

Consumer Choice Policy

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Background

Consumer choice policy is likely to take a more prominent role in the agricultural and food sector in the future as products become more differentiated based on a variety of quality attributes. For example, a consumer might be looking for a frozen pizza that, along with being safe to eat, is high in protein, contains grain that was not produced with the use of genetically modified organisms (GMOs), uses meat products from animals produced under specific conditions, and has environmentally friendly packaging. Another consumer might be looking for a pizza that tastes good and is inexpensive. Figure 1 suggests a range of quality attributes consumers may care about.

Food product quality and variety are affected by company decisions and government regulations. Farmers, food processors, retailers, and food service companies make choices such as seed variety or animal breed, processing technology, and packaging that affect final product quality and presentation. At the same time, government regulates many quality attributes, product labeling, and advertising to facilitate marketing, assure particular quality levels,

provide consumer protection, and/or inform consumers.

Here we focus on policies that affect consumer choice for all food quality attributes except safety. In the United States, these policies are administered by many federal agencies. For example, the U.S. Department of Agriculture administers product standards and grades (e.g., grades for fresh fruits and vegetables), certification standards (e.g., for organic products), and labeling requirements (e.g., nutritional content for meat and meat-based products). The U.S. Food and Drug Administration also administers product standards (e.g., standards of identity, standards for package fill) and labeling requirements (e.g., for nutritional content, use of product names). The Federal Trade Commission oversees the truthfulness of advertising and the fairness of selling practices.

There are several rationales for consumer choice policies. First, they may facilitate marketing. For example, when quality grades are standardized, making transactions is easier. Second, these policies may assure that minimum quality standards are met — providing protection to consumers from fraudulent products. Third, they may protect consumers by assuring the truthfulness of information provided in advertising or labeling. Fourth, they may facilitate

Figure 1. Quality Attributes of Food Products

- 1. Food Safety Attributes**
 - Foodborne Pathogens
 - Heavy Metals and Toxins
 - Pesticide or Drug Residues
 - Soil and Water Contaminants
 - Food Additives, Preservatives
 - Physical Hazards
 - Spoilage and Botulism
 - Irradiation and Fumigation
 - Other
- 2. Nutrition Attributes**
 - Calories
 - Fat and Cholesterol Content
 - Sodium and Minerals
 - Carbohydrates and Fiber Content
 - Protein
 - Vitamins
 - Other
- 3. Sensory/Organoleptic Attributes**
 - Taste and Tenderness
 - Color
 - Appearance/Blemishes
 - Freshness
 - Softness
 - Smell/Aroma
 - Other
- 4. Value/Function Attributes**
 - Compositional Integrity
 - Size
 - Style
 - Preparation/Convenience
 - Package Materials
 - Keepability
 - Other
- 5. Process Attributes**
 - Animal Welfare
 - Authenticity of Process/Place of Origin
 - Traceability
 - Biotechnology/Biochemistry
 - Organic/Environmental Impact
 - Worker Safety
 - Other

consumer choice by requiring that particular types of information be provided allowing consumers to find products that better meet their needs.

Consumer choice policies have two fundamental characteristics. First, they address situations where consumer information is thought to be absent or inadequate. For example, nutrition labeling was mandated in the United States because it was believed that voluntary labeling was delivering inadequate information to consumers. Second, while these policies are often focused on consumer choice, they tend to have marked effects on the entire supply chain. As an example, organic certification and labeling standards affect production, processing, and distribution practices as they attempt to deliver uniform product quality and information at the consumer end of the supply chain.

The central challenge in choosing these policies is striking a balance between reliance on markets and government regulation. Unregulated markets may be able to respond to changing consumer demand and other market conditions more rapidly, ultimately delivering more choice in products and quality levels to consumers at a lower cost. However, markets may fail to supply adequate information, resulting in consumers who are confused, misled, or who simply cannot locate or buy the products they want. Historically, policies have been instituted on a case-by-case basis in response to perceived needs for corrections as to how markets operate.

Consumer choice policies should be considered in relation to alternative types of policies. For example, a country might choose between banning the use of a particular technology (e.g., irradiation, GMOs, or confinement animal production) and the alternative of certifying and then labeling the presence or absence of the technology on final product packages. Use of consumer choice policies is gaining more attention as the process characteristics (how and where a product was produced) of food products and identity preservation become more important in domestic and international markets.

Issues

The design of consumer choice policy faces several central issues:

- When are policies and regulations needed? Should control of quality assurance and information provision be private or public? The information available to consumers when they make purchase decisions is never perfect nor do they always want to take the time to understand and use the information that is available. Companies have strong incentives to provide quality choices and information if consumers are willing to pay for them. They may also have incentives to provide low quality products and inadequate information. To what extent can government improve the functioning of markets for food products through consumer choice policies?

Example: Should government regulate the content of functional foods and how they are presented to consumers?

- When policies are adopted, should they be mandatory or voluntary? Mandatory approaches have the advantage of standardizing the entire market. However, they may impose unnecessary costs on some market segments. They may also prove unwieldy or restrict technological innovation in a fast changing market. Hybrid approaches are also possible with programs being voluntary; but if a company participates, they must meet standards set by regulations.

Example: Should labeling of the presence or absence of GMOs be mandatory or voluntary?

- How should consumer choice policies be coordinated among themselves and in relation to alternative policies? Policies may effectively reinforce each other, be duplicative, or actually

work at cross-purposes. Policy choices should be cost effective and fit with overall policy goals.

Example: Should standards be the same or different for communicating the nutritional content of food products through labeling on the package, advertising on television, and web sites on the Internet? How should these information policies be coordinated with other public health measures, such as education programs, intended to reduce the incidence of obesity?

