

The Cyclical Nature of Politics and the U.S. Food System

by

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The U.S. food manufacturing and distribution system has experienced a dramatic development process during the twentieth century. It has responded to periods of rapid economic growth, technical change, changes in household structure, rising consumer income and changing public policy. Its institutional structure has been transformed repeatedly. It has been subjected to periods of intense public scrutiny that have shaped much of the public policy that guides and constrains its conduct and performance. It is the premise of this paper that these periods have a recurring rhythm, an ebb and flow that is consistent with historical swings in the political moods of the country.

There are many influences or forces which affect this large economic sector. The list of interactive factors spans from basic agricultural commodity supply and demand situations to final consumer preferences. Although these fundamental factors are critical, the system's ultimate performance is shaped also by public policy--some of which is specific to the food system (e.g., commodity programs), but much of it is general to the entire economy (e.g., Fair Trade Laws).

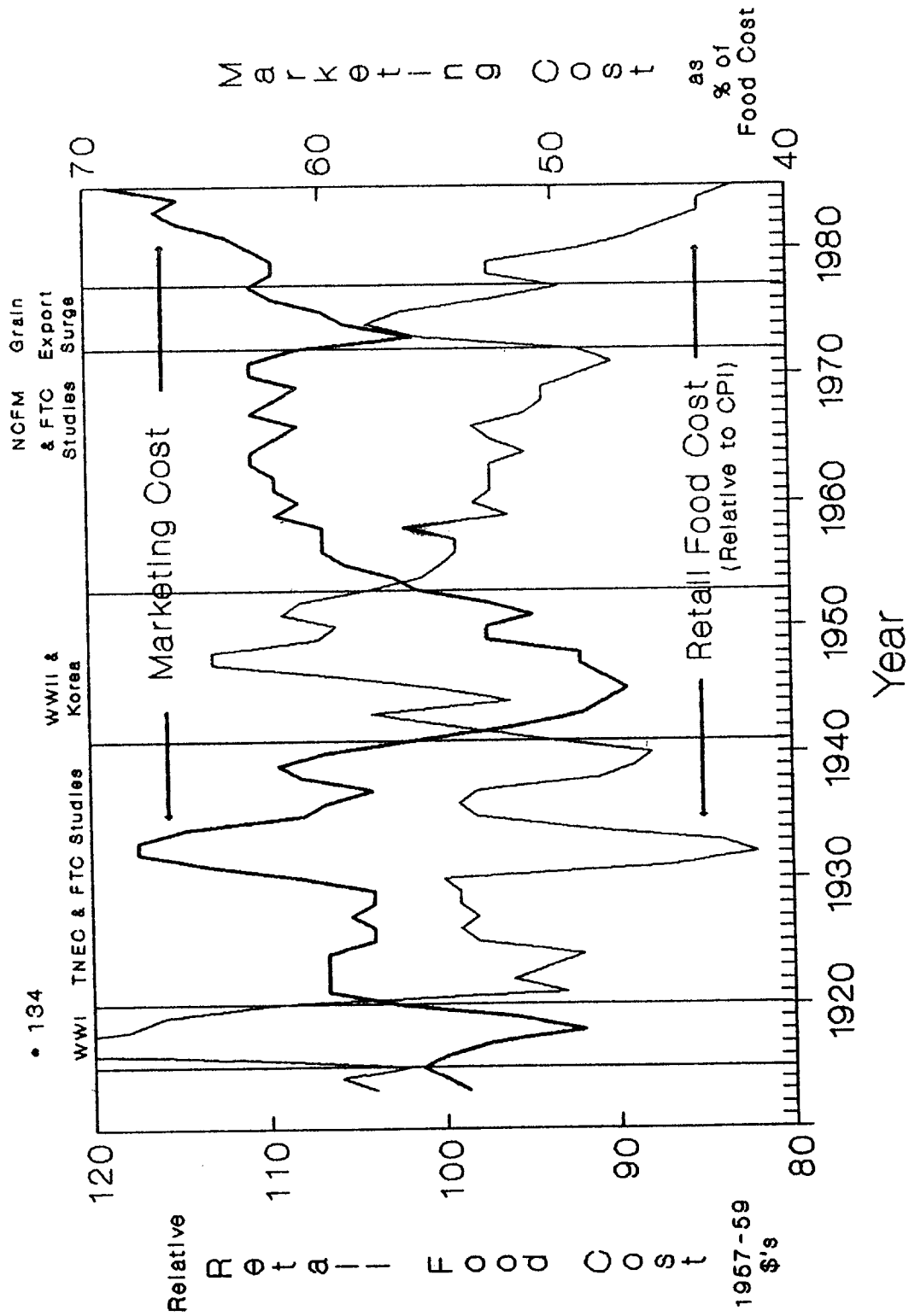
Much of the analysis of the food industry takes a particular framework or perspective

