

REPORT BY THE

**Comptroller General**

OF THE UNITED STATES

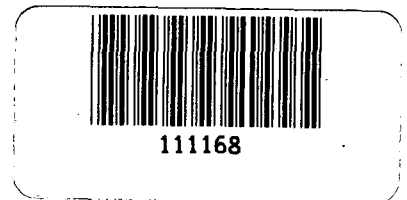
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# Food Price Inflation In The United States And Other Countries

Although American consumers are concerned about rapid food price increases, actually they are spending less of their income on food than in the past and more for other goods and services, such as housing and transportation.

Compared to many other countries, U.S. food prices are among the lowest. Americans, on the average, spend less of their income on food and pay lower prices than do many foreign consumers. However, low-income Americans can pay up to 40 percent of disposable income for food.

Even though U.S. food prices are lower and rising less rapidly than prices in many other countries, opportunities to improve the U.S. food production system and stabilize food costs should be sought.



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DECEMBER 18, 1979



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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The Honorable Fred Richmond  
Chairman, Subcommittee on Domestic  
Marketing, Consumer Relations  
and Nutrition  
Committee on Agriculture H 112  
House of Representatives

Dear Mr. Chairman:

In response to your July 19, 1979, request, this report describes (1) how food prices compare to those of other consumer goods and services, (2) how food prices in the United States compare with other countries that appear successful in stabilizing food prices, (3) what other countries have done to combat food price inflation, and (4) food price inflation in the United States.

The statistical data presented in our report was obtained from the Bureau of Labor Statistics, U.S. Department of Labor; the Economics, Statistics, and Cooperatives Service and the Foreign Agricultural Service, U.S. Department of Agriculture; and the Bureau of Census, U.S. Department of Commerce. At your request, we did not take the additional time needed to obtain agency comments on the matters discussed in this report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of the report. At that time we will send copies to the Director, Office of Management and Budget; and the Secretaries of Agriculture, Commerce, and Labor; and make copies available to other interested parties.

Sincerely yours,

Comptroller General  
of the United States

1-42  
2-74  
3-9

~~Price indexes~~  
Food indexes  
Agricultural  
Price indexes  
Cost of living  
Inflation

COMPTROLLER GENERAL'S  
REPORT TO THE CHAIRMAN  
SUBCOMMITTEE ON DOMESTIC  
MARKETING, CONSUMER  
RELATIONS AND NUTRITION  
HOUSE COMMITTEE ON  
AGRICULTURE

FOOD PRICE INFLATION IN THE  
UNITED STATES AND OTHER  
COUNTRIES

D I G E S T

American consumers are highly aware of food prices and are concerned with the rapid increase in food prices in recent years. Since 1972, food prices have risen an average of 9 percent a year and have increased faster than the general inflation rate. However, American consumers, on the average, are spending less of their disposable income on food. Since 1960, the amount spent on other consumer goods and services, such as housing and transportation, has absorbed increasingly more of the consumer's disposable income. Per capita food consumption, on the other hand, has risen slightly over the years. (See pp. 1 to 5.)

Low-income consumers are affected more severely by higher food prices than the average American consumer. While food prices in the United States are higher than they used to be, they have been the lowest among many developed countries. American consumers, on the average, spend less of their income on food and pay lower prices for the same "market basket" of goods. (See pp. 6 to 11.)

World food prices have climbed steadily in recent years, although at different rates. Many European countries attempt to stabilize their food prices through agriculture policies that generally keep farm prices high. These countries compensate for differences between their higher domestic prices and lower world market prices on agricultural goods by subsidizing their farmers or by levying taxes on cheaper imported goods. Still, the economic condition of many of

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these countries varies widely. Some countries are more successful than others in stabilizing food prices, possibly because of their stronger currencies. (See pp. 12 to 15.)

In the United States, increases in the costs of processing, packaging, transporting, and selling food have contributed heavily to higher food prices. For example, in 1978, 68 cents of every food dollar was claimed by these costs. Direct labor costs--47 percent of food marketing costs--have increased at a rate of 10 percent a year, contributing to the wage-price spiral that prompts demands for higher wages as prices continue to rise.

Even though food prices in the United States are lower and rising less rapidly than in many other countries, opportunities to improve productivity and stabilize food costs in both the marketing and farm sectors should be sought. (See p. 18.)

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ABBREVIATIONS

CAP	common agricultural policy
CPI	consumer price index
EEC	European Economic Community
FAS	Foreign Agricultural Service
FPI	food price index
GAO	General Accounting Office
USDA	Department of Agriculture

## CHAPTER 1

### FOOD PRICES AND THE AMERICAN POCKETBOOK

U.S. food prices have been rising steadily in recent years, as have prices for all categories of goods and services. From 1967 through 1978, the price of food rose 106.2 percent. Disposable personal income has also increased steadily, giving consumers more money to spend on food and other goods and services. However, the average American is spending less on food than in previous years and more on other categories, such as housing and transportation. The rising cost of food has not reduced per capita consumption.

#### PRICE INDEXES MEASURE CHANGE

The consumer price index (CPI) and the food price index (FPI) are statistical measures of change. Over time, the CPI measures change in the prices of goods and services in major expenditures groups--such as food, housing, apparel, transportation, medical care, and entertainment--typically purchased by urban consumers. Essentially, the CPI measures the purchasing power of consumers' dollars by comparing what a sample "market basket" of goods and services costs today with what the same sample market basket cost at an earlier date. The FPI is similar to the CPI in that it measures change, but only in food prices. The market basket for the FPI consists of food consumed at home and away from home as well as alcoholic beverages.

The CPI referred to in this chapter was generated by the Bureau of Labor Statistics and covers approximately 80 percent of the total noninstitutional civilian population. The index includes, in addition to wage earners and clerical workers, groups which until 1978 have been excluded from CPI coverage, such as professional, managerial, and technical workers; the self-employed; short-term workers; the unemployed; and retirees and others not in the labor force.

U.S. food prices have been on the rise at least since 1967, the base year used for analysis. (See table 1.) Through 1978, the price of food increased by 106.2 percent. While prices have been rising steadily for all categories of consumer goods and services, the FPI rose higher than the overall CPI beginning in 1973. Only the medical care price index exceeded the FPI after 1976. Until 1973, the indexes for housing, entertainment, and other goods and services exceeded the FPI.

Table 1

**U. S. Consumer Price Index for Urban Wage Earners and Clerical Workers, annual averages and changes, 1967 - 78**

[1967 = 100]

Year	All items		Food and beverages		Housing		Apparel and upkeep		Transportation		Medical care		Entertainment		Other goods and services	
	Index	Percent change	Index	Percent change	Index	Percent change	Index	Percent change	Index	Percent change	Index	Percent change	Index	Percent change	Index	Percent change
1967	100.0	.....	100.0	.....	100.0	.....	100.0	.....	100.0	.....	100.0	.....	100.0	.....	100.0	.....
1968	104.2	4.2	103.6	3.6	104.0	4.0	105.4	5.4	103.2	3.2	106.1	6.1	105.7	5.7	105.2	5.2
1969	109.8	5.4	108.8	5.0	110.4	6.2	111.5	5.8	107.2	3.9	113.4	6.9	111.0	5.0	110.4	4.9
1970	116.3	5.9	114.7	5.4	118.2	7.1	116.1	4.1	112.7	5.1	120.6	6.3	116.7	5.1	116.8	5.8
1971	121.3	4.3	118.3	3.1	123.4	4.4	119.8	3.2	118.6	5.2	128.4	6.5	122.9	5.3	122.4	4.8
1972	125.3	3.3	123.2	4.1	128.1	3.8	122.3	2.1	119.9	1.1	132.5	3.2	126.5	2.9	127.5	4.2
1973	133.1	6.2	139.5	13.2	133.7	4.4	126.8	3.7	123.8	3.3	137.7	3.9	130.0	2.8	132.5	3.9
1974	147.7	11.0	158.7	13.8	148.8	11.3	136.2	7.4	137.7	11.2	150.5	9.3	139.8	7.5	142.0	7.2
1975	161.2	9.1	172.1	8.4	164.5	10.6	142.3	4.5	150.6	9.4	168.6	12.0	152.2	8.9	153.9	8.4
1976	170.5	5.8	177.4	3.1	174.6	6.1	147.6	3.7	165.5	9.9	184.7	9.5	159.8	5.0	162.7	5.7
1977	181.5	6.5	188.0	6.0	186.5	6.8	154.2	4.5	177.2	7.1	202.4	9.6	167.7	4.9	172.2	5.8
1978	195.3	7.6	206.2	9.7	202.6	8.6	159.5	3.4	185.8	4.9	219.4	8.4	176.2	5.1	183.2	6.4

Source: "Monthly Labor Review," July 1979, U. S. Department of Labor, Bureau of Labor Statistics.



