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OPPORTUNITIES IN THE NORTHEAST

by

B. F. Stanton

March 9, 1971

No. 30

OPPORTUNITIES IN THE NORTHEAST

A Statement Prepared for the
USDA's Northeast Science and Education Workshop
Syracuse, New York

March 9, 1971

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Introduction

As you know, I am not Dr. DeGraff. I'm sure you are sorry he could not be here today. I will not try to make his speech. But, I hope I can share some of the optimism, the pride of accomplishment, and the good spirit that he would have generated during his talk. It's a time to emphasize good will, cooperation, and broad-mindedness. We cannot afford the luxuries of narrow self-interest or self-justification. It's a time to look ahead rather than backward, to emphasize the possible rather than preserve what is now thought acceptable.

Productivity in the Food Industry

Two basic facts of economic life stand behind nearly everything that will be said at this workshop. (1) Consumers spend more money for food than any item in their budgets. (2) The food industry is the single, most important production and income generating complex in the urban Northeast. While the average American family today spends less than 17 per cent of its disposable

income for food compared with 20 per cent 10 years ago, 22 per cent in 1950 and 25 per cent at the outset of World War II, the variety of items available, the built-in convenience, and the quality of products all continue to increase.

You may say, this is an old story. Tell us something new. But the story bears repeating. The daily miracle of providing this fantastic array of foods and food services to 200 million people continues to amaze our foreign visitors. There is a system and it works. No person can describe it adequately. No one knows all the pieces that make it work - producing and bringing supplies and equipment to our farms, combining resources into raw products at the farm, assembling and delivering them to processors and manufacturers, collecting and re-distributing these products to wholesale outlets, retail stores, restaurants and fast food outlets. This vast interdependent system grows and continues to work. We complain when something goes wrong with a part of the food system but seldom rejoice in having crisp apples in May, a continuous and dependable supply of fresh milk or fresh mushrooms for your hamburger or steak .

The proportion of income spent for housing is no longer falling. The same is true for transportation in all forms. Medical and dental care now takes an increasing share of each dollar you earn. What will happen if the day comes when another necessity of life - food - takes more rather than less of every paycheck? Some of you may think I'm asking that question to the wrong audience. Perhaps so. But, at least we can point with great pride to past accomplishments of the food industry as we look ahead to opportunity and potential problems. How can the food industry continue its record? How can the Northeastern food industry improve its competitive position? How can we contribute most effectively to increasing standards of living for American consumers - making food a decreasing item of expense in the budget?

Lest someone here misunderstand, let me repeat. I believe we all should declare as a worthy objective that food expenditure continue to require less of

the consumer's dollar. This is not a philosophy of penalizing or squeezing the food industry. Rather it is a philosophy based on growth, efficiency and abundance for the benefit of all. If we try to find ways to capture more of the consumer's dollar by restriction or artificial means, we will all lose in the long run. The Northeast and the American food industry is successful in part because monopoly power has not been allowed to become the rule - because private and public policy has encouraged competition, adoption of new technology, orderly marketing and freedom of trade.

A Qualitative Balance Sheet for the Food Industry

One way to take stock of the food industry in the Northeast and to look at both opportunities and problems is to try to draw up a balance sheet. The notion of operating statements and balance sheets is familiar to everyone here. While it is not possible to construct a statement in quantitative terms, at least we can list some items that may be viewed as assets and liabilities and consider them briefly.

Assets - What are the assets or strong points of the food industry of the Northeast which may distinguish it from other regions at the start of the 1970's?

1. Strong management resources and technical capacity at all levels in the industry.
2. Excellent access to capital markets and new technology.
3. A strong net worth position in most privately owned businesses in the industry including farms, input suppliers, processors, and retailers.
4. Experience and leadership capacity to work effectively in an urban-centered, consumer-oriented world.
5. A good network of roads, transportation and internal communication facilities, providing access and locational advantage to major markets.
6. Land resources in selected areas of high productive potential for farming with access to water and favorable climate.

7. A strongly competitive environment within the industry in which dominant firms have not reduced incentive or restricted entry.
8. Good alternative employment opportunities in other industries and services so that human resources and other forms of capital not needed in the food industry can be productively employed.
9. A market oriented, production economy with capacity to respond to changing consumer behavior.
10. Growing appreciation by the region's urban majority for open space, advantages of a viable agriculture, and concern for the conservation of natural resources.

Liabilities - In a similar fashion it is important to take stock of our liabilities or the points in which our comparative advantage with other regions is less strong.

