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RETAIL DISTRIBUTION

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RETAIL DISTRIBUTION

A CRITICAL ANALYSIS

By
HENRY SMITH

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PREFACE

ANY study of retail trading offered to the public at the present time must necessarily partake of the nature of an interim report. The serious accumulation of statistical data by the Economics and Statistics Section of the Bank of England in co-operation with the Incorporated Association of Retail Distributors is just commencing, the Co-operative Wholesale Society is about to produce a report which may be in print by the time this book is published, and it is even possible that the reluctance of the Government to spend a little money on a census of distribution will be overcome in the immediate future. It would therefore be impertinent to attempt to forestall those more intimately concerned and more adequately informed with a study of the internal organization of retailing. It would also be superfluous to superimpose a further purely descriptive study upon Mr. Dobbs's *Distribution of Consumable Goods* (incorporating material prepared by the pioneer in the investigation of retailing, the late Mrs. Braithwaite) and Mr. Neal's *Retailing and the Public*.

There is, however, perhaps still room for a work which, like the present essay, applies the tools of economic analysis to the problems of retail distribution in an attempt to detect, examine, and evaluate the forces which are at work. Room too, perhaps, for a critical analysis which is free to incorporate the sort of statistical investigation which official and semi-official bodies are (quite rightly) reluctant to undertake. In the hope that it may help to set the contemporary development of retailing, considered as a whole, in its place in the current stream of economic development, therefore, this work is presented.

I am indebted to the Editor of the *Economist* for permission to include that portion of Chapter III which originally appeared as an article in his pages. My gratitude is also due to Mr. Colin Clark for information and advice; to the Incorporated Association of Retail Distributors, to the Co-operative Wholesale Society (and especially to Mr. Darling), and to the International Association of Department Stores,

for access to information in their possession. I have also received considerable assistance from a large number of friends engaged in various branches of retail trade and from a number of academic friends who have discussed with me various sections of the book. My sense of obligation causes me to hasten to accept undivided personal responsibility for any opinion advanced in its course.

H. S.

UNIVERSITY OF LIVERPOOL,

June 1937.

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I
THE PURE ECONOMICS OF RETAILING

I

AMONG those prejudices, inhibitions, and predilections which compose the English tradition a prominent place is occupied by the conviction that there is an essential element of unworthiness about retail trade, a blend of the sinister and the ridiculous: 'The wicked grocer groces', we are told, with the tacit implication that the inevitable guiltiness of grocing may be, and will be, taken for granted. From Queen Elizabeth and the seven tailors, through the Knight of the Burning Pestle, down to the spiritless iniquities of Mr. Caudle and the manumission of Mr. Polly, the attitude has remained unchanged. The result has been that while most people, economists included, have been agreed that there are important problems arising out of retail trade, until very recently economists have preferred to concern themselves with subjects of which the titles carried a more dignified and scholarly connotation.

The perennial subject of dispute connected with retail trade is the relation between wholesale and retail prices: intimately connected with this are the costs of the retailing system and the number, increase, or decrease of retail traders, with which matters questions of conditions of employment and standards of remuneration are inseparably bound up. In order for these to become the subject of profitable discussion it is necessary that the quantities concerned, in the form of reliable statistical estimates, and of accurate and detailed descriptions of the whole complex structure of retail trade, should be available. These, however, are not enough, essential though they may be, for their interpretation depends upon the application of economic theory: recent descriptive work which has been published on the subject has provided a mass of admirably digested data and has suggested a very wide range of possible causes for the movements which it describes, but leaves the question of *which* of these causes have been dominant, or even predominating, completely open.

This chapter, therefore, will be devoted to a theoretical analysis of the factors operative in determining the level of retail prices. Or, more precisely, as a little more than one half of the total national income is expended with retailers of one type or another, to an analysis of the factors determining retail *margins*. Quite clearly the normal operation of the pricing process will determine the cost of production of the goods which ultimately pass through the hands of the retailer: we may assume for our present purposes that the same proviso may be made concerning the process of wholesale distribution, including therein transport up to the door of the retailer. Therefore it seems desirable to isolate the process of retailing in order to examine the various services of which it is composed, and to investigate the causes at work in determining the reward (the margin between wholesale and retail prices) which the retailer receives for performing them. It is true, as will become apparent when outlining the actual structure of retail trade, that there exists no sharp division of function between different firms, corresponding to this artificial separation. Many firms, of which the principal activity is retailing proper, engage in manufacturing: it is probable that an even larger proportion, especially of the larger ones, embark upon operations which normally fall within the province of the wholesaler. Moreover, many manufacturers own and operate retail shops which are wholly or principally employed in distributing their own products. It appears reasonable, however, to assume that a clearer view of the factors contributing to the determination of retail margins may be obtained by isolating and defining those services which may be regarded as essential to retailing, rather than by examining an empirical catalogue of all those activities which may be carried on by firms through whose hands goods finally pass into those of the consumer.

The first question to consider, consequently, is 'What are those functions by virtue of the performance of which a retailer *is* a retailer?' The obvious, if somewhat unhelpful, answer is, 'Bridging the gap between producer and consumer: on the one hand bringing to the consumer at the place and in the quantities most convenient to him the goods which he

desires, on the other informing the producer of the requirements of the consumer.' But this obvious reply yields to analysis some interesting considerations which are well worth following up: let us first examine the distribution in space of consumers' goods which the retailer undertakes. An obvious corollary of the development of the factory system, and the further development of centralized mass production, has been the tendency for markets to cover larger and larger geographical areas relative to the productive centres which serve them. This has not only been the effect of increased technical efficiency: as Adam Smith had already perceived by 1776, one of the factors determining the degree of specialization which any stage of technical development renders economically possible is the size of the market available. This depends partly upon the efficiency of transport, partly upon the political conditions of the area (which may be intra- or extra-national in extent) under consideration, and in part depends upon the efficient organization of distribution.

Now the part which the retailer plays in determining the efficiency of the system of distribution, from the point of view of delimiting the optimum market for a centre of production, depends upon the accuracy with which he represents the vagaries of local demand. When he has performed that duty he has, from this particular point of view, fulfilled his function. Upon the combined efficiency of the wholesaler and the transport system depends the extent to which it is possible to fulfil from any particular source the demands thus transmitted, at a cost which the consumer is prepared, after the addition of the retail margin, to pay. It is for them to determine, by the prices which they quote, which centre of production will be called upon by the retailer. In some cases, when the goods concerned are neither perishable, nor of great weight in proportion to their value, and when the quality or range of qualities demanded differs little from place to place, it will be the most technically efficient scale of production which will determine the size of the market served by any one producer. But in many cases, where the goods falling within a certain class are not uniform, but vary in the type demanded from district to district, it is the

information derived from the retailer which determines the location of production. Even when the productive economies of centralization have overcome the gain in transportation costs to be derived from producing each of the species within a genus near to the area where that species is consumed, it is still the information derived from the retailer which determines the relative quantities of each type to be manufactured. As an example of this process one may quote the case of that familiar tool the hedge-slasher. Each district in England, and each of the more opinionated counties, has a pattern of its own, adapted to the type and rankness of the local vegetation, the presence or absence of supporting stone walls; conditioned in part no doubt by the peculiarities of local manufacturers who supplied them in the past. For some time now this manufacture has been almost completely concentrated in the hands of one or two big Sheffield firms, whose catalogues depict and price all types, but, as botanical and geological boundaries do not march of necessity with the limits of administrative areas, it is upon the information transmitted by the retailer that the relative proportions of output are fixed.

The provision of information of this character, however, important as it is in determining the general efficiency of the economic machinery, is not one of the services which the retailer renders directly to his customer and for which he receives payment: it is indeed a service to them, in so far as it tends to lower the final price of goods in general, but it is not a service which any one retailer renders to any one group of customers. The combined efficiency of all unites to determine the wholesale price-level, which, despite the fact that it is in part a resultant of their actions, presents itself to each of them as an objective fact.

II

As far as the distribution of goods in space is concerned, then, the function for which the retailer is paid is that of supplying a *given* set of consumers with products which they require at places convenient to *them*, rather than facilitating the distribution of goods in general. The 'place convenient to them' depends on many factors: it may be convenient to

them for goods to be delivered to their door from a shop some distance away, or for the shop to come close to them, as in the familiar street-corner shop of the older industrial districts, or for the 'shop' itself to come right on to the doorstep, as with the pedlar or the modern motor-van housing a butcher's or draper's shop. It must be remembered, however, that the employment of the term 'convenient' in economic reasoning necessarily involves the idea of price: the question whether people would prefer things they require to be near to or far from them obviously permits of only one answer if put without qualification (ignoring for a moment the possibility, which will be considered later under another heading, that the customer might prefer to see fuller stocks and make a choice on the basis of information thus received: we are here assuming that the customer is perfectly aware of what she wants, and thus, by definition, of the alternatives). Now it is quite clear that the cost to the retailer, and thus, under competitive conditions, the retail margin to be paid by the consumer, will tend to be wider in the case of the retailer providing any of the three conveniences of location instanced above than in the case of a retailer doing a 'cash and carry' trade in the thickly populated area. In the first case, the cost of operating a delivery van has to be met: in the second, economy in rates and rent will tend to be heavily counterweighted by a relatively slow rate of stock-turn: in the third, against similar economies and a possibly more rapid turnover, there must be reckoned heavy transport costs. It is therefore quite conceivable that the consumer will prefer to receive less of the convenience of having goods brought to, or near to, her door, if by its sacrifice she can obtain her requirements at a lower price. In most cases this alternative is available: she can patronize the open-air market after the manner of the French (or the Cambridge) housewife, or join the crowd round the counter at a busy multiple store in the centre of the town. Generally speaking, the farther she has to go the lower she will find prices, because the prices at the very centre of the town in shops on sites convenient for the disembarking suburban traveller will tend for that reason to be relatively high. The extreme case is probably that of the American group of

multiple shops which choose for their location the first floor of a street of secondary importance in each town where they operate. On the basis of the low rates and rental charges incurred, combined with the absence of delivery costs, they can provide for a clientele which does not object to stairs and unfashionable surroundings if prices are satisfactorily low.

These, then, are the economies of location which the retailer provides: they may be greater or lesser but they must necessarily exist, as by definition a retailer is a person who brings stocks of goods within the reach of *somebody*. The total costs of this process depend, clearly, upon the previous economies of location which the wholesaler renders to the retailer with the aid of the transport system, and from the point of view of this particular service it is very difficult to determine where the function of the one commences and that of the other ends, although a line of demarcation will suggest itself inevitably when we come to consider other retailing services. The most fruitful points to consider in this connexion are that most of the costs which accompany the provision of these services by the retailer, with the exception of transport facilities which he either organizes for himself or hires, resolve themselves into costs relating to changes in the rate of turnover—in other words, not into costs of actually delivering goods to a place, but into costs connected with the operation of a shop in a given district. Thus the *retailing* cost of providing a remote mountain village with groceries 'on the spot', for example, is almost completely determined by the fact that the takings will be small and the rate of turnover slow, although, as we shall see, other factors enter into the *retail price paid* under such conditions. The retailer placed in such circumstances will of course pay a higher price for the goods delivered at his door, because of high transport charges and because he will be unable to purchase in sufficient quantities to obtain the various rebates which wholesalers normally allow to the purchaser of specified minimum quantities. But, apart from any direct delivery services he may provide for his customers, the way in which his location affects his costs per unit of goods sold will be largely determined by his rate of turnover.

Two other localized factors contribute to determine his total costs, the ratio of which to his rate of turnover determines the unit cost of retailing goods in any given situation. The first of these is the rate of wages which it is necessary for him to offer in order to obtain suitable labour or, in the case of the 'one-man' shop, the income which will tempt individuals into the line of business concerned. This will tend to be determined by the wages which alternative local occupations can offer: the resulting wage-level, or more precisely, complex of interrelated wage-levels, is indeed the resultant of *all* the local demands for labour, including that of the shopkeeper, but in general the last named appears to be a passive rather than active factor in the labour market. This results from the fact that the net output of labour in 'productive' industry, owing to technical progress and the growth of capital, has been increasing steadily for several generations, and inevitably has increased more rapidly than the 'output' or sales per head of the distributive worker who can less easily invoke the aid of machinery. Thus, except in times of depression, industrial wage-rates usually set the pace. Consequently, the more efficiently the industry of a country is operated, the higher wage-rates tend to rule in the 'service' industries like retailing, and the dearer, relatively to other things, such services become. The resulting wider retail margins offer innumerable stumbling-blocks to the statistician engaged in making international comparisons of real wages or of the cost of living.

Within any one country—to a somewhat lesser degree it is true but still quite perceptibly—similar factors enter into the problem. If the retailer elects to operate in London he must pay his staff a higher wage than he need pay in Liverpool, for example, because of the relatively numerous and relatively remunerative alternative opportunities of employment open in London. Should he open a shop in a factory village, or a village where a colony of the 'retired' offer opportunities for domestic service, he will find female labour more expensive than in a mining village, which provides no other female employment. And, at the risk of unnecessarily multiplying examples, it is worthy of note that in industrial Lancashire, in many parts of which even the

'errand boy' was previously almost unknown, post-war juvenile unemployment has very considerably altered the organization of retail trade.

Rent, the second of these two factors, bears an obvious relationship to the question of where a shop is to be located, or, from the angle from which we are now considering the matter, to the total cost of retail distribution from a certain site. This will depend upon the value which other potential users of the site in question place upon its yield for their own particular purposes. In a remote mountain village, to return to our first instance, the rent which the retailer must pay for his site will differ greatly should the valley it occupies be a stretch of tenth-rate grazing under a quarry in Wales, or an intensely fertile strip of alluvial soil, restricted in area by precipitous cliffs, such as one encounters in Catalonia. In the latter case the land upon which he proposes to build will have a high yield, for relinquishing which the owner must be compensated: in the former, the sum necessary to exceed the present income arising from the plot and to secure its transference need only be very small. (It must, however, be noted that this applies *only to the land*; once the shop has been built, the rent, or more strictly, quasi-rent, which it will command, depends on what a shop in such a situation will yield in the form of net return over its necessary costs of operation, including 'normal profits'. As the Welsh quarrymen are likely to have more to spend than the Catalan peasants, it is conceivable that the relative rents of *shop premises* in the two positions might well be reversed. Other factors, however, besides those which spring to mind as a result of this confusion, come in to complicate the question, which finally depends for solution upon all the forces determining the costs, the price policy, and consequently the profits of the retailer concerned. It must therefore be reserved.)

There is one important respect, however, in which the question of rent differs from that of wages. The urban retailer is a much more active force in determining land values than he is in determining wages. Given access to road, rail, or canal, the question of what part of a town shall be occupied by a factory is of little importance, and hence there will not tend to be very keen competition between

factory-owners for centralized sites. On the other hand, it is of the utmost importance for the retailer to be in the right place. The great department store must occupy a central position, in order to be able to draw custom from all quarters, the tobacco kiosk demands a site near a station or factory gate, the specialized shop of high class needs an address in the local equivalent of Savile Row or Bond Street. Even the suburban grocer will be in competition with the local confectioner or publican for the corner at the centre of the housing estate opposite the tram stop. This is of course intimately connected with the 'economies of location' which the retailer provides: the nearer he can get to his customers the more convenient for them and the greater the extent to which he will be patronized.

In so far as the demand of retailers for key positions is a principal factor in determining land values in the centre of cities, it is the extent to which consumers desire and are willing to pay for easy access to one type of shop rather than another in a certain place which determines which shop will go there, while the net yield over all the necessary costs of operating that type of shop upon the site determines the rental which it will command. Or, such will be the case if the pricing process works smoothly and without friction: in fact, owing to the long periods over which most rental contracts extend, and to the rapidity with which the relative attractiveness of different shopping centres and the relative profitability of different types of retailing wax and wane, such precision of adjustment is seldom obtained. But it is of importance to note, in view of the complaints frequently made by urban shopkeepers of the crushing burden of rental and proportionate rating charges, that their own lack of foresight, individually and collectively, is to blame.

To summarize, the costs of doing business in any given place depend upon the relative rapidity of turnover which the volume of local custom will permit, upon local wage rates, and upon rent, the latter factor being intimately connected with the profitability of the shop, which in turn depends on the two former variables combined with the *price* which local conditions allow the retailer to place upon his services. This last is a subject for future analysis: meanwhile, it is desirable

to glance for a moment at the costs which the retailer will incur in providing the other type of economy of location mentioned at the commencement of this section—the delivery of goods from his shop to the customer's home. This question can be dismissed in a very few words at the present stage in our inquiry: unlike wages and rent, which are more or less predetermined for the individual retailer selecting his location, and the rate of turnover which is the joint resultant of location, price policy, and the other amenities, including delivery, by means of which he can attract and retain custom, the amount of delivery costs which he need incur in any location depends wholly upon himself. Therefore he will provide just as much and no more than will provide him with a maximum net return. As this again depends on the conditions determining the prices his goods will fetch, it must also be reserved for final consideration until after that question has been dealt with.

III

Having thus, provisionally, disposed of the factors determining the cost of producing those economies of location which the retailer provides, we are free to turn to the next of the services which he performs for the public, that of providing goods of the right *kind* in the right *quantities*. Now the 'right quantities' are the quantities which his customers will demand at the price he charges. Within the limits of the class of business he has entered, he must never be 'out of stock' of anything for which he may reasonably expect to be asked, and he must not (partly because of the crippling costs of 'dead stock' and partly because his customers will want their goods fresh) hold more of any given stock than will prevent this from occurring, allowing a reasonable margin of error. The less regular the demand for any class of commodity, the longer the average item of stock will remain immobilized upon his shelves and the higher the cost to the retailer of handling that item will be. From this fact may be derived a preliminary explanation of the difference in average retail margins between different classes of retailers. For example, it was found, as a result of the United States Census of Distribution of 1930, that in

America the average ratio of retailing costs to retail prices in the hardware trade was 26.63 per cent., in the jewellery trade 35.38 per cent. In both these classes of shop the average rate of turnover is slow, and the risk from physical deterioration of the product is slight, so that the effect of the low average rate of stock-turn shows itself without the intrusion of any complicating factors. Against these may be contrasted the 17.36 per cent. expense ratio of the grocery trade, where the rate of stock-turn is much higher and where risk of physical deterioration is also negligible.

In this connexion it is worthy of note that another factor enters here: the 'quantities' which the customers of a retailer demand per week or per month may be divided into large or small units. Leaving on one side for the moment the effect of the rate of stock-turn upon the costs of retailing, this further question of the size (or rather the value) of the average purchase is of importance in determining the wage cost of doing a given volume of business. (It is not necessary to rely upon those branches of retailing where delivery cost is an important item to illustrate this point, although it is clear that in the case of milk, the custom of arranging two deliveries a day in half-pint bottles in place of the more normal morning delivery in pint bottles must have very considerably increased the cost of retailing in those towns where it has taken root.) In the depressed areas of Great Britain it has been found that in nearly all branches of retailing catering for a working-class public the atomization of the average purchase has resulted in high cost ratios. Two further examples come to hand from the United States census of 1930: fertilizer dealers, whose unit sales tend to be large compared with retail trade in general and whose rate of stock-turn is fairly high, show an expense ratio as low as 11.07 per cent. Indeed it appears to be quite certain that the retail margin of jewellers, high as it is, would be much higher were it not for the considerable value of the average transaction, in view of the fact that recent investigation of a series of sample retailers' costs in this country showed the rate of stock-turn of the jeweller to be by far the slowest of the whole group. And the retail margin upon newspapers in this country, which appears to be in the

neighbourhood of 25 per cent. on the average, can only be explained in a competitive world, in view of the great rapidity with which stock is cleared, by the low value of the average transaction.

