

## Government Policy Toward Competition

*Since the 1870's, the state and federal governments have been increasingly active in defining the permissible nature and scope of competition. Policy has gradually shifted from rather complete laissez faire (with respect to domestic trade) to a considerable degree of interference in the free play of supply and demand.*

*Early recognition of imperfections in competition gave rise to two types of activity affecting agricultural marketing. One was an expansion of public services designed to facilitate competition. Extension work with farmers included the teaching of better preparation of products for market, along with improved production practices. To the traditional regulation of weights and measures was added the establishment of grade standards and the provision of inspection services. Market information was made available to farmers to help them to market their products to better advantage. The other was the regulation of rates charged by "natural" monopolies, like the railroads, and measures to curb "artificial" monopolies that threatened private control of free markets. The business practices of middlemen were increasingly brought under public regulation designed to prevent fraud and conspiracy or other predatory practices.*

*Of course, our state and national policies with respect to competition have never been entirely clear-cut and consistent. Historically, the main emphasis in agricultural marketing has been to facilitate and preserve competition. However, the state and federal govern-*

*ments have done many things to restrict competition in agricultural markets, or to change its nature significantly.*

*We shall consider in this chapter all three types of policy — the problems of facilitating, enforcing, and restricting competition in agricultural markets.—EDITOR*

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## **6.1 Facilitating Competition Through Marketing Services**

Economists have long recognized that perfect competition would require perfect knowledge of the present and perfect foresight with respect to the future. Insofar as actual conditions fall short of such an ideal situation, as they obviously must, consumers cannot make wholly intelligent choices nor can their choices be accurately reflected back to distributors and producers through the pricing mechanism. Nor can the farmer, processor, or distributor foresee the future accurately and allocate his resources most profitably. During the years since World War I, the U. S. Government, the agricultural colleges, and private trade associations have rapidly expanded their efforts to provide better and more useful information. By now, most Americans have become so accustomed to official market news, crop reports, outlook information, grades and standards, and other such services, that they are prone to take them for granted. As a result, some agricultural economists may fail to appreciate how much progress we have made toward achieving conditions of a perfect market over the continental United States. Or, at the other extreme, they may be tempted to consider that there is little room for further improvement. The selections in this subsection give little ground either for a lack of appreciation of progress achieved or for complacency about possibilities of additional progress.—*Ed.*

- 6.1.1 Crow, William C. "The Function of the Government in Marketing," *Marketing Activities*, U. S. Dept. Agr., Production and Marketing Admin., Feb., 1947. Pp. 3-4.

As the country began to develop, as railroads pushed out over the country, the producer began to have less direct contact with the ultimate consumer. Distance increased in a geographical sense as new producing sections opened up, and in a functional sense as improved processing facilities were developed. Today, prices are determined not by the supply and demand on the market, but the supply and demand in many markets. With consuming markets hundreds or even thousands of miles from producing sections, there has come a need for definitions of quality that are uniform at all places and at all times. The horse and wagon have been replaced by the railroad freight car, the motortruck, and even the airplane. Distance also has meant the development of storage facilities — huge grain elevators, cold-storage warehouses, and the like. To assure fair play in the markets, a number of regulatory laws have come into being. Under our present complex system of marketing, a great deal of governmental assistance is demanded, and needed, by both producers and consumers.

How to help consumers fulfill their role in an efficient marketing system presents peculiarly difficult problems.—  
*Ed.*

- 6.1.2 Stewart, Paul W. and Dewhurst, J. Frederic. *Does Distribution Cost Too Much?* The Twentieth Century Fund, New York, 1939. P. 349.

Under our present economic system the main directing source of all economic activity is expenditure by consumers. To the extent that their choices are irrational and uninformed, the system fails to reach its optimum performance. The variety of products now in the market, the importance of qualities not readily susceptible to sensory test, complications in service and convenience and the fact that consumers spend most of their time and energy as producers, all contribute toward making individual purchasing an inefficient process. Added to this is the incessant pressure of modern advertising — sometimes illuminating, but too often obscuring the facts which the consumer requires to enable him to buy intelligently.

But the problem of assisting consumers is not as simple as might at first appear. Until recently, at any rate, the great majority of them have not shown any great interest in becoming better informed. . . .

Accurate information is an essential feature of competition. The trade provides a good deal of information of various kinds. In addition, the federal and state governments publish a great mass of crop reports, market reports, and outlook reports which are used regularly by farmers and dealers. Most readers of this book are doubtless familiar with some of these statistical reports, but they may not fully realize either the size of the reporting job or the difficulties to be met in providing accurate and adequate information.

Here we shall include only a brief note summarizing the informational material available.—*Ed.*

- 6.1.3 United States Department of Agriculture. "The Agricultural Estimating and Reporting Services of the United States Department of Agriculture," *Miscellaneous Publication No. 703*, Bur. Agr. Econ., Dec., 1949. Pp. 2-3.

At present, the Bureau of Agricultural Economics, the principal statistical organization of the Department, publishes throughout the year statistical reports that give current national and State estimates of production, stocks, and prices received by farmers, for more than 150 farm products. These reports include estimates of the acreages of the crops farmers intend to plant, acres planted for harvest, and harvested acreages. During the growing season monthly forecasts of production are made on the basis of crop conditions or probable yield per acre as they are reported to the Department on the first of the month. Reports on the condition of pastures and ranges are issued monthly by States. Production estimates for 136 crops, including fruits, nuts, vegetables, and field crops are published regularly.

Statistics concerning livestock and poultry production include annual estimates of numbers and classes of livestock and poultry on farms January 1, and annual estimates of calf and lamb crops and chickens and turkeys raised. Estimates of the pig crop are made twice a year; the report in June covers the spring pig crop and intentions for the fall; the report in December relates to the fall pig crop and intentions for the following spring. The volume of milk and eggs produced is estimated monthly, and that of wool and mohair annually. The number of chicks hatched in commercial hatcheries is estimated monthly, and weekly reports are made for areas in which broilers are important.

A complete enumeration is made each year of the factory output of about 45 kinds of dairy products. Monthly and weekly estimates are made currently for the more important dairy products. . . .

Forecasts and estimates of agricultural production are made for the United States and for each of the 48 States. County estimates for a few major products are published annually in nearly all States, and county estimates for most of the important products are published in a third of the States. In 12 of these, county estimates are based on an annual Assessors' State Farm Census of crop acreages.

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In addition to measures of production, the Bureau makes many other estimates. Examples are quarterly estimates of grain stocks; monthly estimates of the number of people working on farms, by regions; quarterly estimates of farm-wage rates, by States; monthly estimates of prices received by farmers; monthly estimates of prices paid by farmers for a considerable list of food items and quarterly estimates of prices paid by farmers for most other major producer and consumer goods bought by farmers; monthly estimates of farmers' cash receipts; triannual estimates of farm land values; and annual estimates of the farm population (in cooperation with the Bureau of the Census, Department of Commerce).

Certain additional statistical series originate within the Department, but outside of the Bureau of Agricultural Economics. Examples include the daily and weekly price and volume reports on grains, livestock, fruits, and vegetables arriving at or sold on the more important central markets; monthly reports on stocks of perishables in cold storage; and quarterly reports on stocks of leaf tobacco owned by manufacturers and dealers, by type. Commodity statistics of an essentially administrative nature, such as stocks of corn owned by the Commodity Credit Corporation or under CCC loan, are often invaluable when estimating total stocks on a given date, but the method of assembling such information is not discussed in this publication, since these statistics are prepared primarily for internal use within the Commodity Credit Corporation or Production and Marketing Administration. The preparation of occasional and nonrecurring estimates, whatever the phenomenon, will not be discussed in this publication.

The remainder of Subsection 6.1 will be concerned with grades for farm products and with the policies of government in defining grades and providing inspection services through which the grades are made effective.

The two following excerpts discuss some fundamental principles.—*Ed.*

- 6.1.4 Montgomery, Donald E. "Consumer Standards and Marketing," *Annals of Amer. Acad. Pol. and Soc. Sci.*, May, 1940. Pp. 141-42.

Thus a standard is a description. To be commercially useful it must be reasonably precise, suited to the purpose for which it is used, and generally accepted among those who use it. It may describe things or what we do about things. . . . The standard itself is just a description, but behind it is some kind of consensus — backed by opinion, custom, agreement, law, or regulation — that this or that be done with respect to it.

- 6.1.5 Taylor, George R., Burtis, Edgar L., and Waugh, Frederick V. "Barriers to Internal Trade in Farm Products," a Special Report to the Secretary of Agriculture, U. S. Dept. Agr., Bur. of Agr. Econ., March, 1939. Pp. 79-81.

*The Ultimate Basis of Effective Grades.* Grading has been promoted by producers and traders, and largely because they stood to gain by it; but grades must rest solidly on consumers' preferences or on basic utility to consumers if they are to be effective. Consumers will not pay more for one grade than another if it makes no difference to them which grade they buy. Furthermore, the fundamental economic justification of grades likewise is that they afford a means for consumers to register their preferences more accurately and more effectively, so that, if the grading system is carried all the way back to the producer, consumers are better able to encourage the production of the grades they prefer and to discourage production of the less desirable grades.

In other words, although it has been producer groups primarily that have promoted grading, it is the consumers who determine the effectiveness of the grades set up. The grades established have been effective in proportion as they have reflected real differences in consumer's preferences. For example, candling is used to determine egg grades because it is the most reliable method known for estimating in advance how the egg will taste when served on the table; and certainly a real difference exists in the strength of a consumer's desire for a good, fair, or bad egg. If egg grades were based on the shape of the egg and that alone, consumers probably would pay no more for one grade than another, and there would be no incentive to producers to grade, nor indeed any reason why they should.

These principles, while clear enough, perhaps require some explanation to bring out their applicability to grading that does not reach all the way through to the ultimate consumer. To give a few of the many possible examples, the grades for canning

peaches follow the product only as far as the canning factory. Wheat grades go only as far as the miller. Most grades for fresh fruits and vegetables are not used after the product reaches the wholesaler, for both the retailer and the consumer typically buy on personal inspection.

How then do grades rest on consumer preferences? There are two answers, depending on the commodity in question. If the commodity is radically changed in form on the way to the consumer, as when wheat is changed to flour, the ultimate consumer's influence on the choice of grade standards is indirect. Yet it is real. The miller prefers the qualities of wheat that will give a high yield of flour possessing the qualities consumers prefer. However, for commodities of this kind, which undergo a radical change in form, the arguments presented above are most realistic if "consumer" is understood to mean "user"; thus the miller is to be regarded as a consumer of wheat.

On the other hand, if the commodity is not greatly changed in form, the influence of the consumer is felt directly. Even if the consumer buys, say, lettuce on the basis of personal inspection and not on grade, yet the grades used by shippers and wholesalers are directly related to what the consumer wants. The qualities the dealer will prefer are usually and mainly the same ones that the consumer will prefer. Some modification of this statement is necessary, for the shipper and dealer will also prefer a type of produce that will ship and keep well. That is, to consumers' preferences, which they must keep in mind, they will add some preferences of their own growing out of the necessities of merchandising. This qualification is an addition to, and does not in any way weaken, the general principle that grades must be solidly based on consumers' preferences.

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The problem of choosing "correct" grade standards involves several difficulties. The first difficulty is that there is no general agreement as to whether consumers' preferences as expressed through market prices, or home economists' or nutritionists' evaluation of basic usefulness, shall be taken as the basis of grade standards. The two may differ widely. The second difficulty is the small amount of research that has been done to determine consumers' preferences. We do not have very definite quantitative information about the details of consumer preferences. The third difficulty is to translate consumers' preferences into a description of the article in objective and measurable



terms. It is desirable to formulate grade standards so far as possible in terms of definite measurements—in terms of inches, pounds, a certain number on a color scale, etc.

It is necessary to solve all these difficulties before the fairness or unfairness of a given requirement in a grade standard can be judged. For example, the question of whether the requirement of nontremulous air cells in the top grades of eggs is fair or unfair cannot be settled until there is general agreement as to whether a tremulous air cell is or is not a reliable index of quality—"quality" being defined either on the basis of consumers' preferences or according to some scale of "basic utility" requirements. If it is generally agreed that a tremulous air cell is a reliable index of quality, then the exclusion from the two top grades of any eggs that have been shipped in from a distance must be recognized as fair and just; but if a relationship between quality and tremulous air cells cannot be satisfactorily demonstrated, such exclusion must be judged as unfair to shippers who are at a distance from the market.

It is possible then that some arbitrary requirement may be added to the grade standards and that it will have the effect of discriminating against a certain group of producers. In order either to prove or to disprove that the requirement is arbitrary, it is necessary to discover what characteristics are considered by consumers (or, alternatively, by experts) as making up quality, and then to express those characteristics in definite, measurable terms. If the description so arrived at includes the disputed requirement, it may be concluded that the requirement is necessary; if not, that it is arbitrary.