PRICE INCREASES FLUCTUATE  
AND ARE NOT PREDICTABLE

While price indexes measures change over time compared to a base year, annual percentage changes measure the rate of change taking place year to year. While all indexes have been rising, the percentage of increase varies; in some years it is higher than in other years or may be higher or lower when compared to other categories of goods and services.

Percentage changes are not predictable; for example, table 1 shows that the annual rate of change in food prices in 1978 was greater than for all other categories of goods and services in the CPI. The FPI rose 9.7 percent from 1977, while the overall CPI rose only 7.6 percent. Only in 2 other years since 1967 did rises in the FPI exceed the rises in all other categories of goods and services. In 1973 and 1974, the annual percentage change in food prices was 13.2 and 13.8 percent, respectively. For the overall CPI, the annual percentage change was 6.2 and 11 percent. In all other years, however, the annual percentage change in some of the other categories of goods and services exceeded the FPI percentage change. (These price rises are also illustrated in apps. I-VII.)

LESS DISPOSABLE INCOME IS NOW  
SPENT ON FOOD

As food prices have been rising, so has the average American consumer's disposable income. Over the past 28 years, disposable personal income has risen from an average of \$2,386 to \$4,421 per capita in 1972 dollars, an increase of about 85 percent. (See app. VIII.) Consequently, consumers have more money to spend today than in the past. However, the average consumer is now spending less disposable income on food compared to other goods and services. Other expenditures, such as for housing and transportation, are now absorbing more disposable income.

In 1960, for example, 28.5 percent of the average consumer's budget was spent on food. In 1978, the percent spent on food declined to 19.2 percent. Expenditures for clothing, medical care, entertainment, and other goods and services have been on the decline, while housing and transportation have taken larger chunks of the consumer's budget. In 1960, housing and transportation made up 32.7 and 11.5 percent, respectively, of the consumer's budget. In 1978, they made up 44.2 and 17.8 percent. (See app. IX.)

Shifts in consumption patterns only show how much was spent for various categories of goods and services relative to total consumption. They do not show whether shifts were caused by price changes or shifts in consumer tastes, or more likely, increases in real income.

Nevertheless, while food prices have been rising, very little change has taken place in per capita consumption of food, although consumers are choosing different food products. For example, since 1967 per capita food consumption for the average American fluctuated up and down but by 1978 showed a net increase of 4.6 percent. (See table 2.) Compared to other years, Americans in 1978 were generally eating less eggs, coffee, tea and cocoa and were eating more poultry, fish, fats and oils, potatoes and sweet potatoes, and sugar and other sweets.

Table 2

Per Capita Food Consumption in the United States

	1972-1978 (1967=100)							1/ <u>Net change 1967-1978</u>
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	
Meats	105.2	97.7	104.6	101.2	107.9	107.0	103.0	+ 3.0
Poultry	112.8	108.7	110.6	108.1	116.0	119.4	125.9	+25.9
Fish	117.5	121.2	114.6	113.7	120.8	119.4	124.5	+24.5
Eggs	96.1	91.6	89.9	87.0	85.5	84.8	86.5	-13.5
Diary Products	99.5	100.6	99.1	99.8	101.6	101.0	101.5	+ 1.5
Fats & Oils	109.3	107.9	104.9	105.5	109.8	106.5	111.9	+11.9
Fruits	100.4	99.6	99.2	106.6	108.4	106.7	106.4	+ 6.4
Fresh Vegetables	99.9	101.8	101.7	102.2	103.8	103.2	104.8	+ 4.8
Processed Vegetables	107.3	111.4	109.4	107.7	111.2	109.6	107.6	+ 7.6
Potatoes & Sweet Potatoes	116.0	110.1	109.2	114.0	109.5	112.1	119.0	+19.0
Beans, Peas, Nuts, Soya products	103.8	105.3	101.8	106.6	104.7	101.6	103.2	+ 3.2
Flour and cereal	97.6	97.2	95.4	96.0	104.0	100.8	101.4	+ 1.4
Sugar and other sweets	108.4	110.6	108.7	105.8	112.8	115.3	113.1	+13.1
Coffee, Tea, Cocoa	97.9	97.7	92.1	89.7	91.6	76.5	79.1	-20.9
Total All Foods	104.0	101.7	102.3	101.5	105.8	104.7	104.6	+ 4.6

1/Preliminary, Summer 1979.

Source: National Food Review, USDA.

## CHAPTER 2

### IMPACT OF RISING FOOD PRICES ON CONSUMERS

The average American consumer appears to be adjusting to rising food prices. Less disposable income is being spent on food. While higher food prices are more of a burden on the poor, Federal food assistance programs, including food stamps, are available to help lower income people. Lower income persons also spend a greater portion of their income on food; a person making \$5,000 per year spends a much larger percentage of that income on food than a person making over \$20,000 per year. Table 3, based on the latest data from the Bureau of Labor Statistics, illustrates this point. The data shows that 18 percent of the household population surveyed earn less than \$5,000 and spend approximately 39 percent of their income on food. In contrast, the almost 16 percent earning more than \$20,000 spend just over 10 percent of their income on food.

#### LOWER INCOME CONSUMERS SPEND A HIGHER PERCENTAGE OF DISPOSABLE INCOME FOR FOOD

A food price increase affects each income group differently. According to the Economics, Statistics, and Cooperatives Service, U.S. Department of Agriculture, if food prices increase 10 percent (holding all other costs constant), the lowest income households have to reduce the proportion of their income spent on nonfood items by 6 percent or change their eating habits. The highest income households only have to reduce the proportion of their income spent on other items by about 1 percent.

To some extent, consumers can minimize the impact of rising food prices by changing their eating habits and values. Many consumers waste food at home. For example, in 1974 the food loss or waste in households was estimated at 21 million tons valued at \$11.7 billion. <sup>1/</sup> Consumers are also willing to pay for added food convenience. For example, market reports in September 1979 showed consumers opting for more convenience in buying orange juice. Chilled orange juice unit sales rose 13 percent over the previous year and frozen juice concentrates dropped 14 percent, despite an average price difference where chilled orange juice was priced 13 percent higher than frozen juice concentrate.

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<sup>1/</sup>"Food Waste: An Opportunity to Improve Resource Use," CED-77-118, Sept. 16, 1977.

Table 3

Relationship Between Household Income  
and Expenditures for Food in the United States,  
1972-74

<u>Income class</u>	<u>Total households <sup>1/</sup> surveyed</u>	<u>Food as a percentage of income</u>
	-----percent-----	
Less than \$5,000	18.19	38.88
\$5,000 to \$7,999	14.14	23.01
\$8,000 to \$11,999	21.17	18.72
\$12,000 to \$14,999	14.47	15.75
\$15,000 to \$19,999	16.07	14.26
Greater than \$20,000	15.96	10.17

1/Households were family groups of 5.

Source: 1972-74 Consumer Expenditure Survey, U.S. Department of Labor, Bureau of Labor Statistics.

