

## I CHANGED EU POLICY<sup>1</sup>

Peter Bowbrick

The European Commission has just accepted that they were wrong and I was right. They are abandoning nearly all their policy on one sector and are implementing my recommendations. The payoff to British consumers is £1 Billion per year. It is unprecedented for them to do a U-turn on policy, much less one provoked by a single person, an outsider not working for the EC or a government.

The EC horticultural standards system was considered to be self-evidently correct. It was based on policies going back before the war. Obviously there had to be one and only one system of grades and standards for fruit and vegetables so that traders could buy and sell on description, rather than by inspecting each consignment. Obviously there had to be minimum standards to push up the quality for consumers and to keep up prices to farmers.

I analysed this argument first in Cambridge then in an Irish research institute. I showed that minimum standards meant dumping up to a third of the fruit and vegetables produced, even though they were quite edible. Blotched fruit, misshapen fruit, oddly-coloured fruit, packages that were not uniform and crooked cucumbers might have to be dumped. This pushed up prices to consumers immediately. It also handicapped local producers in competing with imports: our farmers had to dump up to a third of their fruit, while the countries exporting to us could sell all they produced, exporting the top qualities and selling the rest locally – so they could

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spread their costs over all their production. It was difficult to find even a theoretical benefit to consumers or farmers from these minimum standards.

I showed too that grades and standards were an enormously powerful marketing tool. But this meant that if you got them wrong, the effect was disastrous. The EC system got them wrong. The system itself was misconceived, and the grade specifications were an arbitrary invention of a committee of grading inspectors, not based on any research into customer preferences.

I developed the economics of grades to analyse this. I combined it with my own research in farms, wholesale markets, packhouses, supermarkets and greenhouses, and I brought in the work of other researchers around the world. The economics was immediately accepted by academics and researchers – my papers on the economics of grades and minimum standards were put on the reading lists of universities and stayed there for 30 years. One in 10,000 papers has this distinction.

I have read more than a thousand policy documents in governments worldwide and I have never seen a more powerful case for change than this. But it took the European Commission 30 years to act, from my first paper to now. Why the delay?

The EC could not act until it had the support of member governments. Our government (MAFF, now DEFRA) resisted the change and quite deliberately wasted £30 Billion of consumers' money (at today's prices). They were perfectly aware of the case for change. They could see vast quantities of perfectly edible fruit and vegetables being dumped. Growers went bankrupt. The fruit industry collapsed. Two thirds of greengrocers went out of business. Prices rose. Tens of thousands of people died early because they could not afford their five portions a day. Why?

Clearly my campaign failed to have the instant effect that I hoped for. The bit that did work was making sure that everyone anyone who got a master's degree in agricultural economics or who researched the economics of quality had read the papers. I wrote a book on the EC standards, combining fact and analysis, and saw that every EC Ministry of Agriculture, every researcher into horticultural marketing, got a copy. It was important that the French Ministry, for example, should get the message from French researchers as well. I kept the research visible by publishing a book on the economics of quality, grades and brands as a marketing tool, which was applicable to all products in all markets.

However, government economists tend to ignore specialist economic journals and to rely on the economics they learnt as students. The decision to reform the system came only when the people who had read the analysis at university reached a sufficiently high level in their institutions to impose the reform.

Some civil services interpreted the call for reform as an attack on them, so everyone closed ranks and fought back, misrepresenting the case for change, and hiding it. In consultancy I try and avoid this response by talking to everyone and including as much as possible of their views in the report, in the hope that they will say, 'But we knew this already', and take it as their own internal critique, which would be acceptable. But it was impossible to talk to everyone when there were only 9 member states, let alone 27.

Even though the decision to be made was purely economic, in some countries, including Britain and Ireland, it was made largely by grading inspectors, horticulturists and administrators. This is rather like putting traffic wardens in

charge of national transport strategy. The decisions were made on their gut feelings rather than on hard research.

The problem was not the complexity of the economics. African and Asian civil servants would certainly have understood the case. The problem was rather the explosive emotional outburst that the economic argument produced. It was understandable that grading inspectors who had spent the last 20 years enforcing standards for cabbages would react with fury and incomprehension when they were told that their work was not just wasted but harmful. It was understandable that they would react violently when their jobs were threatened. It came as a surprise though that horticulturists, agriculturists and administrators had an equally emotional response.