The right system of grade standards should maximize returns to producers by classifying the product on the basis that most accurately reflects what the buyers want and are willing to pay for. The implications of this have not always been clearly recognized. Some practical aspects of the problem are brought out in the following discussion by Erdman.—*Ed.*

6.1.6 Erdman, H. E. "Problems in Establishing Grades for Farm Products," *Jour. Farm Econ.*, Vol. XXXII, No. 1, Feb., 1950. Pp. 15, 17-19, 28-29.

The fact that farm products of low quality continue to appear on the market along with good products has concerned many persons. It is a matter of common observation that industrial products are highly standardized, usually at some acceptable level of quality. Agricultural marketers have sought to emulate

industry by dividing the product into "grades." Discussions of grading often emphasize prices for the top grades, ignoring the fact that other grades are also to be sold or otherwise disposed of.

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One of the first problems encountered in the establishment of standard grades is that of locating boundaries between grades. These take the form of provisions in the "specifications" for the several grades. When such specifications are changed, there usually follows a change in the proportions which graders will place in the different grades affected. For example, the recent elimination of color as a factor in grading beef carcasses should place some carcasses in higher grades than would formerly have been the case. Presumably grading is done to maximize returns to sellers. It does this by dividing given products into "grades" on the basis of attributes which buyers of different classes consider significant. Standardizing grades at the determined levels and standardizing the names by which they are known merely facilitates bargaining once the terms come to be "common language" among buyers and sellers. Just where the boundaries between grades should be placed will then depend upon the degree to which the various users will pay premiums for certain qualities rather than substitute adjacent qualities within the ranges available.

Suppose buyers of apples in an independent market at a given time will pay \$3.00 a box for "top quality" apples so graded as to include 10 per cent of the crop, \$2.00 a box for "second quality" so graded as to include 60 per cent of the crop, and \$1.00 a box for "third quality," including 30 per cent of the crop. A 100-box lot would thus gross \$180.00. Readjusting the boundary line between the top two grades by changes in the specifications so that, let us say, only eight per cent fell in the top grade with 62 per cent in the second grade, would do at least two things. In the first place, it would raise the demand schedule for both grades by improving the quality of each. That is, the apples excluded from grade 1 to reduce its quantity from 10 per cent to eight per cent of the lot may be assumed to consist of the poorer apples in that grade; however, the apples so excluded should be better than those in grade 2, so that their inclusion in the latter grade should raise its quality. In the second place, readjusting the quantity should raise the price of the top grade somewhat by decreasing the supply of it by 20 per cent and should lower the price of the second grade by increasing

the supply  $3\frac{1}{3}$  per cent. Allowing for both change in quality and change in quantity should produce a net change in price which would depend upon the elasticity and cross-elasticity of the demand for each grade at the particular time. Table I, based on assumed prices and elasticities, suggests the type of problem involved in the fixing of boundaries between grades if the aim is maximum returns to sellers.

The problem is obviously not as simple as here pictured. The range in quality of any product varies from year to year. In

TABLE I  
HYPOTHETICAL ILLUSTRATION OF A NET CHANGE WHICH MIGHT RESULT FROM A SHIFT  
IN THE BOUNDARY BETWEEN TWO GRADES

	Per Cent of Lot Included	Assumed Price	Return on Assumed Bases
Plan I—Original boundaries			
Grade 1.....	10	\$3.00	\$ 30.00
Grade 2.....	60	2.00	120.00
Grade 3.....	30	1.00	30.00
Total.....	100	\$1.80	\$180.00
Plan II—Revised boundaries			
Grade 1.....	8	\$3.40	\$ 27.20
Grade 2.....	62	2.00	124.00
Grade 3.....	30	1.00	30.00
Total.....	100	\$1.81	\$181.20

addition, elasticities of demand vary within seasons, and doubtless from one season to another. It would not be feasible, even if it were possible, to adjust quantities falling in the several [grades] so as to maximize returns from year to year. The best that can be done is to approximate the best average distributions between grades over a period of years.

Grading is, of course, done at various stages of the marketing process. Each operator aims to maximize returns from *his* sales at *his* stage of the marketing process. There is a great deal of manipulation for this purpose, as when a grain dealer "mixes" grain, or when an egg jobber "splits" his grade A eggs into two subgrades for sale at different prices under different brands.

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References to grades and grading in recent writings omit discussion of some of the broader implications suggested above.

Data on increased returns from the sale of graded produce can have significance only if considered in some such way as that suggested in Table I. It means little to say that "strawberry growers received a premium of \$1.00 to \$1.25 a crate for berries packed according to suggestions of the State Marketing Specialist," or that "using small and low-grade white potatoes for hog-feed helped to raise the quality of the stock marketed for food." Results of experience with modified grades in a few packing plants are pertinent only if such practices are not applied so widely as to affect significantly the volume sold under specific grades.

A problem that needs consideration in connection with programs to eliminate low quality from the market is that of so labeling low-quality products as to permit consumers to decide for themselves whether they want them at the prices asked. It is probably true — though not so represented in grade or preference studies — that much of the low-grade stuff that finds its way into the market does so through that part of the trade which is willing to deceive consumers by careless grading and by failure to label correctly. It is of little value to grade products if consumers are confused by the labels as is the case when a low-grade product is sold under a fancy label which implies quality but gives no facts to guide the consumer.

If everyone were thoroughly familiar with all details of all grade specifications, the names by which the different grades are called should not matter. But this is not always the case, and we find each trade group trying to attach attractive names to its grade classifications — to make them "excellent, still better, unsurpassed," rather than "low, medium, high." The confusion resulting from unrestrained indulgence in such a practice can endanger the effectiveness of the whole grading system.—*Ed.*

6.1.7 Harper, F. A. "The Problem of Grade Names," *Farm Economics*, No. 146, Cornell Univ., Ithaca, New York, May, 1945. Pp. 3738-41.

To focus attention on the existing confusion of names, a summary has been made of official state and federal grades for 110 products. Since one product may have different standards in different states, it was found that 268 different grade systems were in use for these products. One sample from each grade within each of these grading systems would yield 636 samples. If each sample were to be marked by name, 150 *different* individual names would be found. Some would be found only once, and

others many times. The name most frequently found would be "No. 1," which would appear 137 times. Next in frequency would be No. 2, Fancy, and Minimum Standard. One hundred twenty-one of these names would appear only once.

The confusion of having 150 different names appear on these samples is enough to discourage most consumers from ever understanding grades. Yet the confusion becomes even worse when he tries to learn their placement and meaning in the *series* of names used for the various multiple-grade systems. This problem does not arise, of course, in the 114 grading systems which have only one grade. But in the other 154 systems, having from two to eleven grades each, the variety of sequence of names is a serious problem. These 154 multiple-grade systems use 78 different series of names, of which no two are exactly alike.

Before a given grade-name in a multiple-grade system can indicate quality clearly and accurately to the buyer, he must know how many grades there are and the number of grades better and poorer than the one he is considering. For instance, knowledge of the existence of a grade called No. 1 is, by itself, not a safe guide in buying. It might erroneously be assumed that the No. 1 grade could be depended upon, where found, to represent the best quality of a product, irrespective of how many other grades or grade-names were used. Any buyer who acts on that assumption will be fooled about half the time. Out of 110 uses of the grade-name "No. 1" in multiple-grade systems, it failed to represent the best quality in 54 cases, and in one case it was the fourth best. This lack of dependability is far worse for most of the other grade-names.

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A summary of the 154 multiple-grade systems showed that only 36, or less than one fourth of them, used a simple and desirable system, either numerical or alphabetical. The other three-fourths involve some degree of confusion, so that a person not knowing its peculiarities is likely to be misled by the grade-name. There are some amusing illustrations. The grading of one product is largely a size consideration, wherein "large" is the next to the smallest among six grades, and "medium" is the smallest. In other words, the least desirable among six grades of this product is "medium." The *best* among nine grades of another is "middingling fair." These two names have a similar tone of desirability. "Good" is the third best among seven grades of one product; "choice" is the poorest among three grades of another.

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In all this confusion of names, it is little wonder that consumers and buyers do not generally depend on grade-names as a safe guide to quality. It is little wonder that much opposition exists to all programs of compulsory grading. Few people know grades well.

These considerations tend to cool our enthusiasm about the extent to which grade standards and names, as they now exist, can be generally helpful to consumers and buyers as guides to buying. They help to explain the common practice of personally inspecting products, whenever possible, rather than depending solely on representation of quality by grade.

Official grades are most used, and best understood, in the wholesale trade. To be most effective they must be extended forward to the consumer and backward to the farmer. The wholesale market may pay a high premium for the best cotton, hogs, or potatoes. But unless the farmer can sell by grade, he may find it unprofitable to produce what the market wants. One answer is governmental inspection at or near the farm, as is done in the case of cotton and tobacco in certain areas. Another is cooperative marketing, through which the farmers' agents grade their products. Perhaps another alternative is to work out some practical arrangement through which processors will pay farmers according to the actual quality of the processed goods. Proposals of this kind have been made for pricing hogs by the weight and grade of carcass.—*Ed.*

- 6.1.8 Shepherd, Geoffrey, Beard, Fred J., and Erikson, Arval. "Could Hogs Be Sold by Carcass Weight and Grade in the United States?" *Iowa Agr. Exper. Sta. Res. Bull.* 270, Iowa State College, Jan., 1940. P. 449.

Detailed statistical investigation indicates that commercial butcher hogs are bought on too nearly a "flat price" basis; the differences between the values of different lots of butcher hogs are greater than the differences between the prices paid for them. Within each weight class the variations in value may be as much as five times as great as the variations in prices paid. The correlation between values and prices, lot by lot within each weight class, is rather low. It ranged from + .34 to + .56 in the cases studied.

The reason for the inaccuracy of the prices paid for hogs on the live weight basis is two-fold: (1) It is difficult for the buyer to detect value differences accurately on the hoof, no matter how experienced he is, and (2) it is even more difficult for farmers to do so. Accordingly farmers are reluctant to accept discounts for low-grade hogs. It is difficult for the buyer to detect value differences accurately in the first place and difficult for him to

register those differences in proper premiums and discounts. He therefore pays close to the average for all but the obviously defective hogs in each weight range. Both of these reasons stem from the fundamental impossibility of appraising hog values accurately on the hoof.

*The Carcass Basis of Sale.* Many of the shortcomings of the live weight system of sale would disappear if hogs were sold by carcass weight and grade. In 1938 farmers in Canada sold 40 per cent of their commercial hogs on the carcass value basis. The various physical problems involved have been solved under Canadian commercial conditions. . . .

There is considerable evidence that the methods worked out by the Canadians to handle their physical problems could be adapted to conditions in the United States.

To devise a system of grades that clearly and accurately reflects market preferences is a difficult and complicated problem with some commodities. No matter how good the system, it cannot fulfill its purpose effectively unless it is accepted and used by the trade or industry concerned. Efforts to put into operation a grading system through which farmers could be assured of appropriate price differentials for quality of product have faced exceptional difficulties in the case of tobacco.—*Ed.*

6.1.9 Clement, S. L. "Variations in Flue-cured Tobacco Prices," *North Carolina State College Agr. Exper. Sta. Tech. Bull. No. 69*, May, 1942. P. 4.

In 1937 and 1938 on the Farmville market, prices paid for different lots of the same U. S. grades of flue-cured tobacco varied widely within days. The average of daily spreads between high and low prices paid for 14 representative U. S. grades in 1938 amounted to \$15.33 for 100 pounds, or 63.5 per cent of the season average price of these grades. Even when the effect of extreme chance variations had been removed by the elimination of 10 per cent of the poundage at each extreme of the price range, there remained an average spread of \$8.07 per 100 pounds, or 33.4 per cent of the season average price.

Since company buyers do not regard U. S. grades in making their purchases, in the analysis of price variations in terms of company grades less variation was found, although daily prices paid for representative company grades varied considerably. Corresponding average spreads for 16 company grades were 28.9 per cent and 13.2 per cent of the season average prices.

Probably no sane individual would attempt to explain in full the wide variation in prices indicated. A considerable part of it

is inherent in the system and defies logic. However, several factors associated with the variation have been examined, and the results may be summarized briefly.

Each company has its own private secret system of grades, and none of these systems correspond with the U. S. standard grades. A single company grade contains tobacco of many U. S. grades, and the tobacco of a single U. S. grade bought by a company is distributed among a number of company grades. The analysis of 15 representative company grades bought in 1938 on one market indicated that on the average 24.4 per cent of each company grade consisted of tobacco classified in one U. S. grade, 38.6 per cent in two U. S. grades, and 48.4 per cent in three. If the assumption is made that federal grading is accurate, company grades contain a wider range in quality of tobacco than U. S. grades, or have less uniformity of quality.