### CHAPTER 3

#### AMERICAN FOOD PRICES COMPARED TO

#### FOREIGN FOOD PRICES

Food prices in the United States have not risen as sharply as in some other countries. In 1978, a survey of 16 countries showed the United States to have one of the smallest increases in food price indexes since 1970, the base year. (See table 4 on p. 11.) The survey by the Foreign Agricultural Service (FAS), U.S. Department of Agriculture (USDA), reported that food prices in the United States jumped 10.8 percent from the previous year and 88.5 percent since 1970.

On the other hand, the food price increase since 1970 for 14 of the countries surveyed 1/ averaged 118 percent--greater than the U.S. average. Since 1970, only West Germany, Belgium, and the Netherlands have had smaller increases in their food price index than the United States. Prices in food through 1978 had risen an average of 43.1, 73.7, and 62 percent, respectively, in these countries.

#### U.S. FOOD PRICES ARE LOWER THAN IN MOST OTHER COUNTRIES SURVEYED

While U.S. food prices are on the rise, consumers in this country still spend less for food, on the average, than consumers in many other countries USDA surveyed. Also, the American food buyer, on the average, does not have to work as long to earn nor pay as much to buy the same market basket of food items as some foreign food buyers.

In comparison to the three countries showing less rapidly rising food prices, a USDA report shows that in 1976: 2/

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1/Argentina and Brazil were excluded from this average because of their extreme price increases. Since 1970, the food price index had risen 67,787.6 and 847.7 percent, respectively, in these countries. The United States was included among the 14 countries in this discussion.

2/1976 was reported as the latest year for which data was available for most countries.

--Americans, on the average, spent less for food 1/ as a percent of their total private consumption expenditures.

(percent)

United States	18
West Germany <u>2/</u>	25
Belgium	26
Netherlands	22

--Americans, on the average, spent less of their disposable income 3/ on food, except for the Dutch.

(percent)

United States	14.2
West Germany	15.8
Belgium	17.5
Netherlands	14.0

--Americans, on the average, worked less time to purchase most food items. To earn 1 pound of white bread, 1 pound of sliced bacon, 1 pound of sirloin steak, 1 pound of pork chops, one dozen large eggs, 1 pound of tomatoes, 1 pound of broiler chicken, a dozen oranges, and 1 pound of butter, the work time required was

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1/Includes expenditures for food consumed away from home, at hotels, restaurants, schools, and other institutions. However, excludes expenditures for alcoholic beverages and tobacco.

2/Includes alcoholic beverages.

3/Disposable income, which includes funds that go toward savings, provides a larger base of funds than is available for actual expenditures. The percent of disposal income spent on food is, therefore, smaller than the percent of total expenditures spent on food.

	(minutes)
United States	87.0
West Germany	119.5
Belgium	124.5
Netherlands	113.0

--Americans paid less for the same market basket of food items listed above.

United States	\$12.23
West Germany	19.56
Belgium	19.86
Netherlands	18.26



Table 4

Food Price Index Changes in Selected Countries  
as of November 30, 1978

<u>Country</u>	<u>Index</u> <u>1970=100</u>	<u>Percent change</u> <u>from November 1977</u>
Argentina	67,887.6	+ 158.4
Australia	225.7	+ 9.8
Belgium	<u>173.7</u>	- .5
Brazil	947.7	+ 30.7
Canada	217.2	+ 14.0
Denmark	230.1	+ 8.0
France	221.0	+ 8.12
West Germany	<u>143.1</u>	+ .1
Italy	283.0	+ 12.0
Japan	216.0	+ .7
Mexico	326.0	+ 15.6
Netherlands	<u>162.0</u>	- 2.0
South Africa	244.2	+ 14.6
Sweden	213.4	+ 5.6
United Kingdom	207.9	+ 7.8
United States	<u>188.5</u>	+ <u>10.8</u>

Source: FAS, USDA.

## CHAPTER 4

### FOOD PRICES APPEAR STABLE IN

#### SOME OTHER COUNTRIES

According to the FAS survey, even though prices have not risen as fast in the United States since 1970 as in many other countries, it seems that West Germany, Belgium, and the Netherlands were more successful in stabilizing their food prices in 1978. Percentage changes in food prices from November 1977 in these countries were only 0.1, -0.5, and -2.0 percent, respectively, whereas in the United States food prices jumped 10.8 percent. These countries follow the Common Agricultural Policy (CAP), a complex system of price supports, minimum import prices, stockpiling, and export subsidies. Some believe their stable farm prices are the byproduct of strong currencies.

#### FOOD PRICES VARY FROM YEAR TO YEAR

Food prices do not increase at the same rate every year. In September 1978, for example, the annual percentage change in food prices from the previous year was a rise of 10.1 percent in the United States; a gain of 0.1 percent in West Germany; a gain of 0.5 percent in Belgium; and a decrease of -1.2 percent in the Netherlands. The annual percentage changes for September 1974-78 are shown in table 5 to illustrate this point further. In 1976, Belgian food prices increased 16.3 percent from the previous year. In September of the same year, Dutch food prices rose 10.6 percent, while U.S. food prices rose only 2.2 percent.

#### EUROPEAN COUNTRIES USE CAP TO KEEP FOOD PRICES STABLE

The three European countries want to stabilize food prices and have tried to achieve that end through the Common Agricultural Policy. CAP is the major domestic agricultural policy for these countries and is the most important set of agricultural policies operating in Europe. CAP is intended to stabilize food prices and maximize domestic supplies of raw agricultural goods. West Germany, Belgium, and the

Table 5

FOOD PRICE INDEX AND ANNUAL PERCENT  
CHANGES REGISTERED IN SEPTEMBER 1974-78  
FOR SELECTED COUNTRIES

	1974 Index	Percent Change	1975 Index	Percent Change	1976 Index	Percent Change	1977 Index	Percent Change	1978 Index	Percent Change
BELGIUM	126.3	+ 3.9	145.9	+15.5	169.7	+16.3	174.1	+ 2.6	174.9	+ .5
WEST GERMANY	123.8	+ 3.8	130.5	+ 5.4	136.4	+ 4.5	143.5	+ 5.2	143.6	+ .1
NETHERLANDS	130.6	+ 7.0	141.9	+ 8.7	156.9	+10.6	165.4	+ 5.4	163.4	- 1.2
UNITED STATES	143.6	+11.2	154.7	+ 7.7	158.1	+ 2.2	169.3	+ 7.1	186.4	+10.1

Source: FAS, USDA.

Netherlands are among nine 1/ countries that are members of the European Economic Community (EEC) to which CAP applies. Generally, CAP's objectives are to

- increase farm productivity,
- stabilize markets,
- ensure a fair standard of living for the agricultural population, and
- provide consumers with regular, reasonably priced supplies of farm goods.

CAP is essentially a complex, comprehensive system of price supports, minimum import prices, stockpiling, and export subsidies--all designed to keep internal farm prices high by insulating them from foreign competition. Simply stated, when world market prices for goods such as grains, rice, sugar, and main animal products are below an established minimum import price, import levies are imposed to make imported products more expensive or more difficult to obtain than domestic items in these countries and, when their products are exported, exporters are paid a subsidy large enough to make their products competitive. When the situation is the opposite and prices in these countries are below world market prices, then export levies would be applied to ensure adequate domestic supplies. However, prices are generally kept high through buying up farmers' surpluses, which contributes, to a certain extent, to stabilizing prices.

CAP operates under a principle of common financing, which means that the cost of subsidizing agricultural prices is shared by all members through a fund created to finance such support. Since 1971, the proceeds of all food import levies and certain other taxes, as well as all custom duties payable under the common customs tariff since 1975, have accrued to the EEC. In addition, a proportion of the value-added tax collected in each member state is payable to the EEC.

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1/The EEC was established by the Treaty of Rome, signed in 1957 by West Germany, France, Italy, the Netherlands, Belgium, and Luxembourg. The United Kingdom, Ireland, and Denmark joined the EEC in 1973. CAP was developed by the EEC in its pursuit to achieve full economic union of its member countries.

