Agribusiness names its price - farmers, consumers pay

Lerrick Starr photo

Advertising is a tool for chain store corporations to rationalize price increases and corner a greater share of the market sales.

By DON HUMPHRIES

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Who is responsible for the high cost of food in Canada? This question enters the mind of many people as their grocery bill continues to climb every month. The politicians are not helping the situation as they skilfully avoid the issue, especially with the possibility of another federal election in the spring.

Can we believe prime minister Trudeau when he says inflation is good because the high prices benefit the farmers?

Or is it as some economic authorities maintain that a shortage of food has resulted in higher prices?

Or is the marketing of food suddenly very profitable for corporate interest?

Finding answers to these questions is a bit difficult for little research is being done today on food costs. What little is being done is scattered throughout various sources.

Total food prices rose 42.5% from 1961 to July of 1972.

The prices farmers received for their produce rose by 25.4% during the same period.

That 25.4% increase was wiped out by a rise in the farm production costs of 40.2%.

Someone made a lot of money during that ten year period and it clearly wasn't Canada's farmers. Canada's rural population has been cut in half since 1961. The 1971 farm census shows that since 1966 the farm population has dropped a full 24 per cent.

This consistent decline of 5 per cent per year leaves only 7 per cent of Canadians actively engaged in farming. Clearly the crisis in agriculture started ten years ago and has now reached epidemic proportions. The last four years have been disastrous for farmers for as their costs skyrocketed, their income dipped drastically. This occurred while the Trudeau government just happened to be fighting inflation.

According to information published by Statistics Canada, farm net income dropped to a low of $1,209 million in 1970. The 1964-68 average income was $1,564.8 million. While farmers were making less money to meet those rising costs, the economy was booming. Canada's Gross National Product increased steadily:

	1968	1969	1970	1971
$ billions	72.586	79.749	85.549	93.094

Canada's chartered banks had their interest rates increased as part of the inflation and got a bigger share:

	1968	1969	1970	1971
profit $ millions	381	486	528	557

Unfortunately the interest rates were lowered in 1971, so the banks' income from loans dropped by $100 million.

	1968	1969	1970	1971
yearly average of people unemployed	382,000	382,000	495,000	552,000

The unemployment statistics are incomplete because they do not include people on welfare or who have given up looking for work. (Young people have the honour of having most unemployed of any age category).

By now you may well ask what this has to do with the plight of the farmer. Like everyone else in the country, farmers are directly affected by the economic conditions that prevail and the economic policies that permit these conditions to pervail. Just who makes these economic policies?

TASK FORCE RATIONALIZING

The federal government commissioned a study of Canadian agriculture in the seventies. This is the infamous task force report on agriculture released in December of 1969. The report has been described by one of its authors, Dr. Dave MacFarlane, as a prediction of the future of Canadian agriculture if the present trends continue.

Nothing has really changed since the report was released so the predictions still reek of doom. By 1990:

- there will be a reduction of the rural population to three or four per cent of Canada's total population.
- the basic farm unit will be the huge corporate farm that hires employees to produce food with the same type of management procedures that are currently applied to industrial manufacturing.
- access to land by individuals seeking to start farming will be impossible.

More attention to continentalism was endorsed in the following terms; "The Task Force emphasizes the desirability of Canada taking the initiative in attempting to create a continental market with the United States for grains, oil seeds, potatoes and livestock. Such a development would emphasize the importance of efficiency at three levels: by farmers; by agribusiness (both in supplying inputs and in processing, packaging and promoting); by governments in providing the desirable climate for informed decision-making by farmers and agribusiness. Another implication of a common continental market is that all inputs by agribusiness and farmers should be tariff-free."

If the last ten years of Canada's history are any indication, the task force's predictions will be met by 1980 — if not sooner. The federal government has repudiated the report as a model for Canadian agriculture. But it has yet to take any steps to protect the rural population from further destruction. All indications are that federal policy is actually directed toward the acceleration of rural depopulation.

