Beets, Beef, and Henry Wallace

by Thomas Redburn

Over the last two and a half years, it has been difficult to avoid the pain of rapidly increasing food prices. It has been even more difficult to avoid the countless articles attempting to explain why prices have risen.

These explanations range from the Earl Butz Act of God Theory—that the price rise is due to bad weather and unkind fate, which, admittedly, are factors—to the answer many liberals find so seductive—blaming it all on agribusiness. The liberal argument is that huge and greedy corporations have destroyed the free market as they destroyed the small farmer. These all-powerful middlemen have either engineered the whole price rise, or, at the very least, given it a very substantial push. What other reason could there be for the large profit increases for the food companies while farmers are suffering from rapidly rising costs and—now—declining prices? This sentiment found its typical voice in an article by Daniel Zwerdling, in *The Progressive* of January 1975: "While food prices were pushing millions of Americans toward serious financial sacrifice and even poverty, the giants in the food industrial complex were crying all the way to the bank. . . . Giant corporations and conglomerates are maneuvering into control over vast markets in the food-industrial complex. While the U.S. Department of Agriculture (USDA) was preoccupied with analyzing price fluctuations from week to week, corporations were exerting their control over just 13 food lines to inflate prices permanently by $2.1 billion."

"Food-industrial complex," "control over vast markets," "crying all the way to the bank"—the phrases fairly

Thomas Redburn is an editor of The Washington Monthly.

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glide from the pen. The proponents of this view assert that we pay at least $2.1 billion more than we would if all the agricultural companies were small businesses freely competing. No doubt this simple view contains a germ of truth, for the agricompanies have played their role in the recent price rises. But their part is only a walk-on. Take that $2.1 billion figure, so fondly quoted by every exponent of trust-busting. It comes from a 1970 Federal Trade Commission memo. Four FTC economists I talked to doubt its accuracy. But even if it is accurate, the figure is not particularly enlightening. $2.1 billion divided by the whole U.S. population comes to only about $10 a person, or $40 for a family of four, which hardly explains the $450 *increase* in the average family's market basket cost (according to the Bureau of Labor Statistics) that took place between July 1972, when the sale of massive quantities of grain to the Soviet Union began, and January 1975, the last month for which statistics are available.

No, the full explanation is more complicated than agribusiness greed or vagaries of climate—and may be more unpleasant to contemplate than either.

Take sugar and meat, for example. These two items, which both underwent spectacular price increases, accounted together for more than *half* the total increase in the price of food. For both sugar and beef, the basic cause of the price rise was the change in the world food market from surplus to shortage. In each case, government policies aggravated the effects of the price rise.

Price Rise

Sixteen months ago, in January 1974, sugar cost about 85 cents for a five-pound bag. By December 1974, the price had risen to $3 and in some places almost $4. Largely because so many cereals, salad dressings, canned and frozen foods, bologna, soft drinks, and hundreds of snack foods contain large amounts of sugar, the price of these foods rose as well. One analyst in the Department of Agriculture estimates that 20 per cent of the total increase in food prices during 1974 was due to the inflation in the price of sugar.

Why? The answer requires a bit of background. Refined sugar comes from either sugar beets or sugar cane. Once refined the two types are interchangeable. Of our annual national consumption of sugar (11.5 million tons in 1974), roughly 30 per cent is produced from beets, which are grown extensively in the U.S. The remaining 70 per cent comes from sugar cane, two-thirds of which is imported. Domestic producers supply about 50 to 55 per cent of our sugar needs. Our domestic producers operate within a tightly controlled market. Under the Sugar Act of 1948, the Secretary of Agriculture operates an intricate system of price supports, subsidies, and quotas, with two goals—to limit the amount of sugar grown domestically and to limit the quantity of raw sugar imported from some 30 foreign countries. The purpose was to insure, by keeping the price up, that U.S. growers would continue to produce sugar instead of switching to other crops. Since our prices were generally higher than the free market price, the other sugar-producing countries of the world were pounding on our doors.

In 1973 the Department of Agriculture moved to change this system. Secretary Earl Butz was no friend of the Sugar Act. It violated his well-known antipathy toward government intervention in the agricultural economy. What is interesting is that Butz prescribed exactly what many economists and consumer advocates have suggested as the cure for our food troubles: competition.