Despite CAP's objectives, the economic situation of member countries differs widely. Although the economies of West Germany, Belgium, and the Netherlands are faring well, economies of other EEC countries are not. Experts point out that West Germany, Belgium, and the Netherlands have probably been able to stay ahead of the other member countries in maintaining stable prices because of their strong currencies. However, CAP's current problems may be an indication of more serious problems in the system.

For example, FAS reports that government officials in West Germany are concerned about limited opportunities for German farmers to expand their production because of stagnating per capita food consumption and declining population. Further, FAS reports the Netherlands' product competitiveness in the international markets has declined in recent years because of the appreciation of its currency and rising labor costs.

Overall, CAP is reported to be experiencing an unparalleled crisis. CAP's high prices have led to mountains of surplus products; resources reportedly have been misallocated because of it; and the cost of inefficiencies is being transferred to consumers. To add to these problems, the costs to operate CAP have been high. In 1977, CAP was reported to cost taxpayers \$8.6 billion, an increase of 15 percent over 1976. By 1981, it is reported that the EEC's existing revenue sources may be wholly depleted by burgeoning farm spending.

## CHAPTER 5

### FOOD PRICE INFLATION IN THE UNITED STATES

The price consumers pay for food products in the United States includes both the cost of the raw commodity and charges by the food processing and marketing sector. <sup>1/</sup> From 1973-77, marketing charges accounted for 87 percent of the increase in consumer expenditures for food. In 1978, about 68 cents of every food dollar went for processing, transporting, packaging, and marketing the product. Direct labor--the most important component in food marketing--accounted for 47 percent of the costs. Packaging (12 percent); transportation (8 percent); and other miscellaneous components (33 percent), such as advertising, rent, profit, etc., made up the difference.

#### MARKETING COST INCREASES

Each of the marketing components is becoming increasingly dependent on production factors outside its control--such as labor, energy, and capital. As costs of these factors rise, they cause food prices to rise.

Costs for labor involved in the distribution, transportation, warehousing, and merchandising of food products have increased at a rate of 10 percent per year since 1970. Costs of packaging and transporting food products, although not as large as the labor component, have more than doubled since 1967 and will likely increase more as energy prices continue to rise.

Rising food costs are part of the pervasive inflation we are experiencing in this country. A fundamental source of continuing inflation is the wage-price spiral that has become embedded in the economy; as prices of goods and services increase, workers demand higher wages to maintain their purchasing power. Industry raises prices on goods and services to pay for employees' demands for higher wages, and inflation continues.

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<sup>1/</sup>"What Causes Food Prices To Rise? What Can Be Done About It?", CED-78-170, Sept. 8, 1978.

## ROLE OF FARM PRICES IN ECONOMIC PROSPERITY

Much of the rise in food prices in recent years has been attributable to rising marketing costs rather than higher priced farm products. While the food marketing sector can generally pass on its higher input costs to the consumer, the farmer often cannot. When farmers experience rapidly escalating farm production costs, they have no guarantee that they will receive higher prices for their product than they did before the production cost hike. As a result, between 1959-77 total farm production expenses tripled, rising from \$27.2 billion to \$81.7 billion. However, during the same 18-year period, realized net farm income from farming doubled.

In theory, farmers are recompensed in the marketplace on the basis of supply and demand for their products. Generally, as the relationship between supply and demand changes, so does the price. If supply is less than demand, then prices will rise; conversely, prices will fall if supply exceeds demand. The average farmer has no control over prices since he does not control the total supply level of raw agricultural commodities or commodity substitutes. In actuality, the supply of raw agricultural commodities is influenced by worldwide production, which in turn is influenced by rather unpredictable natural forces such as weather, pests, and disease, and other factors such as storage losses, imperfections in the market, time of sale, future expectations, monetary and fiscal policies, growth in disposable income, consumer preferences, and governmental actions.

When farmers spend money earned from the sale of their products, they pass purchasing power to the next person and to the next, contributing to the earning capacity of our economy. For example, the farmer's purchase of fuel, fertilizer, and other inputs to produce farm goods involves business with the manufacturing, trade, and transportation sectors. Also, when the farmer purchases capital and consumer goods, additional purchasing power is spread throughout the total economy. Some economists estimate that income earned from raw materials production in agriculture has an income multiplier throughout the economy as high as 4 to 7 times. Therefore, a decline in the farm sector caused by low farm prices could reduce the base from which the multiplier effect is achieved and thereby reduce the associated income-generating capacity in our economy, although to some extent this could be recovered by increased consumer spending for other goods and services.

As margins between farmer revenues and farmers' costs of production narrow, the number of farms and the number of farmers tend to decline. Since a number of studies indicate that smaller volume producers may be as efficient as larger volume producers, the trend to increased farm size and concentration may lead to a less resilient food system which could result in higher food prices.

## ISSUES

Even though food prices in the United States are lower and rising less rapidly than in many other countries, opportunities to improve productivity and stabilize food costs in the marketing and farm sectors should be investigated. In evaluating the food system and food costs, the following should be considered:

- How efficient is the U.S. food system compared to U.S. systems for providing other basic necessities? Where should public attention be directed to improve the process of providing for basic needs?
- How much should we expect food to cost Americans? What is a reasonable goal for food costs?
- If food prices rise too high, what is the impact on the country's nutritional health? If food and farm prices fall too low, what is the impact on the strength of our Nation's farm capacity and food system?
- How much does wage-price and monetary inflation contribute to food price increases? By differentiating between inflationary increases and real increases in food prices, can the productivity of the food system be increased and food price increases be moderated?

