehensive because the many facets of a food policy are too complex to shape in a grand plan. Yet some elements already exist or must be reformulated. These include at a minimum:

1. Food distribution programs as an instrument to supplement low incomes, insure improved nutrition for children and assist the disadvantaged.
2. Food inspection, grading and sizing, and regulatory activities to protect the health and safety of consumers as well as those within the food industry.
3. Support of international trade for food products including exports and imports which will integrate the competing interests of consumers and producers with other national objectives.
4. Food aid and technical assistance to low income countries under conditions both when the government holds surplus stocks and when it does not.
5. A system of farm price supports, government purchases of commodities and controls to be instituted when market prices fall below agreed upon levels.
6. A systematic effort to monitor and distribute information on prices, costs and returns at each of the different levels of activity within the food industry by public agencies like the Federal Trade Commission, and the Bureau of Labor Statistics.

A great deal of what finally emerges as successful public policy involves substantial tradeoffs. Few of our public programs have come into being without opposition, problems, or unforeseen costs. A policy which provides incentives for adopting new technology or capital investment may well reduce employment opportunities for established workers or employees in the same industry and hence require reformulation. Legislation on the use of pesticides in agricultural production or chemical additives for food products reflect the same kinds of conflict and necessary tradeoffs before a workable set of rules or guidelines can be established as an outgrowth of overall policy. Reaching a logical balance is never easy. As a consequence we should not expect to develop new elements of our emerging food policy except in stages with a few compromises along the way.

Reserves of Food Grains

The current discussion and debate about food reserves provides a good example of the difficulty of developing a unified and adaptable policy which anticipates important national questions before they occur. For most of the post war years, the United States government had acquired title to and stored substantial quantities of agricultural commodities as part of our domestic agricultural programs. A combination of things including changed foreign exchange rates, increased world demand, poor weather, and administrative efforts to reduce government stocks has now completely altered this situation. With our government essentially out of the market for most farm commodities the world can no longer look at North American governments storehouses as a ready source of food or feed grains. What should our posture and that of buyers and sellers of grains in the world market be? A range of proposals have been offered both here and abroad. They range from the suggestion that a new international agency be created to establish, control and dispense an international reserve of food grains to proposals that a certain percentage of oil revenues from all producer countries be set aside to provide food aid. Legislation has been introduced in the Congress to establish minimum levels of food and feed grains to be held by the Commodity Credit Corporation or its equivalent.

The motivation of most of these proposals is a response to current world conditions and uncertainty in world grain markets reflecting diminished world supplies. Any new program, legislation, or action must take into account some difficult but very real problems:

1. Storage of grain costs money which someone must provide.
2. Reserves must be owned and controlled by someone with an established set of rules for purchase and sale.
3. Purchase of stocks for reserves in an open market faced with short supplies will place further pressure on prices in the short run.
4. Public storage facilities must be certified and insulated in some manner from other commercial storage.
5. Any distribution of stocks outside the regular market system can only result from actions taken within a carefully defined framework.

It is a lot easier to talk about a new international agency than to create one. Funding and controlling its actions will be even more complex. While many question the logic of allowing the world's commercial market to handle storage and reserves of food grains, realistic alternatives are less clear. Two of the world's largest producers and consumers of grains, Russia and China, make purchase and sale decisions quite differently from the nations of Western Europe, Australia and North America. State trading or its equivalent may well become more common if supplies are short.

Who should hold grain reserves? In most of the world stocks of grain are held on farms or in storage not far from where the grain was produced. The great elevators we see in ports and trading centers hold only a fraction of the supplies. The CCC stocks of the 50's and 60's were largely held in farms and in country elevators of America's heartlands. If our government is to consciously accumulate some minimum level of reserves it will undoubtedly build on its CCC experience and provide storage where it is cheapest, close to the source of production. If these stocks are to be sent to a low income country they will undoubtedly be delivered by a commercial trader who already operates within that country.

Our economic and political system is quite different from that in Russia and China. These differences are reflected in the way we handle and distribute our stocks of grain and food supplies. We may well learn how to be trading partners. But the process will be slow and complicated. We will continue to compete with each other in the rest of the world. Food will not be devoid of politics. Our own humanitarian objectives will sometimes conflict with our balance of payments position. In this kind of framework, national policy will evolve slowly even though an atmosphere of urgency is all around us.

My own preference is for the U. S. government through CCC to accumulate small stocks of food and feed grains to be held for distribution in times of international emergency or disaster. Small stocks to me means something on the order of 100 million bushels of wheat and 100 million bushels of corn or its equivalent. Perhaps these amounts are too small given the potential for problems throughout the world. But they would be symbolic, showing a concern and commitment to do part but not all that must be done. Other nations must make their own commitment. In time some kind of international consortium may develop. If it does it will reflect the self interest and control of the partners who decided to work together because it was more efficient and politically more effective.

The current public concern and interest in issues related to food prices and supplies provides us a wonderful opportunity to expand people's knowledge and understanding of our complex food industry. We need to remind ourselves and others that:

1. Our present food production and distribution system works surprisingly well.
2. The system has many, many specialized parts all of which are important and vital to our national health and welfare.
3. Working toward a system of relatively free trade will in the long run be to the advantage of competitive producers and most consumers.
4. Free trade does not admit export dumping import quotas or similar restrictive practices as acceptable.
5. Public access to information about the food industry and its operations is one of the best ways to encourage efficiency.

6. Allowing prices to adjust to changing supply and demand conditions creates less problems and is more equitable to all concerned parties than developing some system of price controls.
7. Additional marketing services require added outlays. This will be an increasing part of retail food costs.
8. Our total food industry from input supplies, to farmer, processor, wholesaler and retailers is the nation's most important business sector and deserves some of the renewed attention it has received.

All of us have a stake in helping our food industry and the nation respond to the challenge of making choices about the use of our resources in the 1970's and the decades ahead.

B. F. Stanton
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