The cost of holding stocks in the quantities in which customers demand them is not, however, wholly determined by the length of time for which the average unit has to be carried and by the value of the average transaction. The risk that after stock has been purchased it may not be sold at all, or at least not sold at prices in any way commensurate with the original expectations of the retailer, comes into the picture. This element of risk operates as a formative influence in determining retail costs in two different ways. The first is connected with the sale of perishable commodities: the second with the sale of goods the demand for which is influenced by the dictates of fashion.

The liability of the retailer in any line of business to make a mistake in estimating the rapidity with which he will be able to clear a certain purchase of stock from his shelves is probably equal, but the penalty which he pays for it is anything but the same. Tastes in fruit and in hardware do not change with disconcerting rapidity, and thus, if the merchandise was equally durable, the only effect of a mistaken purchase of either peaches or wire nails would be a slight slowing down of the average rate of stock-turn. This is indeed the only penalty which the hardware-man pays, but in the case of the fruiterer two-thirds of the stock concerned may have to be thrown away and the rest sold below cost. It may be possible to reduce losses of this kind by adding to the costs of operation, as exemplified by the grocer 'candling' his eggs and the fruiterer continually picking over and resorting his stock. If the cost of this type of work is less than the probable losses it obviates it will of course be undertaken, but the specific cost of handling perishable goods remains in an altered form. For each trade, in a competitive market, the cost of the mistakes made by the 'normal' retailer in the trade will tend to determine the proportion of the retail margin due to losses resulting from mistaken purchases and, assuming the foresight of entrants to all trades to be approximately equal, will tend to vary between

trades in direct ratio to the perishability of the goods handled. In some trades it will be negligible, in others very important indeed: it provides the most probable explanation why the retail expense ratio in the fruit trade in America is 25·19 per cent., although the average purchase is probably little below that of the grocery trade with 17·36 per cent., and the rate of stock-turn much higher.

In the case of 'fashion goods', or indeed of any class of goods for which taste is unstable, the problem is somewhat different in the shape in which it presents itself to the retailer, although fundamentally the same as in the previous case. Here the problem is not one of perishability but of obsolescence, and the difference lies in the fact that it is normally possible to get some kind of price for goods which are slightly outmoded, in a manner which, thanks to the Food and Drugs Act, is hardly possible in the case of most perishable commodities. Fish or fruit which is slightly out of condition may indeed find purchasers in some districts, but in the nature of things such a market must be found quickly, and often in order to find a buyer such deteriorated produce would have to stand a journey of which it could bear neither the costs nor the stresses. But, in contrast to this, fashion goods which are a little out of date may be saved up for periodical sales, or may be moved to districts where they are more in favour. This year's Ascot and Longchamps styles will be in favour in Huddersfield and Rouen next year: stock unsaleable in Bond Street may find a market in the Tottenham Court Road. In exactly the same way as in the case of perishable goods, a competitive market will add the losses which average ability incurs in handling goods of this kind to the margin upon those which are sold in their period of popularity, thus ensuring an average margin covering costs. Again one may cite an example from America: the 1930 United States Census of Distribution quotes 43·76 per cent. as the ratio of expenses to sales for women's millinery shops, where the unit purchase is probably fairly high (though it may be low expressed as the ratio of sales to hours of the saleswoman's time, and hence imply *high* wage costs) and where the rate of turnover is not unduly slow.

Before leaving the subject of the 'cost of providing the right quantities' there are two further points to consider. There are some trades in which even the best shop, operating in the largest city, can hardly be expected to have everything for which it may be asked in stock. As examples one may quote the bookseller and the furniture dealer: in these instances the retailer, if he is to render the type of service condensed for our purpose into the shorthand term of 'keeping the right quantities', must be in a position to inform the customer instantly of the prices and time of delivery of any requirements which he does not carry in stock. He will, in most cases, be saved the cost of compiling catalogues by the producer, but he will have to undertake the cost of collecting and filing them, which in some trades is not so negligible as might be imagined, and of employing labour sufficiently skilled to be able to handle them with intelligence. On the other hand, he will be saved the cost of carrying stocks and bearing risks in such cases, although this will probably be outweighed by the reduction in the normal retail margin and in the transport costs incurred by buying at wholesale in small quantities.

The second, and more important point, is that it is not really possible to disassociate entirely the cost of 'having goods in the right place' from the cost of 'having the right goods', because to a great extent both of them are expressed through their effect upon the rate of stock-turn. If, in order to simplify the comparison, we compare the position of two shops in the same trade, one operating in a town and the other in a village, we may assume arbitrarily that the effects of differences of rent and wages may be ignored, and that the risk of deterioration and of obsolescence, and the value of the average purchase, will not be affected by the scale of operation, though it is probable that this will not be quite true. It now becomes clear that the high costs which we previously associated with the low rate of stock-turn resulting from operating in a small market are exactly the same in character as the relatively high costs resulting from the low average rate of stock-turn caused by holding a very full and varied stock. If they both hold the same range of stock, then the costs of the village shop will be the higher: if their

costs per unit are to be the same, then the village shop must hold a smaller range of stock. The cost of providing any given range of stock is strictly proportionate to the size of the market served.

Finally there remain to be considered all those miscellaneous services which may be grouped together under the title of 'amenities', and the 'service' of the retailer in providing credit. The question of credit is extremely simple: it bears no more organic relation to one type or scale of retailing than another and, quite obviously, the more credit a retailer gives the higher the interest charges he will have to bear, or rather will pass on to his customers. Here indeed arises a problem connected with his price policy, for it may be found more practicable to spread the cost of allowing credit over the prices charged to *all* customers than to charge it specifically to customers opening accounts, but this will be dealt with in another place.

The provision of 'amenities'—comfortable premises, rest-rooms, music, and the like—is also necessarily connected with no specific type of retailing, although the more extreme examples are usually found in the big department stores, and we may therefore rest for the time being upon the truism that the retailer will provide as much or as little of them as he finds desirable. They may increase his average costs and allow him to pass this increase on to the customers thus attracted, or they may in the short period *decrease* his costs per unit of sales, if he is faced with heavy and immovable fixed charges in respect of rent and staff and he can by their aid invoke a larger body of custom. Fundamentally, the two cases are the same, as to obtain either end the return must exceed prime cost.

IV

The task of analysing the services which the retailer, qua retailer, provides and of connecting these services with the costs which each involves is now complete as far as economic theory can take us. It will be observed that little has been said concerning the function of providing information, which the retailer is frequently said to perform and which normally occupies a somewhat prominent place in the treatment of

the subject. Indeed the only reference made to this service was the reference made to the part played in the book and furniture trades by the provision of data concerning the prices and characteristics of goods not in stock. In some cases the retail customer may be prepared to ask guidance from the retailer, not in the form of information concerning alternative prices and qualities, but in the form of advice concerning avenues of expenditure. It is difficult, however, to regard as a service the provision of advice concerning which of his goods the customer shall buy, or to associate it with any specific cost to the retailer, except in so far as refraining from invariably recommending the goods with the widest profit margin can be regarded as the cost of retaining custom in the long run. But this is hardly a true cost, and the question is much better dealt with in connexion with the analysis of *demand* for retailing services, to which we now turn.

In dealing with the classification of the different services which the retailer provides we were concerned with the manner in which the provision of these services influenced his costs: only in so far as they do so, do they enter into economic analysis from the supply side. In now passing on to the elements constituting the *demand* for these services we must employ the complementary criterion, the manner in which the demand of the consumer for various services influences the price which she is prepared to pay for them. The fact that she pays for the retailer's services as part of the retail price paid for concrete goods must not be allowed to confuse the fact that the retailer receives his margin in return for the provision of specific services.

It is scarcely practicable to introduce into the treatment of demand the somewhat artificial distinction between providing the right range of goods and providing them in the right place, with which we commenced the study of supply, because of the unreality of separating demand for the two services. The principal reason why the customer prefers a wide range of goods to be available in the shop she patronizes is that she is thus saved the time, trouble, and perhaps expense of going farther afield. If the costs of keeping a large stock in a small village are such that under competitive con-

ditions the retail margin sufficient to cover them is large enough to outweigh in the mind of the average local consumer the trouble and cost of a trip to the nearest town, where a similar range of stock can be carried on a lower average margin, then the stock of the village shopkeeper will tend to become restricted in range until the average margin on his goods is just sufficient not to drive local custom away. It is important to note at this juncture, however, a fact which will emerge into the foreground when we have completed our analysis of demand and come to combine it with the factors determining supply in describing the forces determining actual retail prices. The price which the retail customer in the village will pay for a given article in the village shop depends firstly upon the price for which she can get it in the nearest town, secondly upon the money estimate she puts upon the joint expenditure of time, trouble, and money expended in going there (which may be *negative*: the 'fun' of going shopping in town may well, in an extreme case, outweigh the expense and time occupied in going there sufficiently to reconcile her to a *higher* price).

This does not complete the total of factors involved, however: the article may be one which can only be bought satisfactorily after the inspection of a wide range of shapes and sizes. But in this case, it does not follow that the wider the range offered, the higher the price she will be willing to pay. Indeed, the principal reason for which the customer will desire access to a wide range of alternative goods is most likely to be the desire to make comparisons in order to ascertain both that the article finally purchased is the one most strictly conforming to her requirements, and that the price paid for it is in conformity with the prices asked for other goods of similar type and quality. If a purchase of this kind is made without investigation a risk is run in both of these respects. It may be possible for a retailer to tempt a prospective customer to run them (or rather to run the former) by offering one or two items at obviously low prices. But in general the preference of the consumer for consulting an adequate selection works itself out not in relative prices but in a refusal to purchase at all except from a full selection. Thus there is a fairly sharp division drawn between retailers

of the type of the grocer, who can provide a fairly full service on the basis of a moderate turnover, and of the type of the furniture dealer, who must handle such a wide and slow-moving range of goods as to render operation on a small scale impossible. The one can provide satisfactory service in a fairly unbroken range from the small to the very large on the whole the better stocked the shop relative to the amount of custom available, the higher the average price it can command.

The other cannot operate at all on a small scale, because the range of stock that must be held, in order to obtain any custom at all, is so wide as to render the rate of turnover for a small shop so slow that prices remunerative to the retailer would be prohibitive to the consumer. This is the difference which lies at the bottom of the distinction drawn in the contemporary American literature on the subject between 'convenience goods' and 'shopping goods'. It is necessary to note, however, that the difference between them lies not in the nature of the goods themselves but in the attitude of the 'normal' purchaser to them. To a certain type of housewife all goods are shopping goods, while to a certain type of bachelor it is probably no exaggeration to suggest that all goods are convenience goods. So we have entering in as a further factor the relative ranges of stock offered in the village and in the town.

Finally there is the question of delivery. If the article is bought in the village and is delivered at all, it will probably arrive before it would arrive from town, but it may, on the other hand, be delivered from town and have to be carried from the village shop. Thus the price which the consumer will pay in the village depends upon (1) the town price, (2) the 'net cost' of going to town, (3) the relative range of stock offered by each, which will not so much affect price as determine finally where purchases will be made, (4) the net advantages in delivery services. Now there is no guarantee, unless competition in the branch of retailing concerned is absolutely perfect, that the money value of a given 'quantity' of each of these services will coincide with the cost of providing that quantity. For example, it is improbable that the rate at which the unit costs of a retailer

lessen as he narrows his range of stock will coincide with the rate at which his customers' estimate of the money value of access to the range of selection which he offers diminishes, or that the cost of retailing a given line of goods in one given situation, relative to retailing them in another under more favourable cost conditions, will be identical with the net cost to the consumer of travelling from the one site to the other.

These then, to summarize, are the principal factors influencing the demand of the individual consumer for retailing services. Demand (in terms of prices *offered*) for economies of location depends upon the relative availability of other markets and the individual disposition of the consumer towards the task of seeking other markets. Demand for 'general amenities' and for delivery services (also working itself out through 'offer' prices) depends upon the individual disposition of the consumer. Demand for 'information', in the only shape in which it can be fitted into economic analysis, resolves itself into the demand of the consumer of certain types of commodities for a wide range from which to choose, including the provision of adequate data concerning items of which specimens are not immediately available. This was found to work itself out not by influencing offer prices but by determining the minimum size of shop which could command custom. Within these broad groups there operate other forces, corresponding to the manner in which we subdivided the service of the retailer; a service presupposes, by definition, a specific demand for its performance. It is unnecessary, however, to further subdivide the elements of demand. Corresponding, for example, to the costs of the services of the fruiterer in keeping his stock fresh is the demand of the consumer for 'freshness', but the easiest way to fit this kind of service into the structure of demand is to recognize that fresh fruit and fruit past its prime are physically different commodities, for both of which a demand price will exist. Either of these commodities, like sugar or grand pianos, may be demanded jointly with a greater or less quantity of the more universal retailing services.

It is the combination of all these elements in the demand of individuals for retailing services which makes up the

retail market in any given place. To the retailer they present themselves as the prices which, operating in any given situation, and providing any given range of stock and combination of delivery services and general amenities, each item of *goods* will fetch. We have already catalogued the elements of his cost structure; we can now, therefore, proceed to examine the basis of retail prices.

V

The prices which any given quantity of goods will fetch, or, more realistically, the sales which will be effected at any given price, depend upon the conditions of demand in the market concerned. What we have to determine, therefore, is the policy which the retailer will follow in selecting the price which he finally fixes. His aim will be to maximize his profits; not necessarily making the utmost possible profit out of any individual transaction, but pursuing a policy which will, with the resources at his command, provide him with the maximum net income over as long a period ahead as he chooses to contemplate.

In an ideally perfect market, a market like that for wheat and cotton, only one price can rule, allowing for the cost of transport between one point and another. Now were the 'general amenities' provided by each retailer exactly the same, as is roughly the case with the branches of a multiple shop, and were customers charged for delivery exactly in accordance with the distance of their homes from the shop; if no credit were allowed, or if interest was charged on all outstanding accounts, and if discounts were allowed on all large-scale purchases; finally and most important of all, if the vigilance of the consumer was such that any divergence from these conditions in the respect of a diminution in the net advantages provided was followed by an immediate transfer of custom, then the condition of the wheat or cotton market would be reproduced. Only one price in one place could rule for each type of commodity, and every retail shop would be so placed that it served the maximum number of customers with the minimum of delivery charges. The retailer would be faced with one price, and one price only, in respect of each item of his stock: if the interest charges

involved in the rate of turnover of any particular item were not covered by the retail margin included in that price he would relinquish it to his more centrally placed competitor. It would be impossible to subsidize it by raising the price of some more fast-moving items, because the margin upon that would also be determined by competition.

Let us now, while still keeping within the limits of the perfectly competitive market, abandon our assumption that the 'general amenities' provided by all retailers are the same: in a market so completely adapted to the desires of perfectly informed consumers such would not tend to be the case. It is now necessary, upon the assumption that it is not even hypothetically possible to suggest charging separately for the service of a commissionaire opening doors or for the use of a rest-room in the same way as in our hypothetical treatment of delivery costs, to introduce a price differential exactly proportioned to the cost of providing these services. Thus any attempt to increase this differential and the corresponding services above the extent to which customers were prepared to pay for them would again lead to the transfer of custom, as would any attempt to maintain the differential while reducing the quality of the services below that provided by other shops employing the same differential. And we may, if we choose, extend this treatment to delivery charges, allowing the vigilance of the consumer to determine the price differential in this respect also.

This is indeed a more profitable method to employ in handling transport costs, for it allows the introduction of conditions frequently found in the real world, where in many cases the local consumer may be served at an equal cost by the more efficient retailer operating at a distance (i.e. the retailer whose turnover of the goods concerned is rapid enough to allow of a low unit cost of distribution) but whose delivery charges are high, and the local, less efficient, retailer, whose delivery charges are low. It fulfils our criterion of 'one fixed price in one place', allowing to the competing retailers the choice of method in conforming to that price.

The retail market thus depicted is 'perfect' only in that sense in which Spain may be said to be a perfect example of

a peninsula or Lenin of a revolutionary leader; it is a logically perfect deduction from the premisses that retail consumers know exactly what they want and that retailers do not combine, either overtly or tacitly, to maintain prices at monopoly levels. It is necessary at this stage to be quite definite about what this kind of market implies: it involves the sacrifice of a considerable proportion of the leisure of the consuming public to maintaining an unsleeping vigilance and to organizing perfect information. It is indeed probable that the organization and maintenance of such a high level of awareness would involve costs of its own, on the model of the organizations surrounding most of the great wholesale markets in raw materials. Now, one of the principal gains from a rising standard of living, such as has accompanied the development of modern retail markets, is the luxury of 'not bothering', and it would indeed be illogical to allow the technical advances of the last century, with their resulting possibilities of increased leisure and greater physical wealth, to lead to nothing more than the devotion of an ever-increasing proportion of the consumer's time to the task of selecting from among the fruits of progress. For, as a moment's reflection will show, the amount of trouble necessary to maintain any given standard of information concerning the relative prices and qualities of the contents of the retail market, and to come to a perfectly logical choice between them, must obviously increase much faster than the number of goods in the market. Thus we may expect, and need not necessarily deplore, a certain looseness of play about retail markets as we pass on to their description.

It must not, however, be assumed that the 'perfect market', which we were at some pains to depict, is without reference to the real world of retailing. Any retailer who strays too far from the conditions therein laid down will find himself shedding the more wary of his customers, and will tend to be forced towards a somewhat closer conformity. This concept of perfect competitive equilibrium, in respect of the general economic structure of a country, is frequently compared to 'the level of the sea'—an ideal concept from which wind and tide cause ceaseless and unending minor deviations, but towards which there is a constant tendency

for the sea to return as soon as it becomes freed from the momentary action of external forces. It is not quite possible, for reasons which will become clearer as we proceed, to make the same comparison concerning perfectly competitive equilibrium in the retail trades, but we may well employ the comparison with sea-level as employed on maps: it provides a datum from which to measure divergences, as well as a norm towards which the action of forces slower than those of wind and waves are in process of forcing a final conformity.

At least one point is quite clear as a result of this digression: before we commence to investigate the more realistic and immediate forces determining retail prices we can be quite sure that uniformity of prices between shops operating in thinly and thickly populated areas, between shops providing many or few auxiliary services, should it be found to exist, will not be a sign of the perfection but of the imperfection of the retail market. The concept of a uniform retail price level, except in the sense of a close correspondence between quantity of services provided and width of retail margin, provides a false criterion which has led astray many amateur investigators. Nor can the opposite view, that a mere absence of uniformity may be regarded as evidence of an adequate guardianship extended over the consumer's interests by the forces of competition, be accepted more readily. The task of estimating the relative 'perfection' of a retail market demands a more subtle and painstaking analysis.

Perhaps the most effective method of investigating the problem of retail pricing in the real world is to examine one by one the reasons for which the 'perfection' of the perfect market, as defined, is so seldom approached. Commencing from the side of supply there is one very important stumbling-block in the fact that all sizes of shop are not equally efficient. This is not the same thing as the quite legitimate assumption which we have been employing that the cost of handling goods varies in inverse ratio to the rate of turnover. This assumption, based on the relative cost in interest of various rates of turnover, involved the further conception that labour costs per unit were equal—in other words that however small a shop might be it could get labour in sufficiently small

quantities to handle its sales at an average labour cost equivalent to that of the average labour cost of a larger shop. It also involved the assumption that, provided the stock carried was perfectly adapted to the market, the overhead costs of any size of shop would be exactly the same per unit of goods sold whatever the size of the shop—in other words, that however small a shop might be it could reproduce on a small scale the fixed capital equipment of a large one, without any relative loss of efficiency. Now this is quite clearly not true: neither labour nor capital equipment is perfectly divisible and economies of large-scale operation exist. This is a very important factor indeed in determining the structure of *productive* industry, where, in general, production is completely specialized, and a fairly clearly defined optimum size for each type of unit of production can be recognized. It is not of the same importance in retailing, where equipment and premises are far less specialized (except in the case of fishmongers and butchers) and where the advantages of specialization are less clearly marked. As the size of the retail market shrinks, passing from more to less densely populated regions, specialization in the food trades can be, and is, sacrificed without any very great loss of efficiency, as grocer, provision merchant, and greengrocer merge together in the ubiquitous general shop, while at the other end of the scale all types of retailing flourish together under one roof and one management in the city department store, in a manner quite inconceivable in productive industry. Even when, in the general shop, the complete elimination of specialization has been achieved, the downward limit has not been reached, because the shop need not have either a complete labour unit devoted to its service or occupy the whole of the premises it employs. Thus in the smallest hamlet we find the tiny general shop occupying the front room of a cottage and taking up a relatively small proportion of the time of a housewife or a rural craftsman.

