

Food Prices, Multiple Pricing, and Consumer Services

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Few reigning monarchs are paid more verbal homage than the consumer. The consumer is said to be not only the sole beneficiary of the long, complicated and expensive process of producing and marketing food, but the potentate who controls it. When a consumer selecting his purchases points his finger and says, "Give me this," he is exercising as much power as an ancient king who made similar gestures to declare his wishes. Such is the principle of "consumer sovereignty."

To the extent it really exists, this is power in the marketplace.

Consumers also are voters, and many are members of political pressure groups such as labor unions. They therefore have political power too.

Probably both claims of power are part truth and part fantasy. Consumers do not have absolute power in the market. One interesting question is whether the advertising and promotion carried on by business firms reduces the power of consumers. Food manufacturers and retailers in countries such as the U.S. spend billions of dollars in an effort to persuade consumers to buy their products. In a sense, consumers retain their right to make their own choices. Yet business firms must believe they are able to influence consumers. Otherwise they would not spend so much money. Perhaps the principal effect of so much advertising and promotion is to make it more difficult for the consumer to be well informed -- to have accurate information about the hundreds or thousands of products being advertised. Many persons question whether the consumer in the U.S. today is truly able to make rational choices. If he cannot do so, he is hardly sovereign.

This question is of less interest to **your countries, where** advertising is a little more modest. On the other hand, I doubt that the ability to describe one's product imaginatively is territorially confined. I would suspect that the women at the market of Chichicastenango (Guatemala) occasionally exaggerate the quality of their fine native products -- particularly when selling to North American tourists.

It is likely that the political power of consumers also is sometimes overstated.

Consumer Consciousness in Commercial Agriculture. I should like to discuss three ideas. The first relates to commercial agriculture, and particularly to commercial agriculture in a growing economy. As agriculture becomes more commercial, it must take more note of the kind of demand for which it produces. That is, more attention must be paid to the needs, wants, preferences, and aversions of consumers.

In an older agrarian age, it was understandable and correct for farmers to produce whatever they could produce most easily. In a commercial agriculture the situation is the opposite. There, farmers must be alert and responsive to consumers' wishes.

The first reason for offering this admonition is that commercial farmers are more specialized than subsistence farmers and more of their costs of production are cash costs. Therefore they need to be more careful and rational in their decisions. For the second reason we look at the customs and habits of consumers. When consumers begin to enjoy higher incomes and their standard of living rises, they become more selective in their choices of food and other purchases. We say they are more quality-conscious. They choose more carefully the kind and quality of things they buy.

Furthermore, as consumers become more prosperous they change their "life style". The "mix" of things they buy differs from that of families with very

Two conclusions follow. One relates to the marketing and price system. Even though consumers may prefer a somewhat different kind of food than before -- usually food of higher quality -- farmers will have an incentive to produce that kind only if the price system functions well. The price system must reflect the changing pattern of consumers' wishes quickly and accurately. It often fails to do so. In almost all countries, the language of the market is slow to adjust to changes in what consumers want. We certainly have that problem in the U.S.

The second conclusion is that the several sectors of agriculture of any nation will be affected differently. These comments are confined primarily to the commercial sector. Probably the export-commercial will be most sensitive to kind and quality of products produced and sold, but the domestic-commercial also will want to give thoughtful attention to the specifications of demand.

All this may appear to be laboring the obvious. It all is so simple, so logical. Yet, drawing on my experience, I can testify that this sermon has been preached in the U.S. for 50 years. I heard it as a boy. Have our farmers and our market people listened and acted? Some have, but others are steeped in tradition. After 50 years of preaching we still have some non-believers -- marketing infidels -- and some non-practicing believers. I think the latter discourage us the most. I think I know how to address the unconverted. I never know what to do about the persons who are devout in the mind and faithless in their actions; and most countries have a few farmers who are in that category.

National and Local Programs to Improve the Diet of the Population. My second basic message is that all nations will find it necessary to take action to improve the nutrition of people. This seems to be a world wide trend. Few if any nations will fail to participate in it.

Moreover, whatever their other sins the more prosperous nations of the world have tried to help less prosperous ones undertake food programs such as lunches for school children. They probably will continue to do so. The recipient nations should be prepared to use the help wisely.

We could discuss many aspects of the subject of food programs. For example, scientists who improve the nutritive quality of food plants and animals contribute to better nutrition for all citizens.

As another example, a number of countries now prescribe by law that certain foods not be sold, and that other foods be protected or enriched in some manner. Enrichment, as by adding certain nutrients, may be done generally, or it may be confined to the food that is supplied to groups such as school children.