## 6.2 Enforcing Competition by Public Regulation

While marketing services can facilitate competition, they cannot create it. Farmers sensed at an early date that they were victims of monopolistic exploitation in many phases of marketing. Through their political demands they were instrumental in the establishment of railway rate regulation and antitrust legislation before 1900. Since then more specialized legislation has been passed to protect both farmers and consumers against monopoly and price manipulation and against misrepresentation and fraud. The principal instrument for maintaining competition in agricultural markets, as elsewhere, has been the Sherman Antitrust Act of 1890, and most of the excerpts in this section are concerned with the efficacy of this approach to public policy. First, however, we review briefly some of the federal regulatory activities that apply specifically to the marketing of farm products.—*Ed.*

6.2.1 Kitchen, C. W. "OMS Regulatory Work," *Marketing Activities*, U. S. Dept. Agr., War Food Admin., March, 1945. P. 3.

The Office of Marketing Services administers some 25 separate laws related to the marketing of farm commodities. Federal legislation on this subject began about 1914; before that time marketing had been regarded largely as a local problem, with some regulation and assistance by States and municipalities. The rapid development of transportation, refrigeration, and large-scale production, especially of the more perishable commodities, had forced producers to seek markets farther and farther from home.

Widespread confusion had developed in the use of terms for



describing the quality and condition of farm commodities. Various State and trade standards had been established for some commodities, but they were not uniform and consequently were not adapted to long-distance transactions and to distribution on a national and international scale. Various forms of abuses and unfair practices had arisen. The farmer badly needed a way of knowing the probable value of the commodities he had produced. Congress considered the marketing of farm commodities in interstate and foreign commerce as a proper subject for Federal legislation.

6.2.2 United States Department of Agriculture. "Report of the Administrator of the Production and Marketing Administration," 1946. Pp. 28, 33-34, 49-50, 56-57, 61-62, 63.

PMA administers the United States Warehouse Act and inspects warehouses used for storing commodities owned by the Commodity Credit Corporation. Licensing warehousemen under the act is voluntary. When an application is received from a warehouseman, an investigation is made of the facility and of the financial status and ability of the operator. If requirements are met, licenses are issued to the warehouseman and to persons qualified to sample, inspect, weigh, and grade the products handled by the warehouseman. Thereafter PMA supervises the licensee's operations to see that the requirements of the act are met.

More than 2 billion dollars' worth of agricultural products were stored during the year in warehouses licensed under the act. Again in 1946 — as during every other year since the act was passed — no storer of any product in any warehouse suffered financial loss. As the year ended, approximately 1,340 warehousemen were licensed and about 3,385 service licenses were in effect. Approximately 4,400 supervisory examinations had been made — an average of more than 3 inspections to a warehouse.

An investigation of rye warehousing in the Chicago market, made as a result of a complaint by a Chicago grain merchant charging violations of the act, failed to sustain a single charge of the complaint.

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In the administration of the Commodity Exchange Act, PMA supervised the futures trading in 15 commodities, amounting to nearly 17 billion dollars, on 15 exchanges. In commodities not restricted by price ceilings, speculative and hedging transactions increased markedly during the year.

Nearly 1,100 brokers and brokerage firms with 1,548 offices were licensed by the Commodity Exchange Authority. Periodic audits of brokerage firms for the protection of customers' funds numbered 202, and 10 investigations of violations were made.

In three cases, respondents charged with violations of the act were denied trading privileges for varying periods by the Secretary of Agriculture. Effective December 3, 1945, the Commodity Exchange Commission reduced the limit on individual speculative positions and daily trading in rye futures to 500,000 bushels.

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*Perishable Agricultural Commodities Act.* Highlights during the year in the administration of the Perishable Agricultural Commodities Act, which is a regulatory statute intended to suppress unfair and fraudulent practices in the marketing of perishable agricultural commodities in interstate or foreign commerce, were the new peak in the number of active licenses, and increases in the number of informal settlements and in the sums paid in connection with these settlements. All commission merchants, dealers, and processors handling fresh or frozen fruits and vegetables in interstate or foreign commerce in carlots or in wholesale quantities of 1 ton or more are required to be licensed, and violations of the act are punished by awarding reparations as damages or by other disciplinary actions.

At the end of the year licenses in effect totaled 22,126, an increase of 1,159 in 12 months and the largest number in the history of the law. Payments made in connection with the amicable settlement of registered complaints amounted to \$1,188,200 — approximately \$123,650 more than during the preceding year. A comparison between activities of the 2 years indicates a trend toward increased numbers of informal settlements of disputes through the efforts of PMA rather than insistence on formal action. Informal settlements of controversies in lieu of formal action were made in 85 cases, an increase of 32 over the previous year. Formal orders numbered 76 — 10 fewer than in 1945.

Activities under the Produce Agency Act were limited. Only seven complaints were recorded and no prosecutions appeared to be warranted. The only complaints handled were those that could not be handled under the Perishable Agricultural Commodities Act — chiefly complaints involving consignments transactions.

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*United States Grain Standards Act.* Under this act, passed in 1916, the Secretary of Agriculture is authorized to establish official standards and inspection for grains. Official standards have been promulgated for wheat, barley, oats, feed oats, mixed feed oats, rye, mixed grain, flaxseed, corn, grain sorghums, and soybeans. After promulgation of standards for any grain, it must be inspected, graded, and certificated according to the official standards whenever it is merchandised by grade in interstate or foreign commerce from or to an inspection point. The primary inspection of grain is performed by inspectors of State and trade inspection departments and in some cases by independent inspectors, all licensed by the Secretary. Federal offices are maintained at headquarters in districts comprising definite areas for the purpose of supervising the work of the licensees and handling appeals from their inspections. These offices also aid in enforcing provisions of the act against fraud and misrepresentation in grain marketing.

More than 2 million inspections — a new high record — were made in 1946 by licensed inspectors. The quantity of grain inspected totaled more than 4 billion bushels, or more than 2.3 million carloads; the number of inspection certificates issued under the act totaled more than 2 million. The inspections included vast quantities of grain inspected for export. Inspection activities included problems involving quality defects, storage damage, the use of open-topped cars for intermarket grain shipments, the training and examining of applicants for licenses, and the maintenance of standardized inspection equipment.

Each State has a seed law that requires correct labeling of seeds offered for sale within its borders. The Federal Seed Act, which requires complete labeling of seeds in interstate commerce, supplements these State seed laws. During the fiscal year reports and investigations of complaints charging violations of the act numbered 527 — 92 per cent higher than during the preceding year. Criminal action was recommended in 44 instances representing 8 per cent of the complaints. Seizure was recommended in 9 instances. Nine criminal cases and 3 seizure cases were terminated in the Federal courts. Twelve criminal cases and 5 seizure cases were pending in court when the year closed.

The act also prohibits the importation of agricultural and vegetable seeds that fall below fixed standards of quality. By amendments to regulations under the act the number of kinds of seeds subject to this control has been increased from 159 to

225. When offered for importation these seeds must be tested. Approximately 70.5 million pounds of seeds were offered for importation during the year. Of this quantity 60.3 million pounds were released as offered, and an additional 7 million pounds were released after they had been put into admissible condition.

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*Packers and Stockyards Act.* The Packers and Stockyards Act gives the Secretary of Agriculture supervision over the operations of packers, stockyard companies, market agencies, dealers, and licensed poultry handlers, and authorizes him to regulate rates and charges for services at stockyards and designated poultry markets.

Petitions for increased yardage and commission rates were restricted to a level generally representative of actual increased labor costs plus other essential increases. A provision that stockyard companies who seek additional revenues must obtain a part of them by assessing yardage charges against dealers and traders saved farmer-producers \$222,000 in three markets alone.

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*Meat Inspection.* At the end of the year, animals and meat and meat products were being federally inspected at 554 slaughtering establishments (with or without meat processing) and 474 processing establishments — 1,028 establishments in all.

New inspection labels and sketches for labels submitted for approval numbered 15,919 — 1,856 more than in 1945.

Ante mortem inspections were made of 82,817,790 animals, of which 34,049 were condemned and 233,737 were marked "suspect," and post mortem inspections were made of 82,781,260 animals, of which 319,091 were condemned. Somewhat smaller than in 1945, these totals were in line with the decreased animal slaughter.

More than 1,379,752,000 pounds of meat and meat products for foreign commerce were inspected.

Governmental policy with respect to large-scale business has been unclear, ambiguous, and conflicting. On the one hand, there has been concern over the growing concentration of economic power in the hands of a few large concerns. On the other hand, there is a growing awareness that American efficiency has been built to a large extent upon mass production and mass distribution.

Some economists urge the enforcement of competition and apparently believe this would cause no serious loss in

efficiency. Other economists warn against the sort of anti-trust activities that might destroy, or seriously impair, the efficiencies made possible by mass production and mass distribution. A representative cross-section of different policy positions is presented here.—*Ed.*

6.2.3 Simons, Henry C. "A Positive Program for Laissez Faire," Public Policy Pamphlet No. 15, University of Chicago Press, Chicago, 1934. P. 19.

There must be outright dismantling of our gigantic corporations, and persistent prosecution of producers who organize, by whatever methods, for price maintenance or output limitation. There must be explicit and unqualified repudiation of the so-called "rule of reason." Legislation must prohibit, and administration effectively prevent, the acquisition by any private firm, or group of firms, of substantial monopoly power, regardless of how reasonably that power may appear to be exercised. The Federal Trade Commission must become perhaps the most powerful of our governmental agencies; and the highest standards must be maintained, both in the appointment of its members, and in the recruiting of its large technical staff. In short, restraint of trade must be treated as a major crime, and prosecuted unremittingly by a vigilant administrative body.

6.2.4 U. S. Federal Trade Commission. *Agricultural Income Inquiry, Part I, Principal Farm Products*. U. S. Government Printing Office, Washington, D. C., 1938. Pp. 38-39.

When a considerable proportion of the total output of an industry is brought under one ownership or control by a union of former competitors there is a strong probability that competition will be substantially lessened in the process. Accordingly, the Commission recommends further legislation to provide that no enterprise engaged in interstate commerce be permitted to acquire control over the assets of a competitor, whether directly or indirectly, if the combined assets or output after the union would exceed a specified percentage of the total assets or output of the industry, except under conditions, such as purchase from a receiver in bankruptcy, to be specified in the statute. If this recommendation is adopted, judicial inquiry into the lessening of competition in each particular case will be necessary only when, because of special circumstances, competition is substantially lessened by acquisition of less than a controlling interest in a competitor's assets or by acquisition of a controlling interest which in other respects meets the requirements of the statute.

The problem created by consolidations and mergers is not merely that of the lessening of competition in a particular in-

dustry. The progressive enlargement of a few predominant enterprises has already gone so far that, in financial strength and in numbers of persons subject to their control, the largest concerns exceed some State governments. Although the most conspicuous examples of this process are not to be found among food manufacturers and distributors, the cumulative enlargement of the dominant food enterprises points to the possibility that such a condition may arise here also. The dangers of such concentration of power are evident, whether the power is concentrated in one industry or spread over a considerable number of industries. The Commission does not suggest that limits be set to the growth of an enterprise by virtue of its success in attracting customers and of its consequent enlargement through purchase of new equipment. It believes, however, that there should be limits to growth which consists in combining the assets of various enterprises for the sake of the greater power which can be exercised by the combination. Therefore, the Commission recommends the enactment of legislation to forbid the acquisition of the assets of another enterprise by any concern whose total assets thereafter would exceed a specified amount.

**6.2.5 The Farm Foundation.** "Turning the Searchlight on Farm Policy," Chicago, 1952. Pp. 56-57.

*Sound policy dictates that farmers and agricultural organizations direct their efforts toward attacking any monopolistic restrictions that exist in other areas rather than themselves becoming parties to programs that result in lessening the total national product.* Pushing up farm prices does nothing to lower nonfarm prices or to increase the supply of industrial goods or commercial services. Instead, it still further contracts the total supply of goods in the general market and lessens the volume of consumer satisfaction. Restrictionism in agriculture is not an effective and satisfactory way of compensating for the harm done to farmers by such price maintenance and restriction of production as exist in the industrial and labor segments of the economy.

**6.2.6 Galbraith, J. K.** "Monopoly and the Concentration of Economic Power," *A Survey of Contemporary Economics*, ed. by Howard S. Ellis, Blakiston Company, Philadelphia, 1949. Pp. 127-28.

. . . The problem of monopoly policy has long been intellectual property of men whose faith is in competition. A rule of oligopoly poses, for them, the unattractive alternatives either of recommending a wholesale dissolution of existing business units or of devising rules of behavior for a kind of society which none

likes, which for some is a positive anathema, and to which conventional modes of analysis and thought are inapplicable.

. . . The dilemma may be more intellectual than real. We do live in an industrial community where oligopoly — or, more horrid word, private collectivism — is the rule. But, strangely, we do live. Our dissatisfaction with our world is less the result of having known any other than of having constructed a model of another economic society, the *rationale* of which we know and which is more companionable to our sense of elegance and order. We shall never find anything so agreeable in the world we have. But perhaps there will be compensation, once we have exchanged elegance for actuality, in a greater rate of progress in understanding what we have.