However, this diminution in the scale of operation is not wholly unaccompanied by loss of efficiency, and in most types of retailing a minimum size compatible with reasonable efficiency is fairly clearly indicated. Indeed, in the case of the retailer handling what we have described above as

'shopping goods' the changes in efficiency as the scale of operation diminishes are very sharp indeed: so sharp as to set a clearly defined downward limit to the size of shop in each trade.

We are now in a position to make our first qualification from the conditions of the perfect retail market, maintaining for the time being our assumption that the consumer is perfectly vigilant and perfectly informed. We may take as an example the price of bread, which in certain of the villages on the southern outskirts of the Lake District is 50 per cent. above that obtaining in the nearest towns. The local consumer has the option of buying from the village shop or obtaining it from town, and upon our assumption the village prices cannot exceed the town prices plus cost of transport. Moreover, we tacitly assumed that the *cost* of selling bread in the village could not fall below the price obtained for it, this being involved in the idea of a competitive market. Thus if the price of bread from the village shop was slightly less than the cost of transporting it from town, the whole of the local custom would be secured, and if that price were in excess of cost, a new village baker would enter the market. But we must now recognize that a new baker with only part of the village as customers would not be able to operate at costs as low as those of the original one. Thus the local market is secured to the village shop, at a price which need only be lower than that of the town plus transport costs, and the first breach is made in our perfect market. And it must be remembered that factors of this class are far more strongly operative in the clothing and furniture trades than in the food trades.

The next qualification we have to make is also concerned with the retailer's costs. If we confine our attention to the *interest* charges upon different items of stock, which are the *inverse* of the rate of stock-turn, the process of costing is perfectly straightforward: the retailer knows exactly how fast each item of stock is taken from his shelves and can plan accordingly. But our tacit assumption that for all types of shop and for all classes of goods the process of competition would establish proportionately equal labour costs and rent charges must now be further examined. Its development out

of the concept of perfect competition assumed that the retailer could measure the rent and labour costs of selling each type of commodity as distinctly as he could estimate the interest charges included. But this is not quite true; for the established retailer, rent is an overhead cost: an immovable expenditure which must somehow be met if he is to carry on but which is not connected with the cost of selling any given commodity. The same argument cannot of course be applied in exactly the same way to his labour costs; he can vary the amount of labour employed as his turnover increases or diminishes, although here the position varies very greatly between trade and trade. In a very large proportion of the different branches of retailing the cost of labour turnover is very high. Not only do assistants have to be trained in the technique of the trade, but in the policy of the firm; moreover, personal contact with customers places a very high value upon the personality of the salesman. For example, in the high-class furniture trade, the retailer will be very reluctant indeed to alter his staff, and in the short period will rightly regard their salaries as an overhead cost. At the other extreme, however, in the case of Woolworth's and the numerous department stores of greater or less pretensions whose sales policy is essentially similar, where the salesman is a nonentity behind the counter, neither informing nor influencing the consumer, but merely engaged in collecting money and preventing petty larceny, the position is entirely different. Here the cost of labour turnover is relatively slight, and consequently labour costs may much more easily be altered as turnover changes. The increasing importance of this type of organization, with the resulting casualization of labour, is already reflected of recent years in the increasing proportion of unemployment appearing in the distributive trades *pari passu* with increasing totals employed.

Even in these cases, however, the relatively greater flexibility of labour costs is only of moment compared to the *total* turnover of the shop or department concerned; labour costs still cannot be effectively imputed to the sale of any one commodity. Here a further comparison with the costing problems of productive industry is invited. At each stage

in a process of production a physical transformation of material is affected, for which a normal time is established and a standard labour cost consequently employed. The sum of the labour costs of each operation gives the labour cost of the whole process; the problem of allocating overhead costs still remains, but a part of the cost of production, which is normally the major portion, is unequivocally determined. And no matter how many different classes of commodity are being produced in the same factory, the labour cost of each can be determined. This will lie at the basis of payments made to workers, whether the actual method of payment is by time-rates or piece-rates.

Let us contrast these conditions with those of retailing. At any given time and in any trade, experience will have established a 'reasonable' total value of sales over a fairly short period, for example a month, to be expected from a sales assistant. Thus competition will fairly clearly determine, for our perfect market, the average labour cost per pounds-worth of sales. This will not, however, afford a basis for allocating labour cost between different commodities, unless it be assumed that the time spent upon making a sale is necessarily in exact proportion to its value, which is manifestly absurd. Even if the sale staff is paid upon a pure commission basis the costing problem is concealed and not solved; if a flat-rate commission is paid upon *all* sales the fallacy exposed above is indulged, while in order to proportion commission to the sales cost of each item the unsolved problem of imputing labour cost would have to have been determined in advance. Payment on a commission basis would of course determine what the retailer *paid* for each sale, but it would not determine the *cost* to him of a price policy including any given rate of commission, that cost being the resultant of the divergence of the net result of any given policy from that of an 'ideal' one embodying perfect costing.

This difficulty of exactly determining the cost of selling any specific commodity would render the position of the retailer in our 'perfect' market somewhat ambiguous. Only one retail price, allowing for the differential accompanying the provision of general amenities and transport services in

different quantities, could obtain for any particular commodity, because the public would not tolerate any deviation from it on pain of a transfer of custom. But this price would itself be the resultant of the estimated cost of handling it on the part of the normal retailer; if that cost were strictly indeterminable but all were agreed upon a 'proper' retail margin, then that margin would serve as the basis of a universally accepted price. If it was found, as the result of changing technique or some other cause, that the cost of handling that commodity fell, then, without the cost being any more strictly determined than before, competition would automatically bring about a fall in selling prices equivalent to the economy concerned. Or if, the price having become customary in the eyes of the consumer, any isolated retailer attempted to exceed it, he would at once lose customers.

It must be noticed, firstly, that this looseness of play in retail costing does not imply that a rough approximation to the cost of retailing any commodity in any given circumstances cannot be obtained, within a fairly narrow margin of error. It only means that the exact costing methods of productive industry can never be applied to retailing; as we shall see when we proceed to description, some of the largest and most progressive department stores have recognized this fact and embody it in their policy. But, secondly, it must not be assumed that the interest of this argument is purely academic in character. Although we are here concerned with proving how it can intrude into the most strictly perfect competitive retail market for which it is possible to lay down formal conditions, we may note that it is a very real factor even in those markets in the real world which conform most closely to conditions of 'perfection'. The market for groceries, for example, is one of the most perfect of the retail markets; commodities are graded and standardized; they do not perish easily nor is supply intermittent, nor do they go out of fashion rapidly, so that short-period fluctuations in price are of slight importance. On the consumer's side the normal housewife has an intimate knowledge of prices ruling and of possible sources of supply, while the proportion of her expenditure which goes to the grocer is large enough to make vigilance worth while. Yet it was

found during the War, in the course of investigations carried out by civil servants into the costs of the grocery trade, that the application of the most efficient costing methods known, although unable to determine the *exact* cost of the process, clearly revealed that whatever the cost of retailing sugar might be, it was clearly not anything like covered by current retail prices.

Thus, introducing these two facts, the imperfect divisibility of retailing units and the imperfect imputation of selling costs, into our 'perfect' market we recognize consequences which lead to the relative maldistribution of resources even under the assumption of perfect vigilance and complete information (except, of course, about what the retailer himself does not know—his exact costs in respect of any commodity) on the part of the consumer.

The former leads, under certain conditions, to excess profits for certain retailers. The second means that while the average of all his prices covers the costs of the retailer, the consumer who buys goods of one kind will tend to subsidize (or be subsidized by) the consumer whose tastes lie in a slightly different direction. Neither of these results is likely to be serious under the conditions of the perfect market, although it is interesting to note that they can exist; they play a very important part in the real world where the consumer is neither perfectly vigilant nor adequately informed, and where she tends to be attached fairly closely by custom and convenience to a few shops. To the problems of pricing policy in this real world, therefore, we now turn.

VI

The first point to make clear in this connexion is that in thus introducing a relaxation of the vigilance of the consumer we are not making any wholesale accusation of irrationality. We are merely introducing the fact that leisure is of some utility to the consumer, and that thus in the majority of cases instead of attempting the hopeless task of ascertaining all prices before making a purchase, she normally, at least in the case of everyday commodities, deals from the shops which past acquaintance has shown her to be 'reasonable' in their charges. This means that the con-

cept of the uniform relation between retailing services and retail margins, the concept of a uniform basic retail price with a differential based upon delivery service and general amenities goes by the board. In its place we have a series of margins between the prices of goods at one shop and another, probably different for each class of goods, which must be exceeded before custom is transferred. No longer is the retailer confronted with a basic competitive price to which he must conform, except in the case of a relatively few commodities and in the case of goods of which the retail price is fixed by the manufacturer. (In the latter case the resemblance is only superficial, as it is not fixed on a competitive retail margin, and the price must be the same *everywhere*, whatever the level of service offered.)

On the contrary he is confronted with an hypothetical series of quantities which his private market will take of each of the commodities he sells, at each of a series of prices. His task is to set prices which will afford him the largest net margin over costs in the long run. But, as his costs are not separately determined in respect of each commodity handled, his total costs and his total turnover are the matters which concern him. He is free to sell any item of his stock at any price which will have the effect of effecting a *net* increase in his takings in the long period.

Let us examine the implications of a price policy designed to maximize net takings, concentrating for the moment upon the short-period aspect. In respect of any one commodity it is obvious that the lower the price he puts upon it the greater his sale of it will be. The rate at which demand increases as he lowers his price will depend upon the extent to which the demand of his existing customers increases and the extent to which he can attract new custom from other sources. It is important to observe that the demand of his existing customers in some cases may increase in terms of units of the commodity concerned, but lessen in terms of money; if a fall in price of 10 per cent. is only accompanied by an increase in demand of 5 per cent., then his takings will fall, and as we may assume his costs in the short period to be fixed as far as rent and labour are concerned, there will result a net loss, unless the fall in price induces a proportionately

greater expenditure upon some other item of his stock. This is unlikely to result unless he has lowered the price of that item also, but in some cases a *joint* reduction in the price of two articles may result in a loss of revenue upon the one and a more than compensating gain upon the other. For example, a fall in the price of mattresses might induce a slight increase in the quantity of bedding sold at the original price, involving a loss of revenue from mattresses for which the increased sales of bedding would not fully compensate. If the price of the latter were *also* lowered, then a further increase in sales, which might not have resulted from a similar reduction unaccompanied by the previous reduction in mattresses, might well result in a joint revenue from mattresses and bedding well in excess of that derived from both at the original price.

In this case the goods concerned are complementary; the use of the one involves the use of the other in fairly strictly determined proportions. While cases of this kind are common in most classes of retailing, the existence of the opposite must not be overlooked. Many of the goods which are handled by the individual retailer are competitive in the sense that they are substitutes one for another. In this case even if a reduction in price will lead to a disproportionate increase in demand, and thus to an increase in the income derived from the goods in question, the retailer must take into account the extent to which the sales of the commodity of which he is reducing the price will affect the sales of other items of his stock. It clearly will bring no net gain to the shopkeeper to reduce the price of eggs and see their sales expand at the expense of bacon, custard powder, and other substitutes on which he has *not* reduced the margin.

Problems of the two classes instanced above affect some types of retail trader much more greatly than others. They are of relatively slight importance, for example, to the high-class specialist shop, selling a restricted range of goods, while they can cause grave anxieties to the directors of department stores. So far, however, we have only been concerned with the result of price charges upon the existing customers of the shop. Expanding the circle of observation another interesting set of considerations comes into view,

concerning the effect of price reductions upon customers outside the 'private market' of customers who are already attached by habit or conviction. We observed as one of the characteristics of retail demand that the customers of one shop will need a fairly sharp stimulus, in the form of a difference in prices in most cases, before they will transfer their custom. Now this gap between prices is not of the same width in the case of all goods; moreover, it may vary according to the manner in which it has come into being. If a retailer raises his prices above those ruling on the average for the class of goods concerned, the customer will almost certainly notice the fact; the increase will indeed force itself upon her attention and she will normally have a 'general impression' of other people's prices. Thus if the gap between the two prices is more than she is prepared to pay for 'not bothering', she will transfer her allegiance. On the other hand the retailer who is seeking to enlarge his circle of customers for any given commodity must almost certainly lower the price below the average of the market by a considerably greater proportion than the 'gap' which, in the other direction, would repel his own customers; the people he seeks to attract are not so immediately aware of the change.

Let us assume that new customers will be attracted by a given fall in the price of one commodity. The effect upon the net revenue of the retailer might well be a loss, in view of the amount of the price reduction necessary to attract them, were it not for the fact that they will almost certainly buy other goods as well. On the strength of a few spectacular 'bargains' a reputation for cheapness is often secured, and large sales of goods carrying normal or supernormal margins are made under its cloak. This type of policy, known as the employment of 'loss leaders', in which the hook is normally baited with some commodity for which the market is relatively perfect (in this case the fall in price need be less, because, by definition, it will tend to become widely known), is definitely based upon the imperfection of the retail market and exploits the desire of the consumer to avoid the constant comparison of prices. It is hard to find any defence for it, except from the point of view of the individual retailer whose profits it increases, unless it be that the exceptionally wary

housewife, carefully inspecting the market, may at the expense of some time and trouble steal the bait from a wide selection of hooks and succeed in replenishing her larder and wardrobe below cost.

The attraction of new custom to any retailer, however, necessarily implies a lessening of some one else's custom; the question of retaliation thus arises, and we must at this stage abandon our confinement to short-period phenomena. Owing to the indefiniteness of retail costing, the retail margins upon any given commodity can be, as we have seen, very fluid; the wider the total range of goods handled by any shop, the more widely any one price can be altered without serious loss. Thus, on the whole, retailers tend to be very chary of invoking retaliations by raids upon each other's markets and exhibit a marked tendency to organize common standards between themselves. Probably the strongest motive behind the stability of retail prices is the desire to avoid retaliation and 'cut-throat competition'—an important factor when 'cut-throat' or 'strategic' competition involving in the common usage of the word sales below cost, is so difficult to define. In most cases 'loss leaders', where they are employed, tend to be selected from among the stock of another type of retailer, so that the disorganization of the market resulting will not affect the shop cutting the price, or will only affect a small proportion of its stock. Thus the draper will choose as a sacrifice articles normally stocked by the ironmonger or furniture dealer, the fishmonger will attempt to gain a reputation for cheapness by 'slaughtering' eggs, and so on. But in general this tendency to avoid actions which will involve retaliation appears to be the principal reason for the relative stability of retail prices in most markets; in place of the continual oscillation which an analysis based upon the pure economics of a situation in which costs are indeterminate would lead us to expect if long-period considerations were left out of the picture.

Undue weight must not of course be placed upon the factors in retail pricing considered in the last sections of this chapter. The more fundamental causes of variations in retail margins catalogued in the former section are of greater and more pronounced moment. This is clearly proved by the

manner in which their different importance in separate branches of retailing was seen to influence average retail margins taken from very large samples. But the forces resulting from the relative imperfection of retail costing, and from the 'amateur' status of the normal retail purchaser, resulting in an imperfectly competitive retail market, determine the width of variation of retail margins from the average within each trade. Moreover, they may, in the long period, result in *general* changes in retail margins, of which the *relative* sizes remain almost unaltered. It is possible, therefore, that they are the key to many of the dynamic problems of retail distribution, and we shall return to them again. Indeed, this is the only excuse for including them in this chapter, the whole aim of which is to provide a tool-box from which to select when we proceed to the task of dealing with problems of current interest in retail distribution. To that end the whole of the preceding definition of terms, analysis of logical relationships, and cataloguing of possibilities has been directed.

II THE STRUCTURE OF RETAIL TRADE IN GREAT BRITAIN

I

THE task of describing the structure of retail trade in Great Britain is no easy one. One of the principal obstacles is the overwhelming complexity of organization resulting from the enormous number of independent units. Before it is possible to proceed, therefore, it is necessary to make some tentative attempt to enumerate and classify these and to discover any representative patterns of organization which may exist among them, in order to have some concept of the order of magnitude in the real world of each of those factors of which we have been considering the theoretical aspects.

There have been put before the public at various times estimates of the total number of shops in Great Britain, which differ very widely. Mr. Laurence Neal estimates their number at 500,000, Mr. Dobbs at 541-641,000, Mr. Hoffman at 1,000,000. The present writer, basing his estimates for England alone on a study of *Kelly's Directories*, came to the conclusion that in *England* in 1932 there was an approximate total of some 530,000 shops, excluding public houses, restaurants, fried-fish shops, and boot repairers. On the proportion of shops to population in the U.S.A. disclosed by the recent census of distribution in that country, as one might reasonably suppose the proportion to be about the same for Great Britain, the total for Great Britain might be expected to lie in the immediate vicinity of 750,000. The total of proprietors and managers of retail shops in England and Wales as returned in the 1931 census is 569,100, and it thus appears that, while the estimate of Mr. Neal may possibly be too low, that of Mr. Hoffman is certainly too high.

Indeed, it appears that the discrepancy between the census totals and the estimate based upon *Kelly's Directories* is more apparent than real. Almost certainly the number of

retail shops in 1932 was somewhat greater than at the census date, and it appears from a comparison of the totals in each trade that the principal and only important difference lay in the group of 'general shops', for which class the census total was by far the smaller. This was to be expected, as the census classification only permits of the registration of the main occupation of the citizen, and a large proportion of small general shops provide only part-time occupation of a subsidiary character. We can thus get a fairly clear picture of the number of retail outlets of each class in 1931 by accepting the census totals of 'managers and proprietors of retail shops' for each class except general shops, and for the latter employing an estimate based upon the directories. This method probably seriously underestimates the numbers of confectionery and tobacco shops, owing to the employment of chains of kiosks of which the girl in charge would scarcely claim the status of manager, and to the number of 'part-time' house shops in both trades; on the other hand, it slightly overweights most other trades as a result of counting both the manager and the owner of those shops of which the owner is not the manager.

Thus we arrive at a total of some 575,300 retail outlets in England and Wales in 1931, subdivided as in the following table (Table I). It is of some interest to note the evidence of the average scale of operations provided by the second column in the table, giving the average number of sales assistants (excluding errand boys, roundsmen, and the like) in each class of trade. The atomic nature of the organization of retail trade in Great Britain at once becomes apparent from these figures; only one general shop in three, it appears, does sufficient business for an assistant to be necessary, apart from the casual aid of the members of the proprietor's family; the same appears to be true of dairies. Grocers' shops seem to employ upon the average either one or two assistants, and even drapers and the like, at the head of the list, only employ two or three. It is, of course, the unit of *operation* which these figures measure, the separate shop building, and not the unit of organization, which may be a giant multiple-shop organization controlling hundreds of shops and numbering its employees by the thousand. But when it is realized

that these averages cover the very many large shops to be found in the centre of all cities, and that the normal staff of a multiple shop or co-operative store is larger than the average cited in the table, it becomes clear what a high proportion of shops in all trades must be of the smallest possible size. It is here possible to follow up our theoretical point about the downward limit set by the nature of many trades to the scale of successful operations; it will be observed that it is on the whole the trades handling 'shopping goods' which employ the largest number of assistants.