Another pressure on the civil servants was that they could ruin their careers by criticizing accepted policy. This fear can make a Ministry totally ineffective, so most of the countries I work in have a steady stream of consultants, mainly foreigners, doing appraisals of their policies and the way they administer them. Civil servants who are afraid to criticize policy in front of their superiors talk to these outsiders. There is a tradition of willingness to discuss other viewpoints, so these consultancy reports are not kept secret, but are readily available to civil servants and other consultants. In contrast, the British civil service is obsessively secretive. It is suspicious of outsiders. Consultants are selected from friends who will not rock the boat and consultants are required to submit perhaps five drafts for 'editing' by the people whose work they are supposed to be evaluating.

The quality of some of the economists in DEFRA was also a problem. In Britain, unlike any country I have worked in except Malawi, there is a Government

Economic Service. This employs economists straight from university. ‘Young, ignorant and malleable’ are the criteria, according to one civil servant. They start with a two-year spell in one ministry, and just when they are starting to understand how the industry works, and are getting a glimmer of the specialist economic theory they will have to learn to analyse it, they are moved on to another ministry. They may do two years in housing, then two years in transport, two in social security, two on agriculture, and then go on to running the banking system. Which explains a lot.

It is always easier to provoke change when the existing system is clearly not working. In this case the civil servants were happy with the EC system. It made them feel that they were doing something and it did not cost a lot to enforce. Virtually all the costs were borne by the general public. The consumer lobby was silent. Any criticisms they might make would be met with a few jokes about Brussels and the crooked cucumber, turning a serious issue into laughter at foreigners. The supermarkets did not use the EC system themselves, but they pressed for the government to enforce the regulations to the detriment of the greengrocers. Distributors liked the idea of common standards – they would be wonderful if they worked – but did not use them. Those farmers who could meet the standards easily supported them vociferously: those who couldn’t went bust.

Government says that it is going to act decisively and promptly on the depression and on global warming. This example shows that there are institutional problems which prevent it from doing so.

1402 words

Dr Peter Bowbrick is one of the leading experts on the economics of quality, grades and brands, both the theory and the practice.

His publications on quality grades and brands are set out below. He has written a lot more on other aspects of marketing.

## QUALITY, GRADES AND BRANDS

### PUBLICATIONS BY PETER BOWBRICK

**Peter Bowbrick has been working on the economics of quality, grades and brands for 40 years. His work has been in one of the main streams of the subject and has been influential. Some of his papers have been ‘classics’ - still used in universities 25 to 30 years later. About one in five of his publications - on markets, market margins and famines as well as quality - have been required reading in universities – a record few academics can match.**

Bowbrick, Peter, (1981) *An Economic Appraisal of the EEC Fruit and Vegetable Grading System*. This book gives a detailed economic analysis of the EEC fruit and vegetable grading system and its component legislation. It is analysed in relation to market segmentation, price stabilization, new product development, control of imports, transmission of information etc. The purchasing decision at each stage of the main marketing channels in the EC is analysed.

The legislation has no defined purpose and attempts to achieve vague and conflicting aims. A range of possible aims are identified from discussion with users and from analysis of what the legislation could achieve. It is shown that the system does not meet these aims.

The system prevents aggressive marketing and the development of grades appropriate to the different segments of the market. The grades are badly designed, with a wide range of characteristics reduced to a single ‘Grade II’ with the result that they carry no useful information.

An exhaustive review of the literature also shows that economists are almost unanimously opposed to this type of grading system, though they like other systems. An alternative system which retains any of the benefits of the present system and avoids most of its weaknesses is suggested.

Bowbrick, Peter, (1992) *The Economics of Quality, Grades and Brands*, Routledge, London.

A complete, coherent, economic approach covering the closely linked aspects of quality, grades and brands. This brings out and examines the conceptual basis, and the assumptions often made - and it is here that most mistakes are made in the theory. It brings together many strands of economic theory that were formerly

considered completely separate. The theory can be, and has been, applied to real markets.

Bowbrick, Peter, (1982) "The Economics of Grades", *Oxford Agrarian Studies*. 11, 65-92.

A classic paper. Simpler than the 1992 book, as it focuses on grades, rather than on all aspects of quality.

