

# Do the Poor Really Pay More for Food?

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A House Government Operations Committee Report implies that the prices charged by chain supermarkets located in inner city areas are higher than the prices charged in higher income areas.<sup>1</sup> There has been substantial public interest in this issue during the past year, in part because of the hearings held by Representative Benjamin S. Rosenthal of New York upon which this report is based.<sup>2</sup> Discussions in the news media have relied upon some of the material presented in these hearings, but other significant work has gone unnoticed. If public action in this area is to be helpful, it is important that all the available evidence is presented.

## Consumer Problems of the Poor

The Rosenthal Subcommittee conducted hearings for three days during October and November of 1967, in Washington, D.C., New York City, and St. Louis. The evidence presented in these hearings by *ad hoc* citizen groups consisted of five surveys, in which from 10 to 61 items had been priced. A total of 66 food stores were included in the various surveys; 20 of these stores were in low income areas of the respective cities, and 46 were in higher income areas. The number of stores surveyed ranged from 9 in

Washington to 41 in St. Louis. Not all of the surveyed stores were operated by corporate chains; some were affiliated with cooperative or voluntary groups, and others were unaffiliated independents.

Each of the five surveys purported to show that the stores which were located in low income areas charged higher prices than stores in higher income areas. Mr. Rosenthal stated his impression of the evidence as: "In every situation, major chains, it is reported, have charged more than in outlying areas."<sup>3</sup>

There are several types of difficulties with this statement. First, the motivation of those who conducted the surveys was clearly that of emphasizing a very real problem facing the urban poor. As a result, there arise situations such as that illustrated by testimony that those producing one survey "wanted to have the most striking differences apparent."<sup>4</sup> In this instance, prices which were lower, or the same, in higher income area stores were not reported.

Second, there were some unexplained discrepancies in the data. The testimony of one chain store official indicated that the chain did not sell some of the items for which prices had been reported. A

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store executive understandably commented: "These are things which raise questions in our minds." In response, Mr. Rosenthal remarked: "It raises questions on both sides. I really don't want to go into this, because our job as a committee is not to adjudge who is telling the truth."<sup>6</sup>

Further comments by the officials of another chain with respect to survey data ranged from incredulity to straightforward denial. For example, one store official stated that: "However charitable an allowance is made for inadvertent errors, the publicized emergence from the survey of a poverty-pattern impression just about defies explanation."<sup>8</sup> A store manager, commenting on a survey reporting prices in his store, stated: "I will say they are fabrications and have no truth whatsoever."<sup>7</sup>

A third type of problem with these surveys is a more technical one; there is a lack of adequate controls in the surveys. A difference between the prices charged in a low income area store and a higher income area store is of no interest unless the average difference in price among all stores located in the higher income area is known. One store executive clearly explained this:

If you had a staff large enough to examine each and every price mark in each and every one of our stores, and the survey was made over a proper period of time, I feel that you would find that for every mistake in price that was found to be in favor of a high-income area, there would be one that shows a lower price in a low-income area.<sup>8</sup>

### Chain Stores Do Not Discriminate

There is a rather large volume of evidence suggesting that differences in prices which are observed in small surveys are probably random in nature. Two large and important studies were described before the Rosenthal committee. Arthur Ross, Commissioner of Labor Statistics, reported a national survey conducted by the Bureau of Labor Statistics in 1966, in which the prices of 18 food items were studied in 180 stores in six cities.<sup>9</sup> Mr.

Ross testified: "We did not find that the chains in the poor neighborhoods were systematically charging higher prices than the chains in the affluent neighborhoods."<sup>10</sup>

Dr. Timothy Costello, deputy mayor and chairman of the New York City Council on Consumer Affairs, reported a study of the prices of 37 items in approximately 2,500 stores in New York City which was conducted in the summer of 1967. In summarizing the results of this study, Dr. Costello testified: "We didn't find evidence that would support a statement that chain stores systematically have different price ranges for poor areas as compared to middle class areas."<sup>11</sup>

Mr. Rosenthal discounted the results of these studies on the basis of the highly unlikely assumption that chain store management knew of the surveys, and altered prices in the stores to favorably influence the findings.<sup>12</sup>

A third study, not mentioned in the hearings, conducted in Rochester, New York, also found that low income shoppers patronizing chain stores did not pay more than higher income shoppers, if the least expensive among the available items were purchased.<sup>13</sup>

The more recent study by the U. S. Department of Agriculture fully supports the findings of the three above mentioned studies, finding "no identifiable pattern of differences between sample stores of the same chain operating in high and low income areas."<sup>14</sup> This study included 17 food items which were priced in 134 stores in six cities, on February 8 and 9, 1968.

Thus, despite the widely publicized allegations to the contrary, the weight of evidence fails to support the hypothesis of systematic price discrimination practiced by chain stores against low income consumers. In the various studies price variations appeared, of course, but were found to be randomly distributed. This implies that although it is possible for an investigator to compare prices in one or

more chain stores and find prices to be higher in a low income area store, this is not the general situation.