TABLE I
Number of Retail Outlets in England and Wales, 1931

		<i>Average number of assistants</i>	<i>Population per shop</i>
Sugar confectionery (sweets)	31,500	0.8	1,270
Grocery and provisions	92,700	1.6	430 ✓
Milk and dairy products	26,200	0.4	1,540
Meat	49,400	1.8	820
Fish and poultry	17,400	1.0	2,300
Greengrocery	40,900	0.8	1,000
Tobacco	14,300	0.8	2,800
Drugs and druggists' sundries	10,100	2.0	4,000
Ironmongery	12,000	1.6	3,300
Boots and shoes	12,900	2.0	3,080
Textiles and other clothing	74,000	2.4	540 ✓
Paper, stationery, books, and periodicals	28,900	0.9	1,390 ✓
Furniture	12,800	1.4	3,130
General and mixed businesses	78,500	0.3	510
Others	73,700	1.6	540

In the absence of an official census of distribution it is difficult to make any estimates of the standard deviation from these averages in any of the trades concerned. It appears probable in the light of common sense, and also by comparison with the work of Professor Secrist on the much richer data available concerning the United States, that in each trade there exists not one 'normal' size of shop but a series of 'normal' sizes adapted to the village, the market town, and the city. If comparison with American conditions can be relied upon there is not any very great local deviation from the normal type adapted to each different density of

population, although there may be considerable differences between the scale of operations which experience has proved to be the most efficient in each separate class of community.

While still considering different types of shop as distinguished by the goods they handle, it is possible to go a little farther in depicting the average scale of operation. The work involved and the risk of error incurred in arguing from production and import statistics to the average turnover of most types of retailer, as well as the difficulty of deciding through what retail channels certain ambiguous classes of goods are likely to pass, prohibit such an attempt in the case of many trades and render results somewhat unreliable even when it is possible to produce them. Where it is possible to proceed, the results have been incorporated in Table II. These estimates have been obtained by adding

TABLE II
Estimated Turnover Per Annum, 1931

	<i>Total</i>	<i>Per shop</i>
Sugar confectionery (sweets)	£43,150,000	£1,370
Meat	£142,100,000	£2,880
Greengrocery	£78,000,000	£1,910
Boots and shoes	£63,700,000	£4,940

together estimates of the factory value of home production and records of the value of net imports and then adding the average wholesale and retail margins obtaining in the trades concerned.¹ It is not possible to follow this method in, for example, the hardware trade, because of the multiplicity of goods concerned. It is not possible to do so in the case of tobacco or of fish, although the goods are easily valued and classified, because of the enormous proportion of tobacco which is sold through other channels than the completely specialized tobacconist, and the amount of fish which is sold by fried-fish shops. Indeed, it is probable that the estimate for the average turnover of sweet shops in the table should be reduced by as much as 30 per cent., in view of

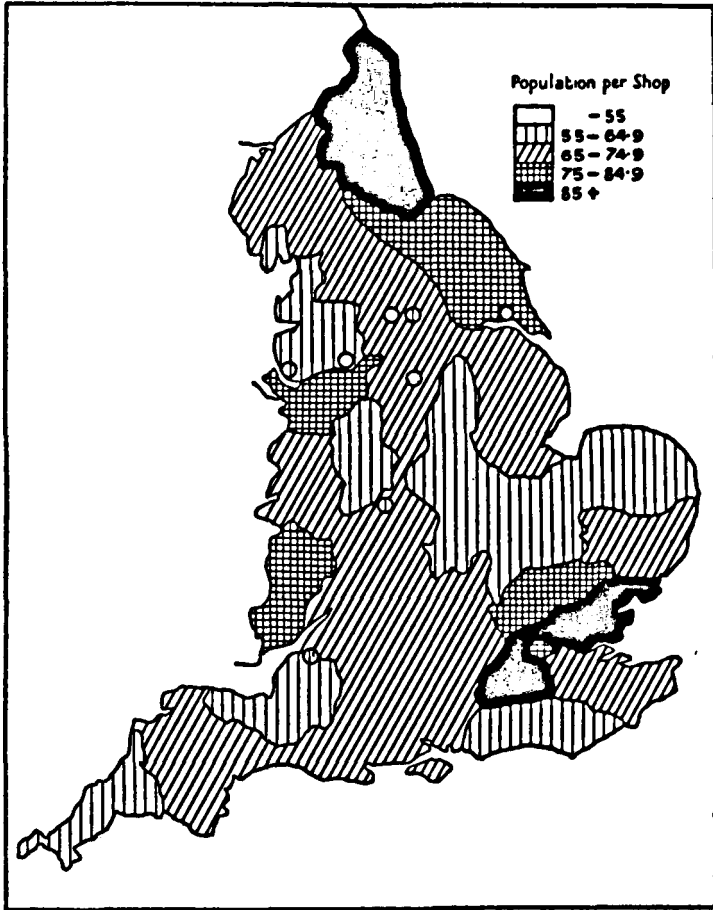
¹ I am indebted to the Incorporated Association of Retail Distributors for the use of estimates of average wholesale and retail margins in various trades, prepared by their sales managers' committee.

the high proportion of the total sales of confectionery, which are effected through other channels. The others are probably pretty accurate.

Thus we have further evidence of the importance of small scale retailing in Great Britain. Apparently a butcher can operate on a turnover of some £50 per week, a greengrocer on less than £40, and a boot shop on about £95. Indeed, in view of the number of shops in each of the trades mentioned of which the turnover exceeds this figure, a very respectable proportion and perhaps a majority of the shops in these trades operate with apparent success on very much less.

Another angle from which to approach the structure of retail trade is that provided by the average number of persons served by each different type of shop. This is shown for England and Wales as a whole by the third column of Table I. The average for all classes of shops taken together is 70 persons per shop. The picture provided by this column will probably become more vivid if it is considered in connexion with the fact that a street of a hundred houses, probably the normal size street in most towns, will house a population of some four hundred. Thus, taking residential areas and shopping centres together, we have an average of nearly six shops of one kind and another per street; for nearly every street we have a grocer's shop, a general shop, and a clothing shop; for every two streets a butcher's shop; for every three a sweet shop, a greengrocer's, and a paper shop. Chemists' shops are the rarest of those separately classified, yet even of these there is one for every ten streets.

This, however, is obviously an over-simplified picture, and one which ignores the probability, which we noted in an earlier passage, that there are different 'normal' scales of operation resulting from the different conditions of retail trading in areas with different densities of population. In order to get nearer the truth, therefore, it is necessary to compare the ratios of shops to population in different parts of the country. For this purpose we shall employ the estimates based upon the directories in place of those of the census, as they lend themselves more readily to our purpose. As we have seen, the totals in most classes differ very little. The ideal method would of course be to select



MAP I

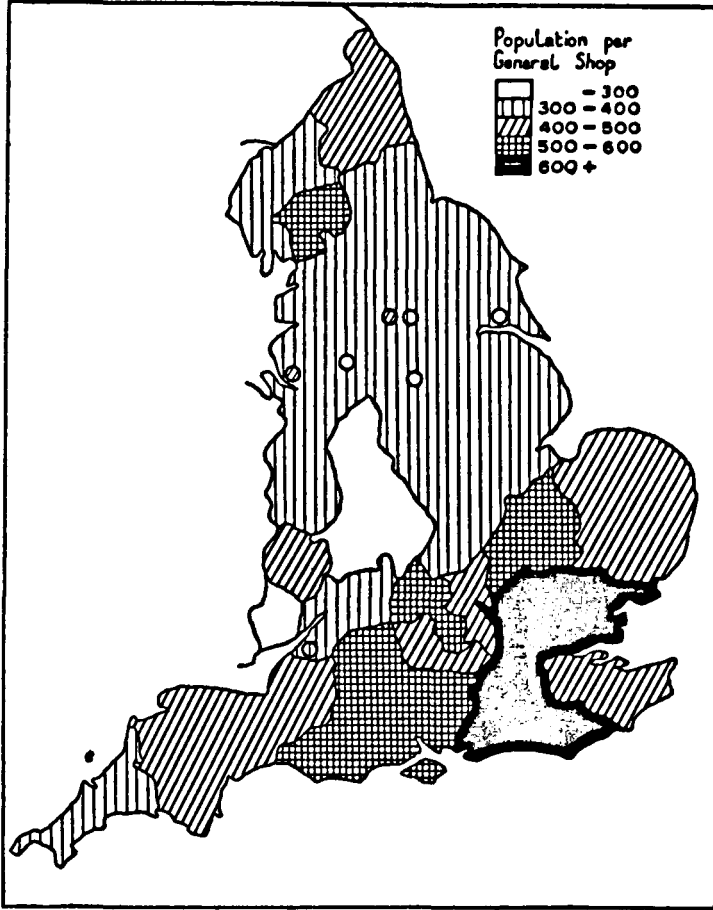
a series of rural areas, of medium-sized towns, and of great cities, and to compare the evidence for the average scale of operation in each case. Unfortunately figures are only available for the nine largest cities separately; otherwise they relate to county areas. Thus it is impossible to isolate rural areas or medium-sized towns; it is, however, possible to detect several interesting tendencies in the distribution of shops. The position regarding the distribution of shops taken all together is depicted in Map I.

What does a scrutiny of this map reveal? Firstly, that the concentration of shops in the larger towns is not only a result of this greater density of population but also of the extent to which they serve as shopping centres. This is to be expected in the case of market towns in rural or semi-rural areas, which draw custom from the surrounding countryside; it is interesting to note the manner in which the greater towns provide for the smaller in the same way as the smaller provide for the villages. In all cases the ratio of population to shops is smaller in the great towns than in the surrounding county areas; taking all the nine cities together and comparing them with the rest of the country we find that each shop in the former group serves only four-fifths of the number served by each in the latter.

It must be remembered, however, that the figures we are comparing only deal with the *numbers* of retail outlets, and say nothing about the relative sizes of shops in different situations; this point can be covered more effectively when we come to deal with the distribution of separate classes of shops. There are one or two other interesting points illustrated by Map I.

As one would expect, the difference in shop density in the counties, some predominantly urban and some mainly rural, is very great; it ranges from 58 to 105, although in 19 out of the 40 cases it fell between 64 and 74. There is also an unexpected lack of homogeneity about the urban figures, which range from 47 persons per shop in Manchester to 76 in London.

The case of London is, however, exceptional, being the only urban case with a higher number of persons per shop than the average county; the others range from 46.9 to 61.6.



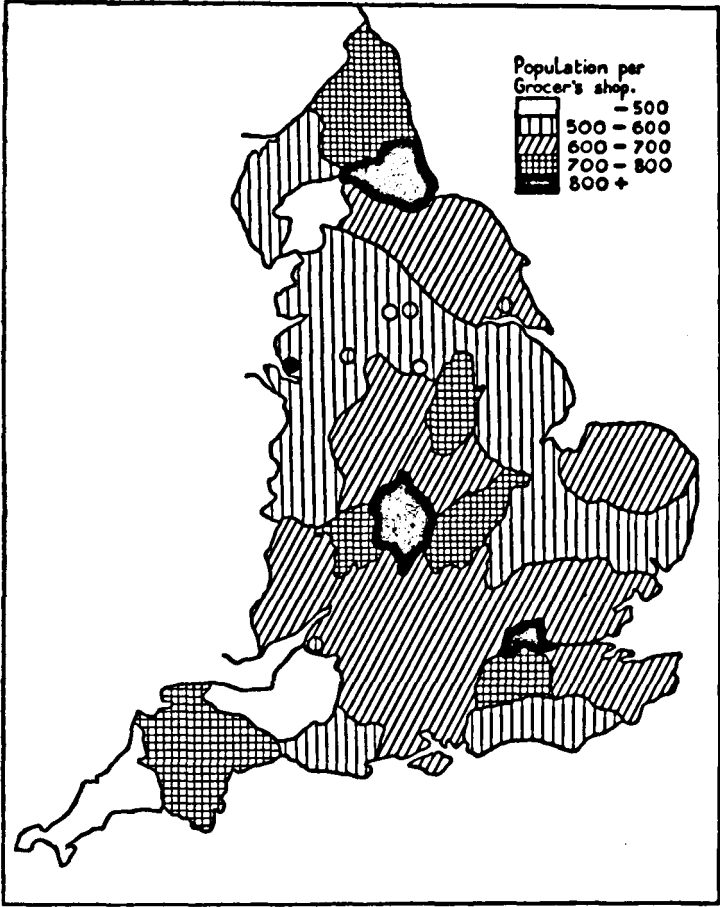
MAP II

The relation between urban conditions and a high proportion of shops to population is made quite clear by comparing the great cities with the exception of London with the predominantly rural areas. There are, however, notable exceptions, as in the case of Middlesex, the county with the highest ratio of population to shops, which has also the greatest density of population per acre of the county areas, and of Surrey, which has the second highest ratio of population to shops and the second greatest density of population among the counties. In the case of these two counties two exceptional factors are at work; they also show, in the same order, the most rapid intercensal growth in population of any of the areas reviewed, in consequence of which we may expect the ratio of population to shops to fall in the future as the supply of retailing outlets is adjusted to the demands of the new market. Also the causes, whatever they may be, which make the London ratio the highest of the cities will obviously not fail to operate in the adjoining districts.

More significant is the fact that the five counties which have the lowest ratio of population to shops are all counties of which the population per acre is below the average. From the data available it appears that the ratio of population to shops tends to be low in districts with a very scattered population (which is not necessarily a low population), that it tends to increase as population becomes more concentrated, falling again as the size of the urban centre increases sufficiently to allow some types of trade covering a whole area to concentrate their activities in 'shopping centres', and that it tends finally to rise in the very large city as the growth in the size of the shop outweighs the effect of the concentration of trade.

We may now proceed to compare the distribution of separate classes of shops.

Perhaps the most interesting of all these comparisons is that concerning the distribution of the general shop. Of late years many of the alleged deficiencies of our retailing system have been blamed upon its pervasive inefficiency, and its distribution seems to follow no other discernible trend in the figures disclosed by the survey; the proportion of general shops to the total of shops and to population alike



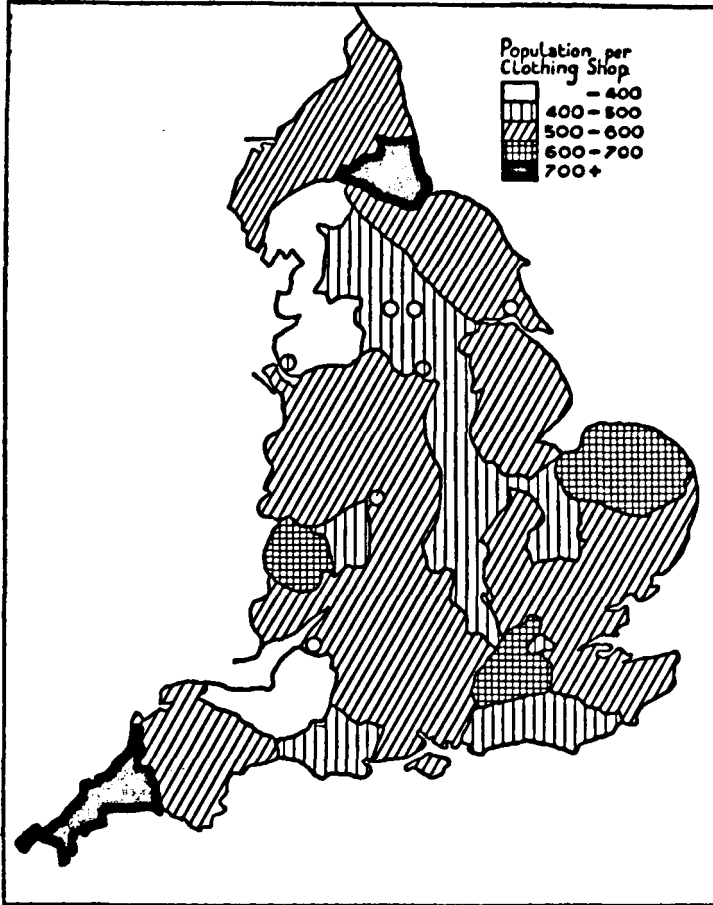
MAP III

seems to vary quite unaccountably in otherwise similar areas. No doubt this is to a certain extent due to the elasticity of the limits of the class. Most small grocers partake of the nature of a general shop and most general shops are mainly grocers. Consequently the psychological make-up of the person making the return may be expected to influence the result, and it may be that the apparent absence of general shops from London is due to a certain self-assurance on the part of London shopkeepers, and that the high return of general shops from Staffordshire is due to the unpretentious severity of the Five Towns character.

This is dangerous ground, however, and it is probably safer to confine ourselves to the figures. The one clear tendency in the case of general shops is that they are associated with the smaller towns. In the great cities the population per general shop is 318; in the counties it is 475. In the cities they form 18 per cent. of the total number of shops, while in the predominantly rural areas they account for only 16 per cent. Taking the whole of the counties, however, they form 18 per cent. again and this is obviously due to their presence in large numbers in the industrial areas. In Staffordshire they represent no less than 30 per cent. of the total shops, in Warwickshire 23 per cent., in Durham 27 per cent., in Monmouthshire 23 per cent. Comparing more rural areas they account for 20 per cent. in Cumberland, Leicestershire, and Rutland. At the other end of the scale, in Surrey and Middlesex, the two most thickly populated counties, the percentage is 8 and 7.5 respectively, but, as we have seen, special conditions obtain in these two counties.

Perhaps the most vivid way to present the difficulty of coming to any conclusion concerning the factors governing the distribution of general shops is to classify the counties under population per acre, intercensal growth of population, population per general shop, and proportion of general to other shops.

Firstly, comparing population per general shop with the proportion of general to other shops we obtain a correlation which is negative and quite distinct; it seems to indicate that the presence or absence of an abnormal number of



MAP IV

general shops is an important factor in determining the number of shops in an area.

Taking the proportion of general to other shops in conjunction with population per acre and rate of growth of population, we find that where population per acre is high and rapidly advancing the proportion of general to other shops is low, but where it is high and stationary, or relatively declining, the proportion tends to be high. This seems to suggest that the general shop is slow to take root in a newly developed district. Where population is thin and relatively declining there is no correlation at all; where it is thin and stationary or advancing the proportion of general to other shops seems to be low, which supports, for what it is worth, the previous conclusion. There is no observable connexion between mere density of population, except for the presence of small towns, and the proportion of general shops.

Passing on to grocers and provision merchants, a class which is very difficult to define because of the hazy lines of demarcation between them and the general shops, we find in Map III a distribution which is difficult to interpret. In some thinly populated areas they are frequent, in others scarce, while there is no clearly marked correlation between density of population and the relative frequency of shops of this class. Indeed, the one generalization in which it appears to be safe to indulge is that the map provides evidence of a decided time-lag in the provision of shops of this type in the more rapidly expanding areas. The south midlands, and the south-east, compared with the older industrial regions of the north, appear to be poorly provided for. It is possible, however, that the difficulty of classification, together with the abnormal frequency of general shops in the area surrounding Birmingham, undermines the validity of this generalization, while it must not be overlooked that the developing areas may be becoming promptly equipped with grocers' shops of a larger average size than those previously established in the north.

In the case of clothing shops (Map IV), it is possible to detect evidence of the importance of ready access to the sources of supply in determining the scale of operations. Most of the centres of the textile and clothing industries

appear to be very well provided for compared with the more remote areas. But apart from this there is little revealed upon which comment would be justified.

It would be unwise to attempt to build too pretentious a superstructure upon the basis of these figures; the mere numbers of shops without any record of turnover do not tell us very much. Moreover, the areas which have been perforce the basis of this investigation are not those which one would choose in order to compare the density of shops under various conditions of population and industry. But, as they stand, they give an elementary and probably fairly accurate outline of the shopping facilities in different districts and of the manner in which these differ in respect of the number of alternative sources of supply from place to place.