NO PRICE GUARANTEES

Canadian farmers are not guaranteed a price that will cover their cost of production. This is the reason behind the decline of the rural population. The National Farmers Union did some research into the cost of producing one bushel of wheat four years ago.

If farmers in 1968 were going to earn the poverty level as established by the Economic Council of Canada, they must receive between $2.35 and $2.65 per bushel of wheat produced in Saskatchewan. This would represent an approximate 8 per cent return on their investment or just enough money to cover the interest payments on the money they borrowed to keep farming.

The highest price Canadian wheat ever fetched on the world market was $2.24 per bushel in 1918.

The Canadian Wheat Board (CWB) regulates the sale of wheat. It was established by federal statute in 1949 as an attempt to end profiteering by the grain brokers who still operate out of the Winnipeg Grain Exchange.

The wheat board sells wheat at a wholesale price mainly to overseas buyers. However the price wheat is sold for is not the price the farmer receives. In 1968 number one wheat sold for $1.94 per bushel. After deducting shipping, cleaning and other costs, farmers received $1.70 per bushel.

Suddenly last year wheat prices climbed dramatically after hitting a low of $1.68 in 1971. At the end of July 1972 the price reached $1.70 per bushel. One month later the price jumped to $1.84. By the end of September the price leaped up to $2.31 per bushel. Throughout October and November consistently high prices prevailed.

Just by coincidence, Canada suffered through a federal election during that period of high prices.

A farmer who can't cover his cost of production is called unviable and in the spirit of the task force must be "rationalized" off of his land. The farmer really has only two options for survival: buy more expensive machinery or buy more land thereby owing the banks more money.

The natural question of why doesn't the farmer got a fair price for his produce arises. Here lies the crux of the dilemma. The food industry is probably one of the most profitable in this country. While thousands of farmers are forced off their land because of low income, fantastic profits have been made and continue to be made by the corporations involved in the processing, distribution and sale of agricultural produce.

This is the phenomenon known as "Agribusiness".

THE OLD CASH REGISTER

Just how profitable is the food industry?

A quick run down to the friendly local supermarket chain store will help to check out the prices. The price of farm-produced foods increased by $2.8 million between 1961 and 1970. The corporations received 64 per cent of that increase. For a typical 25 cent loaf of bread filled with non-nutritious chemical additives, 23 cents goes to the corporations. A quart of milk costing 33 cents has 16 cents going to the so-called middle men. For every dollar spent on beef be prepared to throw away 43 cents in fat and bone.

Using the corporations own standard of performance, the more profits made — the better the company. The rational for this is supposedly to provide incentive for people to invest in the company. It's usually forgotten that the wealthy privileged minority, who just happen to control these companies do most of the investing.

The profitability of Canada's food and beverages industry as reported by Statistics Canada for the fourth quarter of 1971 was 7.87 per cent. Profitability for the total manufacturing sector was only 6.69 per cent. Seven out of the other 13 manufacturing sectors were lower than food and beverages.

In fact, the food industry is more profitable than the petroleum and coal industry. Food is more profitable than chemical, electrical, paper or even metal mines.

This could probably explain how the fortunes of Garfield Weston or James Richardson were made. (Richardson is currently minister of national defence. His Pioneer Grain Company rents huge inland grain terminals at Moose Jaw and Saskatoon, Saskatchewan from Otto Lang, minister-in-charge of the Canadian Wheat Board.)

The most accurate measure of profitability is to compare "capital employed" with profits created. (Capital employed is equivalent to a company's total assets minus its current liabilities. The list below shows the return on capital employed for the year ending in 1971 for five well-known companies operating in Canada,

• Canada Packers	7.63 per cent
• Canada Safeway	8.73 per cent
• General Foods	10.30 per cent
• Oshawa Group (IGA)	5.03 per cent
• Steinberg's	4.78 per cent
• weighted average	6.99 per cent

Between 1968 and 1971, these five companies reaped a total profit of $173.2 million. This represents a 23.3 per cent increase in profits for the period.