In this connection, it is interesting to note the following exchange in the Rosenthal hearings:

Chain Store executive: "... We do not deliberately discriminate against any of our customers."

Mr. Rosenthal: "Let me say for myself I believe it, I honestly believe that."<sup>16</sup>

Unfortunately, this attitude was not publicized in the news reports of the hearings.

### But the Poor Often Do Pay More

On the other hand, there is nothing in the available studies to deny the argument that many low income families do pay more for food. The *prices charged* by chain supermarkets are not a measure of the *prices paid* by the urban poor who do not shop in supermarkets. The B.L.S., New York City and Rochester studies all indicate that the prices paid by low income consumers are often higher because food is purchased in small neighborhood grocery stores which charge higher prices than supermarkets. Dr. Costello commented: "There are fewer large stores in the poor areas and prices tend to be lower in large stores. Therefore, on a community wide basis, it follows that at least one reason why the poor pay more is that they buy their food in small stores."<sup>16</sup> Similarly, Commissioner Ross testified that: "According to our findings, the higher prices paid by the shoppers in the poor neighborhoods were associated with the relative lack or the relative paucity of the chainstores and of the large independents."<sup>17</sup>

Thus, the prices paid by the urban poor depend upon where they shop. Dr. Charles Goodman has argued, on the basis of a study conducted in West Philadelphia, that the poor do not pay more because they travel out of the low income area and make their purchases in supermarkets located in higher income

areas.<sup>18</sup> Alexis and Simon concluded that: "The 30 - 40 percent of low-income families that do their shopping in independent stores . . . pay higher prices than if they shopped in chain stores. In actual dollar terms, this premium appears to be on the order of 10 percent."<sup>19</sup> In a study conducted among stores in the low income area of North Philadelphia, the present authors found that those who patronize the small stores in the low income area pay an average of 4.4 percent more for the market basket than do those who patronize supermarkets, when comparable brands and package sizes are purchased.<sup>20</sup>



But why do the urban poor shop in small stores? The "obvious" answer is that supermarkets are not always located in low income areas, so that the residents of these areas, who are limited in mobility, are forced to shop in the small neighborhood stores. There is another part to the answer, however. Even when a supermarket is convenient in the conventional sense, some residents of the inner city will shop there infrequently, or not at all, as a matter of conscious choice. A small research project being conducted by the authors suggests some reasons for such shopping decisions.

## The Limited Mobility of the Urban Poor

It is obvious that the typical low income food buyer is less likely to own an automobile, and hence lacks the physical mobility of the suburban food buyer. But the concept of mobility includes a great deal more than physical constraints on travel. For example, shopping in the inner city is sometimes severely restricted by geographical boundaries invisible, and unknown to the outsider, which define the "turf" of the gangs.

Moreover, even if a supermarket were otherwise available, the typical low income family may be unable to assemble the funds required for a once-a-week shopping trip. This problem may be further compounded, especially for families depending upon bi-weekly welfare payments, by the sale of food stamps on a bi-weekly basis, and the additional need once each month for funds to pay rent in public housing. Even if the funds are available, and can be budgeted effectively, storage facilities for fresh meat and produce, dairy products, and frozen foods do not always exist in the inner city home. If the facilities are owned, the storage of a large amount of food may be impractical because of the difficulty of controlling consumption. There is a great temptation to consume amounts in excess of those planned, so that the stock may be depleted before the end of the week. This is an especially serious problem where there are a large number of children in the family, and close supervision is not part of the cultural pattern. Furthermore, the homemaker simply may not have the requisite skill or energy to engage in food planning over a period as long as a week.

Cultural differences may prevent members of some racial or ethnic groups from shopping in supermarkets which are within a few blocks of their residences. For example, the Puerto Rican, limited in his comprehension of the broader culture of the city in which he resides, and with an

uncertain grasp of English, feels much more comfortable trading in a local "bodega" than elsewhere. Furthermore, ethnic food preferences may limit choice, for it is not always possible to purchase plantains, yuca, bacalao, or Spanish coffee in a corporate chain store.

Attitudes toward supermarkets, as representative of the white power structure, may also play a role in limiting mobility. There is always the possibility of discovering a purchased item to be of deficient quality. Returning the item to a supermarket may be psychologically difficult because of the actual or perceived attitude of the personnel. On the other hand, returning an item to a neighborhood store, where the purchaser feels more comfortable, or even in a superior power position, is a less traumatic experience.

Finally, there may be differences in the very concept of convenience. There are instances in which a small "neighborhood" store is a more convenient place to purchase food than a supermarket which is an equal distance from the consumer's residence. Not only is the small store more likely to be open early or late in the day, but it offers services such as assembling an order correctly for a small child sent with a written list of items required. By offering a complex of services, the small store thus saves the adult a trip to the store, and in this sense is a more effective marketing agency than the supermarket.