and--disregarding the many other influences--draws narrow conclusions. It is the purpose of this paper to draw upon a wider array of influences and discuss food industry development and regulatory events in the context of the last several decades. This is a hazardous undertaking which is not expected to yield precise results. Yet it may be able to identify some issues and strike some hypotheses useful in planning and future research.

Eight Decades of Food Prices And Marketing Margins

The overall price level is a central performance measure of the food system. In addition, the difference between the price received by farmers and the consumer's price, the marketing margin, is a closely watched index that measures the extent of marketing activity. Marketing margins as a percent of retail food costs and an index of relative retail food costs in constant dollars are shown in Figure 1. The deflated retail food costs gives an indication of retail food price variation *in relation to other consumer prices*.¹ Major departures from general price levels seem to relate to events in the food commodity supply/demand balance--world wars and food commodity exports. Total variation in retail food prices (relative to other prices)

FIGURE 1. Marketing Margins and Retail Food Costs, 1913-1985



SOURCE: USDA Food Consumption, Prices & Expenditures; 1968, 1987.

seems less during the latter decades than the earlier period. This is likely due to more active commodity production and price policy. It is not surprising that the marketing margins move in the opposite direction to retail food prices (this is clearly true whether retail prices are or are not deflated). Low farm prices make low retail prices and high marketing margins. The trends toward more convenience food manufacturing and distribution must relate to the tendency toward higher marketing margins during the latter decades.

Public discontent concerning the food industry seems to take special focus during the 1930s and the 1960s. Benchmark studies by the Federal Trade Commission (FTC) were supplemented by the Temporary National Economic Committee's (TNEC) monographs in the 1930s and by the National Commission on Food Marketing (NCFM) in the 1960s. These were not periods of relatively high food prices, but marketing margins tended to be high. Is it possible that high marketing margins are important in focusing public concern for food industry structure and competition even though food prices are relatively low?

Herrmann [1,2] suggests that periods of public outcry over the performance of the food system follow periods where consumer purchasing power suffered from rising prices. But his analysis of consumer unrest in the U.S. food system suggests that consumer issues have their own cycle and political dynamics--economy wide. Three periods of intense consumer political action have occurred this century--the 1900s, the 1930s and the 1960s. Perhaps we will have a new generation of concerned citizens together with a new agenda of problems and issues during the 1990s. This more general political phenomenon may address the food industry rather than be triggered by events within the food sector.

Schlesinger [3] convincingly makes the case for a cyclical nature to political history. According to his literature review, in 1841 Emerson noted the nation's political swings from conservatism to innovation. In 1889, Henry Adams wrote of a cycle of diffusion to centralization in the nation's energy. Schlesinger's father in 1949 characterized the

cycle in terms of conservatism versus liberalism. Hirschman in 1982 offered another characterization for the cyclical pattern. "In the Hirschman cycle, society passes back and forth between times of absorption in private affairs and times of preoccupation with public issues: a periodic alternation, in his words, between 'private interests' and 'public action'" [3, p. 25].

Scholars have reached remarkably similar results for the estimated length of the cycle. Adams's cycle had a period of twelve years, whereas Schlesinger's father's cycle had an average period of sixteen and a half years. Ortega and Mannheim seek an explanation of the political cycle from generational experiences. They suggest the length of the entire cycle is the generation's political life of about thirty years, split evenly into two fifteen-year periods. The first fifteen years after a person begins his or her political life is spent challenging the current holders of political power. During the next fifteen years one generation comes to power and is in turn challenged by the next generation [3, p. 30].