- What are the benefits and costs, and their incidence, of consumer choice policies? Overall, are the benefits of a policy greater than its costs? These policies have effects up and down the supply chain. For example, certification frequently requires actions at the production, processing, and distribution levels. How evenly or unevenly are the impacts distributed across companies, levels in the supply chain, and consumers?

Example: How will a national standard affect the market for organic food products?

- Which consumer choice issues (e.g., which attributes) should receive priority for action given limited agency resources for this type of regulation? Should government focus on consumer choice issues where public health may be affected, where there is the greatest potential for consumer fraud, on “hot” issues where significant segments of consumers demand action, or where companies request a government program to facilitate marketing of their products? There are limits on how much information policy can be used given the time consumers are willing to devote to food shopping. What are the priorities given that attention itself is a limited resource?

Example: Should standards be set for the labeling of meat products regarding production practices that may affect animal welfare?

- If policies focus on certification and labeling, how should information be delivered in different consumer settings? Packaged products are relatively easy to label, but prepared foods delivered in food service settings are not.

Example: Should restaurant and fast food deliver nutritional labeling comparable to that found on packaged foods?

- How do consumer choice policies affect acceptance of food products? The existence of a government program may reassure consumers and boost product acceptance. For product attributes that are or may be perceived to be negative, labeling may facilitate consumers choosing not to use the product.

Example: Does labeling of GMOs help or hinder their acceptance among consumers?

- How will consumer choice policies affect international trade in food products? Will these policies improve the marketability of U.S. products in foreign markets and the ability of exporters to sell into the U.S. market? Trade agreements such as the WTO set standards for judging when such policies constitute unjustifiable nontariff trade barriers.

Example: Will compliance with U.S. organic standards affect entry of products into the European market?

nutrition labeling by the Food and Drug Administration and the U.S. Department of Agriculture. Many programs serve multiple goals. For example, the recently issued national standard for organic products is intended to provide consumer information as well as facilitate the marketing of organic products throughout the supply chain. Given the breadth of programs being considered, our discussion focuses on policy alternatives in broad terms.

- Maintain the status quo by continuing an ad hoc approach to consumer choice policy. Under this alternative, new consumer choice policies and revisions to existing policies would be undertaken by separate agencies based on Congressional mandates or their assessment of needs. This approach allows a decentralized approach and development of multiple policy approaches. However, it is not clear that the highest priority issues will be addressed and that programs chosen will be those with the most favorable ratios of benefits to costs.

- Devise a coordinated approach to consumer choice policy. Under this alternative, existing and proposed programs would be evaluated across agencies and scrutinized based on their probable benefits and costs. Priority would be given to those policies likely to have the greatest positive impact on consumer welfare. Attention could also be focused on the distribution of benefits and costs across producers, processors, retailers, and other participants in the food supply chain. Pursuing this approach would require significant management resources, and could stifle innovation among agencies.

- Minimize use of consumer choice policy, relying on market forces to determine the product variety, quality, and information offered to consumers. Where government institutes programs, make them voluntary on the part of companies. This policy would offer the greatest flexibility to companies in responding to changes in market conditions and consumer demand. This approach assumes that the benefits of flexibility

Policy Alternatives and Consequences

Consumer choice policy, as defined here, is a broad category ranging from case-by-case oversight of advertising claims by the Federal Trade Commission to broad mandatory programs such as

and fast adjustment outweigh the costs of potential consumer confusion or deception.

- Pursue a mixed strategy where mandatory information policies, such as labeling, are used in circumstances where important public health, consumer pocketbook, or other policy goals are at stake. Use no (or voluntary) programs where issues are less important and/or the benefits and costs are less certain. This approach could be effective in addressing significant information problems, but it may be difficult to identify which issues deserve action.
- Resist demands for market facilitation services by government, relying on market forces for market development. Depend on independent third parties to establish programs for standards, certification, and labeling. Under this approach, programs are put to a market test.
- Establish government programs to facilitate markets in selected cases where benefits are clear or the possibility of fraud is highest. Government may be able to play a useful role where a neutral and trusted party is needed to mediate market development.

In terms of consequences, consumer choice policies are complex because of their possible effects throughout the supply chain. The example of GMO labeling is instructive. Intended to inform consumers about GMO use, depending on its design, it can require product segregation in part or all of the supply chain. Farmers, processors, and distributors are likely to incur extra costs but may also attain price premiums or efficiencies that offset costs. Consumers who care about GMO status get desired information but those who do not pay for activities and labeling that they do not care about. Measuring the benefits and costs, and their incidence, of these policies is difficult.

Conclusions

In general, consumer choice policies require expenditures of resources, as do other policies. They may enhance or restrict the ability of food producers, processors, retailers, and food service operators to differentiate their products in the domestic market and to sell in international markets. Costs and profits are likely to be affected. Government has to make expenditures to implement the policies. If well designed, choice policies may protect consumers from substandard products and fraudulent claims, and facilitate their choice of products that best meet their needs.

Where regulatory action is demanded or desired to alter market outcomes, consumer choice policies may be viewed as a straightforward means of taking action. These policies are attractive in that they rely on market forces; they “simply” change the information environment in order to facilitate choice. Caution is required, however, because consumer choice policies are multi-layered. For example, a product-labeling program at retail requires standards (e.g., what is an organic product), certification (e.g., who will certify that standards are being met), and enforcement (e.g., who will certify the certifiers). For these policies to affect market outcomes and consumer welfare also requires that consumers, or others in the supply chain, pay attention to and act on the information they provide.

References and Suggested Readings

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