1. Proportionately we have more old plant and equipment which is mostly depreciated, technologically inefficient, located poorly to use modern transport systems and serve changing markets.
2. Farms, farm suppliers, receiving stations and processing plants are scattered. Assembly and distribution at all stages before retailing are much less efficient than is possible.
3. Some farm producers, and even some processors have come to rely on closeness to large markets and the expectation that all production can be offered and sold even if it is not of top quality.
4. Competition for this area's well-drained soils and water resources with other users is stronger than in most other regions.
5. There are still some land resources in commercial farming that cannot compete with farms in other areas because of lower productivity.
6. Less concern on the part of state and local governments for the health

and welfare of agriculture and the food industry than in other areas in part because of increasing pressure from urban and social welfare problems. Political importance and recognition of farm and food industry spokesmen is smaller than in most regions.

7. Some central markets have disappeared without replacements which allow free interplay of supply and demand forces in establishing prices.
8. Levels of taxation on property and on incomes are generally higher than in other regions. While public services are also generally of higher quality, this affects the general business climate.
9. Identification of agriculture and the food industry as contributors to environmental pollution - particularly air and water.
10. National markets now make it more feasible, if not efficient, to by-pass local suppliers, small producing groups or non-national outlets reducing the comparative advantage of the Northeastern producer.

Net Worth or Surplus - How can one add up this list of assets and liabilities? How large is our net worth or surplus? Appraisals will differ. The advantages and assets are very real and outweigh the disadvantages or liabilities. But, the direction of the balance in future years is subject to question. It will be influenced strongly by the actions taken by people within the industry.

The industry's greatest assets are its people and their managerial capacity. Location, access to markets, access to capital, our urban experience, the competitive environment, the general health of other industries in the region and the market orientation of our firms are also important. But, the people in the industry and their attitudes and outlook will make the difference. Some adversity is a good thing - it forces producers at all levels to take stock of what they are doing - to look at what has been done, at current performance, and at future prospects. Hopefully this will be one of your efforts in each of the ten discussion groups that start this afternoon.

Opportunities and Challenges

1. The Food Industry Concept - No opportunity is greater or more timely in the Northeast than that of internal recognition by members of the food industry that they belong to one large interdependent group. The food industrial complex is big. It's so large we think and talk more often about the parts than the whole. But, it is one industry. When one part isn't working well, it's hard on the rest of the system, just like a faulty set of spark plugs affects the operation of your car. Input suppliers need farmers and vice versa. Farmers must have outlets for their products. Processors must be economically healthy if they are to pay fair prices. Farmers must be healthy if they are to provide the quality and quantity of products necessary to meet competition. Wholesalers and retailers need consistent suppliers who earn fair margins. They in turn must compete in the larger market for the consumers' dollar.

All the segments of the food industry need each other. Short run gains obtained by feeding on weakness in one sector may be short lived if supply on one hand or market outlets on the other disappear as a result. Farmers and processors are at the center of the system and hence are most vulnerable. More needs to be done to obtain recognition by all segments in the food industry of the dependency of each sector on each other and the gains from maintaining a strongly competitive but viable balance internally. Politically the food industry could have more influence than it does today if it acted in concert. Uncoordinated and seldom working together, its political energy is too often dissipated.

2. Capital Investment - Demands for new capital in all sectors in the Northeastern food industry during the next decade will be tremendous. Renovation or replacement of existing barns and equipment, processing and manufacturing plants, assembly and distribution systems, warehousing and storage facilities

is needed if producers here are to compete in national markets with aggressive groups in other regions. Most of our businesses in all sectors of the industry have a strong net worth position. Access to capital is excellent. The major suppliers have an interest and understanding of the food industry. The problem and simultaneously the opportunity is to coordinate the large number of independent decisions on where new capital will be invested and in what kinds of facilities.

It's difficult to shut down or close old plants and equipment. It's difficult to merge three cooperatives and dissolve two more. It's hard to convert a family controlled corporation into a public corporation or to lose a brand name which you've struggled 50 years to promote. But, there must be a way to keep specialized businesses that are efficient and profitable in a competitive framework without some giant integrator - government or corporate - to provide the force and the discipline for short-run coordination.

3. New Technology - To remain competitive requires new technology, new ideas, and the will to innovate. Comparative advantage goes to those who successfully develop, test, and implement cost-saving or output-increasing technology. Public investments in research to improve the production and marketing of food have paid handsome dividends to early adopters and to consumers. New varieties, mechanical harvesting techniques, new methods of storage, more efficient methods of transport, packaging, processing, and distribution have brought about significant changes in the Northeast during the past 20 years. It would be false economy for public and private resources now devoted to research in this area to be reduced. The challenge is to concentrate on fewer, more critical projects, those which will provide advantages where they now exist, those which encourage greater efficiency or create new or improved products which consumers prefer.

