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IMPLEMENTING AN EXPANDED FOOD AND NUTRITION POLICY: IMPACT ON FOOD INDUSTRY

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Close attention to the food-nutrition policy issues allows several important observations. First, it is an extremely emotional issue. Second, there is rather sharp disagreement, even in the scientific community, about the proper course that food-nutrition policy should take. Third, my interpretation of the state-of-the-art in nutrition and the nature of consumer habits are such that the changes in dietary patterns and habits are likely to be evolutionary rather than revolutionary in nature. Finally, any food-nutrition policy that attempts to compress an evolutionary change into a revolutionary framework is likely to produce large dislocation costs and unsatisfactory results.

One item that the background material for this session did not give was a definition of an “expanded food-nutrition policy.” However, I suspect that the concept of an “expanded food-nutrition policy” would follow the outlines given by Carol Foreman at the USDA Outlook Conference last November. Among the key elements of the program she outlined were:

1. To determine what people need nutritionally.
2. To determine what levels and types of production are necessary to meet domestic and international nutrition needs and our country’s trade needs.
3. To stimulate and sustain production adequate to meet domestic and international nutrition needs — by reassessing which areas of agriculture are supported and promoted.
4. To impact against the advertising of “non-nutritive” food items.

There were other elements in the overall U.S. food policy that she outlined, but I think this list captures the key elements related to nutrition. And the above steps would certainly constitute an expanded food-nutrition policy.

Implicit in this policy are the following:

1. The consumer does not know what intelligent choices are.
2. Consumers cannot make intelligent choices even if they knew what the intelligent choices are.
3. The food industry has not, does not, and will not respond to consumer choices.
4. That a government-mandated program will provide consumers with a better value than they are getting under current policies and under the current structure of the food industry.

In contrast to this scenario, I contend that: The consumer is inquisitive. The consumer is constantly asking the question, why? The consumer is complex and difficult to “read.” The food industry from farm to retailer has responded to consumer demands. However, where industry responses that were thought to be in response to consumer demands did not fulfill consumer demands, the products met with only limited success or have failed. To quote from a recent issue of *Fortune*: “perhaps because of all the confusion (about nutrition), concern about nutrition has, up to now, proved more of a trap than an opportunity for the big companies.” *Fortune* cited a couple of illustrations: Natural cereals are moribund after growing rapidly initially, as a product category. A line of salt-free soups was introduced by Campbell Soup. The line bombed.

The point is that no matter how good a product may be for someone, if it doesn’t taste good to the consumer, the consumer will not buy it.

Turning to the food-nutrition policy issue, there is no doubt in my mind that the United States food industry from farm to retail can respond to any nutrition policy that is based on sound data. Food costs would probably increase but would probably stay within manageable bounds. However, problems are likely to develop if emotion, conjecture, and mythology play a greater role and receive more credence than scientific data, and if we do not select the proper delivery vehicle for implementing the policy.

Before moving to these consequences, let me spend just a minute discussing a couple issues that I think relate to the total nutrition problem and with which you, as extension professionals, should be concerned. First I think the nutrition problems that exist rotate on an axis with education as one pole and income as the other. With respect to nutrition, consumer minds are open, inquisitive, and ready for answers. Consumer surveys show that consumers are as concerned as ever about nutrition. However, the concern is exceeded by confusion about what constitutes good nutrition.

Consumers are aware that they need more information and are ready to accept reliable data. However, they will not blindly follow unsubstantiated information or accept products that do not satisfy their demands. Unfortunately, we have not responded as effectively to consumers in this areas as we should have — a key role for Extension.

The second pole of the nutrition problem axis is income. Therefore, any new program that adds to food costs could impact negatively on overall nutritional improvement. Related to the income issue is world food supply. Despite the farm price and apparent surplus supply problems we have recently had in the United States, there is not a surplus of food in the world.

With 3.5 billion people consuming 1.4 billion tons of food currently, and those numbers growing each year, we simply cannot afford the luxury of risking a cut in current United States supplies of food — particularly given the importance of United States agriculture to the rest of the world. A reduction in world food supplies could make food unavailable at an affordable price to many in the world. In such a case, a greater number of people would have to depend upon donations for their food supplies.

This background suggests that an expanded food-nutrition policy must not ignore the issues of education (knowing what to buy and consume) and income (the ability to buy). Finally, care should be exercised in selecting the delivery vehicle for implementing any expanded food-nutrition policy. Charles Schultze in *The Public Use of Private Enterprise* stated, “once the decision to intervene has been taken . . . our political system almost always chooses the command-and-control response and seldom tries other alternatives. . .” The delivery vehicle chosen should be one that, *ceteris paribus*, minimizes the cost and economic dislocation impacts.