• Canada Packers	68-72, 24.7 per cent increase, from $ 8.1 to 10.1 million
• Canada Safeway	68-71, 25.3 per cent increase, from $12.0 to 15.0 million
• General Foods	68-72, 36.2 per cent increase, from $ 6.8 to 9.2 million
• Oshawa Group (IGA)	68-72, 29.6 per cent increase, from $ 4.8 to 6.2 million
• Steinberg's	68-71, 47.8 per cent increase, from $ 6.4 to 9.5 million

Food prices — the good old consumer price index — rose in the period between 1968 and 1971 by 7.7 per cent.

Canada Safeway Ltd. and General Foods (Canada) Ltd. are both wholly owned subsidiaries of American corporations. Of the $12.2 billion used by foreign corporations to expand in Canada between 1960 and 1967, 44 per cent was provided by government through capital consumption allowances and a further 4.3 per cent through depletion allowances.)

In North America, the price system is one that works only one way — up. Just as the automobile industry is controlled by four big corporations in North America, so the food industry is controlled by large corporations. The largest food conglomerate in Canada and perhaps the world is the multinational Canadian-based Weston chain. Westons is owned by the Garfield Weston Charitable Foundation. It is a vertically integrated corporation, which means it supplies itself with everything it needs.

Westons' holdings in retail stores, which includes such notables as Loblaws Groceterias, O.K. Economy, High-Low Foods, Shop-Easy and Power, is complimented by a wide-ranging list of wholly-owned suppliers, wholesale and transportation industries and even its own farms.

The advantages of vertical integration that allow for increased profits are: warehouse operations run more efficiently and at lower costs; private label products produced at less cost than national brands; and the ability to produce "private" or subsidiary labelled products increases the bargaining power of vertically integrated chains with national brand suppliers.

The growing power of vertically integrated chains has induced a pattern of excessive advertising by food manufacturers and created an additional inflationary cost factor in the industry as a whole. The dual reality of concentration and vertical integration has brought the following description of the food industry in a study of retail oligopoly: " . . . grocery retailing today is seriously deficient on at least four counts: 1) profits are excessive; 2) excess capacity has added to costs; 3) advertising has favoured a concentrated structure, created monopoly power and increased costs; 4) the promotion of the luxury store has inflated gross margins."

Studies have estimated efficient use of store space alone would reduce consumer costs four cents on every dollar spent.

Advertising practices of the retail food oligopoly are the principle means of expanding control over sales. They also provide a barrier to the entry of new competitors, encourage urban location and represent a substantial inflationary factor in final food prices.

"The fact that large supermarket chains are able to advertise more for the same or lower costs per dollar of sales than small companies was estimated statistically by correlating advertising costs with the sales of eight multi-store (chain store) supermarkets in the five major cities on the prairies. These estimates indicated that a firm with $10 million in sales spent 2.84 cents per dollar of sales, while a firm with $100 million in sales spent 1.61 cents per dollar of sales, even though the larger firms generally did more advertising," concludes the Batten Commission. The commission investigated the cost of food for the three prairie governments.

Advertising, in short, is a basic tool with which corporations can gain and sustain power while expanding surplus through a greater share of market sales in a given commodity. Hence every breakfast cereal or canned soup is new, unique and has "something added", all of which may rationalize consumer price increases and the introduction of cheap chemical additives which are non-nutritional but seem filling.

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The increase in production costs for the farmer is caused by factors similar to those causing the rise in food prices.

The farmer must buy supplies from companies to maintain his operation. The most important cost factor is machinery. The highly mechanized nature of Canadian agriculture has resulted in a dependency on machinery that has been the downfall of many a farmer. To survive, a farmer must buy the necessary machinery that will produce a crop as efficiently as possible. Unfortunately for the farmer, the companies controlling the farm machinery business fix prices. This whole area was thoroughly investigated by the Barber Royal Commission on farm machinery prices.