But I prefer to discuss the economic aspects of food nutrition. As a broad general statement, the more nutritive foods are the more expensive. Let us admit that this is only a general statement. There are exceptions. Years ago, during our depression of the 1930's, a clever man pointed out that even low income families could buy a nutritive diet if they selected foods with extreme care. He did not add that to eat such a diet every day would be monotonous.

Certainly, protein foods are usually more costly than starches, and many people in the world do not eat enough protein.

We all can describe what the ideal situation would be. Agriculture would be both prosperous and productive, so that good food would be produced at low cost. All consumers would have purses bulging with large-denomination bills (money) with which to buy copious quantities of good food. Alas! This is only a fable. A number of countries can boast of a productive agriculture, but I know of no country that can also proclaim that all citizens have high incomes.

In the world as it exists, with too many low income people eating insufficient and poor food, we find a universal conflict. The conflict is between a policy objective of keeping prices of farm products high enough to encourage farmers to produce abundantly, and of holding prices of food low so that even impoverished consumers can have adequate diets.

In these circumstances, what is to be done? A few conservative advisers, highly ideological in their philosophies, declare that nothing can be done except gradually to make agriculture more productive and to tell consumers to earn more money and spend it wisely. In my observation, that kind of ideology does not prevail widely. In fact, most nations do not let their ideology prevent them from responding to problems. The U.S. definitely has become highly pragmatic.

One course of action is simply to compromise the conflict between farmers and consumers. A compromise is just a way to divide unhappiness so that each party gets some of it. Neither party in the conflict is truly happy.

We may emulate the wisdom of Solomon better if we do not try to resolve the conflict but to redefine it. This is also the technique commonly used in the political arena. The politician is skilled in the feint, the diversionary tactic, even the change to a new battleground. Consistent with this idea, various governments have experimented with several different ways of improving the diets of their people. Many of the actions they take appear to be improvisations, but sometimes they work well.

Wealthy nations, where agriculture is a small part of the economy, may find the easiest solution to be to subsidize agriculture. In that way, farmers are rewarded for producing large quantities of food, yet prices to consumers can be held at a moderate level.

A second kind of policy is to try to reduce the spread between the price the farmer receives and the price the consumer pays. Steps may be taken to

make the marketing system more efficient in its physical operations. Marketing research can help. Or, if there is monopoly, or if marketing is burdened by excessive excise taxes, the policy is aimed at counteracting or correcting those burdens.

At one time, the U.S. took aggressive action to improve the marketing of farm products. Interest has since waned.

But I want to give most attention to policies and programs to make food available to disadvantaged groups on a "concessional" basis. It may be sold at reduced price, or given to children or families without cost.

In other papers at this seminar I have referred to special low-price food stores at which governments of some nations sell basic, plain food at reduced prices. This is a form of "multiple pricing".

I believe the principle of multiple pricing must be kept in mind whenever a national food policy is considered.

In order to use examples that I know best, I will describe some of our programs in the U.S. The principles of these programs can be applied anywhere. Our food programs have been in the political spotlight in our country during the last 5 years. A year and a half ago I took part in a nationwide conference called by President Nixon, a "White House Conference on Food, Nutrition and Health". Credit for stimulating public interest must be given to inquiring reporters and the magic of the television screen. Our public finally was convinced that in the affluent United States of America there were some hungry people and many more under-nourished ones.

We use three kinds of programs.

The first is for school children. School lunches are known almost everywhere in the world, and I need describe the program only briefly. Our federal government provides both food and money to our states. The state government adds some state funds. In that way our local schools are enabled

to provide lunches to all pupils at less than a commercial cost. In addition, pupils who are not financially able to pay even that modest cost are permitted to pay a lower price, or may obtain their lunches without any cost.

School districts that/^{have} an unusually large number of pupils lacking money for lunches can get an above-average subsidy from the federal government.

We have a separate program that subsidizes the price of extra milk for school children.

Our second program is to give food without cost to families having very low incomes, and to some hospitals and other institutions. This is our "Commodity Distribution" program. The food is made available in packages once a month. Formerly, only foods that were in surplus were distributed in this way. Now, the government also buys foods that are not exceptionally plentiful. The foods are plain but nutritious. Families using them will have better diets than other families of the same income.

Our most imaginative program, but also a more costly one, is the "Food Stamp" program. Families may buy "stamps" that are food specie. They may be exchanged for food at retail stores. Until the present time, a family would buy a quantity of stamps each month that would purchase enough food for a nutritious diet. A family having a very low income would pay little for the stamps. A family with a somewhat higher income would pay more. Only families having incomes well below the national average are eligible to participate.