II

So far we have been examining retail outlets classified according to the goods they handle and our principal obstacle has been the absence of any published statistics or reliable estimates of their individual turnover. But it is improbable, if fuller information were available, that this method of classification would prove the most fruitful one: it is forced upon the investigator by the nature of the figures at his command.

Much more interesting would be an analysis of the division of retail trade between department stores handling most types of consumable goods and specialist shops, and the further subdivision of these into those handling each class of commodity. The latter totals could then be divided into a series of groups according to their turnover, grouping each class about the normal size in that class. Proceeding from this classification, based upon the individual shop and its class of trade, we might proceed to reclassify them according to different patterns of organization, separating the department store, the multiple shop, the independent shop, and the co-operative stores, observing the relative frequency of each of the types isolated in the previous classification according to *turnover* occurring in each of these types of *organization*. We could then proceed, with some authority, to investigate the problems relating to each class

and to consider the price policy appropriate to each on the basis of our theoretical analysis.

Unfortunately data are not available for such an analysis. It is, however, worth while following up what information can be obtained, or deduced with reasonable propriety, along these lines. In respect of the division of trade between the department store and more specialized shop, it is almost impossible to estimate with any degree of accuracy the quantities concerned. Mr. S. P. Dobbs estimates the number of department stores to be in the immediate neighbourhood of a thousand, with an average turnover of £150,000, accounting in the aggregate for some £150 million per annum. Here the difficulty lies in deciding where the department store commences and the large draper, handling a little furniture and a few household requisites as part of its furnishing fabrics section, ends. Moreover, the central premises, and often some of the branches, of the larger co-operative societies are indistinguishable in organization from the department store proper, although from the point of view of the goods handled there is a clearly marked difference resulting from the importance of the food departments in the co-operative stores. If, therefore, the department store be defined as a type of retail outlet combining under one roof a wide range of sales services, it is probable that Mr. Dobbs's estimate, based upon a narrower definition, is a somewhat conservative one, and that the combined turnover is larger.

The class is by no means homogeneous, either in scale of operation or in organization. A dozen or so of the largest stores have an annual turnover of more than £1 million while a not inconsiderable proportion of the trade in this class is done by establishments whose sales do not total £250,000; in so far as a norm can be established it lies in the class with an annual turnover of more than half a million, this class accounting for well over 50 per cent. of the total sales. The classes of goods which they handle are sufficiently indicated by the fact that the statistics of sales published by the Retail Distributors' Association, Incorporated, are divided into Piece Goods, Women's Wear, Men's Wear, Boots and Shoes, and Furniture. Taking into consideration

the very wide sample of department stores which these figures cover, it is clear that the bulk of the sales of the average department store is comprised within these limits: it was not considered that food or any of the other classes of goods handled were of sufficient importance for separate enumeration.

Probably the principal factor operative in determining the size of a department store, and the one which accounts on the whole for the wide range of sizes which they present, is the varying density of population in the areas served. In the very largest cities a whole group of department stores can operate, but when this is the case it is normally found that they tend to become specialized: some will cater for 'high-class' trade while others will concentrate upon low prices and quick returns; some will emphasize certain departments, while others again, especially in the case of London, will cater mainly for out-of-town customers. In smaller towns the department store must cast its net wider: it must attempt to handle at once high-, medium-, and low-priced goods if it is to secure sufficient turnover for all its departments, and this will quite definitely handicap it by increasing the complexity of organization within each department. Thus the downward limit to effective department store operation, in any given set of circumstances, is probably set by the smallest scale upon which it can purchase economically. To a certain extent this has been met by the combination of department stores operating in different towns under a common management with a common buying organization. This tendency has not, of course, been confined to stores operating on a small scale, several of the largest cities being served by groups of this character, which are among the most efficient pieces of retailing machinery in the country.

A sub-class of department store is to be found in the fixed-price store, of the type of Woolworths and Marks & Spencers. It appears extremely probable, in view of the published profits of the principal firms of this class, that at present their total turnover does not fall short of the department stores. No doubt much of the rapid expansion in this class of retailing which has marked the past five years has

been due to the effect of the depression, which on the one hand has rendered their low-price policy acceptable to a growing clientele, and on the other brought an ever-increasing range of goods within their price limits. Owing to their centralized purchasing the downward limit to the efficient operation of this type of store is far below that of the department store proper, and the one-price store may vary very considerably in size. There is thus little difference between the range of goods handled in those operating in the large and the small towns. For the same reason a great city may have as many as a dozen branches of one of these organizations, each serving a given area, in preference to concentrating all their activities under one roof.

It is probable that, between them, these two types of retailing, which handle wide ranges of goods from a common unit of distribution, have sales in the immediate vicinity of £300 millions per annum. If we add to these the total retail sales of the co-operative movement, which also represents a 'normal' society handling the whole range of retail services, we find that some £500 millions of the retail turnover of the country is handled by non-specialists. This is not far from representing 25 per cent. of the total retail trade of the country.

Turning to the 'specialist' shop, grocer, butcher, draper, we find it very difficult to allocate the proportionate turnover of each class, with the exception of the tentative estimates of Table II. If these be accepted, then it is probable that the turnover of non-co-operative 'specialist' shops of other classes (grocers', dairies, fishmongers', tobacconists', chemists', ironmonger's, drapers', stationers', furniture dealers', and miscellaneous) amount to some £1,170 millions or slightly less than 60 per cent. of the total. This does not, of course, include the whole of each class of goods coming upon the retail market normally associated with each of these classes of shop, as a very high percentage of textiles and clothing passes through the hands of the department store and an even larger percentage of foodstuffs through the co-operative societies.

There remain the large number of amorphous 'general' shops, very many of them of the parlour-window type, which

dabble in all classes of goods—mainly grocery, greengrocery, sweets, and tobacco, without departmentalization. It is extremely difficult even to make a plausible guess at their joint annual turnover, but examination of family incomes in certain areas, including a number of proprietors of such businesses, leads to the probability that it is somewhere round about £30 millions.¹

It is not possible to produce statistics concerning the normal sizes of each of these classes of specialist shop, but observation and discussion reveal a few pointers. The grocer's, the draper's, and the furniture shop appear to vary in size between large and small towns much more widely than do the tobacconist's, the greengrocer's, the butcher's, the dairy, and the boot shop. It is apparent, therefore, that given a dense population, the members of the former group operate effectively on a larger scale than the latter, as they seize opportunities of large-scale operation when these occur. In the latter group there appears to be a fairly strongly indicated average size, from which departure is relatively slight: in the former, a steady gradation of size according to the concentration of population in the area served.

III

Having divided retail trade between specialist and 'general' shop, we proceed to a reclassification according to type of organization. To a certain extent this overlaps with the previous catalogue, which was based upon the division of turnover between different classes of outlet. Thus the department store is clearly a separate type of retailing *organization*, as well as a type of retail outlet. And the co-operative society, which controls both departmentalized and

¹ *The Social Survey of Merseyside*, 1934, vol. ii, p. 227, estimates the average weekly net-earnings of the keepers of small general shops at 27s. 8d. per week, on a basis of thirty samples. This net income excludes rent, and in view of the high proportion of 'parlour' shops included it is doubtful if a higher *gross* income than £100 per annum could be assumed. This indicates an annual turnover in the immediate vicinity of £400.

We estimate (above) the number of general and mixed business at 78,500. As some of these, especially those situated in rural areas, are likely to be of larger size and properly belonging to the 'grocery' group, 75,000 only are considered to fall within the class of small general shops. Thus the estimated total turnover of this class, £400 × 75,000, emerges as £30 millions.

specialized shops, represents a type of organization distinct from both. What the department store, the one-price store, and the co-operative society have in common are the special problems relating to handling a wide range of goods from one centre.

There is another class of problem, however, which relates to the advantages and difficulties involved in distributing a narrow range of goods over a wide area. The multiple shop or 'chain store' type of organization normally handles a fairly small selection of goods, but operates over a whole district or country. These department stores which are operated from a common centre, the one-price store and the larger co-operative societies, belong to this class of organization also, but they are not typical members. Thus, having already dealt with them, we can leave them aside and proceed to the task of allocating to the multiple shops their share of the £1,170 millions of retail turnover which the excluded groups do not handle.

Mr. Dobbs estimates the total number of multiple shops at 30,000, and their average annual turnover at £10,000, accounting for a total turnover of some £300 millions, or approximately 20 per cent. of the retail turnover not accounted for by department stores, one-price stores, and general shops. But, as the importance of the multiple shop is far from being equal in all trades, its distribution must be investigated. It is by no means easy to estimate the total turnover of the multiple shops in each trade, although it is safe to assume, on the basis of average employment given in Table I, that, with the possible exception of grocery, they have a larger average turnover than that of the normal private store. Consequently the proportion of retail outlets owned by the multiple companies underestimates their importance. The highest proportion of multiple shops is to be found in the druggist's trade, where some 20 per cent. of the retail outlets are members of one of the big combines. In the meat trade some 11 per cent. of the shops are multiple, in the grocery trade 9 per cent., in the boot and shoe trade 19 per cent.; in all cases the proportion of trade done is almost certainly much larger. This may be compared with the 20 per cent. of total retail trade, exclusive of department

stores, co-operative societies, and general shops, which the multiple groups enjoy, and with the proportion of multiple shops in general to the total of shops, again making the same exceptions, which appears to be in the immediate neighbourhood of 7 per cent.

Consequently it may be said that in the druggist's, the butcher's, the grocer's, and the boot and shoe trade the position of the multiple group is very strong, and their policy is thus likely to be a major determinant of the position. In the other branches of retailing, with the probable exception of tailoring and stationery, their influence is far less. In greengrocery, for example, multiple shops are only to be encountered in a few areas centering upon importing centres, while in the fish trade their influence is negligible.

There remains a group, collectively very large, but small individually, both as a proportion of multiple shops and of the shops in the trades concerned, of multiple shops operated by firms of producers in textiles, confectionery, tobacco, sewing machines, and the radio trades as outlets for their own produce. The influence of each of these is apparently small.

IV

We are now in a position to commence the most important part of our investigation of the structure of retailing; to investigate the price policy of these different groups the relative strength of which we have been attempting to evaluate. The analysis of Chapter I, revealing the indeterminacy of retail costs on the one hand and the imperfection of the retail market on the other, should have prepared the reader for a certain degree of complexity in the problem. It must be remembered, at the expense of reiteration, that a perfect retail market does not mean identical retail prices but identical prices for retailers performing the same services—or identical prices for retailers performing different services in circumstances where the provision of either involves the same cost. Thus 2*d.* provides *The Times* at breakfast in a town, *The Times* during the day in a remote country house. Butter at 1*s.* 1*d.* per pound carried away, but delivered to one's door for 1*s.* 2*d.* in town and 1*s.* 4*d.* in the country,

forms a series of prices consistent with a perfect market for retailing services. Branded goods sold at a fixed price under all conditions do not. At the same time mere absence of a uniform retail price-level is not in itself evidence of a perfect retail market, which implies that price differentials vary in exact proportion with the cost of the services provided. Thus 'market price', in the sense of a price consistent with perfect competition, is not likely to be encountered.

As the avowed object of the co-operative societies is to sell at market prices, returning any resulting profits to the consumer by way of dividend, it will be consistent to commence our survey from a study of their price policy. In general the policy of co-operative societies appears to be to accept the prices ruling among the private traders serving a similar section of the community in the area in which they operate. This, of course, is not the same thing as saying that they increase the perfection of the market: the average price in a district may be a monopoly price kept up by tacit agreement. Moreover, as Professor Macgregor has pointed out in reference to the claims of the movement to accept current prices, in very many industrial areas the importance of the co-operative movement is such, and the proportion of retail trade which it handles so large, that its own policy is the major determinant of local food prices.

While, however, the claims of the movement to be completely inactive in the formation of retail prices cannot be taken too seriously, this need not be regarded as a criticism. The employment to which their undoubted influence is put varies widely from place to place and from department to department. In the past it was undoubtedly true that the competition of co-operative stores reduced food prices and assisted to drive adulterated products from the market,¹ but it appears probable that the function of providing foodstuffs at the lowest possible margin has now passed into the hands of the multiple combines. The co-operative claim that the prices ruling in their stores for staple foodstuffs are the lowest which are compatible with fair treatment for employees, is incapable of exact proof one way or the other.

¹ See Marshall, Presidential Address to the Twenty-first Annual Co-operative Congress, 1889.

Certainly the wages paid to their sales assistants and delivery staff by most co-operative societies tend to be higher than those generally ruling in private retailing, but it is not certain that their organization is sufficiently perfect for the maximum benefit to be derived from their high-wage policy: indeed, the relatively low standards of remuneration obtaining when the higher grades are reached may handicap them in the same way that the relatively high wages in the lower grades assist them. The multiple shops tend to lose their most effective workers to the co-operative societies: the co-operative movement does not appear to attract the higher grades of administrative ability in the same way. In any case the fact remains that for the general run of foodstuffs co-operative prices are seldom the lowest available. This emerges very clearly as the result of a private and impartial inquiry, reported by Mr. J. A. Hough in his book *Dividend on Co-operative Purchases*, pp. 111-12, which investigated the relative co-operative and 'private' prices of staple foodstuffs in February 1934. The areas covered were wide and comprehensive; the findings of the inquiry are summarized by Mr. Hough as follows:

'(1) In all cases in the northern half of the country co-operative prices were either the same or slightly higher than private trade prices; in no individual instance were the general co-operative prices found to be lower than private trade prices. This fact confirms the view previously expressed that in most districts the local co-operative society tends to dominate the price level, and outside prices are, in consequence, fixed at a level, in most cases a fraction below the level of the co-operative prices. In the southern half of the country co-operative prices were the same as those charged by other traders, and in some instances there was a suggestion of the co-operative prices being slightly lower.

'(2) In no individual instance was the margin of difference between co-operative prices and private trade prices in a selected area found to be equal to the rate of dividend per £ of sales paid by the co-operative society operating in that area. This proves that any slightly higher prices that may be charged in some instances by co-operative societies do not pay for the whole of the dividend, but it is highly probable that some part of the dividend is accounted for by slightly higher prices, particularly in the case of societies paying a high rate of dividend.'

What then may be said about their general price policy? One major and two minor conclusions seem fairly well defined. Firstly, that co-operative dividend cannot be the pure resultant of accepting the market price wherever a society is operating, conducting business efficiently, and distributing net profit, if 'market price' is to be considered as a rough approximation to the 'average cost of retailing'. If it can be considered that a competitive market price exists for foodstuffs in common demand, and is fairly similar in most urban areas, then co-operative societies operating in areas of equal density of population would pay roughly equal dividends. But this is not the case: dividends of societies operating in similar circumstances vary from 1s. to 3s. This variation is not the result of the vicissitudes of a year's trading: most societies tend to set themselves a rate of dividend, to maintain it year by year, and to subordinate their price policy to obtaining it. Moreover, and this finally destroys the concept of dividend as a pure resultant, the majority of the high-dividend societies are situated in the north of England, while the average dividend of the southern societies is distinctly lower. It is difficult to reconcile oneself to the conclusion that retailing in Lancashire or in the lowlands of Scotland is so much more profitable than it is in the relatively prosperous south!

It follows from this that the co-operative societies in fact adopt the practice, common to the whole of the retail trade, of charging 'what the traffic will bear'. Owing partly to the wide range of retail prices existing everywhere, partly to the effect of co-operative prices themselves upon local price-levels, it is never difficult to find local prices similar to those charged by co-operative societies, and thus to pay lip-service to the 'market price'. In areas where the dividend is highest the practice appears to have an historical basis: these areas are in the main ones where the movement has been established longest and where, consequently, the actual effect of trading at 'market prices' would in the days of the pioneers have led to a wide margin for an efficiently run store. The effect of 'painless saving' thus obtained appears to have taken root in local co-operators, who continue to follow a policy which in effect means making their savings through

paying fairly high prices, lending the resulting margin on the average for six months to the society without interest (the *average* period of investment of the surplus making up an annually paid dividend, half of which will have lain for six months in the till) and then receiving them in the form of dividend. There is, however, one conflicting factor operative in the areas in which co-operation has long been established. It is the general practice of societies to follow the wise policy of writing off their capital charges as rapidly as possible, and in those districts where the proportion of recent capital development is low, the high rate of dividend may be the legitimate result of past economies—in exactly the same way as the future dividends of a company may be increased by a conservative depreciation policy. In these cases, therefore, an abnormally high dividend is not to be attributed wholly to the practice of saving through dividends. But, in general, in those districts where co-operative dividends are higher than the average, a certain reflection of the past is to be observed in their prices.

Where this practice obtains it is probable that the resulting price policy of local societies will tend to maintain retail prices at a relatively high level. Examination of the statistics published by the Co-operative Union reveals that a very clear correlation exists between a high-dividend policy and a high proportion of co-operative trade per head of local population. Thus the areas where co-operation is strongest are the areas where one may expect its effect upon retail prices to be most inflationary: this is particularly marked in Scotland, where a high-dividend policy is all but universal and where co-operative trade per head of the population is far larger than in the rest of the United Kingdom. On the other hand, a very large proportion of co-operative trading is in the hands of societies following a low-dividend policy, and although these societies do not supply so large a proportion of the local retail turnover as the others, they have a larger total membership and come into contact with a larger circle of customers. Moreover, it appears to be this group of societies which are extending their membership and turnover the more rapidly and, representing in the main as they do districts where co-operation is of comparatively recent

growth, are indicative of a changing attitude on the part of the movement. It is thus difficult to say more about the effect of co-operation upon retail prices *in general* than that in the older areas it tends to exercise an upward pressure and in the newer and more rapidly expanding one, a downward pressure.

There are still one or two minor conclusions to establish. The first of these is concerned with the provision of branded and packeted goods. In general, retail societies tend to supply brands made by the Co-operative Wholesale Society in preference to those which are nationally advertised and of which the retail prices are fixed by the manufacturers. This practice on the part of manufacturers will be discussed later in conjunction with the pricing policy of the 'independent' retailer, in which it features very largely. It is only necessary to note at this point that control of retail prices gives the manufacturer power to extort monopoly profits, at the expense of sharing some of the proceeds with the retailer in order to induce him to handle the brand concerned. Now the C.W.S., in general, does not impose fixed prices upon retail societies, and in those cases where it does seek to exercise pressure suggests *maximum* prices instead of maintaining minimum ones. Thus the influence of the co-operative movement in this particular sphere—which is becoming increasingly important—is definitely towards a more perfect retail market. In place of the 'national' price, societies are free to vary the retail price of these standardized goods in accordance with local costs. In general the prices finally established for these products tend to be below those of their nationally advertised and price-maintained competitors. It is probably for this reason that certain proprietors of branded goods refuse to sell through co-operative societies: the general argument for maintained retail prices—that a carefully nurtured reputation may be destroyed through discriminating price-cutting on the part of retailers seeking personal advertisement—can hardly be said to apply to the repayment of dividend.

The second minor conclusion relates to the effect of co-operative competition upon milk and bread. It is common knowledge that the position of co-operative trade is strongest

in those classes of trade which are of a routine character—where flexibility of organization and rapid adaptation of supply to changing tastes are not essential. Moreover, the total of co-operative customers for milk and bread, the provision of both of which conforms to these conditions, tends to be more nearly coextensive with co-operative membership than in any other branch. Thus they have a large and clearly defined market, not liable to fluctuation and secured without specific outlay upon advertisement, and a standardized product to distribute. It is not surprising, therefore, that in these two spheres the effect of co-operative competition has on the whole been to enforce a certain degree of conformity to the low-cost conditions which they enjoy, even though in many cases the two departments concerned are known to afford generous subsidies to other departments of co-operative trade where natural advantages are less. Since the inauguration of the Milk Marketing Board the co-operative movement has been a constant force making for a lowering of the distributors' margin. (Or, more precisely, has been a factor in moderating the claims of the distributors.) In some cases, one of the most interesting being in Scotland, the area where co-operative dividend tends to be highest, local societies have come into open conflict with their fellow distributors.

