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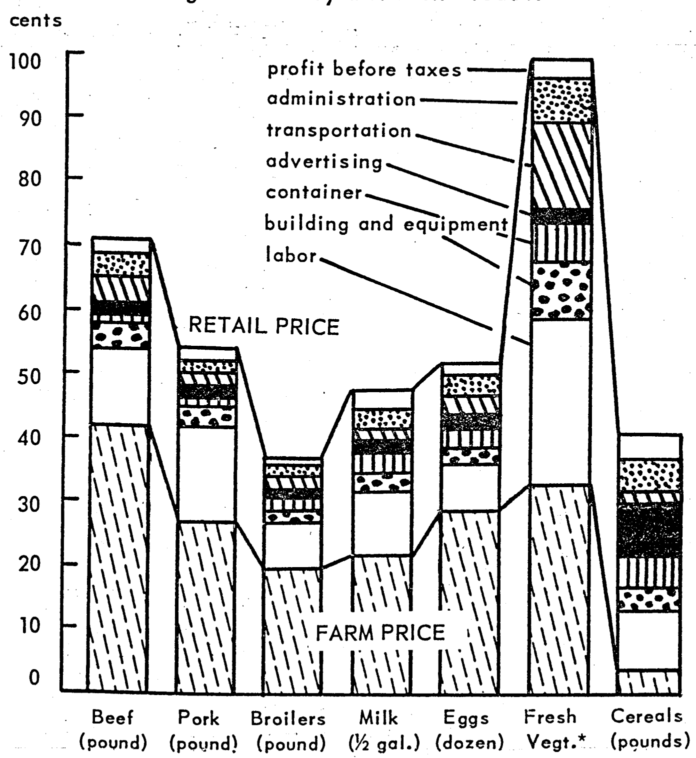
FOOD FROM THE FARMER TO THE CONSUMER, is the title of a controversial 200-page report issued recently by the National Commission of Food Marketing. The report, prompted by the rising costs of processing and marketing foods describes important changes in the food industry and sets forth the reasons for the widening margins between farm and retail prices. Since 1960, farm prices increased 4 percent while retail food prices increased about 7 percent. In a number of years prior to 1965, farm prices remained relatively stable while retail food prices rose gradually.

Marketing Costs Vary Between Products



*Based on market basket valued at $1.00 retail in 1964.

Consumers, however, have spent a decreasing proportion of their income on food, about 18 percent in 1965 compared with 20 percent in 1960. The Commission also made recommendations for changes in the food industry which it believes will insure more efficient production, processing and distribution.

The report explains that the reason for the increase in retail food prices relative to farm prices is largely the shifting pattern of consumer demand. Consumers are able and willing to buy added services and a greater variety of food. These consumer preferences result in higher costs and consequently higher retail food prices. In the views of a majority of the 15-member Commission, these developments also explain why some retail food firms grow to tremendous size, possibly even larger than economic efficiency alone would justify.

The trend to smaller numbers of firms in food distribution has resulted in fewer alternatives for processors and farmers, according to the Commission. In 1948 chains accounted for slightly more than 30 percent of total food store sales, but by 1963 the proportion had risen to almost one-half with independently owned stores which were affiliated with a buyer's group accounting for another 44 percent. The Commission concluded that the effect of concentration of buying by chain and affiliated groups of retailers is to limit the number of buyers in the market and to place sellers of farm products in a somewhat less favorable bargaining position.

The Commission considered the affects of concentration of efficiency, with a majority concluding that low levels of concentration are compatible with high efficiency, but conceded that it is unlikely that the margin between farm and retail food prices could be narrowed significantly by reducing concentration in the industry. The report proposed that group action is needed to enable farmers to bargain effectively with processors, wholesalers and retailers, but that in order to be effective the bargaining group must have the authority to make legally binding supply and price commitments for its members, Moreover, permissive legislation for this type of collective action will be necessary. This proposal raises an important question. Should any tendencies toward monopoly or market dominance be offset by encouraging other tendencies toward monopoly or market dominance? It is quite possible that a different policy orientation would be more compatible with the concepts of a free enterprise economy, and also more effective.

Specific recommendations of the Commission deal with mergers and acquisition by retail food firms, anti-trust enforcement, the Perishable Agricultural Commodities Act, consumer demands for marketing services and the bargaining position of farmers. The report urges that consumer grades be established for each recognized food product category so that the quality of competing products may be taken into account when price comparisons are made.

In addition to endorsing cooperative marketing, "market agreements" and "market orders," the Commission recommended the establishment of agricultural marketing boards made up of producers and handlers to negotiate on prices and supplies of agricultural commodities. This group action should be designed to more closely coordinate production with expected utilization so as to stablize prices. The effect of this proposal, it is suggested, would be to lower procurement costs and give greater control over quality and shipping schedules to buyers while farmers would benefit by being assured of a "fair" price.

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