

Balance of power is key to understanding the workings of the nation's food system

Nearly a dozen years ago, in response to complaints from cattle and chicken producers, among others, the Obama administration held a series of 5 workshops on the topic of competition under the leadership of Agriculture Secretary Tom Vilsack and Attorney General Eric Holder. In the end, little happened as control of Congress shifted to the Republicans who used their control of the purse strings to prevent the Obama Administration from developing regulations in response to what it heard from farmers who attended the workshops.

In this column, we have regularly examined the squeeze that farmers find themselves in. On the input side, farmers have a limited number of firms from whom they can purchase the equipment, seeds, and chemicals that they need in their operations—economists describe this situation as an oligopoly; if it were one firm it would be a monopoly.

Farmers face a similar situation on the output side where a limited number of firms control the markets for their production—the economic term for this situation is an oligopsony.

We have heard many farmers complain that they are “price takers” whether they are buying or selling.

Now that Obama's Vice President, Joe Biden, is President, we are again hearing about the issue of competition as it affects farmers.

He recently said, “Capitalism without competition isn't capitalism; it's exploitation. Without healthy competition, big players can change and charge whatever they want and treat you however they want” (<https://tinyurl.com/28bc52rk>).

To put his words into the beginnings of action, he has “establish[ed] a whole-of-government effort to promote competition in the American economy. In addition to competition in agriculture, the administration's efforts also include transportation, healthcare, and technology. As a first step, the administration has indicated that it will enforce “antitrust laws to combat monopoly power.”

While that is a good first step, it does not undo the mergers that farmers and consumers face on a daily basis.

Before going into a discussion of the Biden Administration's proposals, let's take a look at the food system from farm to fork. On the farm side, we have a large number of producers of agricultural product in the US and around the world.

In the middle we have a limited number processors who purchase raw farm products and convert them into items, mostly foodstuffs, that can then be sold. In this transaction farmers have little pricing power. The processors then convert the agricultural products into items, mostly foodstuffs, that can then be sold.

At the next step of the process, we have grocery retailers who purchase the products they sell from the processors. In the US there is a limited number of grocery retailers who control a significant portion of the market, so consumers also have little pricing power.

One might liken the interaction between the processors and the retailers to a couple of Sumo wrestlers jostling with each other. The numbers on each side are limited, but their power is relatively balanced.

At the other side of the food system, we have 7.9 billion people in the world. And in the US and much of the world, consumers have little pricing power as the result of consolidation among retailers that limits their options.

Most of the action happens on each side of the equation. The biggest question is “Who is going to buy out whom?”

One of the administration’s approaches in this arena is to make \$500 million available to expand “meat and poultry processing capacity as part of efforts to increase competition, level the playing field for family farmers and ranchers, and build a better food system.”

This sounds admirable, but there is a problem. We are aware of groups who have tried this approach with little success. They simply do not have the heft required to compete successfully. To return to our Sumo imagery, even a 130 pound State High School Wrestling Champion does not have much of a chance in that ring; they will get squashed.

We do like the idea that the United States Department of Agriculture (USDA) will work to strengthen enforcement of the Packers and Stockyards Act (<https://tinyurl.com/9ek7pn9c>). According to the June 11, 2021 press release, “USDA intends to take three actions related to rulemaking in the months ahead. First, USDA intends to propose a new rule that will provide greater clarity to strengthen enforcement of unfair and deceptive practices, undue preferences, and unjust prejudices. Second, USDA will propose a new poultry grower tournament system rule, with the current inactive proposal to be withdrawn. Third, USDA will re-propose a rule to clarify that parties do not need to demonstrate harm to competition in order to bring an action under section 202 (a) and 202 (b) of the P&S Act.”

It will take a sustained effort on the part of the public and the USDA to bring about a balance of power in the US food system.

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