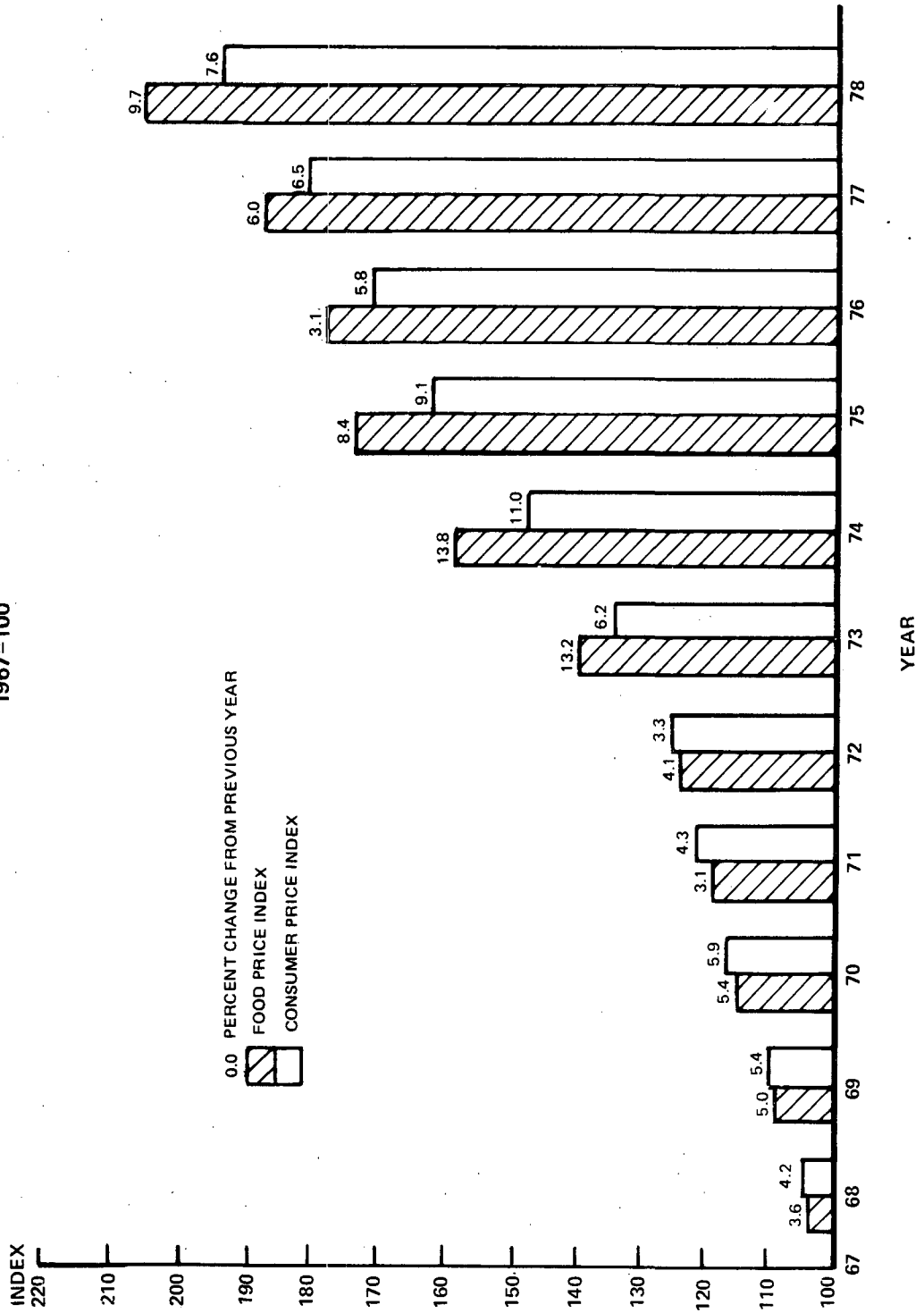


## CHAPTER 6

### SCOPE OF REVIEW

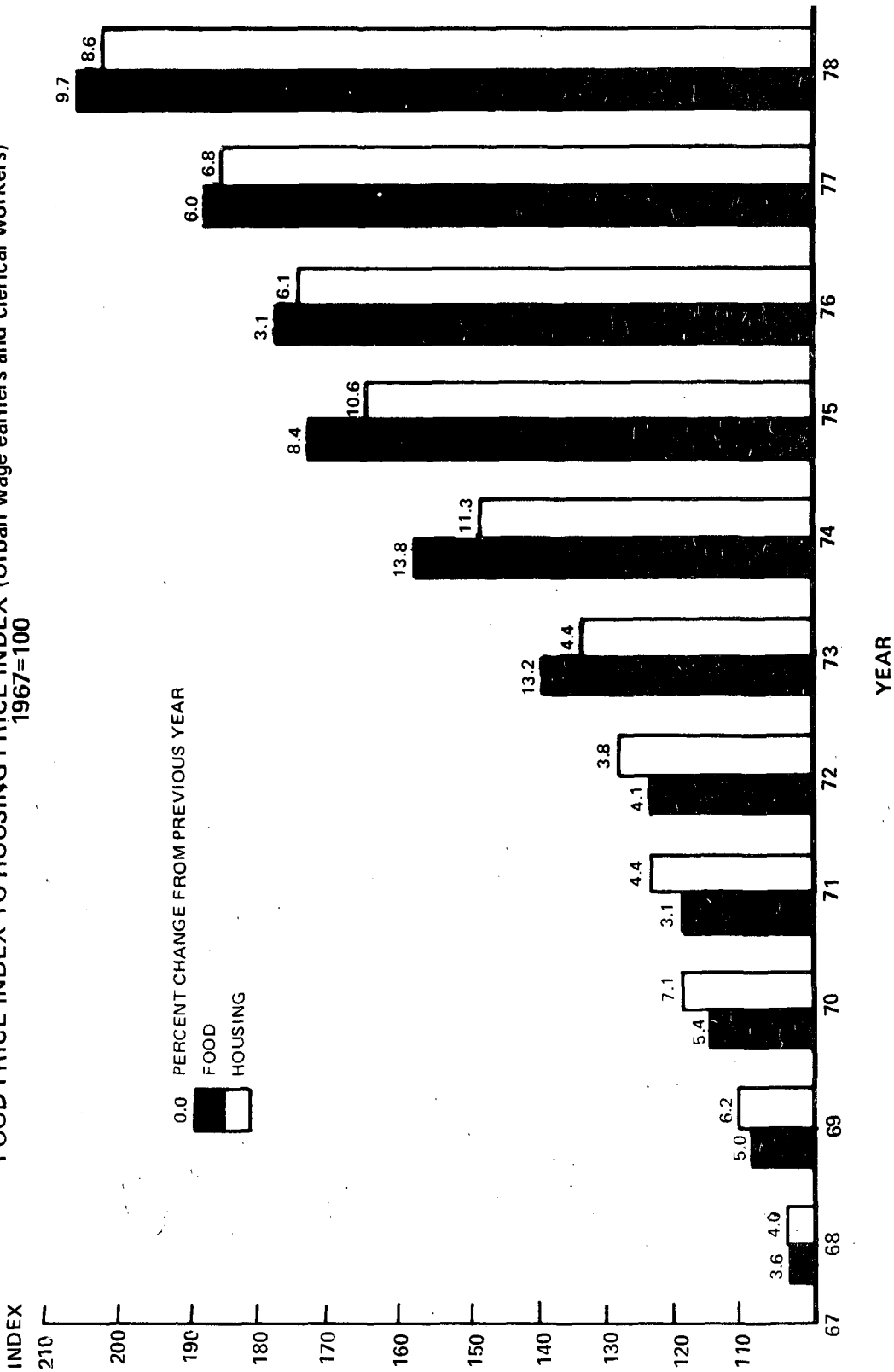
Most of the information presented in our study was gathered from published sources. The statistical data presented in our report was obtained from the Bureau of Labor Statistics, U.S. Department of Labor; the Economics, Statistics, and Cooperatives Service and the Foreign Agricultural Service, U.S. Department of Agriculture; and the Bureau of Census, U.S. Department of Commerce. We also interviewed cognizant officials at the Departments of Agriculture and State and representatives of private organizations.