- 6.2.7 Waugh, Frederick V., Hoffman, A. C., and Meyers, Albert. Statement on "Agricultural Marketing Policy," Investigation of Concentration of Economic Power: Final Report and Recommendations of the Temporary National Economic Committee, Senate Doc. No. 35, 77th Cong., 1st Session, 1941. Pp. 388-90.

It is our belief that, in the main, mass processing and distribution in the food industries have their roots in technological factors which make them as inherently a part of our present-day economy as mass production in industry. We believe that at least some degree of integration and large-scale organization in agricultural marketing makes for greater efficiency and offers a means for reducing the costs of processing and distributing farm products. There are, of course, many exceptions to this general statement. Many efficiently operated small concerns can and do match the mass distributors in operating efficiency. Moreover, in some cases the economies inherent in mass distribution appear to have been dissipated in excessive sales and advertising expenditures, and the profits of some food concerns have been such that obviously not all the advantages of scale have been passed on to farmers and consumers.

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It may be that the people will choose in general to preserve competition and small-scale enterprise for the non-economic values inherent in this type of economy. Certainly they have not done so with respect to all parts of the economic system, as exemplified by those industries in which competition has been replaced by some degree of public control. Moreover, in many of the heavy industries carried on under conditions of mass production, there is no substantial body of support for giving up

technical advantages in order to return to small-scale enterprise. In our view, there is no reason to follow a different policy for mass distribution than for mass production. Insofar as both flow from the same causes, have the same general economic advantages, and are subject to the same abuses of monopoly control, they should be dealt with alike.

So far as the food industries are concerned, there is probably no one policy which can be universally applied. Each branch presents a different set of circumstances, and should be treated accordingly.

Where competition is reasonably free, profits not excessive, and prices to farmers and consumers reflect a proper charge for necessary marketing services rendered, no type of public intervention is necessary. In this connection, competition between large firms may be fully as effective in keeping margins down as that between many small firms.

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Where competition can no longer be relied on to protect the public interest, then one of two general courses must be chosen: (1) An attempt to preserve competition under the Sherman Act, or (2) some type of public regulation. If there are no economies of size, if small enterprises are as efficient as large ones, then patently proceedings under the Sherman Act are in order. But if this is not the case, and if to dissolve corporate mass distributors leads to an increase in food costs and margins, then we believe public intervention should be in the direction of control of the monopolistic elements rather than their dissolution. We recognize that public control is inherently difficult, sometimes ineffective and even corrupt. But where competition breaks down or fails to produce a proper balance, it may be the best alternative.

6.2.8 Hoffman, A. C. "Changing Organization of Agricultural Markets," *Jour. Farm Econ.*, Vol. XXII, No. 1, Feb., 1940. Pp. 171-72.

In summing up, what shall we say about corporate mass distribution in terms of the fundamental forces which lie back of it? With respect to this, there are two diametrically opposed schools of thought.

On the one hand are those who hold that this trend has no real basis either in operating efficiency or in the indivisibility of economic resources. Their contention is that the chief stimuli have been nothing more than bargaining advantages and a non-



economic drive for business power. If large-scale enterprises have tended to displace small ones it is, according to this view, only because the former have been in position to exact monopolistic prices. And for allowing them to do this, we must blame, in the words of Professor Fetter, "mistaken human laws, misinformed public opinion, and the limitations of public officials — legislative, judicial, and executive."

The other view stems from the materialistic interpretation of economic and social development. It holds that business patterns are largely determined by such material factors as the mode of transportation, the facilities for communication, and the technology of production. Applied specifically to the food industries, this would mean that large-scale marketing is to be explained mainly in terms of the automobile, the motor truck, new techniques of food processing, and even of such seemingly unrelated innovations as the cash register and the adding machine which make it possible to extend the function of business management over a wider range and scope of activities.

If this latter view is accepted, and I think it is much more realistic than the first, then large-scale organization in marketing is as inherently a part of our modern economic system as mass production in industry.

6.2.9 Bressler, R. G., Jr. "Agricultural Marketing Research," *Jour. Farm Econ.*, Vol. XXXI, No. 1, Feb., 1949. Pp. 555-56.

Competitive economic theory can thus provide the framework for our ideal market. Confronted with any marketing and pricing problem, the research worker can plan his attack by asking himself such questions as "How would this marketing process be organized if it operated under the conditions of perfect competition?" This does not imply that competitive conditions could be completely attained, nor that the solution to marketing problems is simply a "return" to the system of free and perfect competition. A realistic view of the industrial economy of today indicates that it would be *both undesirable* and impossible to attain many of the characteristics of a competitive market. Two main types of modifications are necessary: first, the inclusion of welfare considerations that modify the distribution of income, such as progressive income taxes and minimum wages; and second, the possible advantages of a limited number of firms in those areas where economies of large-scale operation are important. In this last case, the significant questions are "What or-

ganization of this process would minimize costs and how can these costs be reflected in prices?"

Attempts to improve marketing by approximating competitive conditions will be appropriate in many instances. These include such things as curbing large-scale organization where its effects are primarily to exact charges not commensurate with costs, and perfecting knowledge through research, education, and market news. In certain other areas, however, this approach will not be productive and here the stress must be on approximating the *results* of competition in terms of costs and prices. As already mentioned, large-scale organization may frequently result from technological factors that give rise to economies of scale, and the curbing or breaking up of such large units would necessarily lead to higher costs. This is a much more common situation in marketing than is sometimes supposed, for economies of scale are frequently of sufficient importance relative to the size of local markets to result either in (1) a considerable degree of local and spatial monopoly or (2) a number of small and high-cost competing firms. In country marketing and processing plants, for example, this conflict is clear. The problem may be one of how to achieve and regulate low-cost monopolies in the public interest.

One of the main problems in legal control of monopoly is the establishment of tests of its existence. How do we determine whether a particular firm is a monopoly, or whether a group of firms is engaged in concerted action that restrains competition? Here the lawyers and the economists have not always seen eye to eye.—*Ed.*

6.2.10 Nicholls, William H., "Conflicts between Economic and Legal Approaches to Monopoly," *Pricing and Trade*. A Report of the National Marketing Research Workshop, U. S. Dept. Agr., 1952. Pp. 166-67.

It is the task of the law of monopoly to distinguish between business practices which are in the public interest and those which are not. In carrying out this difficult problem of evaluation, the courts have had to devise and apply tests capable of differentiating between approved and disapproved practices. As elsewhere in the law, the law of monopoly has reflected the perennial conflict between certainty and change. As we have already indicated, two tests of monopoly have become traditional — (1) On the question of conspiracy, does the evidence show that competitors actually agreed? (2) On the question of monopolization, was there overt predatory action to exclude competition? These two tests had

the advantages of certainty — they could be applied with sufficient consistency to assure equality of treatment before the law; and they were sufficiently concrete to indicate the practices which must be avoided to escape condemnation under the law. Unfortunately, however, these tests have become increasingly inadequate as the structure and practices of American industry have taken new and more subtle forms. Thus, the need for change — for adapting the law to a new industrial environment — has become more and more apparent, particularly since 1930.

With the coming of the theories of monopolistic competition, a wide gap quickly developed between the legal and economic concepts of monopoly. The law continued to emphasize restriction of competition — whether by agreement with, or predatory practices against, competitors — as the essence of monopoly. Economics, however, turned increasingly to an emphasis upon the individual firm's control over prices — due either to large size or product differentiation — as the sum and substance of monopoly.

Under this new concept, economists were quick to point to important shortcomings of the law. First, while explicit agreements among competitors were illegal *per se*, oligopoly theory pointed to the likelihood that a few dominant firms would involve patterns of non-aggressive pricing which, being largely or wholly *tacit*, were beyond the reach of the antitrust laws. Since domination-by-a-few had become the typical pattern of modern industry, it appeared that non-aggressive policies — such as price identity, market sharing, price leadership and non-price competition — would, in general, produce the economic results of industry-wide market control while avoiding the legal sanctions of monopoly. Second, the close combination or merger, however large — in the absence of overt actions of *exclusion* against existing or potential competitors — was safe under the law. Yet, in terms of control of the market, “mere size” was of paramount importance, especially when supplemented by price leadership and other devices which effectively extended the dominant firm's control over an entire industry. Furthermore, even though illegal (predatory) actions to exclude competitors had almost wholly disappeared, high costs of entry and expansion remained as a significant but perfectly legal barrier to competition in industries characterized by large-scale production and highly advertised brands.

The final excerpt in this subsection is taken from the *Harvard Law Review*. It is an unusually clear discussion of the legal and economic issues to be met in enforcing competition.—*Ed.*

6.2.11 Adelman, M. A. "Effective Competition and the Anti-Trust Laws," *Harvard Law Review*, Vol. 61, No. 8. Pp. 1291-97, 1298-1300, 1303-04.\*

# I. WORKABLE COMPETITION AND ECONOMIC WELFARE

## A. EFFICIENCY AND SIZE

Does the large corporation suffer from hardening of the bureaucratic arteries, and is it inherently less efficient than smaller ones? We simply have no reliable evidence. Moreover, there are limits to what research can accomplish in this area, simply because every large corporation comes so close to being a historical individual. The background of its formation, the products it sells and their interrelated cost structures, its markets and market policies, and the men who have built it — to call them necessarily incommensurable with other firms' would be an exaggeration, yet they are often so. A more promising line of inquiry, in my opinion, would be to discover the minimum size of firm needed to operate efficiently in a given industry, but I know of no attempts to do so.

## B. CONCENTRATION

The American economy is generally regarded as being highly concentrated; its being so regarded in the late 1880's led to the Sherman Act. Since that time, we have had three merger movements. But as the TNEC hearings proved, we know practically nothing about their permanent effect. Statistics on concentration of corporate assets and income appear to show (the fragmentary and unsatisfactory data forbid our saying more) a substantial increase from 1909 to about 1939. We can say with much greater assurance that concentration has *not* increased since then. During the war small and medium-size firms increased their profits, assets, and net worth faster than large ones, probably because they sold in a less regulated market. In manufacturing, the largest firms' share of total assets probably declined; we have no reliable information on their share of total employees. But the large firms probably made the greatest gain in wartime research; and know-how is the most valuable, if least measurable, of all assets. Since the war, there have been a good many mergers, mostly of small companies; but there is no evidence that the relative share of the larger firms has been made either greater or less.

Furthermore, much of the appearance of a general increase in concentration has been due to the rapid growth of public utilities. Now that the Supreme Court has cleared away the

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\* ED. All footnotes in the Adelman selection are omitted here.

obstruction to thought known as *Smyth v. Ames*, we need a policy toward these legal monopolies; but this is obviously no part of anti-monopoly policy. On the other hand, it is common knowledge that in many important markets within the area covered by anti-trust — e.g., in steel, oil, sugar, tobacco, and aluminum — there are more companies in the market today than there were decades ago, and the share of the largest is less. Concentration, since the great flowering after the Civil War, appears to be a plant of slow and uncertain growth. Yet this does not make it beneficial. Let us explore the effects.

*"The Decline of Competition."* — Many people who consider that "concentration" and "monopoly" are two names for the same thing will in the same breath argue further that, in markets where the number of sellers has increased, the public may be exploited just as badly. Both ideas cannot be true, but common observation seems to support the latter. The consumer is not benefited by a choice between Tweedledum and Tweedledee; he needs a wider market, which includes at least one real alternative.

But a widening of markets has taken place on a large scale since the rise of big business — the two processes were, in fact, closely joined. Transport costs have declined relative to prices and income: in 1941, as compared to 1890, they were approximately one-fourth as high a protective wall for local monopoly. New products have competed with old: aluminum, for example, with copper on one side and steel on the other. The development of the chemical industries has also facilitated substitution. The general rise in living standards has made a larger share of the consumer's budget consist of discretionary items: furniture competes with automobiles, for example. On the other hand, the small town's one bank, one farm implements dealer, one grain elevator or cotton gin, one general store, were literally and actually monopolies.

Regarding the situation as a whole, there is no reason to speak of "the decline of competition." The notable book of that title is actually a study in existing limitations on competition. In many fields, price competition has indeed declined; but, in the field of distribution, there was little price competition until big business introduced it: "The farmer's only friends are God and Sears-Roebuck." The low-income city family may feel similarly about the chain stores. A senator once called them "the most startling development of monopoly in our country at the

present moment [1931].” If by monopoly he meant simply size, he was obviously right. If he meant market behavior, he was as obviously wrong.

Juggling definitions of monopoly yields no light. If we dislike size and concentration, we ought to proceed directly against these. But they have no obvious or simple relation to objectionable market control.