4. Consolidation - In an urban world where use of our natural resources is

of concern to everyone, the economic pressure to consolidate production in favored and designated areas is now receiving public encouragement as well. Land use planning is here to stay. The food industry, particularly farmers and processors, need to take part in the planning process. Perhaps there is a natural urge to fight the system. Why not plan with the planners? More land will probably go out of farming in the Northeast in the next 10 years because of competitive pressure from other farmers in the United States than will be used or needed for urban, industrial, or recreational uses. The challenge is to keep those areas best suited for commercial farming and processing in large enough blocks so that efficient production systems can be maintained or new ones developed. Problems of environmental pollution can then be localized, special facilities developed where necessary and open space ensured. A productive farm sector in each of the Northeastern states can and should be a matter of local pride. What would Vermont be without open fields and cows on the hillsides? The Pennsylvania Dutch Country has a beauty our urban friends love as much as we. And yet every isolated farm, no matter how physically productive, cannot be served at the same cost as those closer to service centers and processing facilities on major transportation routes.

5. Urban-Rural Leadership - Ask someone who has never been in the Northeast about what they think of as characteristic of the area. Chances are good that they will talk about cities, people, and urban problems. We live in the most mature part of our great country. Land in farms has been declining for more than 100 years in most of our 12 states. We have more acres of forest, brush and uncultivated, non-urban land than most non-residents can imagine. Into that open space have moved millions of people, each anxious to own and enjoy a part of the great out-of-doors whether it be half an acre or many hundreds. The rural Northeast is not dominated by farmers or the food industry. Most of our rural dwellers are there by choice but work in our towns, cities, or the industrial sites which follow our major transportation arteries.

We must work to improve the mechanisms by which state, local and regional governments or bodies make decisions on land, water, and natural resource use. The Northeast can take pride in the leadership it has already provided the rest of the country in this area. Because it has had more years of experience, has had more pressure on these scarce natural resources, it should continue to lead in finding ways to resolve conflicts over water rights, sites for electric power generators or public transport centers. Not all land can or should be preserved in its current state, nor can individual ownership rights always be dominant. More energy rather than less must be invested in rural-urban relationships in the decade of the '70's.

6. Structure and Organization - Concentration of production and service within all sectors of the food industry will continue. A smaller number of larger, more competitive firms will face each other in increasingly national markets. Eggs, lettuce, apples and even fluid milk can be moved into Northeastern markets from competing areas. Few would argue that consumers should not have free choice in open markets. Quality, consistency, uniformity and mass merchandising encourage brand or produce identification as well as regional or national market consciousness.

But, national markets do not require nationwide firms, giant conglomerates or government regulation or domination of the food industry. Specialization on a given product or function still pays. Monopoly power in restraint of trade is still as illegal in the food industry as in any other. Is it not possible to coordinate activity within the food industry without ownership or vertical integration? Can we not innovate in the Northeast so that independent producers can maintain their own identity as operating firms but still produce and serve mass markets. To establish equitable producer-processor-retailer relationships and maintain individual initiative and internal competition is the great objective.

If direct purchase and specification buying are to become the rule in the food industry, then a system of pricing which is equitable to all concerned must be developed. Integration without ownership must be possible and in the public interest. The challenge is to work hard at innovation and experimentation to allow this process to happen in an open and free environment.

7. Contact with Consumers - In a world of mass production, national markets, and technical efficiency, individuality and personal contact are special and wonderful commodities. Northeastern producers have a special opportunity to be different - they can by reason of location establish direct contacts with consumers. Of course, it's not possible for everyone - nor is it as efficient as the basic system. But the specialized business, particularly for fresh fruits and vegetables, fresh meat and eggs, flowers or bakery products still provides opportunity.

But, in a broader sense, it is a particular opportunity for the whole food industry. As consumer interests and living habits change, so do their desires for foods, food products and food services. Living and working in the midst of the market provides more opportunity to observe and reflect on the desires of the people you serve than is true in any other region.

Of all the regions in the country we should have learned most clearly the dangers of trying to preserve the status quo. It's a very natural instinct. Preservation of what we have is as fundamental to human nature as the need to eat every day. But, we must look ahead to opportunity as we look backward with nostalgia. Change we will have and we must welcome it. Living with our customers should help us avoid the status quo and welcome adventure.

SUMMARY - In summary, I see real challenge and great opportunity for the food industry in the Northeast. The managerial resource is here. The capital position of most firms in the industry is good. Significant new investment must be made

and it can give the region greater comparative advantage than it now enjoys. I believe we have already learned to live in an urban world. You can and must find ways to "plan with the planners" and resolve competing demands for our scarce natural resources. The resources you work with are in strong demand; the products you produce are basic necessities of life as well as the luxuries that make life worth living. How else can we look ahead except with optimism to compete successfully in a dynamic, hard-nosed world.