Schlesinger argues that both periods of the cycle are necessary and that each leads to the subsequent corrective period. The period of public purpose eventually leads to a period of private interest which will lead in time to a renewed public purpose, and so on. Schlesinger states [3, p. 28]:

Each phase breeds its distinctive contradictions. Public action, in its effort to better our condition, piles up a lot of change in rather short order. . . . Finally the rush of innovation begins to choke the body politic, which demands time for digestion. . . . Sustained public action, moreover, is emotionally exhausting. A nation's capacity for high-tension political commitment is limited. Nature insists on a respite. People can no longer gird themselves for heroic effort. They yearn to immerse themselves in the privacies of life. Worn out by the constant summons to battle, weary of ceaseless national activity, disillusioned

by the results, they seek a new dispensation, an interlude of rest and recuperation.

So public action, passion, idealism and reform recede. Public problems are turned over to the invisible hand of the market. . . . The pursuit of private interest is seen as the means of social salvation. These are times of "privatization" . . . , of materialism, hedonism, and the overriding quest for personal gratification. . . .

And they are times of preparation. Epochs of private interest breed contradictions too. Such periods are characterized by undercurrents of dissatisfaction, criticism, ferment, protest. . . . People grow bored with selfish motives and vistas, weary of materialism as the ultimate goal. The vacation from public responsibility replenishes the national energies and recharges the national batteries. . . . They are ready for a trumpet to sound. A detonating issue--some problem growing in magnitude and menace and beyond the capacity of the market's invisible hand to solve--at last leads to a breakthrough into a new political epoch. [3, pp. 28-29]

Such is the political cycle, a continual spiral of change from private interest to public purpose. It is complete in that each period triggers the subsequent phase. The thirty-year cycle fits well the political history of the country. The events of the U.S. food system are no exception. The periods of public scrutiny and reform have aligned with the general political mood of the country. The twentieth century began with much public concern over food safety and in 1906 the passage of the Pure Food and Drug Act and the Meat Inspection amendment climaxed the public's effort. This period of public action was followed by a period of privatization and conservatism during the 1920s, with private material gain a common goal. Such a private mood was to reappear in the 1950s and 1980s,

each separated by a period of public action centered in the 1930s and 1960s.

The cycle also can be seen in business merger activity. There have been four major merger waves in the United States [4,5]. The first major merger wave was centered around 1900; the second was during the Roaring Twenties with its peak in 1930; the third started in the later part of the 1950s and continued to its peak in 1969. The current merger wave started in the late 1970s, ahead of schedule according to the thirty-year cycle, and continued into the 1980s. Speculative fervor runs high in merger waves as people seek personal fortunes. Such a mood eventually brings a corrective period of private restraint and focus on the public interest. People start to tire of "insider-trading deals" and the public discussion turns to teaching ethics in our business schools.

The cycle theory is admittedly imprecise, yet remarkably accurate in its broad prediction of historical events. Events during the period of private interest lay the seeds for the subsequent return to a focus on the public purpose. As Herrmann [1,2] has shown in the food system, the return to a public agenda from a period of privatization is usually a building process. Issues are raised first by a few concerned people, perhaps first thought of as fanatics, and then as they gain supporters, typically, some galvanizing event triggers the necessary public outcry to generate political reform. Upton Sinclair's book, *The Jungle*, on the working conditions in the Chicago meat packing houses was instrumental in stirring the emotional support for the Pure Food and Drug Act and the Meat Inspection amendment. Often the introduction of technology before it has been thoroughly tested results in dangerous or ill-fated products that unite consumers against the private interest of business. We shall have more to say on technological innovation later.

Institutional Trends

Following from its role as our oldest and largest industry, the food industry has developed more structural specialization and diversity than probably any other industrial sector.

Food moves from producer to consumer through many channels: direct sale at the farm, with heavily advertised brands in supermarkets, with generic or store brands, through convenience stores, through non-food stores, through fast food or conventional restaurants and through hospitals, airlines and other institutional feeders. With great changes in American life styles, there have been significant shifts among these channels as well as profound changes within each.

It is not easy to study institutional change in an orderly way. The Industrial Organization (IO) framework is often used to measure and study institutional change. IO puts a great focus on some aspects of institutional change while paying little attention to others. Changes in functions (such as the integration of wholesaling and retailing), changes in the focus of competition (as between competition on costs and new product development) and shifts between channels (the rise of fast food and convenience stores) are examples of important institutional change not well addressed by IO. The centrality of markets to IO concepts does little to enable meaningful analysis of diversified firms which relate to many markets but are not effectively disciplined by any of them.