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#### C. THE OPERATION OF COMPETITIVE MARKETS

The concept of monopoly suggested above seems (although it is not) very different from more popular ones. A “monopolist” is most often and most briefly defined as a person or business which is the only supplier of a certain product. But brevity is not always simplicity. Common sense suggests that the monopolist of any product competes for the consumer’s dollar with the seller of every other product and that what matters is the degree of ease or difficulty with which buyers can substitute one product for another. A single hand controlling the water supply might be a grave threat to the community. A single company rolling sheet brass might be serious. A “monopolist” of 1/4-inch square black imitation pearl buttons might not even be a minor nuisance.

In a word, monopoly and competition are no either-or dichotomy: they are matters of degree, of the ease or difficulty of substitution, of the availability of “sufficient” alternatives to buyers and sellers. The way in which a “sufficiently” competitive market operates, and the results it attains, are worth a brief glance.

Within limits, the more a business firm is able to sell, the lower its cost per unit sold. If buyers are price conscious, a small price cut takes additional trade from rivals, lowering costs and increasing profits. Rivals are compelled to follow because the customer is always ready and able to seek the better alternative. Prices are cut toward the point where additional output would be more, not less, costly; at this level, there is full utilization and maximum output at minimum cost. If competition be unrestrained, there can be no excess capacity; and vice versa. Thus the quest for private gain leads to the greatest possible efficiency and abundance.

This is the ideal. An approximation to it involves the existence at all times of substantial downward pressure on prices and profits. Competition sounds like a heavily brutal and despotic ruler; his subjects, the competitors, can hardly be blamed for wishing he were a little milder. But it is their own doing: they

have maneuvered each other into cutting prices to the level of bare maintenance.

The outstanding virtue of a system of private enterprise, therefore, arises out of a kind of mutual confidence game. But if there are few enough sellers in the market to enable each to watch all the others, the play may slow down: if a price cut will be quickly met, and no lasting benefit secured, why make it at all? To the extent that the sellers anticipate each others' reactions and become of one mind, they behave like one seller, a monopolist. But it is not the number of sellers which is crucial. Some *uncertainty*, some good gambling chance that price cuts will not be immediately met, is necessary for effective competition. Some degree of ignorance is therefore no blemish or imperfection in a market: it is an advantage. Too much ignorance, however, keeps buyers from responding to price cuts. Quality differences, real or fancied, tend to make buyers less price conscious. If one can succeed in persuading the public that his goods are really unique, obviously he becomes their only supplier. But, unless the number of sellers is extremely large, complete uniformity of quality, despite the beneficial tendency of reduction of buyer ignorance, is apt to mean less rather than more competition in industrial markets. It becomes too easy to fix the watchful eye and to develop group consciousness. The activities of some trade associations come readily to mind.

We can go even further. A limited degree of monopoly ("substantial bargaining power"), on one side of the market, can be of great service in maintaining competition on the other. A strong, alert buyer, large enough so that the loss of his patronage is not a matter of indifference, constantly on the watch for a break which he can exploit by rolling up the whole price front, able to force concessions first from one and then from all, and followed by other buyers, can collapse a structure of control or keep it from ever coming into existence. Small wonder, as the NRA experience showed, that sellers attempt to keep big buyers out of the market or to restrict their bargaining power. Not only can certain kinds of monopoly promote effective competition; some kinds of competition inhibit others. The used car market is an important check on possible monopoly in the sale of new, low-priced cars. But it may also have prevented the making of simpler and cheaper automobiles.

Enough has been said to demonstrate that any actual industrial market is compounded of various elements of monopoly —

i.e., restriction — and of pressures toward minimum price and full utilization. The market must be judged as a whole.

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#### D. SUMMARY

Most readers of this article, if asked for examples of reasonably competitive industries, would doubtless point to the manufacture of women's apparel, to automobile manufacturing, and to much of the field of retail distribution. Elaborating a little, they might point out some obvious imperfections in all three but call the situation more than tolerable and in need of no remedial public action. I would suggest that they are probably right. In the light of the preceding discussion, the moral may be drawn in more general terms.

(1) *Prerequisites.*—(a) Workable competition has no close connection with the size of business firms or the concentration of an industry. It is compatible with many small firms, as in apparel; with a few large ones, as in automobiles; and with large and small ones together, as in distribution.

(b) Competition requires rivalry in buying and selling among business firms which are not in collusion. But rivalry alone is not competition. A sufficient number of alternatives open to any given buyer or seller are necessary, including alternatives in the type of goods ("stripped" versus begadgeted models, for example).

(c) A proper blend of competitive and monopolistic elements is needed in any particular market to produce workable competition, and small changes in the ingredients may produce large changes in the result.

(2) *Results.*—The pursuit of business advantage in a competitive market takes the form of reductions in price, improvements in quality, and a constant search for cost reductions and innovations. The benefits are a higher level of output at any given moment and a faster rate of progress.

(3) *Limitations.*—(a) Workable competition will not free us from inflations and depressions.

(b) Part of the benefits must be dissipated in the act of communicating them. Hence some advertising and "selling" is essential for workable competition. But promotional outlays can be used to stave off competition by persuading buyers that there are no alternatives in the market: in such cases they are a burden on the consumer in themselves and in the competition they inhibit.



(4) *Two Hints on Public Policy.*—(a) There are no perfectly competitive industrial markets, *i.e.*, every one contains some elements of control. If the legal concept of monopoly is equated to the widest economic concept, then *every* market contains elements of illegal restraint.

(b) A policy favorable to *competition* is necessarily irksome to many of the *competitors*, who may yearn for a less strenuous existence.

No more general statements seem possible. In fact, the net result of the past twenty-five years of discussion has been a deep appreciation by economists of the variety of results met in actual situations, and the development of a few tools helpful in understanding them. At the risk of giving offense where none is meant, it might be added that abstract theorizing and application of rigidly simplified models to a complex reality are today much more characteristic of “practical” men who claim that they have no truck with any kind of theory. They are able to delude themselves only because the accumulation of sufficient facts, and the utilization of what store we already possess, takes more research work and financial support than we, as a citizenry, have thought it expedient to supply. Knowledge does not come free. The ancients conceived Truth as a goddess, but to our disillusioned modern eyes she is that odious kind of strumpet who demands both love *and* money.

### **6.3 Governmental Restrictions and Modifications of Competition**

Although perfect competition is often considered an ideal, we purposely restrict and modify competition in many ways. This is true not only in public utilities, where competition is practically impossible, but also in many other fields including agricultural marketing. Some of these have been alluded to in earlier sections. See especially in Section 3 the discussion of so-called “interstate trade barriers” (Readings 3.2.11 and 3.2.12) including a variety of laws and regulations designed to modify interstate competition in the marketing of farm products, and the discussion of problems in fixing fluid milk prices under federal marketing orders (Readings 2.6.8, 2.6.9 and 3.2.7).

Attempts to modify competition frequently take the form of discriminative pricing. This has been the subject of a great many controversies. The editor has been involved in some of these disputes and, therefore, is prejudiced. He does not accept the Doctrine of the Invisible Hand as a universal and absolute truth. Anyone who takes the trouble to read a modern analysis of “welfare

economics" will see that any statements on the subject must be carefully qualified. A good treatment may be found in Paul Samuelson's *The Foundations of Economic Analysis* (Harvard University Press, Cambridge, 1947: Chapter VIII). Pure and perfect competition would not necessarily maximize public welfare, especially if incomes are unevenly divided. Price discrimination in favor of low-income families or outright subsidies to reduce income disparity are quite likely to increase public welfare, as the editor sees it.

We turn our attention first to a defense of price discrimination in general by the French economist Dupuit. —Ed.

6.3.1 Dupuit, Jules. *De l'Utilité et de sa Mesure*. (A collection of Dupuit's writings.) La Riforma Sociale, Torino, Italy, 1933. Pp. 141-42.

Le meilleur de tous les tarifs serait celui qui ferait payer à ceux qui passent sur une voie de communication un péage proportionnel à l'utilité qu'ils retirent du passage. Supposons un pont ainsi tarifé: chaque passant payera la moitié du prix qui l'empêcherait de passer. Celui qui dirait: si le péage était de plus de 6 centimes, je ne passerais pas, en payera 3; celui qui ne voudrait pas passer pour plus de 2 centimes n'en payerait qu'un. Il est évident que l'effet d'un tel tarif serait: d'abord de laisser passer autant de monde que si le passage était gratuit; ainsi point d'utilité perdue pour la société; ensuite de donner une recette toujours suffisante pour qu'un travail utile pût se faire. Car en demandant aux passants, au lieu de la moitié, les deux tiers ou les trois quarts de l'utilité, on arrivera nécessairement à en obtenir une plus ou moins grande partie. Je n'ai pas besoin de dire que je ne crois pas à la possibilité d'application de ce tarif volontaire; il rencontrerait un obstacle insurmontable dans l'improbabilité universelle des passants, mais c'est là le type dont il faut chercher à s'approcher par un tarif obligatoire. Il faut deviner les besoins des consommateurs et les sacrifices qu'ils sont disposés à faire pour les satisfaire, puis définir les caractères généraux à l'aide desquels ces consommateurs peuvent être classés dans le tarif. Il faut tâcher de rendre ce tarif flexible pour qu'il puisse se plier à l'infinie variété des besoins et se mettre à leur portée.

Si je ne craignais de sortir du sujet spécial de cet article, je ferais voir que l'exploitation de la plupart des monopoles particuliers présente de très-nombreux et de très-ingénieux exemples à suivre.

Un tarif unique dans une salle de spectacle ne la remplirait

pas, et ne pourrait souvent donner qu'une recette médiocre. De là, perte pécuniaire pour l'entrepreneur et perte d'utilité pour le public. Des divisions dans la salle et dans le tarif augmentent presque toujours la recette et le nombre des spectateurs. On le comprendrait facilement, si ces divisions ne devaient avoir pour résultat que de séparer les places d'où l'on voit et entend bien, de celles d'où l'on voit et entend mal. Mais si l'on examine comment ces divisions sont faites dans la plupart des salles de spectacle, on remarquera que c'est là une des considérations qui influent le moins sur le prix des places; que les entrepreneurs dans leurs tarifs savent mettre à profit tous les caprices des spectateurs, de ceux qui vont pour voir, de ceux qui vont pour être vus, et de ceux qui vont pour tout autre motif. On les fait payer en raison du sacrifice qu'ils sont disposés à faire pour satisfaire leurs caprices, et non pas en raison du spectacle dont ils jouissent.

Au reste, bien des percepteurs de péage sont déjà entrés dans cette voie; ils ont reconnu que le tarif légal était aussi nuisible à leurs intérêts qu'à ceux du public, et ils ont été successivement amenés à accorder des modérations de péage très-nombreuses et qui varient suivant les localités. Il ne s'agit aujourd'hui que de traiter scientifiquement, si on peut s'exprimer ainsi, une question dans laquelle l'industrie a déjà fait quelques progrès en marchant au hasard.

Marketing agreements are one type of program extensively used by federal and state governments to modify or restrict competition in the marketing of agricultural products. These programs frequently involve some form of discriminative pricing. In fact, this is the main characteristic of the marketing agreement and order programs for the regulation of fluid milk markets. They provide for the establishment of different prices for milk going into different uses. In the marketing agreements on fruits and vegetables and other specialty crops, discriminative pricing is usually a secondary feature. Its operation is incidental to the control of volume marketing through regular channels by diversion of part of the crop to processing or alternative outlets.

We include here a brief description of the marketing agreement programs sponsored by the federal Department of Agriculture, followed by several discussions of economic and other aspects of such programs. The reader is referred also to previous discussions of the seasonal marketing of plums (3.3.5), and of the distribution of lemons between fresh market and processing (3.4.4).—*Ed.*

6.3.2 Holt, Budd A. and Rubel, Donald M. "Marketing-Agreement Programs as a Means of Agricultural Adjustment," *Farmers in a Changing World—Yearbook of Agriculture*, 1940, U. S. Dept. Agr., 1940. Pp. 638-40, 642, 644-45.

Marketing-agreement programs combine voluntary and regulatory control of the marketing of agricultural commodities for the purpose of increasing returns to producers. They differ from other agricultural adjustment programs having the same objectives in that they are not directly concerned with production; their purpose is to regulate the marketing of available supplies.

*Programs Established for Two Groups of Commodities.* Authority to undertake marketing-agreement programs was given in the Agricultural Adjustment Act of 1933. They have been established for two general types of commodities — (1) milk and dairy products and (2) specialty crops, particularly tree fruits, tree nuts, and vegetables.

While the results that producers of these two main groups of commodities seek to obtain by regulation — principally increased income, greater price stability, and more equitable sharing of the market — are similar, the marketing problems in these two types of industries differ, owing largely to the inherently different characteristics of the commodities themselves. Fluid milk is a highly perishable commodity which must be delivered to the consumers at a relatively constant rate, and producers usually ship their fluid milk to one consuming market.

The producers of the specialty crops, on the other hand, are usually concentrated in areas favorable to the production of their commodities and ship their products to many scattered consuming markets.