About the middle of 1971 the program will change. A family will thenceforth be able to buy as few or as many stamps as it wishes. It will not be required to buy enough stamps to provide an adequate diet. However, the family will pay less than the face value. The stamps therefore reduce the price of food. Families who are eligible to participate and do so will probably buy more and better food because of the reduced price.

Public Services to Consumers. My third topic concerns policies to aid and protect consumers who buy food. As agriculture becomes more commercial, and as more consumers live in cities distant from farms, governments are asked to aid and protect consumers.

We may want our agriculture to become more specialized and commercial. But some unexpected consequences follow. One is that consumers will require services from government that were not dreamed of when all buying and selling was done at a market in a mountain village.

In the U.S. we are having a wave of consumerism just now. Politically, the consumer's voice is becoming more strident. It is also being responded to.

Does this pressure for services to consumers injure farmers? Many of our farmers think it does. Yet, as noted above, farmers may have to accept "consumerism" as a cost of their own increased commercialization. In one sense, farmers have much to gain if consumers have confidence in the quality of food they buy. I have long told farmers that the demand for their milk is stronger now that consumers know the milk is pasteurized and contains not less than the specified percentage of butterfat. When I was a freshman entering college, we new students were given a test that supposedly revealed our abilities to reason. One question I remember well. It was, "What conclusion do you reach when you find a minnow in the milk?" The answer was that someone had added water to the milk -- probably creek water at that! I doubt the same question has been asked since 1940.

In the opposite sense, farmers may as well see the picture as favorable to them, or at worst neutral, for they have no choice. If consumers demand a protective service such as inspection of meat to be sure it is not contaminated, and do not get it, they will stop buying the meat. I encourage our farmers to learn to live with consumerism, because consumers have two votes. One is with their ballots, politically. The other is with their money, when they shop.

Consumers who are more urban, more prosperous, and better educated want reliable information about the food they buy. When an increasing part of a country's food is processed (canned or frozen or processed into sausages, cheese, etc.), a call is heard to print information about the food on labels. In the U.S. consumers are deluged with advertising that describes the wondrous qualities of food and everything else a consumer buys. Advertising makes it harder for consumers to have accurate information. As a result, we have enacted laws to require advertisers to abstain from telling absolute falsehoods. They can still embroider the truth but they cannot falsify it.

The more informed and literate consumers in the U.S. apparently look with favor on applying federal grades to foods (tipificación) in order to give them better information about quality. We attach consumer grades to some of our foods, but not a large number.

A recent development in industrial nations helps to account for our wave of consumerism. It is the increased use of chemicals in producing foods. Farmers apply fertilizer to soil and pesticides to plants and they feed hormones to animals. Chemicals are added to processed foods--to color them, to preserve them, and even to substitute for natural nutrients. We now produce some

synthetic foods. For example, our consumers are able to buy a drink that looks and tastes like orange juice and is advertised to be more nutritious than orange juice. It came from a chemist's vat and not a tree. Consumers are alarmed lest they ingest chemicals that are dangerous to them. They are insisting that our government make stricter tests of all chemicals used in farming or in food manufacture. Much of this paper applies more to industrial nations of the world than to agricultural ones. But rare is the place where the principles I have stated are totally absent. As any nation grows it will fall heir to the problems and the pressures I have outlined.

We may say the need to consider the welfare of consumers is a price paid for commercialization of agriculture and urbanization of our society. We can

also express the entire subject in terms of "second (or third or fourth) generation problems". As we successfully improve our agriculture, and as some of our consumers gain higher incomes, we find we must begin to certify the disease-free quality of meat and refrain from selling water for the price of milk.

In more serious vein, and to summarize, the three central ideas of this chapter reflect three different situations and kinds of motivation to deal with them. One is farmers' own selfish interest in responding more accurately to the changing preferences that consumers express as they become more urbanized and more affluent. It is hard to explain why farmers are so slow to see the situation and to act on it. The second viewpoint is that as a part of the political awakening taking place in every nation on Spaceship Earth, central governments are finding it necessary to take action to improve the nutrition of their peoples. And third, as a nation becomes **more urban, as agriculture** acquires more commercial structure, and as processing of foods increases, consumers insist that governments initiate services that will improve consumers' knowledge and particularly will enable them to trust the quality and safety of their foods. Although farmers may oppose this trend, they can not stop it, any more than they ^{can} hold back the sea. Furthermore, in the long run farmers are benefitted when consumers are able to buy foods with confidence.

As a final note, in the subject of this paper there seems to be a touch of the irreversible course of history. Perhaps in consumer services we are simply caught in a kind of cosmic force that man did not create and cannot stop, but can only conform to as gracefully as possible.