Efforts to consider institutional change in the food sector more broadly have led to a classification of developmental stages (see Figure 2). The emergence of large firms in the food industry first occurred in food processing and manufacturing. The impetus seemed to be more from the imperatives of trade than processing technology or plant scale economics. As we moved into the twentieth century, these firms (the Great Atlantic and Pacific Tea Company, Swift, Borden, Kroger Grocery and Baking Company, etc.) formed the nucleus from which developments in both distribution and manufacturing would come.

Stage 2 in distribution saw the more orderly handling methods of large manufacturer/traders being applied in wholesale distribution. This stage could be called the "chain store movement." Little changed at retail, but business integration was achieved

among retailing, wholesaling and some processing. Stage 3 in distribution reorganized the distribution process at retail (the supermarket).

Stage 4 in food distribution is a remarkable contrast to Stages 2 and 3. In these earlier stages, a powerful new organizational pattern was introduced. It competed with traditional and decidedly inferior patterns and made profits while giving improved performance to the public. In Stage 4 nothing new is added. Instead of moving from one pattern to another, we are circling. Stores are getting larger, but stores are also getting smaller. There are stores within stores. The meaning of mature competition is fine tuning and segmentation as opposed to embracing bold new concepts as was the case in Stages 2 and 3.

Food manufacturing saw an explosion of technology in the early years of the twentieth century. Stage 3 saw plants being organized in response to this new force. Machines were adapted to shelling peas and canning tomatoes. The mainstream of competition was related to cost. Plants and firms were regional. Agricultural economists followed the model of Bressler and King and focused largely on firm technical efficiencies and other firm and plant level microeconomic issues.

Food manufacturers came to a fork in the road about mid-century. If they turned right, they could continue the focus on regional plants and compete on cost, but they would sell through private label programs of the emerging powerful retailers. Firms like General Foods took the other choice and entered the marketing revolution. In this stage, competition moved more to new products, convenience foods and brand images. These marketing oriented firms became great advertisers, invested in product research and responded to the massive changes in consumer tastes which attended the prosperity of the 1960s. Advertising became a major competitive weapon and attempted to help shape consumer preferences. Acquisitions were an important aspect of institutional change as firms came to this fork in the road. Massive scale economies in marketing activities meant that many regional processors must be joined if they were to follow the leaders.

Figure 2. Stages of Food Industry Development, U.S. 1850-1990

Year	Food Manufacturing	Food Distribution
1990	Stage 5 Strategic Competition	Stage 4 Mature Competition
1980		
1970		
1960	Stage 4 Marketing Revolution	Stage 3 Mass Distribution
1950		
1940	Stage 3 Mass Handling Methods	Stage 2 Integration of Wholesaling and Retailing
1930		
1920		
1910		
1900	Stage 2 Commodity Trading	Stage 1 Traditional Small Business
1890		
1880		
1870	Stage 1 Traditional Small Business	
1860		
1850		

SOURCE: Updated from: Padberg, Daniel I, "Trends in Diversification, Integration, and Conglomeration," *Journal of Food Distribution* 5, 1 (February 1974) and Padberg, Daniel I. and David Thorpe, "Channels of Grocery Distribution: Changing Stages in Evolution--A Comparison of U.S.A. and U.K." *Journal of Agricultural Economics* 25, 1 (1974).

Stage 5, strategic competition, the competition of different strategic groups within an industry, finds a separate, but co-existence between the marketing oriented manufacturers and the processing oriented ones. Like "Mature Competition" it involves finding niches and fine tuning rather than embracing bold new concepts. The slower growth of the general economy together with high unemployment give the economy channel of generics and private labels some growth potential, yet some traditional products and most new products will be the province of the marketing oriented conglomerates.

The 1930s episode of intense public scrutiny of the food industry was anxious about the causes and consequences of distribution's Stage 2 and manufacturing's Stage 3. In the 1960s the public looked at the patterns that would shape the next stage of each system. In all of these situations the traditional pattern was squeezed by a new one. The new one was always "big business," fueled by private gain and speculative merger fervor. While monopoly and monopolizing questions were appropriately posed (and not completely answered), the issues were clouded by the abundant observation that in each transition performance was enhanced by efficiency and/or variety. When we have the predicted 1990s episode of scrutiny, this socially redeeming feature will be less present. As with other sectors of our economy, stagnation may be a more significant factor. In preparation, we should become expert on "Mature Competition" in distribution and "Strategic Competition" in manufacturing.