In November 1973, the Department of Agriculture announced that there would be an Administration campaign to abolish the 1948 law. Many sugar growers were none too pleased about the proposed change, for it meant the elimination of $90

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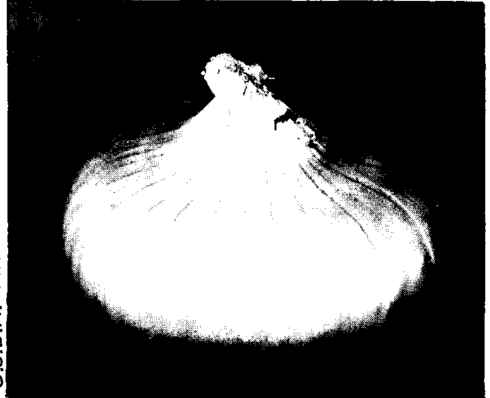
million a year in subsidies and the end of the acreage restrictions and quotas that supported the high domestic price. Butz told the growers not to worry about falling prices. He pointed to increasing demand on the world market and the diminishing world stocks of raw sugar, trends which seemed sure to keep the price up.

Butz also reminded them of the predictable cycles of supply and demand and that the price was due to rise. For years the price of sugar had followed a regular cycle. In 1964, following years of low prices when sugar was one of many surplus commodities, Cuba took nearly five million tons of sugar off the world market to sell directly to Russia. The world price rose. Sugar producers, enticed by the high prices, expanded their output, creating a six-year world-wide glut. The price fell from the 1964 high of 10 cents a pound to as low as 1.9 cents. World stocks of sugar increased far above the "equilibrium level" of 40 per cent of annual consumption, forcing prices so low that producers were losing money on every pound of sugar sold. Production stagnated. The world, however, was consuming more and more sugar, so that by January 1974 the surplus sugar stocks had been reduced to 16.5 million tons or 30 per cent of consumption. By analyzing these trends, those who followed the market in sugar could readily predict that the price of sugar would rise in 1974.

Sugar Daddy

But Secretary Butz wasn't taking any chances. He knew that to get Congress to end the Sugar Act he had to have the growers' support. And to get that, he had to be sure the price would rise. One way to push up the price would be to expand consumption faster than expected. Butz had no way of doing that, but he was able to achieve the same effect on the commodity markets merely by suggesting that consumption would rise. So Butz confidently predicted in January 1974 that United States consumption of sugar would reach 12.5 million tons in 1974. This was astonishing news—a nine-percent increase when in the last 25 years consumption had never risen more than three per cent from one year to the next. (In the end Butz' estimate proved to be nine per cent too high.)

On top of the news that the Sugar Act would probably die, this prediction created such uncertainty in the commodity market that the price of sugar jumped 50 per cent. By July raw sugar cost 26 cents a pound. The satisfied producers did not lobby against Butz' proposed action, and Congress agreed to let the Act run out at the end of the year.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At the same time, news from Europe and the Soviet Union that sugar beet crops were being destroyed by bad weather helped keep sugar prices rising through the summer and fall. Meanwhile, decisions were being made elsewhere in the U.S. government that further contributed to the sugar shortage. In the November 11, 1974, issue of *Foreign Agriculture,* L. C. Hunt wrote that worldwide "beet sugar production will be down from 1973-74 levels by about 1.4 million tons." Was this that old nemesis, the weather, again? Partly, but 50 per cent of the decrease was due to decisions made by U.S. beet growers in early 1974 not to produce beets for that year. Why should they do that? Because it wasn't until April, when farmers were already planting their crops, that the President's Cost of

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Living Council lifted a ceiling on the price of refined sugar. Beet producers naturally decided to grow alternate crops–cotton, wheat, soybeans–from which they could expect to make more money.

Of course the fast-growing world demand and the low stocks meant that sugar prices would have risen during 1974 even if Earl Butz had acted with divine guidance in setting USDA policy. But with the addition of poor crops and contradictory government policies, we ended up with a world sugar production shortage of 1.5 million tons, and just at the time when we should have been trying to stimulate a build-up of depleted sugar stocks.

The result, seen in the markets and felt in all our wallets, was an escalation of prices in sugar that placed the consumer completely at the mercy of market forces, creating such anger that one Senate assistant was quoted in *Business Week* as calling the demise of the Sugar Act "the rip-off of the century."