A second main difference in the marketing of these two types of commodities is in the number of buyers of the product for distribution to consumers. Conditions surrounding the retail distribution of fluid milk favor the growth of large distributing organizations, and relatively few organizations buy and distribute the bulk of the fluid milk in most markets. In contrast, there are many local buyers of most specialty crops, and these commodities are shipped to widely distributed consuming markets in each of which many buyers are located. To offset the tendency for prices of fluid milk to be determined in a buyers' market, organizations of producers have been established for the principal purpose of bargaining with distributors. Bargaining between large buying and selling interests is not common in the fruit and vegetable field. Furthermore the several different market uses

for milk — as fluid milk, cream, butter, etc. — have led to the development of pricing plans involving two or more prices for the producer's product depending on the use made of the milk. Such multiple pricing is seldom found in the producers' markets for fruits and vegetables.

The approach to the problem of improving the income of producers through regulation of marketing differs for the two general types of commodities with the differences in marketing problems and marketing institutions of these commodities. In the case of milk, regulations involve classification according to use and determination of prices for the various uses. The price of milk for fluid distribution is established at a higher level than prices for other uses, and the seasonal and operating surpluses which cannot be sold for fluid distribution are diverted to use for cream or manufactured products. On the other hand, regulations for specialty crops, such as tree fruits and nuts or vegetables, approach the problem of growers' prices indirectly from the supply side. That is, the quantity, quality, rate, and method of shipment from the producing areas to all markets are controlled, and prices received by producers are thereby indirectly affected.

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... Additional legislation, provided by the amendments to the Agricultural Adjustment Act in 1935 and by the Marketing Agreement Act of 1937, further clarified marketing-agreement programs and specifically stated the types of control that could be effected and the agricultural industries for which programs could be established. Provision was made for the issuance of orders to take the place of the licenses in the earlier marketing-agreement programs. Furthermore, producers were given a more definite place in the development and operation of marketing-agreement programs. It was provided that no order could go into effect without the approval of two-thirds of the growers by number or by volume of the commodity involved. In addition, authorization was given the Secretary of Agriculture for the selection of industry committees or agencies to assist in the administration of marketing agreements and orders.

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Three main types of regulation — volume regulation, regulation of grade and size, and price-posting requirements — have been used in marketing-agreement programs for general crops, and each program contains provision for one or more of these methods of regulation.

(1) Volume regulation is designed to control the volume of shipments of a given commodity in specified channels during a given period of time. One form of volume regulation is the limiting of the total quantity shipped over the season. Where conditions of demand are such that the proportionate increase in price to growers resulting from the restriction is greater than the proportionate restriction in volume, returns to growers will be improved by such a limitation in shipments. A more complex form of volume regulation may be established where two or more market outlets for the commodity exist and where conditions of demand are such that the producers' returns may be improved by protecting prices in one outlet through the diversion of supplies to other outlets. This, in effect, is what is accomplished in milk-marketing programs through the classification of milk and the establishment of prices in the various channels of use. In the specialty-crop field, returns to walnut growers, for example, are improved by diverting supplies from the domestic unshelled market to the shelled and export markets.

Another form of volume control is regulation of the rate of flow to market. It has been found that total returns to growers from many semiperishable and perishable commodities can be raised by such regulation, which may or may not involve elimination of part of the available supplies. This form of regulation is usually designed to prevent the periodic gluts and scarcities of supplies in consuming markets that often occur when perishable commodities are concerned and the control of shipments is determined by the usual competition in the industry. Benefits to producers through this type of regulation come from more uniform prices throughout the shipping season and from the prevention of actual losses on shipments to glutted markets. Regulation of the rate of flow to market might also be designed to achieve different prices at different times in the marketing period if the demand conditions were known to be such that this form of control would improve returns to producers. Thus far, however, this form of volume control has not been undertaken in any marketing-agreement program.

(2) Regulations of grade and size relate to the prohibition of shipments of particular grades or sizes of the product during a given period of time. To the extent that these regulations increase or decrease the total volume of shipments during any given season or accelerate or retard the rate of shipments during given periods of the season, they tend to influence growers' prices and

returns in the same manner as regulation of volume. Likewise, regulations of volumes of shipments tend to result in limitation of discounted grades and sizes, since usually the most preferred supplies are shipped when volumes are limited. Grade and size regulations, however, influence growers' returns through affecting the quality as well as the quantity of the product which may be shipped in the period during which the regulations are in effect. They have, in some cases, been established for the purpose of improving the quality of shipments early in the season by prohibiting shipments of immature fruit. (Shippers often ship immature fruit in order to take advantage of high prices existing during those weeks when the volume of shipments is small.) Grade and size regulations, furthermore, have been established for the purpose of preventing losses to growers for those discounted grades and sizes that would occasion a loss if they were shipped during the period of regulation.

(3) Price-posting provisions require that no shipper may quote or sell his commodity at prices other than those contained in his posted schedule. This is not designed to effect price fixing, since shippers may file new price schedules. They are not permitted to quote or sell the commodity at the new schedule of prices, however, until a designated period of time has elapsed. The primary purpose of price posting is to make available more reliable information concerning the prices prevailing in the market. At the same time this may prevent destructive price cutting.

As would be expected, regulations limiting the total volume shipped during the season have proved to be the most effective in improving prices and returns to growers. . . .

6.3.3 Stokdyk, E. A. "Economic and Legal Aspects of Compulsory Proration in Agricultural Marketing," *Univ. of Calif. Agr. Exper. Sta. Bull.* 563, Dec., 1933. P. 5.

One of the fundamental weaknesses of voluntary action in restricting the quantity placed in the primary channels of trade is that nonparticipating individuals derive the benefits of such action without bearing any of the burdens. Such individuals usually consider only their own self-interest and do not consider the possibility of loss to themselves as well as to the industry as a whole if their lack of participation results in the demoralization and failure of industry-wide restriction programs. Experience has shown that it takes only a small number of nonparticipating growers to greatly impair programs which aim to limit or curtail production or shipments. The failure of a few to partici-

pate induces other growers to desert the programs or at least to lose some of their enthusiasm. Therefore, it has been suggested that in order to obtain the desired control in curtailment programs, benefits and costs be pro-rated equitably among all growers in the industry by making participation in a restriction program compulsory if two-thirds or more of the growers desire to engage in such action and if such compulsion is essential to the welfare of the industry.

6.3.4 Wellman, H. R. and Waugh, F. V. "The Economic Effects of Market Pro-rates," outline prepared for Marketing Res. Comm. of Am. Farm Econ. Assoc. and Soc. Sci. Res. Council, 1938. Pp. 1, 3, 4, 5-6, 7, 8, 9, 15, 17-18.

Most of the marketing control schemes which are conducted or supervised by State or Federal government have as their chief purpose the raising of incomes to farmers, either temporarily or permanently. . . .

The effects of certain types of prorates on grower incomes have been discussed in detail in a recent paper by Waugh, Burtis, and Wolf. The paper shows that whenever a crop can be segregated into two or more parts, to be sold in different forms, at different times, or in different geographical areas, and when the demand functions for the different segments of the crop are independent of each other, maximum income is attained only when marginal net returns for the different segments are equalized. This principle is quite different from the principle commonly called "orderly marketing," by which a crop is so distributed that the net prices of the different segments are equalized. . . .

The exact character of the effects upon growers' incomes and upon the welfare of other groups can be discussed most satisfactorily in relation to specific kinds of prorates. The succeeding sections consider some of the major types which have been developed as a basis for suggestions concerning the type of research needed.

*Limitation of Total Supply in All Markets Combined.* The primary purpose of any plan to limit the amount of a crop to be sold usually is to raise the incomes received either by growers or by some other group in the industry. The programs developed by Governmental agencies and cooperative associations are mainly for the purpose of raising the incomes of growers. It is necessary, therefore, first to consider the principles which determine the success or failure of such schemes in accomplishing this primary objective.

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If the quantity-price curve at the farm is inelastic, or, in



other words, if the quantity-returns curve is decreasing at the amounts under consideration, a reduction in the amounts sold will increase the total returns to the farmer. If the quantity-price curve is elastic, that is, if the quantity-returns curve is rising, such a reduction in the marketings of the crop will reduce returns to the farmer. In this connection the existence of substitutes may affect returns to the farmer indirectly, even though the supplies of them are fixed. If substitutes are readily available the quantity-returns curves of the particular commodity will, in general, be more elastic than if they are not readily available. The slope and shape of the quantity-price and quantity-returns curves depend partly on the willingness of the consumers to accept substitutes and on the quantity of substitutes available.

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In general, any plan which raises the price of a particular commodity will tend to encourage an increase in the production and marketing of substitutes wherever such an increase is possible. The increase in the amounts of substitutes put on the market would tend to reduce somewhat the demand for the particular commodity, the price of which is raised by the program. Thus, it is necessary to consider not only the quantity-price curve for the particular commodity, but also the degree to which this curve may be lowered on account of probable increases in the availability of substitutes.

Although the problem of substitution in some cases is very important, even in a short run, it is likely to be particularly important in a long run. There are two reasons for this. First, over a period of time the producers of substitute commodities may be able to enlarge their production substantially, and, second, there may be a tendency for consumers to become accustomed to substitutes and to develop a rather permanently higher demand for them and a correspondingly lower demand for the commodity which was restricted.

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A very important consideration in connection with the long-time effects of such a program on the income of growers is its effect on productive capacity. This will depend, mainly at least, on how any gains from such a program are distributed among the growers. If the benefits to individual growers are in proportion to the size of their current crops, each year there will be a tendency for individual growers to increase their production as long as the program results in profitable net prices. If there

should be substantial monopoly gains from such a limitation program it might lead to a serious over-expansion of productive capacity with accompanying unnecessarily high costs of producing commodities which were not sold.

It is even more important to avoid such a situation if the limitation program is of a rather temporary nature. If such a temporary program tends to build up a large and unnecessary productive capacity, disastrously low prices are likely to result when the program is discontinued. However, if the gains from the limitation program are moderate enough so that they simply make it possible for the industry to continue to maintain a productive capacity in line with normal market requirements there may be a real gain to the grower, both during an emergency while the program is in operation and after the program is dropped.

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Any effective limitation of total supplies also reduces the quantity of the particular commodity available to the consumer and raises the price of it during the immediate period of time. . . .

An elastic consumer demand for a commodity does not necessarily mean that the quantity-price curve for that commodity at the farm is also elastic. Marketing costs per unit tend to be relatively rigid, at least for short periods of time. When these costs are both rigid and high the quantity-price curve at the farm may be very inelastic, even though the corresponding consumer-demand curve is elastic. In such cases the total returns to growers may be increased by limiting the supply, and at the same time the total expenditures by consumers for the commodity may be lowered. This is possible only because the total gross returns to the marketing agencies are substantially lowered because of the reduced volume of business. In some situations the reduced volume of business may result not only in a reduction in the total gross charges of marketing agencies, but may also tend to reduce the charges per unit handled. Such a reduction may be brought about either by a decrease in the profits of handlers on account of keener competition among them, or by a decrease in the risk of future price declines. When marketing charges represent a high proportion of the retail value of a crop there appears to be more justification for a prorate scheme than when marketing charges are small.

A temporary disadvantage to consumers from a reduction in the market supply of a commodity may, under certain situations,

be more than offset by larger supplies and lowered prices over a period of time than would otherwise prevail. In general, the use of rather moderate limitation programs during the emergency period of low prices will tend to enable farmers to maintain their productive capacity more nearly in line with normal market requirements than would be possible without such a program. From the standpoint of consumers it seems desirable to develop some set of principles by which we might define a long-time normal supply of a commodity and by which we might judge the effects of a limitation program. The effects of a limitation program on consumers might then be judged, partly at least, by the way such a program affected actual supplies in relation to this long-time normal supply.

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*Diversion from Regular Commercial Channels.* . . . In general, however, it may be said that as long as the marginal revenue is higher in the diversion outlet than in the regular outlet, total returns will be increased by transferring a small quantity from the regular outlet to the diversion outlet.

Marginal revenues will be higher in the diversion outlet than in the regular outlet, if the price at which a small quantity can be sold in the diversion outlet is above the marginal revenue for the entire quantity in the regular outlet. On the other hand, marginal revenues will be higher in the regular outlet than in the diversion outlet if the price at which a small quantity of the commodity can be sold in the diversion outlet is below the marginal revenue for the entire quantity in the regular outlet. The latter situation would occur only if the quantity-price curve in the regular outlet were elastic or if the price in the diversion outlet were a minus amount. Whenever the quantity-price curve is inelastic the marginal revenue is negative, and under these conditions it is profitable to divert some of the crop to another use even if it returns a zero price for the other use.

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Diversion from the regular outlets affects different classes of consumers in different ways. In general, the effect is to penalize those consumers who purchase in the regular outlet and to benefit those who purchase in the diversion outlet. . . .