Consumer Complaints in the 1990s

In the late 1980s retail food costs have been going down and marketing's share of food costs has been going up (see Figure 1). We seem to be getting ready for the next period of consumer unrest. We have been in the privatization period for about fifteen years (since around 1972), beginning with President Nixon's second term and continuing with Presidents Ford, Carter (the most conservative Democrat since Cleveland), and Reagan. We seem ready to leave the private interest period

of the cycle and begin the period of public action. Schlesinger states:

At some point, shortly before or after the year 1990, there will be a sharp change in the national mood and direction--a change comparable to those bursts of innovation and reform that followed the accessions to office of Theodore Roosevelt in 1901, Franklin Roosevelt in 1933 and John Kennedy in 1961. The 1990s should be the turn in the generational succession for the young men and women who came of political age in the Kennedy years. [3, p. 47]

The country has tried the conservative approach, yet national problems remain. There is mounting evidence that the public is ready for a period of public action. The Wall Street crash of 1987 may become a convenient breaking point of separating the private "me-generation" from a period of public purpose. In 1987 *The Wall Street Journal* featured a four-part series on the public's support for re-regulation of some industries as can be seen from quoting the title of the first article in the series: "Hands On. Federal Regulation Rises Anew in Matters That Worry the Public. Safety, Ecology, Wall Street. Prompt Bipartisan Moves That Buck Reagan Trend" [6]. It is an interesting thought that we could anticipate some of the issues that will emerge as central issues in this next period of public action.

Food Manufacturing

The structure of food manufacturing firms is likely to continue the trend toward higher national concentration. The current pattern of mergers will accentuate the trend. Connor, et al. [7], showed that the top 100 food manufacturing firms had grown to control 55 percent of the value-added in the sector by 1977, even though there were still over 20,000 firms in the sector. The top 20 firms alone held 27.4 percent.

Another major merger wave has swept over the sector in the decade since those

figures were compiled. During this merger wave, encouraged by a conservative government and fueled by a speculative fervor on Wall Street, the leading food manufacturing firms have merged among themselves in historic fashion. The mergers are different than those in the 1960s in that they are less conglomerate and more horizontal in nature. Large conglomerates are divesting those divisions that fall outside of the food system or outside of their core businesses and are merging with firms, or parts of firms that are being divested by other firms, that mesh well with or are directly in their core lines of business. Such mergers increase both market concentration as well as sector concentration. Mergers have been common among the firms ranked in the top 20 in 1977. Examples include: Philip Morris/General Foods, RJR/Nabisco, and Kraft's shedding Dart after their ill-fated merger of 1980. Today we estimate the top 20 food manufacturing firms control 40 percent of the sector.

The balance between large conglomerates and small regional processors is likely to deteriorate further. The tendency for large processing firms like Del Monte, owned by the conglomerate RJR/Nabisco, to contract with small processors for custom canning or freezing will give smaller processors a chance for survival in the contract-processing strategic group, but they will be foreclosed from the branded segment of the market. There is even evidence that food manufacturing firms have interest in integrating backward into agriculture, a strategy they avoided in the past, preferring to contract for or to purchase their agricultural inputs and to stay out of the risky, competitive farming business. Castle and Cooke has entered an agreement to buy Tenneco West, Inc. from Tenneco, which would greatly expand their operations in primary agriculture. Castle and Cooke has been able to use brands to market fruits (usually the Dole label) and vegetables (usually the Bud of California label). The emergence of brands in produce will bring entry by the larger, more marketing oriented food firms.

Technology, especially biotechnology and irradiation, promises once again to be a focus of public scrutiny. Herrmann [1,2] found that

"ill-considered applications of new technology" was one of the persistent causes of consumer activism. New technology is often considered safe by those who developed it (and expect to prosper by its adoption) and as a danger to society by those less familiar with it. Biotechnology, with its ability to create new life forms, has already been the subject of much debate among a small but growing number of people. Any mistaken decision could "sound the trumpet" and bring near universal attention to this technology and motivate the public to regulate its use. We already have genetically altered plants and one of the latest creations of the biotechnology research is a mouse that carries the AIDS virus. These genetically altered mice should prove useful to AIDS research, yet the fear is that these mice may escape and trigger an AIDS plague. Jeremy Rifkin and his Foundation on Economic Trends has filed suit to stop the breeding of such hybrids and calling on the government to update its safety standards in this rapidly changing field [8]. It is not difficult to foresee the effect of a single escaped mouse, carrying the genetic code of the AIDS virus, would have on an already fearful public.