Retail prices for automobiles increased by only 10 per cent from 1956 to 1968 while appliance prices actually declined by 14 per cent. Farm machinery, on the other hand, increased by 34 per cent between 1956 and 1968 even though, according to Barber, retail dealer margins were substantially reduced.

The cost situation faced by machinery manufacturers in this same period included a 78 per cent hourly wage increase to production workers, 15 per cent increase in steel rolling mill products and a 3 per cent increase in pig iron. The wage increase was largely off-set by a 32 per cent productivity increase as measured by the value produced per man hour paid.

(Wage levels of industrial workers engaged in production of farm input commodities is substantially higher than that of industrial workers in food processing plants.)

The leading firms in the manufacturing industry (International Harvester, John Deere, Massey-Ferguson and Ford) account for 67 per cent of tractor sales, 69 per cent of combine sales, and 69 per cent of haying equipment sales. John Deere is the acknowledged price setter for the farm machinery industry according to evidence presented by the Barber Commission. Between 1963 and 1968 John Deere was the first to announce price changes every year except one for tractors, combines and haying equipment.

Farmers are caught in a vicious circle of the cost-price squeeze which has driven thousands of people off the land. Barber explains that low prices for farm products act as an incentive to buy more land and machinery, thus creating the vicious circle but providing improved profits for machinery companies.

Canadian per farm machinery investment has increased 10 fold from 1941 to 1967 from $800 to almost $9,000. In terms of debt the investment has meant an increase in outstanding credit of 150 per cent between 1961 and 1966 for farm machinery purchases alone.

While the farmers' debt has increased, so has his productivity. Between 1947 and 1955 productivity rose 75 per cent. But the return on his investment is very low. In 1958 it stood at an equivalent weekly wage of $38 minus interest charges. A study today would show inflation having wiped out any gain by increased prices.

The farmer not only has to deal with greedy machinery companies but with all other agribusiness outfits that are out to "make a killing". To combat such companies farmers in the past founded commodity pools and other co-operatives. That form of action has obviously failed to protect farmers from exploitation.

The Co-operative Commonwealth Federation (CCF) was formed out of unrest and the demand for change. Great strides were made by the first CCF government elected in Saskatchewan in 1944. Despite the vocal objections of the business community, the people of Saskatchewan benefited from what is now considered model legislation in labour, health care and the nationalization of electricity, telephones and insurance.

The CCF did not continue with progressive legislation for it grew more conservative with age and the elected leaders refuted the most important principle of that party — the elected leaders must abide by the policy decided by the members of the party at the annual convention.

The formation of the National Farmers Union (NFU) in 1969 can be credited to the determination of many farmers to stand and fight for their land. The NFU's policy of confrontation politics has been the major reason the federal government backed down from public endorsement of the task force on Agriculture Report.