A mistake, yes, but a rip-off? Amstar Corporation, the nation's largest sugar refiner, boosted its profits by 300 per cent in 1974. It earned 25 per cent on stockholder's equity, although its profits-on-sales remained at their traditional three per cent. This means, of course, that Amstar raked off a three-cent profit from every dollar spent on Domino sugar. As the price of sugar rose, Amstar's three per cent was a larger absolute figure, and its overall profits rose astronomically. But if every bit of Amstar's profit had been knocked off the purchase price, consumers would have saved only three per cent–hardly enough to justify the argument that greedy entrepreneurs forced the price up.

The story was similar for other refiners. But however large these windfall profits were, it is still difficult to leap to Daniel Zwerdling's paranoid conclusion: ". . . did Great Western Sugar soak consumers to help pull its parent conglomerate out of desperate financial straits? It is conceivable that when consumers took Great Western sugar through the supermarket checkout line, they were paying the price–an outrageous price –to help bolster a sagging real estate venture called California City."

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What nonsense. Since Great Western sugar was no more expensive than any other brand, Great Western was hardly–unless it was vastly more efficient than Amstar–capable of generating more than a three-percent profit on the price. The dramatic rise in Great Western's profits on equity was the result of large inventory profits, most of which had to be plowed back into buying higher-priced raw sugar.

The Monopoly Game

Far less hysterical, but still animated by the same fear of unseen corporate manipulation, are the views of James Hightower, director of the Agribusiness Accountability Project, which provides a valuable service in monitoring the actions of the food industry:

"The manufacture and distribution of the hundreds of items you see on the grocery shelf are controlled by a small number of huge food processors and supermarket chains. These firms have the sheer financial might to overwhelm smaller competitors and the market power to hold up prices and profits like a single monopolist. Unless monopoly power in the food industry is broken, we'll never see the price of food come down." If only it were so simple.

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On the face of it, Hightower's assertion seems valid. Of 32,000 food companies, the 50 largest earn 61 per cent of the profit. Four companies share 90 per cent of the market in breakfast cereals; another four control 65 per cent of the bread market; the largest four canners sell 80 per cent of canned fruits and vegetables, and only one company sells 90 per cent of all canned soups.

But when we turn to price increases of specific commodities we find that the greatest increases were in such products as fresh vegetables, dry beans, and oils (which are marketed by numerous companies); in fresh meat (where the largest four meat packers share only 22 per cent of the market); and in sugar–the complex pricing of which we have already described.

This is not to say that oligopolistic companies don't engage in price fixing and gouging for profits. Large price increases have also occurred in processed fruits and vegetables and in cereals. But Hightower's trust-busting, which he envisions as resulting in lower prices through lower profit margins, will unfortunately have very little effect on the consumer–for the same reasons we saw in the Amstar case. The confusion arises because profits are computed in two ways. One method measures a company's earnings in terms of the equity held by shareholders. Major food companies (like most manufacturing firms) regularly earn profits measured between 12 and 22 per cent by this calculation. But those same profits measured in terms not of equity but of sales can produce quite different figures. In the food industry, profits on sales are particularly low, as the companies are happy to publicize. The profits on sales for processors are only three per cent and for supermarket chains one per cent. The profit on sales is of interest to consumers, because it represents the additional cost the company is charging for food in order to earn its profit. But economists, businessmen, and investors find these figures of less interest, for they tell little about whether a company is a profitable investment. Thus food industry companies can earn high profits for their investors even though the company's actual profits on sales are low. Paradoxically, high profits add little to the price of foods sold. In fact, if profits were *completely* eliminated from the food industry, prices would drop an average of only eight per cent. (For some foods, like cereals and soups, the drop might be greater; for others, like meat, it might be less.)

Cry, the Beloved Country Ham

Don't misunderstand. I think many of the things wrong with our foods are directly traceable to the overwhelming growth and mass-marketing orientation of the food companies. I'm not defending this. By now most of us are familiar with the "factory" chicken raised to be practically tasteless because it can be made that way cheaply. And of the decline of specialty products such as country ham that don't lend themselves to mass marketing. The tale is familiar, but still sad.