In the case of bread the Report of the Royal Commission on Food Prices may be allowed to speak for itself. After calling attention to the surprising uniformity of bread prices in certain districts the commissioners continue:

'in several cases the uniformity of price was stated to be definitely due to the fixing of prices by the local Association of Master Bakers. . . . The National Association of Master Bakers states that in most large towns committees of the local associations recommend an advance or a fall in price according to the flour market, but there is no pain or penalty attaching to any trader who declines to act on the recommendation. . . . We are told that in Glasgow, where there is no authoritative body which fixes the wholesale price for the baking trade as a whole, the price is fixed by the wholesale factories in consultation from time to time and forms the basis of the Glasgow prices.'

In the course of the next passages the co-operative move-

ment as a whole (one or two inevitable exceptions being cited) is cited as a factor making for low bread prices.

'Witnesses from these societies have informed us that they are frequently approached by the local master bakers with suggestions that the price of bread should be raised. . . . It appears to be the case that co-operative societies do very often, owing to their refusal to act with the local master bakers, keep down the price of bread to the benefit not only of their own members but also of their rivals' customers.'

To summarize this section, then, it appears to be true that in general the policy of the co-operative movement in respect of retail price is to 'charge what the traffic will bear', except in those cases where the resulting profits are so large as to offend their sense of what is right and fair. This limiting factor might more often be brought into play were it not for the difficulty, which most co-operative societies share with the department stores proper, of adequately ascertaining the separate costs of departments. 'What the traffic will bear' depends upon the extent of the wish of local members to use dividends as a vehicle for saving: it is this which, in general, finally determines the effect of the local co-operative society upon the perfection or imperfection of the local market. In consequence, it is of some interest to conclude this section by a rough analysis of the total of co-operative trade. In 1930 some 57 per cent. of the total co-operative turnover was in the 'grocery' class—including bread—and some 5 per cent. represented milk sales. It is probably in these two classes that most of the beneficial effect of co-operative trade upon the prices of competitors is exercised. Meat, a class of trade in which, on the basis of the Royal Commission on Food Prices, the influence of co-operative prices is in the opposite direction, accounted for some 9 per cent. of the total of co-operative turnover and for just over 14 per cent. of the total retail sales of meat. With the exception of drapery (8 per cent. of the co-operative total) which is a class so lacking in homogeneity and in which the interest and the policies of local societies differ so widely that generalization is impossible, all the other numerous sections of retail turnover are individually very small. Thus it appears that in only three classes of trade are the

prices of co-operative societies likely to have any appreciable effect upon retail prices in general.

In the course of the preceding passage a point arose which renders it desirable for the price policy of department stores to next engage our attention. It was suggested that the co-operative societies were reduced to a practical policy of 'charging what the traffic would bear' in face of the major difficulty of finding a 'market price' corresponding to average costs of distribution on the one hand and the added difficulty of finding what was the cost of any one department on the other. This problem, without the help of the assured market of the co-operative society or the hindrance of working to a dividend policy decided by *consumers*, is very largely that of the department store. The position is outlined very clearly by Mr. Neal in *Retailing and the Public*. Given the rental and maintenance charges of his expensive and elaborate building, given the cost of employing an adequate sales and delivery staff, the problem is to find a combination of 'lines' of merchandise the net return on which will render the maximum over and above these relatively fixed costs. This entails selecting the right proportions of goods, and pricing them at rates which, allowing for marking down those goods which show no signs of moving at the original price, will maximize the net return. But the solution which Mr. Neal suggests is a little too simple: he states (although a condensation as brief as this does him very grave injustice):

'The basis for retail pricing is the percentage system. . . . Roughly, according to the class and type of trade, there will be a standard percentage for expenses, and this performance is expressed as a percentage of turnover. This in turn gives rise to a standard percentage of gross margin to be aimed at. . . . In effect this means that there always exists a very constant ratio between purchase price and selling price.' The difficulty in accepting this explanation lies in the 'standard percentage for expenses'. If the retail market were really perfect, and in each class of retailing the retail margin was so clearly determined by competition that the gross margin any retailer could hope to obtain in the long run in return for supplying certain specified economies of location, stock-holding, delivery, credit, and general amenities was unequivocally fixed, then the problem of the department

stores would be simplified: the task would then be purely one of selecting the right proportion of each class of goods to yield the maximum return compatible with the service offered to the public. But the retail market is *not* so perfect, and no such objective scale exists.

If the alternative definition of 'standard costs' be taken—the standard costs established by the store concerned, with its unique reputation, clientele, and methods, then the problem of allocating the very heavy overhead costs of a department store supervenes. It is probable, therefore, that standard expenses are a very nebulous concept, and that the department store in practice approaches its pricing problem from a slightly different angle. The general attractions of a department store—reputation, site, incidental amenities—determine the prices which customers will give for its various 'lines' of merchandise rather than adventure elsewhere. Thus, like the seller of any branded commodity, it is confronted with a series of sales which it can make at different prices. It is far more in keeping with the normal economic analysis of business activity to assume that the store will in each department measure on the one hand the estimated income resulting from each of a series of price-levels, on the other the prime cost (sales staff salaries and cost of stock) which can be measured fairly clearly for each department if not for each commodity, and decide upon the price which will maximize net return.

How far, and this is the practical problem which now arises, can the store estimate the reaction of its market? At this point a further elucidation of the situation in terms of economic theory appears to justify a digression.

The normal concept of a market consists of a schedule of the different quantities of *one product* of which the seller can dispose at each successive point over a range of prices. Given costs of production, and the ratio at which these increase or decrease as production is increased, the most profitable position for the seller to occupy is determined by the ratio at which demand increases as prices fall. This latter depends on two factors: 'income elasticity', or the ratio between changes in the available income of purchasers (which may result from a secular or cyclical change in the

general income level, or from a fall in the price of other goods which they habitually purchase, or from a fall in the unit price of the goods under consideration) and changes in the amount purchased, and the 'elasticity of substitution', or the ratio in which different quantities of alternative commodities afford the same satisfaction as their relative prices change.

Thus if the market is examined, as is normally the case, against an assumed background of unchanged prices of other goods and unchanged general level of income, the two factors which determine the ratio between changes in price and changes in demand are (*a*) the amount of income set free by a fall or absorbed by a rise in the unit price of the goods under consideration, (*b*) the ratio at which different quantities of alternative goods give equal satisfaction at the level of available income thus determined.

For the case of the seller of a single commodity the effects of these two need not be distinguished. If he can estimate how demand will change as he alters his price, he has all the relevant data for his decisions. Although he will not trouble to distinguish between them, it is probable (if his market is made up of persons with a wide range of different incomes) that at high prices, as his customers will then tend to be wealthy persons, for whom changes in available income resulting from changes in his price will be inappreciable, the dominant factor will be elasticity of substitution, i.e. the relative satisfaction which can be obtained from a given quantity of his product compared with given quantities of other products. At low prices, on the other hand, income elasticity will be more important, as changes in his price will appreciably alter the 'available income' of the less well-to-do. (It is noteworthy, at this point, that the larger the unit price of the goods concerned, the higher up the scale of prices income elasticity will commence to be influential, and vice versa.) Thus it is probable that, at high prices, changes in price will affect demand less than at low ones. This does not, however, mean that sales will tend to increase if prices fall *very* low, as the income thus set free may be spent in other directions.

Abandoning the seller of the single product, the seller of

a wide range of products is very vitally concerned with the factors combined to make up the ratio of demand to prices for each of his 'lines'. If an increase in the demand for one is obtained at the expense of a decrease in the demand for another, then unless the former outweighs the latter, there will be no net gain if the profits on both transactions are the same. If the margin on the new 'line' is greater than that on the old, however, it may pay to press the sale of the former even at the expense of the sales of the latter. Thus the conditions of demand for a department store (or any organization either producing or selling more than one product) do not lend themselves to simple two-dimensional representation in the form of a 'demand curve'. The variables in the problem of its sales manager are (*a*) the degree to which articles which it sells can be substituted for each other as relative prices change; (*b*) the degree to which they become substitutable (either favourably or adversely) with the 'products' of other firms, and, (*c*) the degree to which changes in prices absorb or set free income which would be spent with the firms concerned or with its rivals. And, to complicate the problem, in each case the margin of profit (gross yield — prime cost) on the article concerned must be taken into account.

The market was defined, tautologically, as 'a schedule of quantities which would be sold'. The market of a department store, if the concept is to be of any practical value, must be a picture in the mind of the sales manager of *what can be sold* (taking into account the compatibility of simultaneous sales of closely competing products). The theoretical classification of the previous section, combined of course with the knowledge of relative profitability which he already possesses, is of some value in interpreting the data from which his picture of the market must be constructed.

The profits of a department store depend upon maximizing the *maintainable net revenue* from sales. These italicized aspects of the objective are important: it is possible to increase sales during one period at the expense of the succeeding one (especially during 'sales') and it is possible to embark upon a policy of expansion in one department

which is enormously successful from the point of view of that department considered alone, but of which the repercussions lessen the total sales of the firm by means of their effects upon other departments. Therefore what the sales manager needs to know is the 'potentiality for net expansion of sales' of those persons who are already customers of the store and those who may reasonably be considered as possible customers. He will need to know of whom the former group consists, where the latter may be sought, and how both groups will react, in terms of expenditure and substitution, to a given sales policy. And his problem is wholly a dynamic one—only those data are of value which will help him to estimate how sales will expand or contract in each of his different groups, and what the power of each group will be to influence the net result. So a lot of the most easily available data will be quite useless, and a lot of the most valuable, quite unobtainable.

We have defined 'the market of a department store', for practical purpose, as its potentiality for net expansion. What are the necessary data from which this may be estimated? It was suggested previously that the preponderance of high- or low-income groups among normal customers would indicate a lesser or greater degree of sensitiveness to price changes, but that the relatively greater sensitiveness to price of the lower income group would tend to be accompanied by a greater 'elasticity of substitution' leading to dangers of compensatory transfer of custom from one type of goods to another. Thus it is essential to obtain some idea of the relative importance of different income groups among existing customers of the store.

Furthermore, in view of the way in which a transfer of custom from one type of goods to another at the lower income levels may be compensated for by the attraction of new customers (by a price policy directed to stimulating sales among the lower income group) it is also desirable, if difficult, to ascertain at what income level the largest number of potential customers are to be found.

The next step, therefore, is to arrange an ideal classification of those data concerning the firm's market which are relevant to the problem.

A. *Customers already dealing with the store.*

The firm will have some record of its regular customers: these may be divided up into income groups. Probably some further re-sorting of these income groups into 'expenditure' groups will be necessary. The basis of these expenditure groups should not be estimates of what they now spend with the firm, as this would be begging the question around which the whole problem revolves. But social habits are a basis of what each group *might* spend, and are therefore of interest. Here the question of geographical location is paramount, and the main division (at least for Great Britain) is between urban and rural customers. The precise interpretation of this kind of classification would depend upon a fairly intimate knowledge of the social life of the country concerned. A further and probably easier classification would be along professional lines.

Assuming that some classification of this kind is possible, the next step is to find out how these expenditure groups are represented among the customers of each department. It will almost certainly be found, if this can be done, that the distribution of the different expenditure groups will be different in each department. This seems to provide some guide to departmental policy (except, of course, in so far as different departments are specifically designed to attract the custom of one group only). For less specialized departments it seems probable that those of which the customers include a greater proportion of members of the higher income groups than the aggregate of all departments may safely seek new customers among those who 'come in' at a lower price level in other departments. In the opposite case, when a preponderance of 'low expenditure' customers is found it might prove profitable to introduce alternative goods of higher quality.

B. *Potential customers.*

1. *Casual customers.* The previous classification presupposed that some record of the regular customers of a firm (not necessarily even nearly complete) was available. And it was concerned with 'regular' customers—a definition which would in practice be a purely arbitrary one determined

by frequency of purchase. It is with the creation of these regular customers, however, that the sales manager, in search of steady revenue, is concerned. The customers of one department are potential customers of others: this line of development was indicated previously.

In addition to regular customers of one or more departments, any department store is bound to have a large number of casual customers who are potentially regular ones. It is, of course, impossible to find out anything about these directly, but an indirect approach may yield results. Assuming that it has been possible to get some kind of classification of regular customers, which at least indicates the distribution of income groups in different departments, the ratio of regular to casual customers in each department gives a basis from which to work. If the ratio of casual customers is highest in the department where the proportion of customers falling into the higher income groups is largest, it seems probable that the quality of the stock may be deficient. If the ratio is highest where low-income groups preponderate, prices may be too high. Thus these ratios between regular and casual customers in combination with the classification of regular customers, may indicate where one group of potential customers lies and how to approach them.

2. *New customers.* It does not appear possible to deal with the question of attracting completely new customers in a manner coherent with the rest of this analysis. The only bridge between the problem of developing the potentialities of an existing market and the distinct problem of the possibilities of extending that market seems to be comparison between the proportions of the expenditure groups in the population of the area from which the store already draws most of its customers with the proportions which each of these groups make up of the total turnover of the firm. This, combined with an estimate of the competitive sources of supply of goods similar to those handled by the firm, should give some indication of the most profitable field of expansion. But the data for such an investigation would be very difficult to obtain, and far from amenable to lucid interpretation: no attempt is here made to suggest methods of approach.

If the argument of the preceding sections is correct, the main basis of any valuable definition of the market of a department store must be an accurate classification of its customers into income, or rather expenditure, groups. What data are likely to be available for this purpose?

The accounts of the credit customers of the firm provide the first and most obvious source of information. If they are numerous enough it should be possible, in a capital city or indeed in any large town, to arrange them roughly into income groups on the strength of their addresses. The fact that this method is only applicable to urban customers does not invalidate it, as we saw in an earlier section that these should, for the purpose in hand, be segregated from rural customers. Unfortunately credit customers are not equally drawn from all income groups, and to argue direct from the distribution of credit customers would be to give an undue preponderance to the higher ones.

Another possible source of information is the delivery records. This also must be interpreted by relying upon addresses as evidence of income and tends to overweight high income groups.

The weakness of both these sources of information is their tendency to overweight the higher income groups. It may be feasible to discount these by means of sampling. One or two assistants in each department might be detailed to keep a record of the regular customers whom they recognize which, multiplied by the number of assistants, would be compared with the total number of credit and delivery customers. If these two totals showed only slight discrepancy, the latter could be accepted as a guide. If they did not, it would be necessary to keep a record of the expenditure of the 'recognized regular customers' by the same assistants over a month or more. It might then be possible, though difficult, to sort these into income groups on the basis of money spent, although this, as we have seen, begs the questions we set out to answer.

Or it may be possible, if some idea of the number of regular customers can be obtained by sampling, to work on the basis that *all* the regular customers in the higher income groups are credit customers, their incomes consisting of

annual dividends or quarterly salaries, and that the lower income groups should be credited with all the regular customers who do not make use of credit. An analysis conducted on this basis would necessarily be inaccurate, but it would probably be of greater value for the purpose under consideration than one founded on the suggestion of the previous paragraph.

The relative number in each of the income groups among the customers of each department might thus be estimated. It remains to compare the ratio of 'regular' to 'casual' customers for each department, and this is a much more straightforward task. The criterion of 'regularity' will have been an arbitrarily assumed frequency of purchases, and the number of regular customers is now known. The total number of transactions over a period will in any case be known: the minimum number of transactions to 'qualify' a regular customer for purposes of this analysis will be known. Therefore, if the total number of regular customers is multiplied by the minimum number of purchases they must have made, and the result subtracted from the total number of purchases, the result will give the number of casual customers. Many of the 'regulars' will make more than the minimum number of purchases, but then many of the 'casuals' will make more than one: the two will tend to offset each other. They will not do this exactly, but that does not matter, as they will indicate the different ratios between casual and regular customers in departments where higher or lower income groups predominate, on a similar basis in all cases. Thus, if the cause of error is the same for all the data which are to be compared, it can be ignored as it will not affect the conclusions.

The preceding suggestions are of necessity somewhat inchoate. Their practical application would necessitate an observant eye and a fairly intimate knowledge of the spending habits of all social classes in the community concerned. Especially is this true in the case of dividing customers up into 'expenditure groups' on the basis of address, location, and profession. But it seems probable that, where a large firm is concerned, such an investigation might be freed from very grave error, by the law of large numbers. It appears

improbable that any difficulty would be experienced in selecting one or two assistants to do this 'sampling' in each department, and, provided the imperfection of the material were recognized, the results should be a fairly reliable guide to price and product policy in the different departments.

The manager of a department store thus equipped would be in a position to estimate the net revenue resulting from each of a series of different price policies in each department: he could anticipate probable results from an increase of price or from changes in the quality of goods stocked, and could thus maximize the contributions from each department to overhead costs. It is not probable that an investigation of the kind tentatively suggested above would indeed be necessary: almost certainly the major concepts are already present in his brain. Many a business man has been regulating his affairs on a basis of marginal revenue and marginal costs without being any the less efficient for never having heard of them! And it appears that in practice the policy of department stores is far more consistent with such a supposition than with the assumption that the insoluble problem of allocating overhead costs between departments has been solved.

Consultations with general managers of department stores tend to support this view. One of the largest and most successful of the departmental organizations operating in England has altogether abandoned the idea of allocating expenses between departments, even paper and string and sales commissions being merely checked against the percentage of turnover they represented in the previous accounting period. The *gross* margins for each department are determined by the board, sometimes in consultation with the sales staff, on the basis of 'what the traffic will bear'. This is always calculated independently of the 'normal' gross mark-up obtaining in the shops specializing in the class of goods concerned. Individual prices are determined by departmental managers, guided by the average gross margin to which they are working: even at this stage a minimum of attention is paid to the prices charged by competitors: one case of price comparison in six months was cited to illustrate

this point. 'Loss leaders' or goods sold below cost as a method of advertisement are the responsibility of the general manager and are, like all other types of advertisement, regarded as general costs to which all departments must contribute. Some departments indeed are definitely run below prime cost as an advertisement, and, of course, a new department is allowed time in which to build up its sales. But the general principle running through the whole pricing policy of the firm is to charge what the traffic will bear above prime cost, and to thus maximize the contribution to general expenses of all departments.

Another store stated that certain classes of expenditure were allocated, but not charged to, departments; that buyers were given ideal mark-up figures to aim at, and that while these figures were decided upon after taking departmental costs into account, they were not based upon them. Two factors taken into account were those cases in which a strongly marked tendency for prices to approximate to a definite figure operated in the outside market, and where similar goods were on sale in other stores: in the latter case prices were fixed a little lower.

These two examples appear to combine with our theoretical excursus to indicate that the department store bases its pricing policy on making the best of its reputation and the degree to which its general amenities attach customers to it. It is indeed difficult to see what other policy it could follow: departmental costs are not clearly definable and 'market prices' are very seldom clearly denoted. And, judging by a courageous but completely unsuccessful attempt on the part of an American group of department stores to charge differential prices for the provision of delivery and credit facilities, their customers would not welcome a more accurate allocation of expenses.

In contrast with the manner in which the department stores appear to rely upon the inelasticity of demand in their private markets, the multiple stores seem to concentrate upon selecting those classes of goods for which demand is most elastic—for which a slight difference in price will attract the maximum amount of custom. Compared with the department store, their problem is simple. Most of

their economies lie in the field of buying: they can always cater for the market on the best possible terms for any really popular class of goods, because their purchases are so large. In many cases indeed they are in a position to control the wholesale market and may easily exercise so great an influence over producers, once they have become the main avenue of outlet for the producer's output, that they can obtain goods at little over prime cost. In so far, therefore, as they are purely retailing organizations, the reason why they have become one of the major forces keeping down the prices of certain types of foodstuffs becomes apparent. They tend to select those classes of goods for which demand is most elastic, because it is for these that the economies of large-scale wholesaling are most strongly marked. For the same reason, like the co-operative societies and indeed the department stores, which also have clearly marked price policies of their own, they tend to avoid the price-maintained branded goods which are not of their own packing, as the price policy of the manufacturers might not harmonize with their own.

