Comments on

Papers by Gary Seevers, Tim Hammonds, and Marvin Hayenga

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In agreeing to comment upon the papers by Seevers, Hammonds, and Hayenga, I did not realize that the comments would span two sessions of these meetings. That these papers formed two sessions helps explain at least a part of the initial puzzle of what the theme of the one session might have been. If there is a theme underlying these three papers, it must relate to the changed environment within which firms and institutions in the food industry, broadly defined, now operate. Hammonds has provided us with some useful insights into the current position of the food retailers and has suggested some interesting directions for further change. Widening the focus somewhat, Hayenga considered the food industry as a whole and suggested some directions for change and some thoughtful areas for future research. Finally, or perhaps first if chronology is a relevant criteria, Seevers put into clear perspective recent changes as well as research needs in futures markets, one of the marketing institutions within the food industry. Thus, while these papers have somewhat different foci, they have in common their concern for change and for the institutional environment which the disparate elements of the food industry now confront.

Hammonds' paper provided a unique perspective on the increasingly complex legal and political environments with which retailers are confronted in their efforts to innovate and create economic changes. I suspect this complexity is characteristic of all firms, not just of food retailers. Active government regulation and public interest groups combined with the traditional labor groups have created pressures whereby changes will be increasingly slow and difficult. I did have some difficulty, however, in understanding Hammonds' analyses leading to a description of the future structure of the retailing industry. Over-capacity was highlighted as a continuing problem. Yet, as I read the paper, he seemed to be forecasting even greater over-capacity, an over-capacity generated by the "healthiest" sector of the business.

According to Hammonds, the healthy segment of the industry is composed of the large stores with sales over $4 million a year. Using his figures, these stores grew in number by 34.5 percent from 5,200 to 7,000 stores. Their sales were up 33 percent. Rather than a sign of health, I interpret these numbers more dismally. They seem to suggest that the only growth in this area has been from stores crossing the $4 million sales mark. That is, if all stores were growing at the industry average and that pushed 1,800 of them over the 4 million mark, one would see an incredible sales growth within the specific category. It does not necessarily suggest outstanding performance on a per store basis. In fact an aggregate sales increase of only 33 percent with a 34.5 percent increase in numbers suggests a decline in sales per store. At a minimum, this performance can hardly be viewed as healthy.

Further, it seems likely that these changes will only exacerbate the over-capacity problems Hammonds alluded to earlier in his paper. Perhaps he was suggesting the kind of increased concentration suggested by Hayenga, with medium-sized firms becoming larger, and the larger firms remaining more or less the same. At the same time, the smaller firms would be decreasing, either through mergers, acquisitions or failures. The question remains, of course, whether or not this is a "healthy" trend.

In Hayenga's paper, our focus is broadened to consider the entire food industry. He notes many of the same changes which affected the food retailers also affect all firms within the food industry. In addition, Hayenga explicitly references

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increased world interdependence as a key change. This change is fundamental and would appear to deserve more emphasis. The ramifications of this change are only beginning to be felt.

Hayenga then turns to consider the reactions of various elements of the industry to the changed environment. He suggests that there is innovation in the use of agreements to enhance or increase vertical coordination within segments of the industry. Yet his examples are innovative only if viewed from the perspective of the particular firms involved. They are not innovative vertical coordination instruments. Are there new kinds of agreements being used to accomplish coordination? Even if there are no new types of agreements, it is clear that there will be a wealth of data for analysis of questions of the dynamics of the coordination process.

Finally, Hayenga notes the increased value of information in this changed environment. I would imagine there is already at least a tenfold increase in interest as well as in effort to build models which forecast and evaluate economic variables. And, as Hayenga suggests, there will probably be even more resources devoted to this area. Yet, I continue to wonder whether or not these further increases are justified. Would not the monies be better spent collecting or creating better data series, especially for world crop situations? The best models (none of which have great track records) can only be as good as the data upon which they are built.

Finally, let me turn for a few moments to Seevers' paper. And, to begin at the end, there certainly is a great need for increases in research and education efforts in this area. Seevers has provided several suggestions in areas which seem to me critical to increase our understanding of these markets. To select but one, which should be of particular interest here, I would emphasize an increased understanding of the economics of producer use of these markets. Interest is clearly apparent among both students and current farm operators.

Historically, we have had little producer use directly of these markets. Current statistics on the distribution of hedgers at planting time do not suggest this situation has changed. For instance, in the corn market, hedgers are even more net long in April, May, and June than they have been in earlier periods. This obviously reflects the tremendous increases in forward buying, mostly for export presumably. If there is increased hedge selling at planting time, it is being swamped by this increased forward buying. These figures say little about changes in forward contracting, however. What is the extent of the change in forward contracting, rather than hedging, at local elevators? What are the economic trade-offs between forward contracting and hedging? Can these be quantified? Can we discern times when one of these alternatives makes better sense than the other? The need for research and education seems clear.

Elsewhere in this paper, Seevers seems to suggest that distinctions between hedging and speculation on these markets are difficult and perhaps not particularly useful. I would re-emphasize, however, the need to continue to struggle with the definitions of hedging and hedger use of these markets. It may be that the elimination of speculative limits obviates the legal need for such a definition, but it clearly does not lessen its need in an economic framework. Futures markets require commercial use for their long-term survival. If we cannot define that use and hence are not able to collect data on that use, how can we even begin to understand how these markets are performing?

Finally, we should applaud the efforts of the Commodity Futures Trading Commission in attempting to counter current public sentiment about government regulation. Regulation on economic criteria would indeed be a pleasant change. I cannot help but wonder, however, what the ratio of economists to lawyers might be in this effort. An interesting statistic would be that ratio compared to the similar ratio in the SEC. My impression, qualified by lack of real data, would be that the concentration of lawyers at the CFTC would be higher. And, it would seem that many of the lawyers at the CFTC have been hired from the SEC. These are only impressions; but, they do raise serious questions about the ultimate nature of CFTC regulation.