Food quality is likely to be affected by biotechnology as well. Growth hormones, antibiotics in animal production as well as single cell protein sources may give our food a heritage and some characteristics consumers do not understand and therefore fear--with or without good reason. The increases in the scientific ability to measure traces of residues will further expose the problem of chemicals in our food system. Food irradiation promises to improve food quality, but for some the risk of the unknown offsets any potential benefits.

The list of qualitative aspects in food for which consumers will hold manufacturers responsible might include: (1) Antibiotics, (2) Hormones, (3) Calories, (4) Cholesterol, (5) Sodium, (6) Carcinogens (Mutagens), (7) Pesticides (herbicides/insecticides), (8) Animal rights. Most of these matters are not new. Yet our ability to cope with them is not well developed. As food is more "formulated" and less in its natural form, the manufacturers will be increasingly the focus of public concern. This will happen at a time

when the industrial structure is highly concentrated by epic merger activity and our food safety policy is obsolete. In addition, the development pattern in industry (Stage 5, Fine Tuning and Segmentation) may be seen as general stagnation resulting in an unnecessary increase in costs.

Food Distribution

Food distribution also has a development pattern (Stage 4) which is devoted to fine tuning and market segmentation. No new performance dimension is added as we change from a standard supermarket monolith to a hodgepodge of super stores, convenience stores, conventional supermarkets and specialty stores. This may be seen as stagnation and unnecessary cost as well. The list of issues germane to the public concern with food distribution might include: (1) Consumer price information (reporting?), (2) Item pricing, (3) Advertising, (4) Competition, (5) Costs and price levels, (6) Merchandising schemes, (7) Packaging, (8) Nutritional labeling, (9) Chemical residues in unbranded products.

While the retailing-wholesaling activities account for less than 25 percent of value added, their proximity to the consumer usually makes them the recipient of complaints about food prices and safety. These two issues are probably the most likely focus of discontent. With it and ancillary to it come concerns about competition, advertising, price information, etc. Anti-competition behavior (predatory prices at retail, market power in interactions with suppliers) will be alleged and challenged as part of the public scrutiny of business behavior and performance.

A Look Ahead

It seems likely that the "thirty-year cycle" of consumer political activity is a good prospect to manifest itself during the 1990s. While we have many problems in predicting its focus, we may be better prepared by planning than by ignoring the whole sequence.

As we weigh the credibility of these lists of potential complaints, it seems that the food safety and nutritional issues are likely

to generate the most interest. Basically, we think our mantle of public policy is least developed and adequate in this area. There is growing evidence of public concern in these areas. Ray Klocke, Vice President of produce at Kroger Company, has noted an "ominous trend" from research done by the Food Marketing Institute that "indicates that consumers have shifted trust from the U.S. Government information sources and that 75% of shoppers are 'uneasy about the safety of produce, despite our efforts' to convince them it is wholesome. 'For the first time in years, consumers say they rely more on consumer advocates than they do the Government or the industry for news about produce safety'" [9].

Given our sense that the country is leaving the period of private interest and heading toward the period of public action, we predict a new period of consumerism with new leaders, like Jeremy Rifkin, ready to lead a public that has tired of privatization and material goals and is now ready for an agenda of public purpose.

Endnote

¹The market basket data concerning farm food (from tables 104 and 95) were used in the "Retail Cost" index. It probably gives a better reflection of the farm-industry dynamics seen by participants than the food price index since it does not include imported items such as bananas and coffee. The source for the 1913-65 data was USDA/ERS, *Food Consumption, Prices and Expenditures*, AER #138, July 1968; tables 96 and 104, and the source for the 1966-85 data was USDA/ERS, *Food Consumption, Prices and Expenditures 1985*, Statistical Bulletin #749, January 1987; table 95. The CPI data were taken from the 1987 *Economic Report of the President*.

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