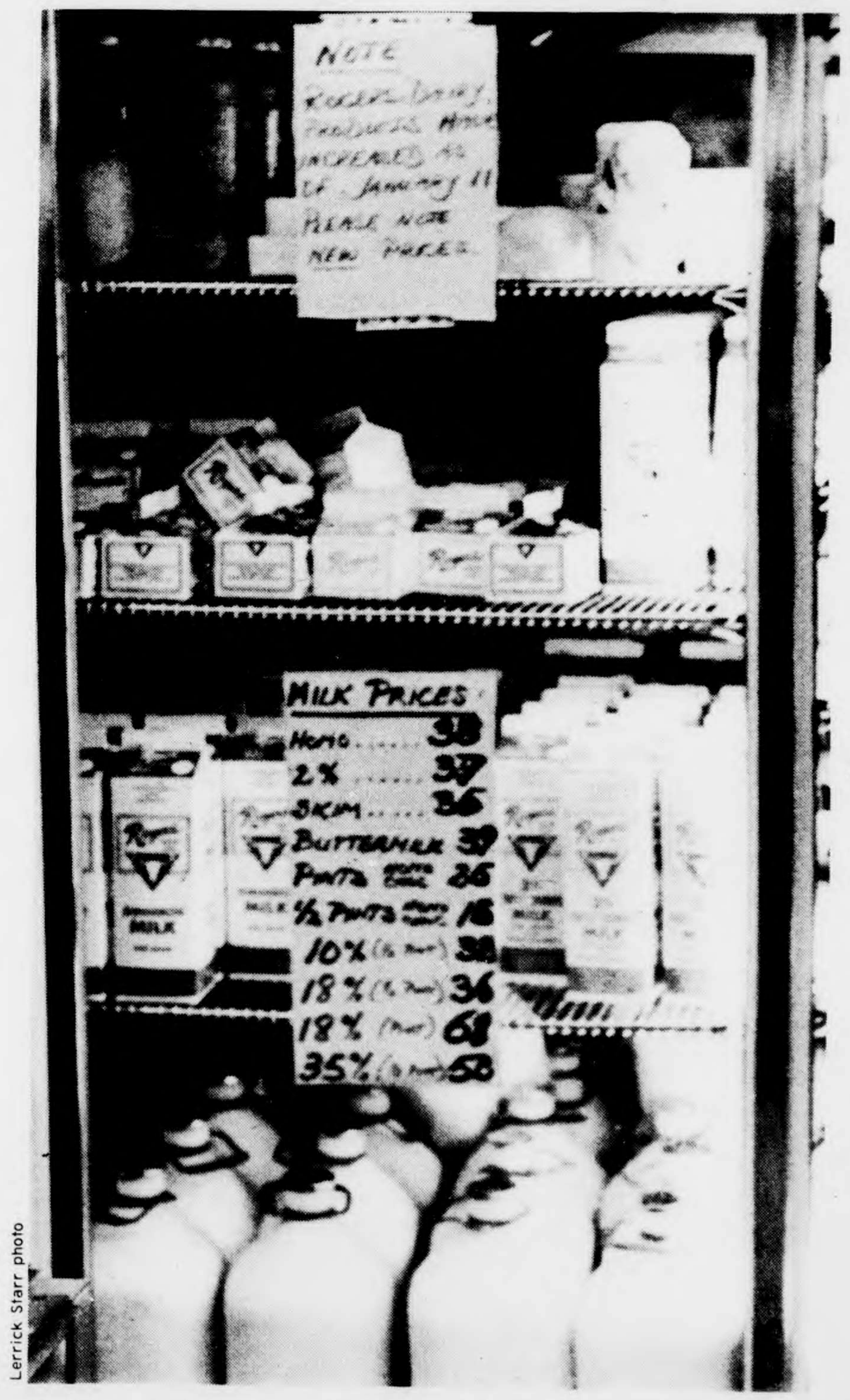
The NFU is demanding collective bargaining rights for Canadian farmers so they can obtain enough revenue to continue operations. Although this may not appear a particularly radical approach to the problems that face farmers, it requires that farmers realize they will not obtain a just return for their labour under the present system unless they use collective strength to reverse present trends. While this is happening farmers will have to resolve the question of private ownership of land and who benefits from private ownership.

The choice is clear: land owned by a few individuals and corporations or land owned and tilled by the people through their democratically controlled government.

Canadian agriculture is rapidly approaching the point of no return.

Our other natural resources are already controlled by foreign corporations. The final step towards complete corporate control of food is upon us. So far only the farmers are raising their voices in opposition.

The present process will only be beaten back if the people in cities ally themselves with Canada's rural population and collectively head Canada in a different direction. It's the needs of the people versus the maintenance and expansion of private property.



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