*Grade and Size Restrictions.* . . . Actually, however, the demand for any given grade is usually affected more or less by the quantity of other grades available. In addition to considering the elasticity of demand for a particular grade it is necessary to

consider the effect of a given quantity reduction in the supply of one grade upon the price per unit of the other grades, and also the number of units of the other grades affected. Numerous cases are likely to arise in which total returns to growers will be maximized from a given quantity reduction in shipments by distributing the reduction between the grades rather than applying it entirely to any one of them.

The opinion is widely held among growers and handlers that if any products are to be withheld from the market, they should consist of those grades and sizes which bring the lowest price per unit. The arguments advanced in favor of such a procedure are generally two. First, that if each grower or handler is permitted to ship only a limited quantity, it will pay him individually to confine his limited shipments to those grades and sizes which bring the highest net price per unit. And, second, that the presence of low quality products on the market adversely affects the prices of superior products.

With regard to the first argument, if each grower or handler is given a quantity allotment, it will pay him to fill his quota with that portion of his total supply which brings the highest net price per unit. In this way each grower or handler individually will maximize his own returns. It does not necessarily follow, however, that the total returns to the industry as a whole will be maximized under this procedure. The same quantity reduction for the industry as a whole may result in larger total returns if a portion of the reduction is applied to the superior grades. Marginal revenues rather than price is the key to the solution of the problem. We are concerned here with the marginal revenue of the crop as a whole rather than the marginal revenue for particular grades or sizes. The marginal revenue for a particular grade or size might be positive, indicating that increased shipments would raise the returns for that grade or size, but such an increase might lower the returns for other grades and sizes more than enough to offset the rise in income for the particular grade or size.

Either in the absence of any control or with individual allotments on a quantity basis, growers will incur a net loss on any grades and sizes whose selling price is less than the costs of marketing. Under such situations the obvious thing to do is to withhold these grades and sizes from the market. However, if the markets for the several grades and sizes are interdependent, a restriction on the higher-priced grades and sizes may raise growers' returns more in some cases than would a restriction on

the lower-priced grades and sizes. With competing grades and sizes a reduction in the quantity of the higher-priced ones will not only result in higher prices for them but also in higher prices on the lower grades and sizes, so that instead of selling at a net loss, the lower grades and sizes may be selling at prices above marketing costs. Here the significant fact to consider in determining what grades and sizes to restrict is not the relative net prices of the various grades and sizes but the addition to total returns which would occur from the restriction of each of them.

From the standpoint of consumers, grade and size proration which reduce the quantity of merchantable products that would otherwise be available have much the same effect as outlined in the previous section. Another consideration, however, appears in sharper focus. That has to do with discrimination as between classes of consumers. When the higher-priced grades and sizes are restricted, gains to growers are largely at the expense of the wealthier groups, while when the lower-priced grades and sizes are restricted, gains to growers are largely at the expense of the poorer groups.

Marketing agreements and orders obviously restrict competition. Those who emphasize the goal of competition are likely to be critical of the programs carried on under agreements and orders.—*Ed.*

6.3.5 Erdman, H. E. "Market Prorates as Restrictions on Internal Trade," *Jour. Farm Econ.*, Vol. XX, No. 1, Feb., 1938. P. 178.

A serious aspect of any curtailment scheme is the tendency of those who seek to gain an advantage through it to be less critical of similar controls on the part of other groups. Hence such controls may develop into a creeping paralysis on industry. Any group may favor curtailment by other groups whose political aid the first may desire, provided they are not on the supply list for the former. The situation may not be unlike that in the case of the tariff, where, for example, American farmers have actually accepted a generally ineffective tariff on wheat in exchange for generally effective tariffs on products they must buy. In view of recent price maintenance legislation the tendency seems already to be in the direction of universal monopoly and universal scarcity, rather than in the direction of increased abundance.

6.3.6 Edwards, Corwin D. *Maintaining Competition*. McGraw-Hill, New York, 1949. Pp. 62-65. Reprinted by permission.

*Agricultural Products.* A much more serious breach of the

antitrust laws was made by the agricultural marketing agreements legislation of the 1930's. As part of a general policy designed to raise the relative prices of farm products, the Agricultural Marketing Agreements Act gave the Secretary of Agriculture authority to enter into marketing agreements with processors, producers, associations of producers, and others engaged in handling any agricultural commodity or product thereof, and exempted such agreements from the antitrust laws. This statute clearly applies not only to farmers and farm organizations but also to industrial establishments that process farm products and to traders who sell either the original or the processed products. Its field, therefore, is not only agriculture, but substantially all of the food industry and considerable portions of other industries as well. There are no limitations upon the subject matter of the agreements except the general provision that they shall carry out the purposes of the law. The exemption from the antitrust laws is complete, including not only the right to create combinations in restraint of trade but also the right to coerce competitors and to create monopolies. Protection for the public interest rests entirely in the unchecked and unguided discretion of the Secretary of Agriculture. His assent is necessary to give effect to the original agreement, and he is authorized subsequently to obtain reports from the participants and to examine their business records in order to determine whether the agreement has effectuated the policy of the act and whether the exemption from the antitrust laws has been abused. By withdrawing his approval of an agreement, he can restore the applicability of the antitrust laws.

In practice, the Secretary of Agriculture has made no investigation directed to the discovery of abuse of the antitrust exemption and has revoked no marketing agreement on this ground. His inquiries have sought to determine whether agreements were being carried out and whether they were accomplishing the purposes of the Agricultural Marketing Agreements Act. In practice, too, the Secretary has sometimes used other portions of the agricultural legislation, which gives him the power to issue marketing orders, in such a way as to extend the application of marketing agreements to persons who were unwilling to enter into them. Thus agreements have become devices by which, through the authority of the Secretary of Agriculture, groups concerned with marketing agricultural products have been able not only to accomplish their own purposes in disregard of the

antitrust laws but also to enforce these purposes upon their reluctant competitors.

Agricultural marketing agreements have actually been approved only for commodities that are produced locally by specialized enterprises. They have not been applied to the great nationwide crops. The largest group of agreements (more than thirty) have governed various local milk markets. Other important agreements have covered citrus fruit, peaches, pears, and potatoes. With the exception of one agreement for bees, one for hops, and two for nuts, all others have dealt with various fruits and vegetables. Only in the case of milk has the Secretary used his power to make an agreement applicable to groups of processors. Corporations engaged in making and selling evaporated milk have been parties to one such agreement, and dairy companies have been parties to a considerable number.

The practices incorporated in agricultural marketing agreements have included fixation of prices, limitation of the amounts or percentages of output which may be sold, diversion of products to supplementary markets, and various other directly restrictive programs. The central purpose of the agreements has been to raise the prices of the commodities covered thereby, and the most usual technique has been to prohibit the sale in ordinary commercial markets of some portion of the amount produced. The first agreement, for example, which regulated the handling of walnuts, provided that a portion of the crop should be defined as surplus and should be surrendered to a control board which might dispose of it by export, by gift or sale to charitable institutions, or by other means not likely to upset the market for the rest of the crop, but specifically not by domestic commercial sale as unshelled walnuts.

The approved marketing orders have granted powers of administration and often substantial powers of enforcement to central administrative agencies composed of processors and handlers. These agencies usually have been given authority to apply the formulas through which the price and the quantity for sale are to be determined, to apportion shares in the market, and to make marketing regulations. The Secretary's surveillance over them has been typically limited to a requirement that they make annual reports of their activities.

This statute is objectionable by standards that are fundamental to any public policy. Its purpose, to improve the relative well-being of farmers, calls for no challenge. Its method, how-

ever, is to sanction devices that reduce the amount of the available food supply and is therefore inherently restrictionist. Its standards of price are based, like those of other farm legislation, upon comparative prices of farm products and other commodities in a base period; and such standards are notoriously incompetent both to take account of changes in farm income because of increases in productivity and to maintain a suitable relationship among farm prices themselves. Its administrative technique is to entrust exercise of public power to persons who are privately interested, without adequate provision for public surveillance. The substantive content of agreements made under its authority is determined by bargaining between representatives of one private interest and a single public official, under procedures which are designed to afford some protection to those who enter into the agreements but not to the consumers of the product. This official's power is sometimes used to enforce arrangements thus made upon dissenting minorities within the producing groups, and thus to give those arrangements the full effect of public laws without the precautions attached to the enactment and enforcement of ordinary laws. Official discretion is not appreciably limited by law nor subjected to judicial or administrative review.

In the years immediately before World War II, many programs were developed to enable low-income families to obtain more and better food. These included a food stamp program, a school lunch program, and a nickel milk program, as well as the direct distribution of surplus foods taken off the market by government purchase. Some of these programs, also, have aspects of discriminative pricing — especially the low-price milk plan — but for the most part they are best analyzed as consumption subsidies.

Much was written about the stamp program. We shall not cover it here, except to reproduce a short note concerning the proposed "food allotment" program, a post-war version of a stamp plan. We also include a short statement on school lunches and a general analysis of the economics of food subsidies.—*Ed.*

6.3.7 Shepherd, Geoffrey. "Food Stamps and Farm Income," *Farm Policy Forum*, Vol. 3, No. 7, Iowa State College, Ames, Iowa, July, 1950. Pp. 27-28.

*The Aiken Bill.* The 1950 Food Stamp Plan is a streamlined version of the original prewar model. It is embodied in Senator George D. Aiken's bill (S. 104). (*Editor's Note:* See June, *Farm Policy Forum*.)

Aiken's Bill differs from the prewar Food Stamp Program in



one important respect, however. It offers to sell food stamp books, enough to provide an adequate diet (as defined in the bill) to anybody for 40 per cent of his income. This solves at one stroke the problem of substitution and the problem of how many and which people to take into the program.

It takes away the money that the participants used to spend for food so they can't use it for other things. And each man decides himself, based on his income and size of family, whether to come into the program.

6.3.8 Southworth, H. M. and Klayman, M. I. "The School Lunch Program and Agricultural Surplus Disposal," U. S. Dept. Agr. *Miscellaneous Publication* No. 467, Oct., 1941. P. 44.

SPECIAL EFFECTIVENESS OF THE SUBSIDY  
UNDER THE SCHOOL LUNCH PROGRAM

*Replacement of family food purchases.* Foods distributed for school lunches may replace normal sales in two ways. Families of the children fed may reduce their food purchases somewhat. It would be very difficult to measure accurately the extent to which this occurs, but it does not seem probable that there would be much cutting down on meals at home for the whole family because the children receive free lunches at school. Families on short rations are more likely to continue to spend as much as they can afford on food, and be glad that the children get something extra through their school lunches.

*Creation of a new demand for food through new lunch projects.* The other possibility of replacement of commercial food sales is in the lunch projects themselves. Sponsors must agree that the receipt of surplus foods will not cause them to cut down on their own food purchases for the lunches. But the important point here is that most of the projects receiving surplus commodities are new. Probably most of them would not have come into operation at all had it not been for Federal aid. In these new projects, instead of "normal" purchases being replaced, the opposite occurs. A new, previously nonexistent, demand for farm products is created in regular market channels in the form of foods bought by these projects for use with the surplus commodities that they receive.

This new demand certainly much more than compensates for any replacement of commercial purchases that would be made in the absence of the program. Because of it the effect of the Federal subsidy is multiplied rather than diminished.

This is a peculiar advantage of the School Lunch Program

as an outlet for surplus foods. As a consequence, it is probable that no other method of surplus disposal brings farmers so large an increase in income per dollar of Government subsidy as does the School Lunch Program.

6.3.9 Southworth, Herman M. "The Economics of Public Measures to Subsidize Food Consumption," *Jour. Farm Econ.*, Vol. XXVII, No. 1, Feb., 1945. Pp. 48, 54-56.

In analyzing the relationships of the different operating characteristics to the objectives of food subsidy measures, we consider first their comparative effects upon consumption by the individual participating consuming unit—in general, the family. . . .

. . . A given amount of subsidy will be least effective in increasing food consumption if in the form of a cash grant; the greatest diversion to non-food uses occurs in this case. (A grant of food stamps or of food itself will have the same low level of effectiveness unless the amount of subsidy involved is substantially greater than that represented in the diagram.) The subsidy will be 100% effective if given in the form of food stamps with the requirement that the family invest its original expenditure in stamps also. (In practice, however, the inability to freeze expenditures at this precise level will on the average decrease the effectiveness of this form of subsidy.) The same amount of subsidy given through a price reduction will be less effective than under a frozen expenditure plan, assuming that demand is inelastic; if it were elastic, this would be the most effective form of subsidy. The incentive to participate is greatest in the case of the cash grant and least in the case of the frozen expenditure plan. In general, it varies inversely with the effectiveness of the plan in increasing food consumption.

This analysis has enabled us to compare in detail the effects of different ways of restricting the use of a subsidy upon the increase that a subsidy measure will achieve in food consumption by an individual participant. We have drawn certain incidental conclusions regarding the effect of varying the rate of subsidy. In the case of the cash grant, the effectiveness of the subsidy will decrease as the rate increases. In the case of a price reduction, this will also be the case, assuming that demand for food becomes less elastic at lower prices. (There are, of course, individual commodities to which this assumption will not apply.)