COMPARISON OF FOOD PRICE INDEX<sub>t</sub> TO THE  
CONSUMER PRICE INDEX  
1967=100



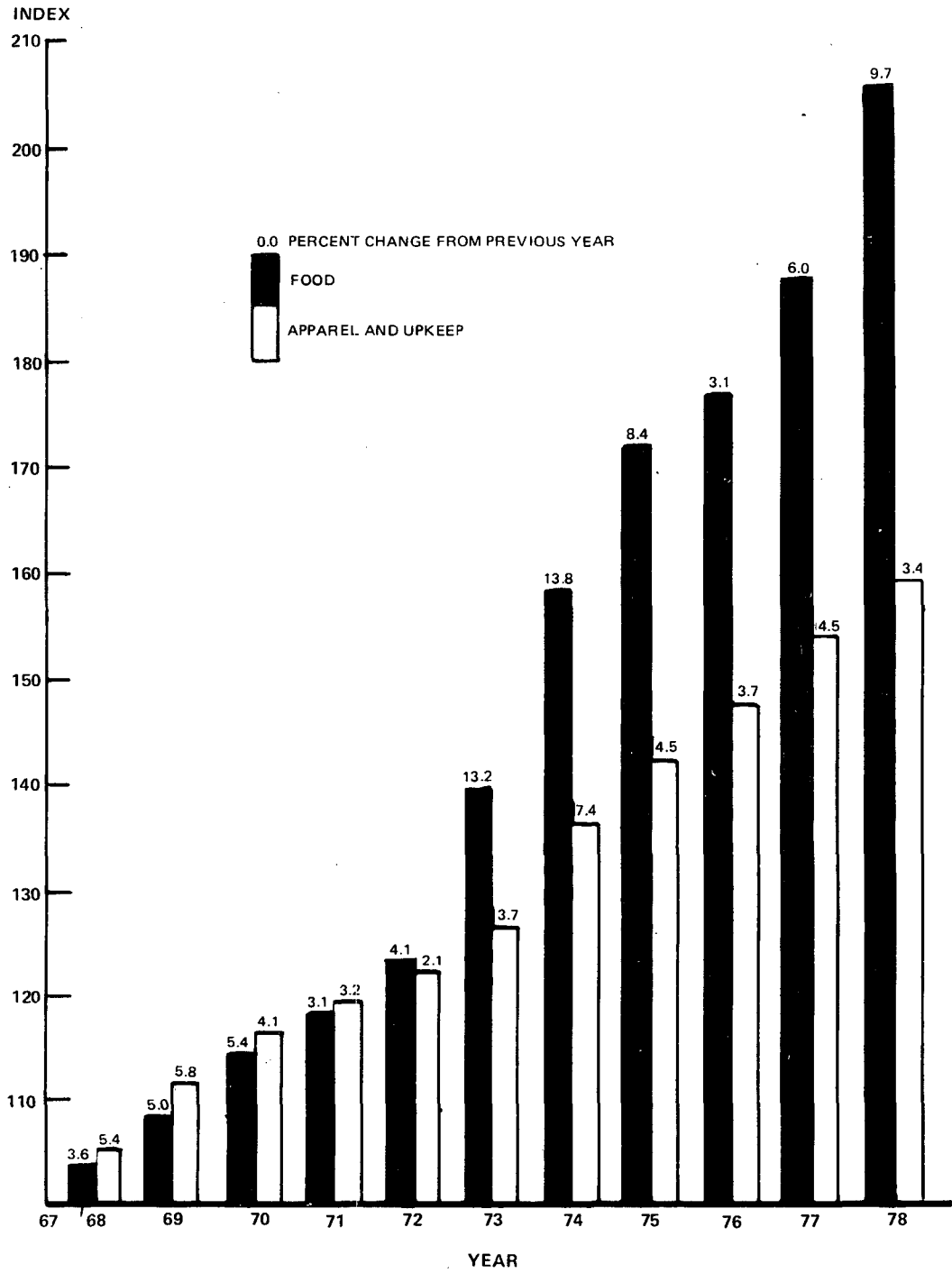
SOURCE: BUREAU OF LABOR STATISTICS

FOOD PRICE INDEX TO HOUSING PRICE INDEX (Urban wage earners and clerical workers)  
1967=100