James Hightower and his associates at the Agribusiness Accountability Project are correct in condemning this trend as one of the primary failings of the food industry. But some confusion arises in trying to view it in the familiar light of monopoly. For example, the factory model of raising chickens has led to lower prices for consumers, but at the expense not only of quality but also of the chicken farmers who have become oppressed hired hands, forced to buy all their supplies at the "company store." This is not, however, primarily a problem of monopoly, for the same cost-cutting pressures would exist if there were four firms or 400. It is, rather, the result of applying to agriculture the same mass-production, assembly-line principles used to produce ball bearings.

Far better known than the history of the sugar price increase, and cer-

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Peter Bartlett

tainly easier to comprehend, is the story of meat prices. The explosion in price was precipitated in the summer of 1972 when the Soviet Union began feeling the effects of a drought and subsequent crop failure and bought one-third of the U.S. wheat harvest. In less than a year grain prices tripled, turning the tables on the meat industry, which over the previous 20 years had become dependent on cheap grain to raise cattle and hogs. In 1955 feedlots were practically unknown; by 1973, 83 per cent of the cattle slaughtered under federal inspection were coming through feedlots. The number of feedlots had increased for a number of reasons. Certainly the demand among consumers for beef was growing, and feedlots were a convenient solution for coping with that; moreover, they helped solve the problem that has plagued American agriculture for years—how to dispose of the huge quantities of grain U.S. farmers are capable of producing. Further, laws which offered tax shelters to outside investors in the cattle business encouraged an overexpansion of the industry.

The Russian grain deal can now be seen as merely the precipating event in this sudden, but long overdue, change in agricultural patterns. The change was so violently wrenching because no one seemed to foresee the adverse consequences that would follow from depleting our grain reserves. In the same way that we are finally reexamining our appetite for gasoline as a result of OPEC's raising the price of oil, the Russian grain sale may help alter some other comfortable beliefs.

We can see that monopoly power played only a small role in precipitating the inflation of meat and sugar prices. Undoubtedly many of the government policies followed did indeed benefit the large corporations, for such industrial giants almost invariably benefit from government actions to "improve the economy." But that's a far different matter than suggesting—as so many critics do—that

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the cause of the inflation can be traced to the greediness of agribusiness.

Look, for example, at statistics compiled and analyzed by the Economic Research Service of the Department of Agriculture. In the years from July 1972 (the Russian grain deal date) to August 1973 (when controls on food prices were lifted), food prices rose 26 per cent, or about two-thirds of the total increase between July 1972 and January 1975. About 95 per cent of this increase was reflected in higher returns for farmers. (Undoubtedly, some of this fell into the hands of agricorporations with extensive land holdings.) The farm share of the retail dollar jumped from 41 per cent to 52 per cent.

After August 1973, prices at the supermarket level continued to rise another 13 per cent above the July 1972 price. Eighty per cent of this was due to what is called "widening farm-retail spreads," in other words, greater returns for the middlemen than for farmers. Hidden in such an increase may be padding and price gouging, for unlike the higher prices for farm commodities, these increases were not necessarily a result of market forces.

True, none of the major food companies—except perhaps A&P—was losing money, for long ago they became part of what John Kenneth Galbraith calls "the planning economy." But neither do their large profit increases fit into the pattern antitrusters might find intriguing. Profits, for example, increased most sharply in the meat-packing business; yet meat packing is one of the least concentrated of all food industries. And when all of the profits for the 50 largest food companies are computed—not just the increases—the room for cutting prices appears rather small: the 1973 before-tax profits of $2.8 billion represents only two per cent of the $145 billion dollars consumers spent on food.

I don't mean to say that there is no role for antitrust in regulating the food industry. The Justice Department and the Federal Trade Commission can perform a valuable watchdog function over oligopolistic markets. But, even ignoring the pathetically skimpy 85-year history of antitrust enforcement, there is little chance that the populist-Naderite dream of restoring a market economy could ever perform the wonders its ardent advocates hope for. And even worse, antitrust could actually defuse genuine reform efforts. We could find ourselves spending 10 years agitating to break up General Mills, only to find after succeeding that nothing had changed.

Free Enterprise?

