



# ERS Report Summary

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## Nutrition Labeling in the Food-Away-From-Home Sector: An Economic Assessment

Jayachandran N. Variyam

Americans spent about 46 percent of their total food budget on food away from home in 2002, up from 27 percent in 1962. USDA's food intake surveys show that between 1977-78 and 1994-96, the share of daily caloric intake from food away from home increased from 18 percent to 32 percent.

While there are clear convenience benefits to consumers for substituting ready-to-eat foods prepared away from home for foods prepared at home, there are also costs. Studies suggest that foods consumed away from home are more calorie-dense and nutritionally poorer compared with foods prepared at home. Some studies have found an association between eating away from home and overweight and obesity in adults and children.

### *What Is the Issue?*

Current nutrition labeling law exempts much of the food-away-from-home sector from mandatory labeling regulations. Because consumers are less likely to be aware of the ingredients and nutrient content of away-from-home food than of foods prepared at home, public health advocates have called for mandatory nutrition labeling for major sources of these foods, such as fast-food and chain restaurants.

What are the potential benefits and costs of a mandatory labeling policy for both consumers and the away-from-home food industry? Mandatory labeling could increase market efficiency and social welfare by allowing consumers to make informed choices. However, for the policy to be economically efficient, the benefits from the policy intervention should outweigh the costs.

### *What Did the Study Find?*

This study takes a preliminary look at whether consumers might make more healthful food choices if nutrition labeling was mandated for the away-from-home food sector, and how labeling requirements would in turn affect the foodservice industry.

The costs of a labeling policy will depend chiefly on how much of the away-from-home food sector is subject to the mandatory disclosure requirement. Costs can be assessed reasonably well and include labeling costs, the cost of chemical analysis needed to determine the nutrient content of offerings, and reformulation costs.

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The benefits of a labeling policy are harder to assess because the effect of label information on improving nutritional and health outcomes is uncertain. Research indicates that providing additional nutrition information in a restaurant setting has a limited effect on overall diet quality and reduced caloric intakes.

As a result of mandatory labeling requirements, producers may voluntarily decide to reformulate products to make them more attractive nutritionally. This reformulation could ultimately benefit all consumers, not just those who read nutrition labels.

However, studies have shown that producers behave strategically in such situations—for example, by reducing the price of less healthful foods—adding to the uncertainty about the eventual effect of reformulation on consumer diets.

Perhaps the largest benefit of labeling may accrue when consumers change their food choices based on the nutrition information provided by the labels. Although such substitutions may not change nutritional or health outcomes substantially, consumers benefit from being able to make food choices that are better aligned with their preferences.

The distribution of the costs and benefits among producers and consumers may also influence a labeling policy decision. Away-from-home food providers have different types of offerings, economies of scale, and levels of recipe standardization. Thus, a labeling policy will affect each provider differently. On the consumer side, the key question is whether those who already have good quality diets and healthy weights will reap the benefits, or whether those with poor diets and the overweight will share those benefits.

### ***How Was the Project Conducted?***

Research for this report included a literature review to gather evidence on the economic theory of information and labeling and on previous studies on the influence of nutrition information, labeling, and reformulation on food intakes. The research also included a statistical analysis of data from USDA's Continuing Survey of Food Intake by Individuals (CSFII) from 1989-91 and 1994-96 to estimate the effect of mandatory labeling requirements on product reformulation.