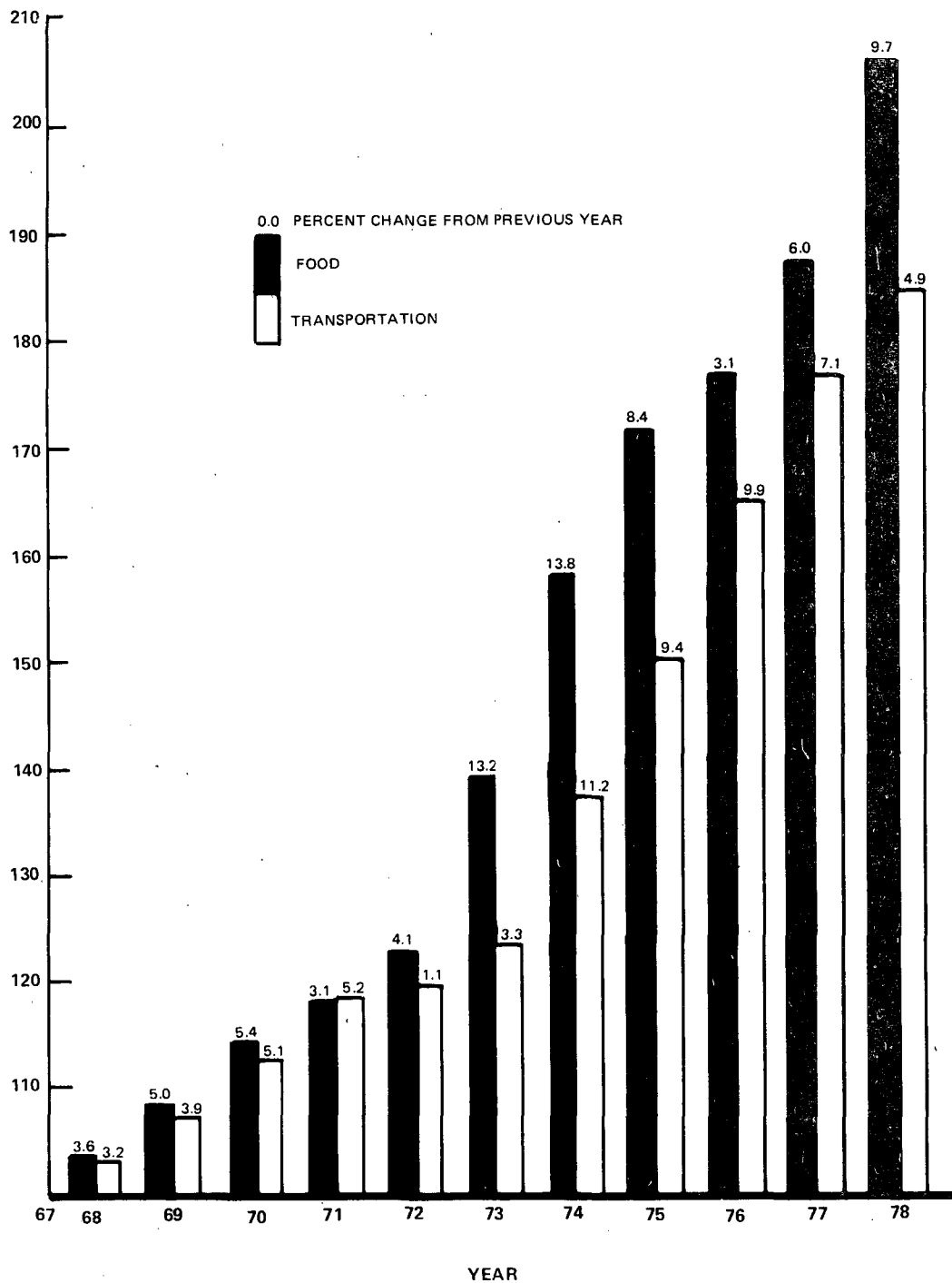
SOURCE: BUREAU OF LABOR STATISTICS

**FOOD PRICE INDEX TO APPAREL AND UPKEEP PRICE INDEX**  
 (Urban wage earners and clerical workers)  
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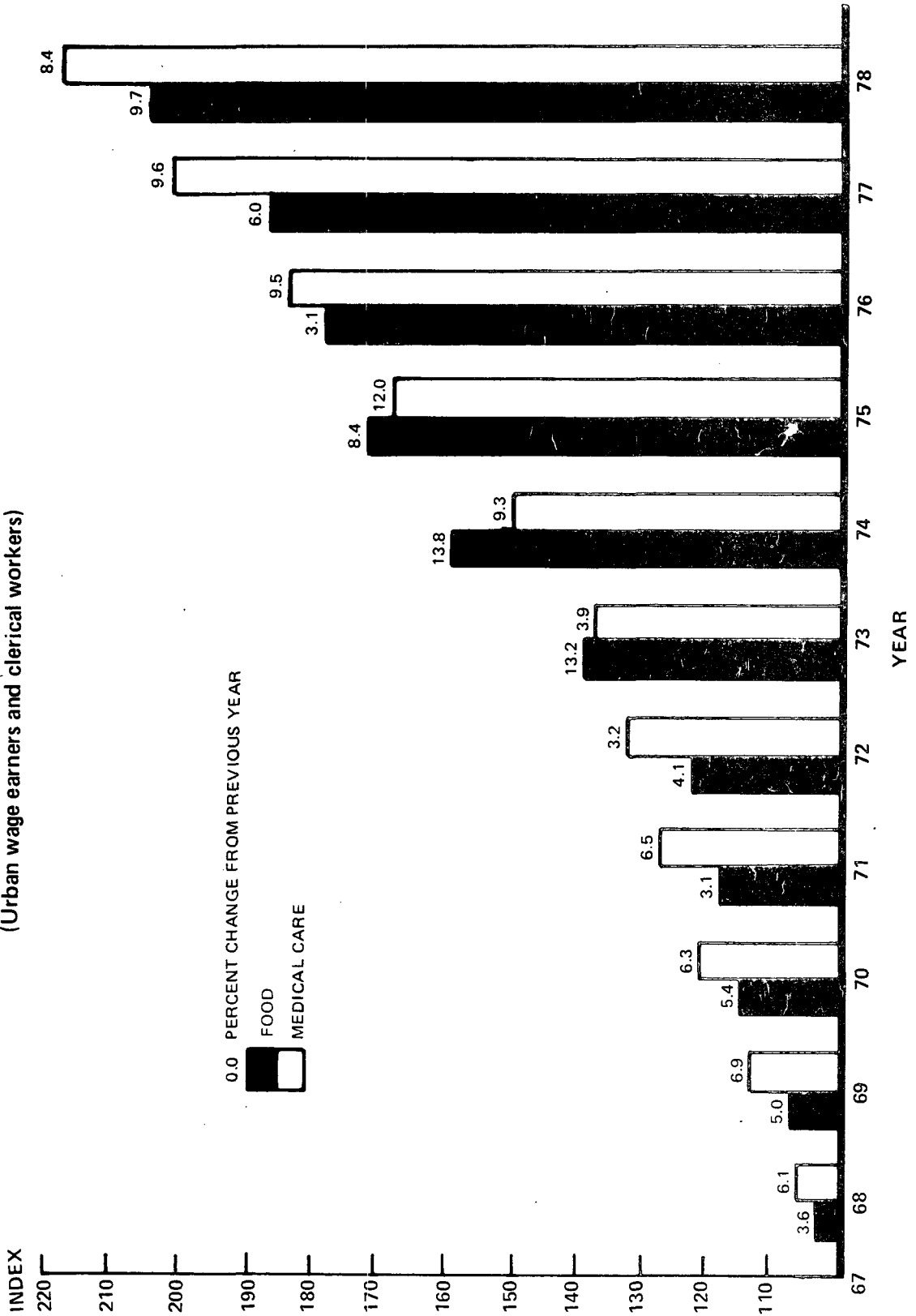
SOURCE BUREAU OF LABOR STATISTICS

**FOOD PRICE INDEX TO TRANSPORTATION INDEX**  
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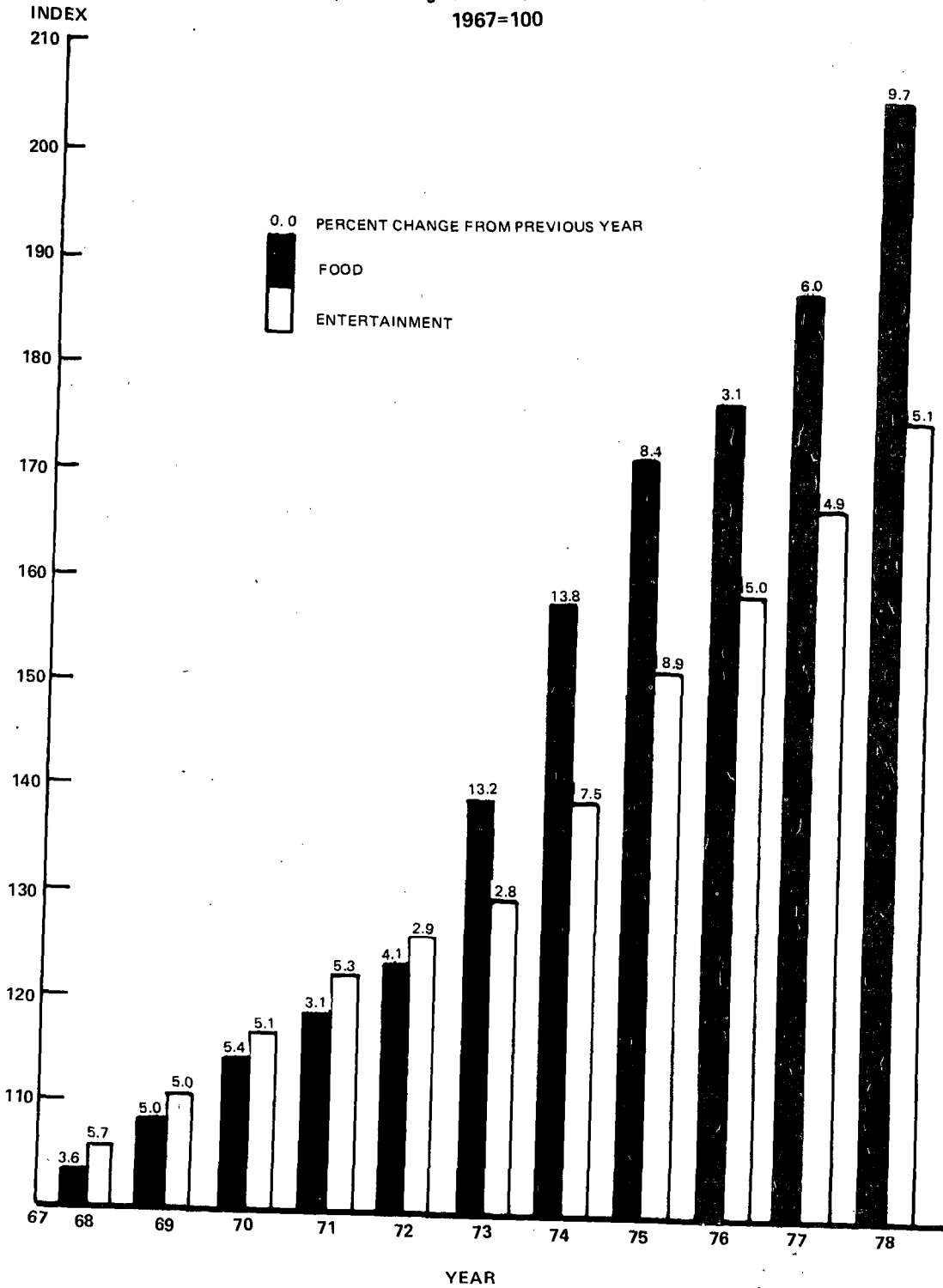
SOURCE: BUREAU OF LABOR STATISTICS