Turning to the impact of an expanded food-nutrition policy on the food industry, a separation of the problem into domestic and foreign considerations should be considered.

Domestically, three things would likely happen if the type of program outlined above is implemented through the usual command-and-control method. Costs would increase. Food demand would decline. And, significant changes would occur in the structure of the food industry.

Both production and processing costs would increase. Production costs would increase to the extent that the government, in its attempt to force production of the proper nutritionally balanced basket of foods, forced a suboptimal pattern of production. This could range from underutilization of forage land with declining meat consumption to the suboptimal allocation of crop land in Iowa.

If you buy the argument that the demand structure for food is shifting away from what is currently produced and to the “desired” mix, then the increase in cost might not move society to a less preferred position. The value of the new mix would increase and production patterns would respond accordingly. However, if a new production mix is mandated, then social and individual costs would result.

On the processing side, costs increase as a result of increased labeling requirements, increasing analytical work, from higher process control costs, etc. The same argument with respect to social welfare costs holds here as in basic production costs. In either case, however, the cost of food will be higher under any suboptimal conditions.

As mentioned earlier, new, different, or reformulated food products that are not consistent with consumer tastes will likely fail in the marketplace. Unless forced, the consumers will not consume products that do not satisfy consumer tastes. Should the government attempt to "force feed" consumer items that are not consistent with taste, then food demand will decrease. The result will be that farmers and consumers are in a less preferred position.

The third domestic impact is an expected shift in the structure of the food industry. The structure will move to one of larger and fewer companies. The research, the analysis, the testing, the labeling, and other factors involved in an increasingly pro-active food-nutrition policy will increase the economies of scale in the food industry.

Dahl has concluded that most public policies directed at the solution of various income, equity, and growth problems have had the effect of increasing the concentration of firms at each level of farm supply, production, distribution, and merchandising. No different results should be expected from the type of program outlined above.

Moving to an international perspective, we find that there is no clear demarcation of issues from the domestic ones; but that there are a number of cross currents and conflicts between a food-nutrition policy designed to meet U.S. and international nutrition needs and our trade requirements.

First, the number one world problem with respect to nutrition is income. Therefore, measures that would result in increased food costs should not be taken lightly. Such results are likely if the government is not careful or lucky in dictating what is and should be produced.

Secondly, we will be unable to dictate what consumers in other countries consume. Consumption outside the U.S. will be determined by internal food policies, by incomes, and by consumer tastes. By trying to force our "mix" of products upon an unwilling consumer, we would likely hurt our export sales and hence farm income. The continued contribution of agricultural exports to farm income and to our balance of payments will depend upon our producing at a favorable cost what importing countries want, not on producing what we want them to have.

The point is that resource allocation other than by market forces is a difficult and complex issue and it must be dealt with in a cautious manner. The consequences of a bad roll of the policy dice are

too severe to be taken lightly. The price volatility of the past six years should have confirmed in everyone's mind the highly inelastic aggregate demand for food in the world.

To summarize, the issues as I see them are education and income or the affordability of food in both domestic and foreign markets. These issues are not as simple as a first blush would imply. The issues transcend not only domestic and foreign food demand (not just requirements), but also constantly changing consumer lifestyles, buying habits, family compositions, etc.

The question then becomes what do we do? I think there are several steps. First, I think we need to reduce the amount of confusion about nutrition in the mind of the consumer. To do this, we need to start with good scientific data and then take it to the consumer, not too unlike what research and extension professionals have been doing in agriculture for years.

Second, I think we must determine how much the government wants to try to change consumer buying patterns. Consumers are more discriminating than we give them credit for being. Provide them with the proper information and they will make the right decision, at least the one that maximizes their utility.

Third, it is important that we avoid oversell on both sides of the issue. I define a frustration gap as the difference between expectations and what is delivered. We should not oversell the consumer on what an expanded food-nutrition policy can do. While many consumers at home and around the world feel that they are fighting a strong income — food cost problem, we surely should not promise a nutrition (quantity and quality) nirvana stemming from a new, expanded, food-nutrition policy. Sounds like a commercial does it not? Well, sometimes the government attempts to package and sell policies the way companies package and sell food. Policymakers, like companies, should recognize that if the package does not deliver what it promises, the consumer will not be a repeat buyer.

Finally, I think that in addition to the fundamental nutritional data we need detailed evaluation of the intervention mechanism. To quote Charles Schultze again, "The effort that has gone into theoretical and applied analysis of how to create or utilize decentralized mechanism for social intervention has been, with few exceptions, rather limited."

There is nothing that says we must rely on the command-and-control response to all social interventions. Instead, we should evaluate the delivery system as well as what is being delivered to minimize the impact of the costs discussed above.