Bowbrick, Peter, (1977) "The case against compulsory minimum standards", *Journal of Agricultural Economics*. 28: 113-117, May.

A classic paper, still used in universities.

Bowbrick, Peter, (1990) "Justifications for compulsory minimum standards" *British Food Journal*, 92 (2) 23-30. This shows that compulsory minimum standards are sometimes justified, and indeed that some markets cannot exist without them. These special conditions do not exist in most markets.

Bowbrick, Peter, (1988) "Are price reporting systems of any use?", *British Food Journal*. 90(2) 65-69 March/April. Questioning the validity of many price reporting systems. Their failure to deal with quality aspects.

Bowbrick, Peter, (1979) "Evaluating a grading system", *Irish Journal of Agricultural Economics and Rural Sociology*. 7 117-126. One approach to one of the most difficult problems: assessing whether the standards for one crop have any validity.

Bowbrick, Peter, (1976) "A perverse price-quality relationship", *Irish Journal of Agricultural Economics and Rural Sociology*. 6 93-94. How the producers of "better" quality can end up with lower prices.

Bowbrick, Peter, (1975) "Commission sales or firm-price sales - a conflict of interest", *Irish Journal of Agricultural Economics and Rural Sociology*. 5 229-23. How producers of "better" quality can get lower prices if they sell on commission, while their competitors do not.

Bowbrick, Peter *Bibliography on quality and grades*

A bibliography collected over 35 years of research on quality, grades and standards.

Bowbrick, Peter, (1994) *Limitations of Lancaster's theory of Consumer Demand*, PhD Thesis, Henley Management College. A formal refutation of the most cited work on quality, one of the ten most cited papers in economics. The refutation covers a wide range of logical errors, and methodological weaknesses.

Bowbrick, Peter, (1983) "Stars and Superstars", *American Economic Review*. June. p459 vol 73. When some people avoid a characteristic or ingredient, the seller loses more than just their custom. There is a multiplier effect.

Bowbrick, Peter, and S. Feeney, (1981) "The impact of cost-saving innovations with traditional margins", *Journal of Agricultural Economics*. May. Cost-saving innovations may result in the producer getting a lower return.



Bowbrick, Peter, (1980) "Pseudo-research in marketing - the case of the price:perceived quality relationship", *European Journal of Marketing*. 14(8) 466-70. Destroys a large and long-lived academic research programme.

Bowbrick, Peter, (1988) "Are price reporting systems of any use?", *British Food Journal*. 90(2) 65-69 March/April. Questioning the validity of many price reporting systems. Their failure to deal with quality aspects.

Bowbrick, Peter, (1996) "Quality theories in agricultural economics", Presented at EAAE Seminar '>Agricultural Marketing and Consumer Behaviour'

Bowbrick, Peter, (1994) "Limitations of non-behavioural approaches to the economics of quality" Conference of *International Association for Research on Economic Psychology* and the *Society for the Advancement of Behavioral Economics*, Rotterdam.

Bowbrick, Peter, (1991) *The Misuse of Indifference Curves in Quality Theory*, Working Paper, Henley, The Management College, Henley on Thames.

Bowbrick, Peter, (1991) *The Misuse of Hedonic Prices and Costs*, Working Paper, Henley, The Management College, Henley on Thames.

Bowbrick, Peter, (1991) "Towards a General Theory of Search", *Agricultural Economics Society* Conference. April.

Bowbrick, Peter, (1990) "Justifications for compulsory minimum standards" *British Food Journal*, 92 (2) 23-30.

Bowbrick, Peter, (1988) *Effective Communication for Professionals and Executives*. London/ Dordrecht /Boston, Graham and Trotman. ISBN 1-85333-081-7.

Bowbrick, Peter, (1988) *Practical Economics for the Real Economist*. London/Dordrecht/Boston, Graham and Trotman. ISBN 1-85333-076-0.

The only book I know of on how real economists work in the real world.

Bowbrick, Peter, (1976) "Compulsory grading and the consumer", *Acta Horticulturae*. 55.

Policy change

Bowbrick, Peter, (1974) "Some limitations of market-margin analysis", *Irish Journal of Agricultural Economics and Rural Sociology*. 4(2) 23-28.

Bowbrick, Peter, (1974) "A new approach to the economics of grading", Paper to *Irish Agricultural Economics Society*.