**FOOD PRICE INDEX TO MEDICAL CARE PRICE INDEX**  
 (Urban wage earners and clerical workers)

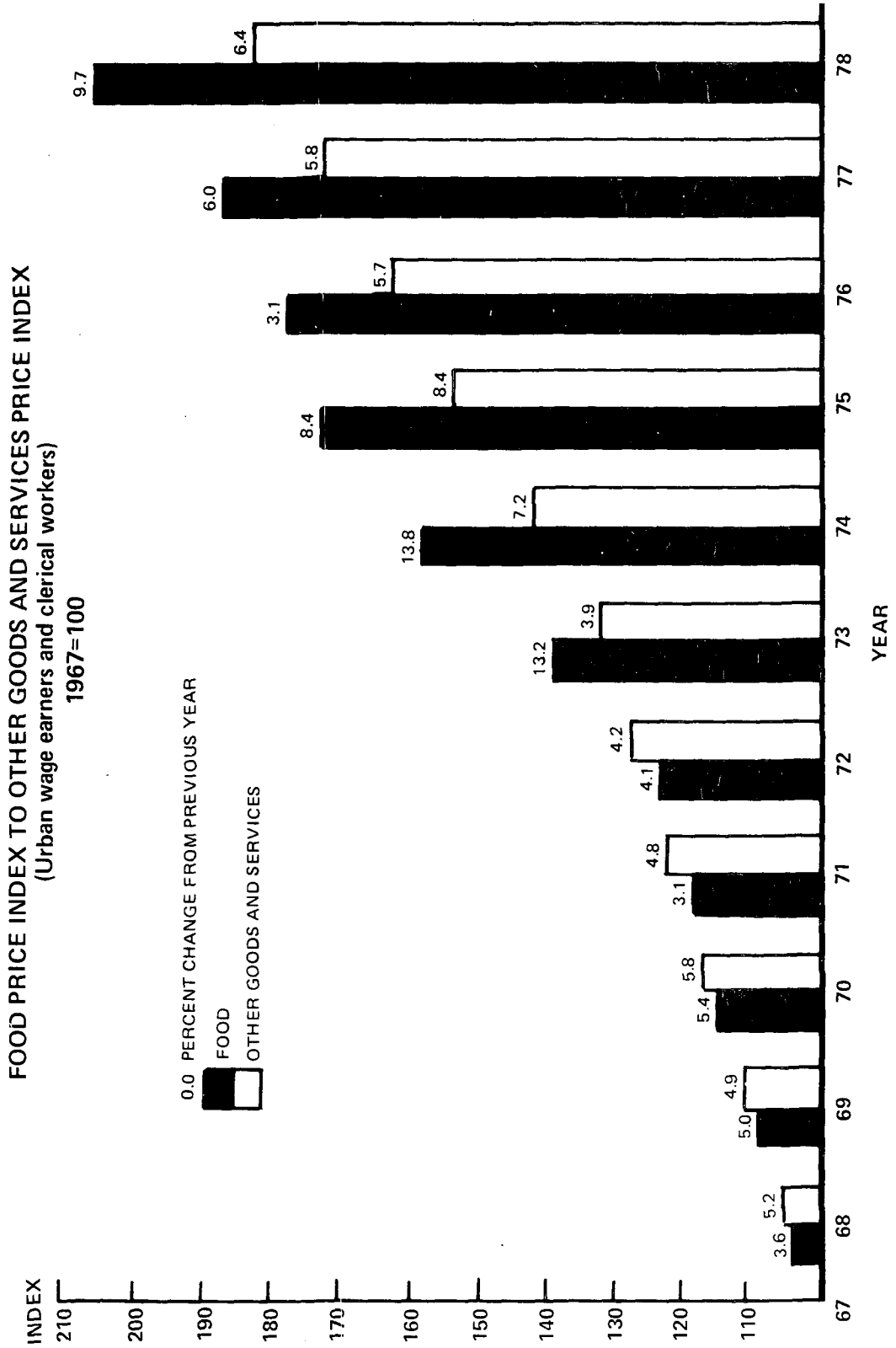


SOURCE: BUREAU OF LABOR STATISTICS

**FOOD PRICE INDEX TO ENTERTAINMENT PRICE INDEX**  
 (Urban wage earners and clerical workers)  
 1967=100



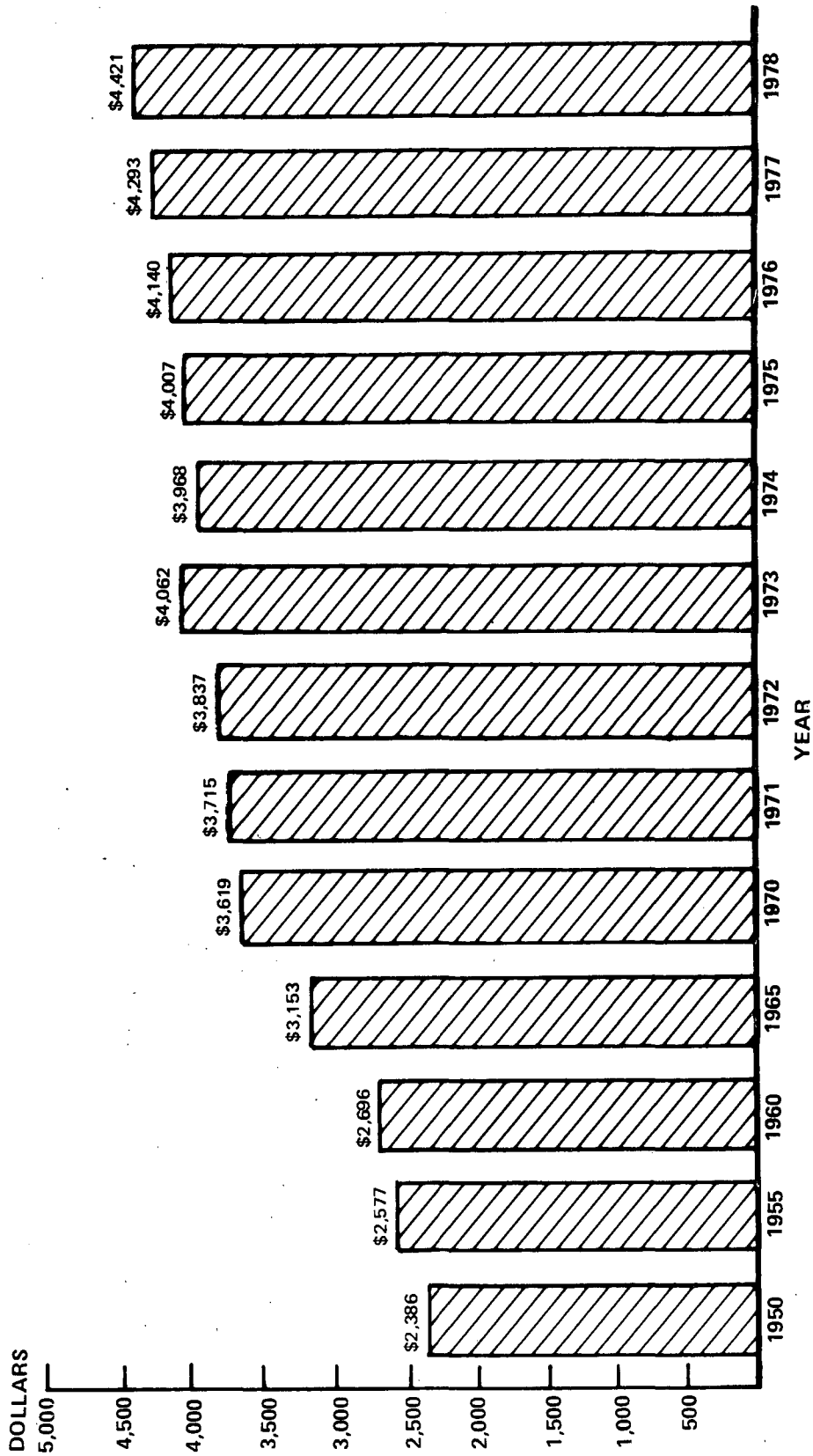
SOURCE: BUREAU OF LABOR STATISTICS



SOURCE: BUREAU OF LABOR STATISTICS



PER CAPITA DISPOSABLE PERSONAL INCOME IN CONSTANT (1972) DOLLARS



SOURCE: BUREAU OF THE CENSUS

COMPARISON OF RELATIVE IMPORTANCE OF INDEXES COMPRISING THE CONSUMER PRICE INDEX FOR SELECTED YEARS (As of Dec. 30 for each year indicated)

	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978
FOOD	28.5	22.83	21.99	22.19	22.492	24.810	24.785	24.675	23.667	18.813	19.242
HOUSING	32.7	32.98	33.80	33.84	33.859	33.321	33.765	33.099	34.202	43.911	44.258
APPAREL & UPKEEP	8.8	10.5	10.57	10.45	10.370	9.945	9.633	9.217	9.194	5.80	5.486
TRANSPORTATION	11.5	13.80	13.53	13.27	13.134	12.602	12.715	13.053	13.548	18.027	17.806
MEDICAL CARE	5.7	5.80	6.37	6.46	6.447	6.229	6.241	6.413	6.734	4.969	4.959
ENTERTAINMENT	5.4	5.87	5.66	5.71	5.656	5.346	5.222	5.148	5.143	4.085	3.963
OTHER GOODS AND SERVICES	7.74	7.84	7.70	7.70	7.666	7.572	7.261	7.121	7.136	4.394	4.287

SOURCE: BUREAU OF LABOR STATISTICS