This analysis appears to be justified by results: the general level of multiple-shop prices tends to be slightly lower than the average because of their concentration upon standardized goods in enormous demand,¹ but it can only be applied without qualification in those cases where the firm concerned is *purely* a retailing concern. In the case of most of the big multiple firms this is not true. By far the largest group of multiple shops in the country is that in the grocery trade which includes the three most famous of the multiple grocers together with eight others, and is closely connected with a very large combination interested mainly in the utilization of fats, most especially in the form of margarine and soap. In the meat trade an almost equally large group, also composed of a series of

¹ This statement, like most of the judgements passed in the course of this chapter upon the representative pricing policies of different groups of retailers, can be supported or opposed with almost equal ease by means of lists of prices selected from among the endless multiplicity of retail prices. Consequently, no comparative examples of multiple and non-multiple prices are quoted. But the opinions to which the writer has committed himself are based upon personal observations, upon conversations with private shopkeepers, the officers of the co-operative movement, and of the multiple stores, and with observant consumers, and upon some years inside experience of retail trading.

firms operating under separate names, is intimately related with interests controlling the production and oceanic transport of meat. In the boot and shoe trade, in tailoring, and in chemistry the retail chains are the direct outlets for firms of producers which sell their own products almost to the exclusion of anything else. In some cases the development has been downward—the producer has opened his own retail outlets; in others, retailers have become progressively interested in manufacture. The general result is that the typical multiple shop is not a pure retailer, but is bound up with the financial fortunes of a producing interest. It is therefore necessary to allow for the effect of this fact upon the price policy which appears to be natural to the multiple shop: perhaps the manner in which the historical development of each group has taken place affords the most satisfactory explanation. The grocery multiples originated for the most part as pure retailers, and their price policy appears to have been moulded throughout by this circumstance. In the case of their financial connexion with the margarine industry, no change of principle appears to have taken place: a retailing organization already specializing in providing for the million those articles of food for which demand was most elastic (most elastic, that is to say, for the individual retailer, and hence for any group not completely controlling the market) obviously provided the ideal medium through which to distribute a new foodstuff of which the low price was the principal attraction. The same is probably true of the household soap with which the groups are connected. This natural similarity of price policy is probably among the reasons for which the centralized control of these groups has recently been relaxed.

The history of the meat multiples is the exact reverse, but the principle appears to be identical. These originated as a specialized channel through which to distribute another cheap foodstuff—imported meat. Thus they naturally relied upon the effect of low prices to initiate their goods into the public favour and appear to have adhered fairly consistently to a similar policy. Their scale of operation indeed renders it possible for them to differentiate in the classes of meat they offer for sale in various districts, reserving the higher-priced

cuts for the more wealthy districts and selling the coarser in poorer neighbourhoods. This frees them from the problem of the private butcher who very frequently is forced to subsidize the yield on one class of meat by that of another—a contingency resulting from the fact that nature provides sirloins, ribs, and shin in a rigidly fixed ratio which does not exactly correspond to the relatively greater demand for one or the other type which may obtain in different districts. This tendency indeed results in the appearance of small multiple butchers in most towns of any size, handling both English and imported meat and operating from five to twenty shops. But the big firms, covering the whole country from their depots in the importing centres, form by far the dominant proportion of the multiple meat trade, and the advantage of differentiating between districts, which they share with their smaller brethren, is probably of secondary importance to them. The one departure from what appears to be their policy of reducing both costs and prices to a minimum is connected with their use of 'loss leaders': Lord Vestey in his evidence before the Royal Commission on Food Prices stated that imported lamb was normally sold at uneconomic prices in order to attract custom. Obviously, therefore, in so far as this custom obtains, there is a tendency for their influence to force retail meat prices away from the relative costs of handling different classes of meat and thus to handicap the effect of their general policy upon the perfection of the retail market.

This low-price policy appears also to characterize the greengrocery multiples: they are not, however, of great importance except in a few areas, mainly districts surrounding importing centres, where the advantages of centralized buying appear to outweigh the difficulty of estimating at a purchasing centre the fluctuations in demand and supply of a commodity of which the supply fluctuates considerably and which is extremely perishable. The same may be said of multiple fishmongers.

The multiple chemists appear to be in a similar position and are, of course, much more important than in the two last-mentioned trades. In view of the large number of chemical products which are price-maintained and nationally

advertised, they have not so free a hand as the other multiple stores, but their manufacturing activities provide substitutes for these, and their price policy appears to conform to the normal multiple-shop pattern.

When we pass on to the boot and shoe trade, however, the position is somewhat different. In most cases the multiple stores in this trade have been organized to provide an outlet for the goods of one particular producing interest, and their policy in respect of prices, even allowing for the tendency of the industry to effect economies of large-scale production, does not seem to be quite identical with that common to the other type of multiple store. The tendency of their heavy expenditure upon advertisement is to split up the market into groups attached to brands rather than products and thus to create for themselves quasi-monopoly positions. This position, and indeed this history, they share with the great multiple tailors. In both cases, however, the form of distribution has been developed in order to introduce mass-produced products into the market in place of more individualized, probably better finished, but much more expensive small-scale production. Consequently, although they may not represent quite such an efficient form of low-cost distribution as the other multiple groups, or even the *retailing* organization they replace, it is probable that this cost is the price which it is necessary to pay in order to enjoy the economies of large-scale production.

Finally, when we come to the miscellaneous group of small or smallish distribution chains organized as outlets for the products of odd firms in nearly all the consumers' goods trades, it is difficult to say more than that their policy appears to approximate more closely to that of the tailors and shoemakers than that of the food multiples.

The general conclusion to be derived from this study of the price policies followed by department stores, co-operative societies, and multiple shops is to indicate that the private shop has been to a very large extent deprived of the chance of handling those goods for which price appeal is of the greatest importance, owing to the economies of mass purchase or production and standardized distribution which large-scale organization permits. Consequently, the private shop

has in a good many trades been driven to specialization, providing for small groups of consumers for which it is not worth the while of the big group to provide, or building up a special market by means of advertisement and liberal service. In these cases the dominant factor in pricing policy is the partial monopoly thus obtained and the possibility of exploiting it. In those trades where the competition of the big groups is not important, and for all trades in those areas where this is the case, it is not possible to lay down any general principles.

One very important factor, however, remains to be discussed, which is of special relevance to the private trader. As we have seen, department store, multiple store, and co-operative society alike tend to avoid handling the very large quantity of goods which are nationally advertised, and of which the retail prices are fixed by the manufacturer. Consequently, the private trader is the medium through which these goods reach the public: what is the effect upon his pricing policy?

As a fuller examination of this problem will be undertaken at a later stage in this book when its importance in the changing structure of retail distribution will have become more apparent as the result of investigating these changes, a brief summary must suffice for this static analysis. The producer of branded and price-maintained goods is a quasi-monopolist. He may share his monopoly profits with the retailer, thus widening the retail margin in the trade concerned and, by allowing a smaller investment in stocks to provide a livelihood, increase the number of retailers. Or he may in part *derive* his monopoly profit from the retailer, thus narrowing the retail margin and either tending to reduce the number of retail outlets, or, where the retailer is in a position to recoup himself, causing the distribution of his product to be subsidized out of widened retail margins on the other goods handled by the retailer. The importance of this factor in the price policy of the independent retailer, together with an indication of *his* importance to the manufacturer of such products, may be illustrated by quotations from a letter written to *Marketing* by an independent retailer.

'The truth is, that, as things are to-day there is probably no type of retail trader who is less independent than myself, and the group of which I am a member.

'Surely it is by now almost universally acknowledged that the days when the independent retailer made his living from selling his own brands of production have gone for ever. There is, of course, a very large amount of this business still done, but it is no longer the mainstay of the private trader's turnover.

'Far from it. The private trader is dependent for his business almost exclusively on nationally advertised lines of branded goods, and he will become even more so in the near future.

'As competition for business increases, and with it, expenditure on the national advertising of branded lines, so the independent trader will assume an ever growing importance to the Independent Manufacturer. . . .

'I suggest it is no exaggeration to say that in a very short space of time, comparatively speaking, the counters of the co-operatives and chain stores will no longer provide a ready outlet for this individual's products.

'It is therefore clear that if the "independent" retailer is, in fact, completely dependent on the "independent" manufacturer, the latter is also tied to the former with bonds which time can only strengthen.'

Not only does the producer of these goods fix prices over the head of the retailer, but he proceeds in many cases to subsidize his newspaper advertising and to dress his windows free of charge. He may even proceed to pay the retailer for the use of window space, in money or in kind, to arrange demonstrations in his shop, and to circularize his customers.

Nor does the influence of this practice, and of its practitioner, stop here. Occasionally, shops will be found taking advantage of leaks in the wholesaling machinery in order to obtain supplies of price-maintained goods which they retail at cost prices. Against these, unless they have purchased directly from him, the manufacturer has no remedy, as there exists no privity of contract between the two parties. It is, however, as much to the advantage of the other retail traders, who are loyally adhering to the resale conditions, to see that these are universally observed, as it is to that of the manufacturer. Thus in many trades there are associations composed of both manufacturers and retailers, which are principally concerned with the maintenance of resale terms

but which inevitably extend their influence over most problems common to the trade. In some, like the Tobacco Trades Association, the leading role is played by manufacturers; in others, like the Proprietary Articles Trade Association in the chemistry trade, the retailer appears to exercise considerable authority. These associations are of principal importance in the chemistry, stationery, tobacco, bookselling, motor and cycle, photography, and grocery trades.

These associations are not the only ones existing. In most trades there are more or less closely knit national associations, while in the Chamber of Commerce of the larger town, with its departmentalized committees, local associations of greater or lesser stability and authority are frequently encountered. The National Chamber of Trade effects a *de facto* co-ordination of the activities of these local bodies. Milk distributors are, of course, officially organized by the Milk Marketing Board and have authority to impose an agreed price upon all their members, membership being a condition of registration. Master bakers usually have associations nearly coextensive with the local trade.

Of special interest are the British Cycle and Motor-Cycle Manufacturers and Traders' Union, the associations in the photography, the bookselling, and in the newspaper trade. In the three former newcomers to the trade must satisfy a joint committee that they have adequate premises and technical knowledge of the trade before they can obtain supplies. In the latter intending newsagents must either buy out an existing business or prove that the area in which they propose to operate is at present inadequately supplied. Now in all these cases the weapon by means of which the policy of the organized retailer is carried out is the withholding of supplies by manufacturers and wholesalers. Therefore a clear limit is set to the extent to which limitation of numbers is carried: the manufacturer will not consent to a policy which would lessen the total demand for his product in order to provide monopoly profits for established retailers, unless he were able to augment his earnings by a share in the monopoly profits (which via fixed retail prices—the price of his co-operation—he can sometimes do). But it is obviously to his advantage to prevent the reputation

of his product suffering from its treatment by unskilled hands, to avoid bad debts, or, in the newspaper trade, excessive 'returns'. Thus there is a range over which his interests march closely with those of the retailer, and here the alliance seems to be firmly cemented, although, as in many alliances, the dominant power is not readily detectable.

Thus it is not possible to consider the 'private trader', except perhaps in one or two trades such as greengrocery, as the last defender of freedom and competitive practice against the great monopoly interests of the multiple shop, the department store, and the co-operative society. He is often the 'agent' of the large manufacturer whose goods he handles, he is often part of a well-organized trade association, and in these cases forces other than those of perfect competition dominate his pricing policy. Even the 'cut-price' sweet and tobacco shops of London have an association of their own, which seeks to prevent the trade becoming overcrowded!

III

THE TREND OF CHANGE IN RETAIL TRADING

THE provisional estimate of the relative importance of the different types of retail organization with which the preceding chapter was concerned could hardly be said to present a picture of long-established and stable conditions, but rather one of a branch of commerce, in a state of rapid development, artificially arrested for inspection. Such is the case: of the forces depicted some have probably worked themselves out, others have yet to reach the apogee of their powers. And while it is a comparatively easy task to catalogue the various types of retail organization and trading policy, and even to estimate their relative importance, it is a much more difficult one to attempt to interpret contemporary trends which are making for change. But the problems of retail trading, both those which are presented to the retailer himself and those which the solution adopted presents to the whole economy, cannot be understood except by their light.

Some of the changes are obvious and need no elaborate description. Principal among these is the steady growth during the last decade in the relative importance of large-scale retailing: the department store, the multiple shop, and the co-operative movement appear to have been uniformly advancing.

The annual sales of department stores, however, show a slight and intermittent increase only upon their 1933 total, culminating in an advance of 4 per cent. in 1935. As the index of non-food sales for retail trade in general advanced, as recorded by the Bank of England statistical service, by 12 per cent. during the same period, it appears that the progress of the department store is suffering a temporary slackening, which may or may not be indicative of permanent decline. Unfortunately, no figures of department store sales are available for the period before 1933, but there is little doubt that their relative share in retail trade has increased over the last decade.

The same may be said, with more certainty, of co-operative trade. Total sales increased by 19 per cent. between 1924 and 1934, despite a fall of considerable proportions in the retail price level. The movement does not appear to be more than keeping pace with the general expansion of retail trade since 1933, but it is unquestionably holding its previous gains.

No figures are available concerning the turnover of the multiple shops during the same period: the evidence of factor, trade paper, and manufacturer, however, appear to confirm the opinion derived from observation and from the scrutiny of balance sheets, that the already considerable pace of their development before 1931 has been accelerated during the last five years.

What of the private shopkeeper? Has he been vanishing before the onslaught of the big organizations or holding his ground with diminished turnover? To this point we return later, after having investigated two factors of the utmost importance to the retail market. The post-War period has witnessed a wholesale growth of new suburbs on the outskirts of nearly every town in the kingdom. Those suburbs, of course, need retail facilities, and need them close at hand. Moreover, a wholesale transformation, both in shopping habits and in place of residence, has been effected for all classes by the development of motor transport. The private car for the middle classes, and the ubiquitous motor-bus for the workers, have increased the personal mobility of the housewife on a shopping expedition, of the tradesman in search of custom, and of the family in search of a place of residence. The net consequences seem to allow of arrangement under four main heads.

Firstly, the rural customer can now come to town, to a greater extent than before, for 'shopping goods', and for those articles the purchase of which demands the careful comparison of price and quality. As a result the village or small-town draper and furniture dealer may be expected to have undergone a relative decline: the customers he drew in the past from the surrounding country-side now go past him to the nearest town. Therefore, in these and similarly situated trades, one may expect the town to be benefiting at

the expense of the village, the large town at the expense of the small. And within the town itself a transformation has taken place. The old-established shopping districts in the centre of the town are often losing custom to their competitors fringing the arterial roads towards the outskirts. The avoidance of heavy traffic for the motorist, of delay and expense for the bus passenger, tend to arrest customers at the first array of well-stocked shops they encounter. Indeed, it is possible that in some cases the relatively small town is diverting middle-class custom from the large on account of traffic difficulties: this counteracting tendency is perhaps of little importance, but is worth noting.

Secondly, an increasing proportion of those who earn their living in towns tend to take up residence in the surrounding country-side. This has resulted in an increase in custom for village and small-town shops dealing in day-to-day necessities. The village grocer and fishmonger has thus had a fresh source of custom brought to his door. Unfortunately for him, however, the multiple shop and co-operative store are not slow to follow their customers into the country, and the increasing amount of local business may be more than offset by the increasing intensity of local competition.

Thirdly, retailers of all classes whose business is of a size to warrant the expenditure have taken to motor delivery, frequently over a surprisingly wide area. This of course tends to break up the 'private market' of the village shopkeeper, and to render retailers in general more vulnerable to competition from distant rivals. Indeed, the possibilities of motor transport have been so fully exploited by some firms as to produce a new technique of retailing. The co-operative society at Chipping Norton, for example, serves a very large country membership from one central shop with the aid of a small fleet of 'travelling shops'. But, apart from this extreme form of development, the delivery of goods purchased over the counter or by telephone has increased enormously, and cannot but have added to the costs of firms which undertake it. In so far as the customer, who consciously or unconsciously pays for it, has come to demand this service, the net result would appear to be to favour the larger as against the smaller shop.

Fourthly, the increase in general mobility appears to be favouring a revival of the open-air retail market, or market hall, especially for the sale of agricultural produce. Both farmer and customer drive in, providing their own inward and outward transport. Nor is this the only result; the possibility of drawing custom from a wider area seems to be popularizing the type of retailing which relies upon the smallest margin, the most rapid turnover, and the most primitive amenities, especially in the market towns. In the United States, under the title of 'super markets', a similar development has been noticeable during the last few years. Enterprising merchants have rented disused factories and warehouses, erected stalls for the sale of their own wares on a 'cash and carry' basis, and erected other stalls to rent to persons desirous of adopting a similar policy. The title has not been adopted in Great Britain, but the method may be seen in operation in many country towns, the internal population of which would probably be insufficient to support this type of enterprise were it not possible to rely upon the custom of the surrounding country-side. Thus the effect of motor transport may well have been to still further break up the uniformity of retail prices and increase the difficulty of speaking of *the* retail price-level; the tendency described above is as clearly a factor making for low retail prices as the spread of motor delivery is one making for wider retail margins.

Now, quite clearly, the changes in habitation and mobility outlined above will have altered the costs of retail distribution and the appropriate number of retail outlets. And the growth of large-scale retailing will, quite certainly, have deprived the small retailer of custom wherever it has taken place. The appropriate question, therefore, is, Have those shops in the centres of towns whose customers have moved to the suburbs, those shops everywhere whose custom has been decreased by the competition of the larger organizations, and those rural shops whose customers have been decanted into urban markets, tended to go out of business? If they have not, then in view of the high proportion of retail costs which are overheads, it appears probable that retail margins have been widening during the period. There will

be strong grounds for suspecting this to have happened if we find that the *total* number of shops has been increasing more rapidly than the changes in habit and habitat appear to warrant.

Let us, therefore, examine current criticism of the general efficiency of retailing.

Broadly speaking, popular criticism of retailing revolves around two principal points. The first of these is that since 1924 the 'retail price-level' has steadily and to an increasing extent diverged from the 'wholesale' price level. From this premiss it is concluded that the representative retailer is either grossly inefficient, or that his apparent inefficiency as a distributing agent in reality conceals a sinister and relentless efficiency as an instrument of extortion. Consequently, it is argued that the fruits of technical progress fall to an increasing extent into his lap, instead of being distributed among the general body of honest citizens: as costs of production fall, a rise in the standard of living, which might have become general, is confined to the retailer, who is now buying at lower wholesale prices but who is not lowering retail prices to anything like a commensurate extent. The evidence which is normally quoted in support of this criticism is the divergence between the Ministry of Labour 'Cost of Living' Index and the Board of Trade 'Wholesale Price' Index.

The replies to this criticism are numerous, and, as far as they go, well founded. The first consists of a denial that the Ministry of Labour 'Cost of Living' Index is in any way representative of the general body of retail prices, as the commodity basis upon which it is founded is too narrow, and as it is devoted to the somewhat peculiar purpose of ascertaining what the value of money would be to a hypothetical and extremely conservative working-class family intent on maintaining the standard of living and the habits of consumption to which it was accustomed in 1914.

Combined with this is an even more emphatic disavowal of the Board of Trade Wholesale Index as representative of the wholesale prices *paid by the retailers*: it is correctly pointed out that the Board of Trade Index is composed very largely of raw materials, and of semi-manufactured goods like metal ingots in the very earliest stages of their progress

towards the finished article which the retailer buys and sells. Both these arguments are quite unshakable.