Under a plan freezing participants' own food expenditure, the effectiveness probably will not vary much with the rate of

subsidy, although to the extent that a larger rate of subsidy will induce greater participation by eligibles whose expenditures are frozen at a relatively high level, it will probably be slightly more effective. Unconditional grants of food stamps or of food itself become much more effective after the point is reached where the grant exceeds what the family would willingly buy anyway at the equivalent subsidized level of income.

Not all restrictions on competition affecting the marketing of agricultural products are for the benefit of farmers. Special taxes on chain stores have been imposed in many states as a means of promoting "fairer" competition for the independents. Resale price maintenance (or the more pleasant term "fair trade laws") represents another popular form of interference with competition. Such laws have been in effect in 45 states. The Congress in 1952 strengthened this legislation. Farm groups, as well as others, have sometimes opposed this type of restriction.—*Ed.*

6.3.10 Hoffman, A. C. "Large-Scale Organization in the Food Industries," Temporary National Economic Committee, Monograph No. 35, Washington, D. C., 1940. Pp. 154, 156.

Another way in which public policy is affecting the type and scale of business enterprise in the food industries is through State chain-store tax laws. The purpose of such laws is openly and avowedly to help the independent retailer by imposing special taxes on their chain competitors.

At the present time more than 20 States have special chain-store tax laws on their books. Most of these laws were enacted within the last 3 or 4 years.

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In a case brought before the Supreme Court by the Great Atlantic & Pacific Tea Co., the Louisiana law was nevertheless held to be constitutional. The Court based its decision on the fact that the operating advantages of a chain increase with an increase in the number of its stores. The decision turned on virtually the same point as that made in upholding the Indiana law in 1931; namely, that chains may properly have special taxes levied against them because they are able to pay the tax. Nowhere does the Court seem to recognize that consumers may be adversely affected by penalizing what it admits is the more efficient system of retail distribution.

6.3.11 U. S. Federal Trade Commission. Report of the Federal Trade Commission on Resale Price Maintenance, Washington, D. C., 1945. Pp. xxvi-xxvii, xxviii, xxxi, liv, lix-lx.

*Nature of Resale Price Maintenance.* Resale price maintenance as now practiced in intrastate commerce in 45 States of the

United States, and in interstate commerce with those States, is a system of pricing a trade-marked, branded or otherwise identified product for resale in which, pursuant to laws legalizing such arrangements, the manufacturer, producer or brand owner, or his authorized agent, factor or wholesale distributor, prescribes by contract the minimum price or the resale price at which such product may be sold at wholesale, and the producer or manufacturer and his factors or wholesalers prescribe the minimum price or the resale price at which such a product may be sold at retail, in a specified State, or in a specified portion thereof, with the effect of legally binding all other distributors in the specified area to conform to such prices. This is done by entering into contract with at least one such distributor of such product and serving notice upon all other distributors who are thereupon obligated to maintain the minimum price or the resale price named in the contract. In some cases, wholesale distributors, acting without the authorization of the manufacturer or brand owner, have entered into contracts with retailers for the maintenance of retail prices.

The significance of the resale price movement cannot be properly interpreted without taking into consideration its fundamental origin, namely, that it was the manufacturers who were in the vanguard in advocating and using it on the ground that they had a proprietary interest in goods carrying their trade name or brand. Later, with the development of the department store, the consumer cooperative, the chain store and last of all, the super market or "giant store" types of distribution, the older types of merchandisers who progressively lost business to each new type of distributor that developed, turned to manufacturers, demanding price protection. Since about 1920, the development of new types of distributors has been rapid and the leadership in the resale price maintenance movement has been transferred from the manufacturers, of whom a small proportion, producing trade-marked commodities, actively promoted resale price maintenance, to distributors seeking protection in a maintained resale price.

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*Resale Price Maintenance in the Food Trade.* Resale price maintenance is not applicable to a large proportion of food products either because unbranded products are excluded by the provisions of resale price maintenance laws or because its use is considered impractical by manufacturers or producers on account of the nature of many identified products and the market practices connected with them.

In the food trade, competition of branded package goods with

unbranded bulk goods, or with non-price-maintained branded package goods, and, also, the fact that many items of branded, packaged goods fluctuate in market price with the cost of the raw materials of which they are made, or with the market prices of substitute items, limit the practicability of resale price maintenance for many nationally advertised brands of grocery-trade products.

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The little progress made in placing food trade products under resale price maintenance in the 45 States having such laws, the inapplicability of this type of price regulation to a large proportion of the products handled in a grocery store, the reluctance of manufacturers of food trade products to adopt resale price maintenance unless their competitors do likewise, the keen competition that exists among manufacturers of food products for the business of food retail dealers, the generally negative results reported by manufacturers having food products under minimum resale price contracts, the relatively unorganized state of independent retail grocers, the diversity of retail food outlets with widely varying operating costs, the shift in emphasis from resale price maintenance in many of the States to laws prohibiting sales below a specified mark-up, all suggest that any increase in the number of companies adopting resale price maintenance on food trade items will probably not be important.

6.3.12 Waite, Warren C. and Cassady, Ralph, Jr. *The Consumer and the Economic Order*. 2nd ed., McGraw-Hill, New York, 1949. P. 298. Reprinted by permission.

. . . Though legislation designed for the purpose of enforcing fair competition may be justifiable, that having as its purpose the freezing of existing techniques is definitely undesirable. The independent should not be protected on the ground that he is being forced out of business by more efficient retail institutions, since such a course would tend to perpetuate inefficiency. He might be so protected, however, if the large-scale retailer is competing *unfairly* in the market. The drawing of customers by means of less-than-invoice-cost prices in order to sell them goods of a higher-than-average markup probably cannot be defended economically. The sale of goods at low average prices as a result of low distribution expense probably can. Such a conclusion would indicate that resale-price-maintenance legislation is not justified, but that a prohibition of less-than-cost selling may be.

6.3.13 Halvorson, Lloyd C. Statement before House Committee on Interstate and Foreign Commerce on HR 5767 — To Establish Minimum Resale Prices. The National Grange, Feb. 14, 1952. Pp. 1-2.

The National Grange is opposed to legalizing resale price fixing. It believes in full competition and it supports such a system by actions as well as words. The National Grange has a great history in the fight against monopoly. It has had much to do with the enactment of the anti-trust laws of our nation. The purpose of the anti-trust laws was to prevent monopolistic price fixing — to prevent exploitation of the public. This bill, HR 5767, would do the opposite — legalize price fixing by manufacturers — fix the marketing margins. We are for laws that allow competition to keep prices down, not for laws that destroy competition or even restrict it — except as clearly called for to protect public interest.

Farmers have worked for years to reduce the marketing margins — the middleman spread — on farm products which make up the food and clothing of consumers. We have fought for and secured legislation and appropriations to expand marketing research. We are properly concerned also with the marketing and sales cost spread on products farmers buy. We do not believe in laws that fix a wider margin than competition would set. In fact, we believe in trying to improve competition so as to reduce the middleman margin.

The cost of processing and marketing farm products has been studied by Congress and various Federal agencies. We now ask that the cost of manufacturing drugs and the mark-up on drugs be studied and made public by this committee or any other appropriate committee of the Congress before this resale price fixing law is acted upon. Not only drug items but also other items that have used resale price fixing should be studied. This committee and the public needs to know how the wholesale and retail mark-up on drugs, especially the fair trade items, compares with the mark-up on items not fair traded and especially compared to grocery items which are nicely trade marked but very few of which have used the resale price maintenance contracts.

Laws of the kind described in this chapter to restrict or modify competition in the interest of particular groups like farmers or independent retailers reflect the efforts of these groups to gain some degree of monopolistic control in the market. But they may be looked upon also as the organized response of these groups to the monopolistic power of others with whom they deal. Professor Galbraith has presented an interesting theory of this alternative to competition in restraining the use of monopoly power in a

world of large corporations, labor unions, and organized farmers.—*Ed.*

6.3.14 Galbraith, John Kenneth. *American Capitalism*. Houghton Mifflin, Boston, 1952. Pp. 118–19, 131–32, 160, 161–62.

... Thus, with the widespread disappearance of competition in its classical form and its replacement by the small group of firms if not in overt, at least in conventional or tacit collusion, it was easy to suppose that since competition had disappeared, all effective restraint on private power had disappeared. Indeed this conclusion was all but inevitable if no search was made for other restraints and so complete was the preoccupation with competition that none was made.

In fact, new restraints on private power did appear to replace competition. They were nurtured by the same process of concentration which impaired or destroyed competition. But they appeared not on the same side of the market but on the opposite side, not with competitors but with customers or suppliers. It will be convenient to have a name for this counterpart of competition and I shall call it *countervailing power*.

To begin with a broad and somewhat too dogmatically stated proposition, private economic power is held in check by the countervailing power of those who are subject to it. The first begets the second. The long trend toward concentration of industrial enterprise in the hands of a relatively few firms has brought into existence not only strong sellers, as economists have supposed, but also strong buyers, as they have failed to see. The two develop together, not in precise step but in such manner that there can be no doubt that the one is in response to the other.

The fact that a seller enjoys a measure of monopoly power, and is reaping a measure of monopoly return as a result, means that there is an inducement to those firms from whom he buys or those to whom he sells to develop the power with which they can defend themselves against exploitation. It means also that there is a reward to them, in the form of a share of the gains of their opponents' market power, if they are able to do so. In this way the existence of market power creates an incentive to the organization of another position of power that neutralizes it.

The contention I am here making is a formidable one. It come to this: Competition which, at least since the time of Adam Smith, has been viewed as the autonomous regulator of economic activity and as the only available regulatory mechanism apart from the state, has, in fact, been superseded. Not entirely, to be sure.

There are still important markets where the power of the firm as (say) a seller is checked or circumscribed by those who provide a similar or a substitute product or service. This, in the broadest sense that can be meaningful, is the meaning of competition. The role of the buyer on the other side of such markets is essentially a passive one. It consists in looking for, perhaps asking for, and responding to the best bargain. The active restraint is provided by the competitor who offers, or threatens to offer, a better bargain. By contrast, in the typical modern market of few sellers, the active restraint is provided not by competitors but from the other side of the market by strong buyers. Given the convention against price competition, it is the role of the competitor that becomes passive.

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The development of countervailing power requires a certain minimum opportunity and capacity for organization, corporate or otherwise. If the large retail buying organizations had not developed the countervailing power which they have used, by proxy, on behalf of the individual consumer, consumers would have been faced with the need to organize the equivalent of the retailer's power. This would be a formidable task but it has been accomplished in Scandinavia and, in lesser measure, in England where the consumer's co-operative, instead of the chain store, is the dominant instrument of countervailing power in consumers' goods markets. Quite probably there would have been similar organization in the United States. The fact that there are no consumer co-operatives of any importance in the United States is to be explained, not by any inherent incapacity of the American for such organization, but because the chain stores pre-empted the gains of countervailing power first. The counterpart of the Swedish Ko-operative Forbundet or the British Co-operative Wholesale Societies has not appeared in the United States simply because it could not compete with the A & P and the other large food chains. The meaning of this, which incidentally has been lost on devotees of the theology of cooperation, is that the chain stores are approximately as efficient in the exercise of countervailing power as a co-operative would be. In parts of the American economy where proprietary mass buyers have not made their appearance, notably in the purchase of farm supplies, individuals (who are also individualists) have shown as much capacity to organize as the Scandinavians and the British and have similarly obtained the protection and rewards of countervailing power. The Grange



League Federation, the Eastern States Farmers' Exchange and the Illinois Farm Supply Company, co-operatives with annual sales running to multi-million-dollar figures, are among the illustrations of the point.

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In our time, partly as a result of the new market power of the farmer and partly as a reaction to his very considerable political influence, the market power of those to whom he sells has come to be exercised with profound circumspection. This has not been true in the past. On the contrary, the farmer was often made to pay dearly for his lack of market power. It was this that led him to search long and hard for a formula for expressing effective countervailing power.

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As the analysis of the last two chapters suggests, there are, in principle, three things which the farmer can do to offset his weakness in bargaining power. He can seek to build countervailing power in the market—in the tradition of the Virginia tobacco planters. Or he can seek to dissolve the original power of those to whom he sells or from whom he buys. Finally, he can attempt to get the advantages of the enhanced market power that are associated with changes in demand. To the extent that demand in the economy as a whole can be maintained at strong or inflationary levels, his position as a seller will be strong. This results from the shift of power from buyer to seller under conditions of inflation which, in relation to its effect on countervailing power, was examined in Chapter IX. Like other producers, the farmer is more disposed to emphasize his role as a seller than as a buyer and there are very good reasons why he should do so.

American farmers have tried all three methods of buttressing their market power. . . .