The troubles reflected in rapidly rising prices, then, are far more complex than many have supposed. Oddly enough, there has arisen a sort of consensus, between the most wildly disparate elements, that the solution to our agricultural difficulties lies in restoring the "free market." To liberals, this means breaking up the agribusiness monopolies and letting the decentralized market right itself. Earl Butz's solution, which is probably nearer to realization, is to leave the agribusiness structure intact but remove any taint of government "interference."

While the shortcomings of the Butz system have been more dramatically demonstrated, neither view fully comprehends the pressures now affecting American agriculture. Forty years ago, Henry Wallace's Agriculture Department understood that pure market forces, left to work themselves out, would drive the small farmer out of business. In the years since then, farm-support policies have lost their sense of emotional rightness, both because so substantial a share of the support payments has gone to large farmers of the James Eastland variety, and because the tight world markets and high grain prices of the last few years have made many American farmers rich, at least temporarily. But

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it is this very change in the world food situation, from a permanent surplus to an apparent permanent shortage, which makes a carefully thought-out, carefully controlled plan of government intervention all the more essential. No one can predict that there will be a drought or crop failure this summer; the harvest may indeed be abundant. But with demand pressing so closely on supply and likely to continue doing so for the foreseeable future, one can say with virtual certainty that the next time there *is* a drought, or late frost, or devastating blight, prices will soar once more. When this next cycle begins, we will see the same catastrophic pattern as before: consumers screaming for relief as food prices rise; international tensions developing as we try to restrict exports; innocent victims destroyed by the cycle, as so many cattlemen have been destroyed here recently.

We can continue to talk about "competition," which is absolutely powerless to cope with these cycles. Or we can decide that fundamental principles of public policy require us to intervene against the cycles. It is of little benefit to the consumer to pay bargain rates for beef today if he will have to pay $3 a pound next year, after the cattlemen have been driven out of business and the newspapers start talking about the "beef shortage" once again. It would be far better to manage the reserves and prices of such critical commodities as feedlot grain, so that both consumer and producer can survive. Large reserves should be built up, not only to prevent shortages that will lead to higher prices for Americans, but to fulfill our responsibility in the face of famine elsewhere in the world.

It is with heavy heart that one recommends government direction of the economy, because of the obvious peril of the bureaucrats taking over, merging all the farmers into giant tracts to make the paperwork flow more easily. But there should be no reason why more thoughtful, far-sighted management of our agricultural supplies could not delegate the actual production to an even greater number of small independent farmers than we have today. Individual farmers, assured of a steady source of demand and free from the fear of the disastrous booms and busts, have already proven themselves very efficient producers of food.

The food economy must be managed. What is needed is some coherent policy that will have to consider many diverse purposes, not only price rises for consumers and producers, but also the needs of exporting food to help our international financial situation. The market need not be destroyed, merely guided in a purposeful direction. We must move to prevent the frequent violent eruptions that have become so common, for, to switch metaphors, without careful planning, our food economy is balanced scarcely more securely than a heap of jackstraws, and as we have recently learned, it doesn't take much to upset the whole thing. ■

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Memo of the Month

DHR policies & procedures

Subject Management Planning System - Introduction	Number VI-4-A	Date 11-5-74
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A. PURPOSE. To establish a Management Planning System (MPS) designed to provide a comprehensive, dynamic, systematic approach to management at all levels throughout the Department of Human Resources. This system is designed to replace management by crisis and other erratic approaches to management with an orderly, logical, and meaningful system.

B. SCOPE. This system is applicable to all organizational units throughout DHR.

C. GENERAL. The MPS comprises five discrete processes which may be summarized under the following references:

DHR Mission and Goals (MG)
DHR Multi-Year Plan (MYP)
Zero Base Budgeting (ZBB)
Management By Objectives (MBO)
DHR Action Plan (DAP)

Each process, although discrete, is interrelated and reinforces the others comprising the macrosystem.

1. MPS Conceptual Relationships

a. The Mission and Goals statement and the Multi-Year Plan developed and issued yearly by the Office of Planning and State Agency Affairs are the base foundation for the Management Planning System.

b. The Mission and Goals statement speaks to the general direction DHR will take for the current fiscal year. The statement is based on legislative requirements, mandates from the Mayor, City Council regulations, and the Director's guidance.

c. The Multi-Year Plan is a five year strategy plan which sets forth the program approaches by which DHR is to obtain its stated Goals and Objectives.

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