## Identifying the Problem

The various studies which have been overlooked in the public press seem to have resolved the question of price discrimination by chain stores, so that attention can now be directed to substantive issues. But the issues are not adequately defined. Because small stores which are generally available to the low income buyer charge more than supermarkets, it is often argued that the small stores must be replaced by supermarkets:

One of the cruelest ironies of our economic system is that the disadvantaged are generally served by the least efficient segments of the business community. . . . Their shopping districts are dotted with small, inefficient "mom and pop" establishments more closely related to stores in underdeveloped countries than to the sophisticated network of retail institutions dominant in most of the U.S. economy. . . . Real progress will come only if we can find some way to extend into the ghettos the highly advanced; competitive retailing system that has so successfully served other sectors of the economy.<sup>21</sup>

There is a good possibility that this type of argument is not relevant to food marketing. It is not obvious that the higher prices are a result of inefficient selling. It is not clear that the supermarket, a marketing agency developed for the middle and upper income suburban consumer, is relevant to the inner city. The supermarket may be inappropriate simply because its space requirements are excessive, when set against the needs for space for housing, schools, hospitals, playgrounds, and other community services, in the already overcrowded inner city.

The supermarket may be inappropriate because of the buying behavior of many low income families; the poor may be paying more because of inefficient *buying*. In one sense buying may be inefficient because the shopping habits of the low income purchaser require a more costly marketing structure, or more expensive products. On the other hand, buying may be inefficient because of a lack of knowledge; a home economist testifying before the Rosenthal subcommittee offered several examples of this problem.<sup>22</sup> But the question of shopping behavior is a social issue, well beyond the province of the food industry alone. The main problem here is the paucity of information concerning the shopping behavior of inner city residents and the extent to which consumer education would increase purchasing efficiency.

### Some Recommendations

While it may not be meaningful to ask that more supermarkets be opened in low

income areas, the food industry can be asked to make a greater effort to understand the needs of low income customers and the types of marketing agencies which would be appropriate to the inner city. Many chain and other stores are presently operated in low income areas, and the experience of executives associated with these stores constitutes a significant but unreported body of knowledge. One of the first tasks of the recently formed Food Distribution Research Society might well be the consolidation of existing knowledge of the low income consumer which already exists within the industry.

Community leaders must try to recognize that the higher prices paid by some low income food buyers are not related solely to the selling side of the market. Because buying behavior also has a significant impact upon the efficiency of food marketing, more attention must be focused upon undramatic programs such as consumer education.

The critical need underlying the entire problem is for better marketing information; we need to know more about both buying and selling in low income areas. One way of solving some of the consumer problems of the poor would be to initiate joint action based upon the knowledge extant in both the food industry and local communities.

### NOTES:

1. *Consumer Problems of the Poor: Supermarket Operations in Low-Income Areas and the Federal Response*, Thirty-Eighth Report by the Committee on Government Operations. Washington: U.S. Government Printing Office, 1968.
2. *Consumer Problems of the Poor: Supermarket Operations in Low-Income Areas and the Federal Response*, Hearings before a Subcommittee of the Committee on Government Operations, House of Representatives, Washington: U.S. Government Printing Office, 1968.
3. *Ibid.*, p. 195.
4. *Ibid.*, p. 142.
5. *Ibid.*, p. 265.
6. *Ibid.*, pp. 65-66.
7. *Ibid.*, p. 73.
8. *Ibid.*, pp. 278-79.

9. "A Study of Prices Charged in Food Stores Located in Low and Higher Income Areas of Six Large Cities, February 1966," *Special Studies in Food Marketing*, Technical Study No. 10, National Commission of Food Marketing, Washington, D.C.: U.S. Government Printing Office, 1966, p. 122.

10. *Consumer Problems of the Poor*, op. cit. p. 44.

11. *Ibid.*, p. 116.

12. *Ibid.*, pp. 42-43 and 115-116.

13. Marcus Alexis and Leonard S. Simon, "The Food Marketing Commission and Food Prices by Income Groups," *Journal of Farm Economics*, May 1967, p. 439.

14. *Comparison of Prices Paid for Selected Foods in Chainstores and Low Income Areas of Six Cities*, U.S. Department of Agriculture, Washington, D.C., June, 1968.

Mr. Rosenthal's objection to previous studies were recognized in this survey; "Chain or store

management had no previous knowledge of the survey and no buyer was questioned as to his purchase." p. 5.

15. *Consumer Problems of the Poor*, op. cit., p. 265.

16. *Ibid.*, p. 116.

17. *Ibid.*, p. 44.

18. Charles S. Goodman, "Do the Poor Pay More?" *Journal of Marketing*, January, 1968, pp. 18-24.

19. Alexis and Simon, op. cit. p. 445.

20. Donald F. Dixon and Daniel J. McLaughlin, Jr. "Do the Inner City Poor Pay More for Food?" *The Economic and Business Bulletin*, Spring, 1968, p. 8.

21. Frederick D. Sturdivant, "Better Deal for Ghetto Shoppers," *Harvard Business Review*, March-April, 1968, pp. 132, 136.

22. *Consumer Problems of the Poor*, op. cit., pp. 304-305.