This demolition of the statistical evidence which is normally put forward by the more ephemeral critics of retailing does not, of course, either deny that some divergence between wholesale and retail prices has become apparent, and appears to be increasing, or render it impossible to produce statistical evidence that it has taken place. It is, indeed, normally accompanied by an acknowledgement that some such movement has occurred and by an explanation or justification of this phenomenon. Before proceeding to consider these explanations, however, it will be as well to consider the other basis upon which criticism of the retailing system commonly rests, and to clear the air as far as its liability to similar statistical attack is concerned.

Between 1924 and 1936 the number of workers registered under the distributive trades in Great Britain and Northern Ireland increased by some 100 per cent. This enormous increase is frequently quoted, with apparent justification, as evidence of unwarrantable and unnecessary expansion. This conclusion is criticized by the 'defenders' of retailing on the ground that the figures only represent *employees* and that a corresponding number of small shopkeepers have been forced out of business and into subordinate employment by the competition of multiple shops and of co-operative and department stores. On this occasion, the onus of producing reliable statistical evidence is upon the 'defenders', as upon the earlier one it was upon the critics. The present writer is aware of no evidence in support of the contention that large numbers of small retailers have been forced out of business and, as will appear when we attempt to get a statistical summary of the whole situation, the direct opposite seems to be true. All that is available to the contrary is the record of bankruptcies among retailers, and one cannot argue from the death rate alone to the growth or decline of a group to which entry is effected by other than physiological causes. Witness the trouble which the authors of the earlier estimates of the trend of population in London made for themselves by arguing from the Bills of Mortality without allowing for immigration!

Thus on the basis of the statistics which are now public property, there is little more than a 'strong feeling' that retail prices have been increasing relatively to wholesale ones, but a fairly clear balance of evidence in favour of the opinion that the costs of retail distribution have increased. A number of explanations of these admitted phenomena, apart from disputes, like those which have been recently examined, about the statistical reliability of their foundation, have been put forward, and it is now proposed to enumerate these, leaving consideration of their probable correctness to a later stage, but paying some attention in passing to the extent to which they are compatible one with another.

The first of these explanations is associated with the name of Professor Bowley, who has shown with admirable clarity the inevitable effects of time-lags and the irreducible costs of finishing and distributive processes in 'damping down' the sympathetic movement between wholesale and retail prices. The influence of these factors is to be seen even in comparing two such fundamentally incomparable records as the Ministry of Labour Cost of Living Index with the Board of Trade Wholesale Index: all the major, and many of the minor, movements of the former follow the latter very closely some two months later, although they fluctuate over a narrower range. This becomes very clearly apparent if the two are drawn to scale on a chart which shows the movements of both.

Secondly, it is argued, with great pertinency, that during a period of fairly rapid technical advance the costs of distribution must rise for two closely related reasons. As industry grows more concentrated, in order that the economies of large-scale production may be fully enjoyed, both the cost of transport to, and the cost of keeping in touch with, the final retail outlets, will compose a larger part of final retail price. Moreover, the progressive economies of mechanization and standardization cannot be introduced into retail distribution as they can into production: consequently, it is quite inevitable that the retailing system should grow progressively less efficient than the productive system, and must, therefore, continue to grow relatively more costly.

Thirdly, connected with the preceding argument but

really distinct from it, are the effects of changes in the standard of living. It should be noted, however, that the standard of living is a resultant, and not a cause, of economic changes. If the effect of technical progress is inevitably to make the costs of retailing relatively higher, it is only the increase in the *net* result in productivity which is available to elevate standards. Given this net result, however, it is probably true that the increase in real income will tend to be spent increasingly upon services rather than concrete goods, in harmony with the tendency which has been universally observed to exist in advancing economies. Some of these services, delivery of goods, the provision of rest-rooms and music, and the like, will be provided by the retailers and paid for by additions to retail prices.

Fourthly, and again connected with the previous argument, we are reminded that transfers of income from class to class, mainly in favour of the more lowly paid strata of the working class, have been taking place for the last two decades, and the result has been, it is argued, an increase in the need for retail outlets, as the increase in the income of the poor means an increase in the demand for concrete consumers' goods, as opposed to the personal services upon which the now relatively impoverished super-tax payers used to spend their money. Should this argument be correct, and its premisses valid, the result would, in part, counteract the previous one. If the net margin of increased productive efficiency over unchanged or decreased distributive efficiency is going to those members of the community who, of necessity, spend it upon concrete commodities, then it cannot increase the demand for services. All that would happen in these circumstances would be that retailers would increase the supply of 'retailing services' proper (i.e. would concentrate upon *distribution*) and lessen those services which they provided which were not essential to the distribution of consumable goods.

Finally, it is often stated that the extensive rebuilding operations of the post-war period, and the consequent 'local migrations' of urban population, have necessitated a rapid increase in the number of shops and a consequent redundancy which has tended to increase the costs of the retailer

by lessening individual turnover. There are reasons which lead one to minimize the importance of this factor in the situation, but for the present it suffices to note that, in so far as it *is* of importance, it conflicts with the two preceding arguments sufficiently to lessen their effectiveness. The effect of such a general increase in the cost of distribution would be to lessen the 'net margin' of increased efficiency.

Any or all of these factors may have been operative during the last decade. None of them, especially in view of the fact that all except the first contain an element of conflict with the rest, seems either to provide a complete explanation of the data, or to combine with the others to do so.

Those contemporary changes in the organization of retailing, or, more precisely, in the relative importance of different types of retailer, which were discussed at the commencement of this chapter, do not in themselves provide evidence of any increase in the number of shops, although they provide examples of circumstances in which an increase might legitimately be expected.

Be the number of shops what it may, the question which is relevant to our investigation is, 'How fast are they increasing?' The increase in the number of distributive workers is normally assumed to have taken place *pari passu* with the retirement or bankruptcy of the individual shopkeeper. A typical statement upon this point is that of Mr. Neal.

'The figures only deal with insured workers, so that if, as is known to be the case during the years in question, there has been a considerable disappearance of the small employer who was outside insurance, and he has been replaced by the insured employee of, for example, multiple firms, the total number of insured workers would be automatically swollen.'

'As is known to be the case', however, is not proof.¹ The number of multiple shops and of co-operative societies branches are known to have increased and *individual* small employers are known to have failed during the period: with

¹ And opinions of equal standing may be produced to the contrary. 'In spite of the growth of large-scale business and combinations the evidence does not indicate that the small trader is being eliminated in London. In point of number of undertakings as distinct from output or persons engaged, the small shop still predominates.' *New Survey of London Life and Labour*, 1933, vol. v, p. 163.

one exception there is no published evidence known to the present writer which shows that the total number of shops has either increased or decreased. The exception consists of the work of Dr. P. Ford (*Economic Journal*, Sept. 1935, June 1936, and *Manchester School*, Nov. 1936). The former article covers a period from 1901 to 1921 and from 1921 to 1931, and shows that a relative decline between 1901 and 1921 was followed by an expansion from 1921 to 1931. The latter, dealing with the West Riding of Yorkshire, shows an increase of 11 per cent. in the number of shops per thousand of population from 1922 to 1927. Taking the smaller towns separately, he records a growth of 63 per cent. in the number of shops per thousand of population. Dr. Ford points out, quite rightly, that changes in the total numbers of shops are of little significance, and stresses the point that in some trades the total was declining, and that the principal increase was in those trades serving new classes of retail demand. But his investigations reveal a net advance, rather than decline, in numbers. The record of bankruptcy among retailers, so frequently advanced as evidence of the rapid decline of the independent shopkeeper, cannot be admitted in the face of these conclusions, unless it be accompanied by figures giving ingress to independent retailing. Countries with the highest death rate are not always those with the most rapidly decreasing or slowly increasing population: common factors may affect the fertility and mortality rates.

This is certainly the case with retailing as, indeed, Mr. Neal elsewhere points out. The ease with which the pensioner or heir to a small legacy can set up in retail trade is only equal to the rapidity with which he can (and does) go bankrupt or suffer a less dramatic extinction. The process is apparent everywhere, most especially in the service towns, where a certain type of house-agent specializes in the business of disposing of superfluous shop premises to a rapid succession of inexperienced optimists: it belongs properly to extractive rather than to distributive industry. Therefore, as we do not know the rate of entry to independent retailing, the rate of egress can tell us very little. What little it can tell us seems to indicate that the rate of bankruptcy

among retailers tends to move more with good trade, than with bad, the conclusion being that when few enter, few fail. For example, the lowest annual total of bankruptcy among retailers over the period 1924-31 was in 1926—a year disorganized by the general strike. The total rose from 1929 to 1930, but fell by some 6 per cent. from 1930 to 1931. In view of facts like these, it is manifest that the failure of those who should never have been encouraged to start is a dominant factor in the rate of bankruptcy, which thus loses all value as evidence of a net increase or decline in the number of shopkeepers.

For much the same reasons as the record of bankruptcy does not provide conclusive evidence concerning growth or decline, the totals of new shops assessed to income-tax provided by the Commissioners for Inland Revenue (which terminated in 1929) do not form a reliable basis from which to estimate the rate of increase. Here the stumbling-block consists of the number of shops which are converted out of dwelling houses. The annual totals increase steadily from five thousand in 1924 to seven thousand in 1928, remaining approximately the same in 1929.

It is, however, possible to estimate what the net rate of growth of the total number of shops has been during the past few years, and in view of the importance of the question and the total lack of information available, the reader is invited to follow some fairly complicated statistical reasoning.

In wholehearted agreement with the importance which economists were increasingly attributing to the distributive system, the present writer, in 1932, attempted to form an estimate of the number of shops in England more exact than the popular one. For this he relied upon a thorough survey of Kelly's Directories, to the management of which concern he is indebted for considerable assistance, and for information concerning their methods of compilation. This work has now been superseded by the occupation survey of the 1931 Census, which includes 'Proprietors and Managers of Retail Business' in its returns. But the fact that the forty-nine volumes of Kelly's Directory which covered England when this estimate was being prepared had been compiled for different years during the period 1924-33,

which was a serious handicap to the work of estimating the totals of 1932, provides a basis of comparison with the census figures for an estimate of the rate of growth of shops.

The method is obvious and simple: eleven of the areas covered by the 1932 estimate¹ were recorded by Kelly's Directories in 1931. These figures, for the total and for each of the comparable classes, have been compared with the census returns. The census record is accepted as probably the more accurate of the two; as the methods both of the census authorities and of the compilers of Kelly's Directories are uniform throughout the country, differences between the census totals and the estimate totals are considered to be due to the divergencies between their methods of classification. Thus if for one class of shop the census total for 1931 is 5 per cent. greater than the estimate total compiled in 1931 for the same area, it is presumed that the total compiled for *any* area, in *any* year, by the estimate methods will give a result for the class of shop concerned falling short of that which the application of census methods would have yielded by 4.76 per cent. Therefore in those areas where the estimate totals were compiled for other years than 1931, the estimate figures are reduced to those which the application of census methods in that year would have yielded. This total is then compared with the census return for 1931, and the increase or decrease per annum recorded. This method is not ideal: its defects are too manifest to enumerate, but its defence must be that it is the only method possible of application. It obviously will not work if the 1931 areas covered by the estimate are not representative, and if the numbers in the corresponding census classes are so different that the process of adjustment unduly distorts the evidence of growth.

The reader is perhaps the best judge of these criteria. The areas upon which the comparison for 1931 is based are Bedfordshire, Berkshire, Bucks, Dorset, Gloucestershire, Hampshire and the Isle of Wight, Huntingdonshire, Northamptonshire, Oxfordshire, Somerset, and Wiltshire. As will be seen they weight the figures in favour of the rural

¹ In the course of the succeeding comparisons of this total with that of the census, it will be referred to as 'the estimate'.

areas of the South and avoid both the depressed areas and those in which the bulk of new industry is developing. The inclusion of Northants., of Hampshire with its then idle shipyards, and of Oxford with Morris and Pressed Steel do something to redress the balance.

The next test is comparison of totals. The census gives the number of proprietors and managers of retail businesses as 56,844 for this area: the estimate based on Kelly's 59,954. This difference of 5·2 per cent. is serious, but fortunately it is possible to explain it in a satisfactory manner. Comparing the census number of general shops for the area, 4,795, with the estimate, 8,550, we find that the excess of the estimate in this class, 3,755, more than accounts for the excess of the total estimate, 3,110. If it is remembered that the class of general shops includes the tiniest 'house-shop' which can only at the best provide enough to supplement an income earned elsewhere, it seems probable that Kelly's Directories and the census are comparable, the one record including and the other excluding this particular class of shop. The remainder of the discrepancy is so small that its absence rather than its presence would give rise to doubt.

One other method of testing the comparability of the total estimate with the census is that of observing the deviation of the local ratios of shops to population from their national average in both cases. Taking 1931 for the census and the recorded dates for the estimates, we find that according to the census there were in England in 1931, 71·3 persons per shop: according to the estimate, at the dates recorded, 68·8. These figures are for county areas, excluding the greater towns: taking the nine largest towns separately we have, census 66·4, estimate 57·3. The average deviations from these averages are: census, county areas 8·8 per cent., towns 6·9 per cent: estimate, county areas 11·1 per cent., towns 10·9 per cent. The census figures are the 'smoother', but it is somewhat difficult to decide whether the assumption necessary to make this fact into a valid criticism of the estimate figures, i.e. that the number of retail outlets tends to be a constant function of population, is a justifiable one. Moreover, if we take the average population per general

shop given by the estimate (all areas) 462, we find that the average deviation of 36 per cent. is enough to explain the greater relative smoothness of the census figures if we assume the latter to exclude some 44 per cent. of the general shops.

Before proceeding to consider the different classes of shops there are two further relevant facts to note. Firstly the census occupation reports include unemployed with employed: as there is no available information concerning unemployment among the managers of retail shops, and as an unemployed shop proprietor is something of an anomaly, the census figures are taken as they stand. Secondly, there is the problem arising out of the possibility that the proprietor or manager of a retail business may reside in an area which is across the town or country boundary from his shop. There is nothing to be done about this, except to note the greater smoothness of the figures when the areas are grouped as far as possible into economically distinct regions, which may be partly due to the elimination of this factor.

Now, having provisionally assumed that the totals are comparable, and include all the shops that provide either livelihood or principal occupation if the estimate totals are adjusted to the proportion of the census in the 'comparable area', the major problem of comparing classes arises. And here a proviso must be entered, dealing with the essential unreality of any hard-and-fast classification of retail outlets.¹ If one attempts to define an ironmonger or a draper, to take two classes of shop of which the limits seem sharply marked, one finds that the former shades off imperceptibly into the china and furniture shop, in which latter it meets the draper. And if, in hope of defining the essential ironmonger or draper, one has recourse to *The Ironmonger* or *The Drapers' Record* one finds their columns full of accusations against other types of trades of encroachment upon their more profitable sales. Drapers display vacuum cleaners, ironmongers sell American cloth, and both are only united in

¹ The writer, when an ironmonger's assistant, has sold hot-water fittings, hearth-rugs, and a goat to the same customer. He also has the authority of Mr. A. P. Lerner for the existence of a shop in Bethnal Green which undertakes the joint sale of cat's-meat and ladies' underwear.

their definition of the limits of retail trading to denounce 'coupon' advertisement schemes.

Thus we may expect that when the lines of demarcation are not clear there will tend to be some differences in the proportions of different categories in the comparable areas. Thus a further possibility of error arises: even if the 'comparable areas' are representative. If either the census or the estimate are not self-consistent between different areas in the distribution of borderline cases, or if the error is not uniform in both groups, the adjusted totals will not provide a reliable record of growth. On the other hand, if the error is uniform there is no harm done: should the estimate record an unduly high proportion of confectioners-cum-tobacconists as confectioners in *all* cases, the result, given the correction necessary to render the 1931 figures comparable with the census, will be reliable.

There exists a very obvious method of checking gross errors in this field. If one examines the figures for the growth of any particular kind of shop, and if all the comparisons between 1931 and pre-1931 estimates record growth, while all comparisons with post-1931 estimates record decline, then there is evidence of an unsuitable multiplier obtained from the 1931 ratio. The only case in which this occurs is that of boots, when a minus sign characterizes all past-1931 entries, indicating that the proportion of estimate to census for boot shops in 1931 was unduly high. This is not due to the inclusion of Northamptonshire in the 'comparable area' as might be supposed, because the ratio of estimate to census for boot shops in that county is below the average for the whole of the 'comparable area'. Indeed there seems to be something particularly elusive about the enumeration of boot shops, perhaps due to the large number of boot repairers who hover on the verge of retail trade. If these are being reduced in number, as is probably the case, by the spread of the multiple shop and the mechanized cheap repair shop, the increased rapidity of decline in the years recording post-1931 developments is in part justified by common sense. The probability of the enumeration of 1931 being on one side or the other at fault is, however, increased by comparing the totals.

They may be compared with results obtained in different areas by investigations on behalf of the *Daily Mail* and the *Evening News* and by an investigation conducted by Mr. Elbourne. The ratio of totals is as follows: estimate 100, census 54, *Daily Mail* 219, *Evening News* 94, Elbourne 95. In face of discrepancies like these it is difficult to arrive at any certainty.

In none of the other cases does the sign show any undue disposition to change after 1931 in such a manner as to excite suspicion.

There is one other mysterious case, however, in which the wide difference between the census total and the estimate total for 1931 in the comparable area gives rise to some grounds for suspicion: that of fishmongers. The ratio is, estimate 100; census 217: this is pretty clearly due to the inclusion of fried-fish sellers in the census returns and their exclusion by the estimate. But this renders their comparison somewhat unreal, because the two types of shop probably tend to cater for two fairly distinct markets. Therefore the result of the comparison is in this case also far from reliable as an indication of the rate of increase.

Apart from these two classes there are no others in which all the figures in a class behave in an unduly mysterious manner; but one interesting point should be here noted. Often, when an abnormally high (or low) rate of growth is recorded for an area, the cause is geographical, because only one part of an economically united whole is under consideration. This is especially true when towns are considered apart from the rest of the counties in which they are situated. Two factors combine to make these cases unreal in their results: the managers and proprietors may reside inside the town and do business in the surrounding country, or vice versa, and the bulk of the suburbs may lie inside or outside the town boundary. One may cite Hull and the East Riding of Yorkshire as an example, or Devon and Cornwall with the largest centre of population in either county living on their mutual boundary.

It is in order to eliminate the disturbance caused by these factors that the Table has been prepared: as far as possible the country has been divided into areas possessed of a

certain economic individuality. The extent to which this result has been achieved may be estimated by a comparison of the rates of growth of all shops. Somewhat surprisingly the south coast, fourth in order of growth of population, heads the list, with the Metropolitan area, first in order of growth of population, a bad second. This is explained, however, by the low rate of increase in London itself: side by side with this increase of shops in the outlying areas and new suburbs there is going on a steady consolidation of trade into the hands of the multiple shops and department stores in the centre. Next comes Yorkshire, and somewhat unexpectedly, Lancashire. In spite of its prosperity and its rapid growth of population the east Midlands come low on the list, perhaps as a result of a fairly rapid collapse of individual enterprise before the multiple shop. The case of East Anglia, adjacent to this area, shows signs of the same causes at work, whatever they may be. In the Welsh Marches population and shops are declining together, while in the extreme north-west the fall in population is accompanied by an annual increase of 1·8 per cent. in the number of shops.

There are two forces at work apart from the obvious interrelation between local industrial and commercial prosperity. The development of new suburbs in most towns, the increase in the habit of living 'in the country' due to motor transport, and the development of village life, all combine to increase the number of shops. The development of multiple shops, except when they buy out existing retailers and until their competition succeeds in closing their rivals, acts in the same way. On the other hand, the transport facilities which let the townsman dwell in the country may carry both him and the erstwhile customer of the village shop into the town to do his shopping at the 'Stores', while in the long run the growth of the multiple shop must be at the expense of the small independent shopkeeper.

Even the relation between 'prosperity' and a rise in the number of shops is not an inevitable one. Probably the figures are wrong, but the increase in Northumberland and Durham in both greengrocers and fishmongers (types of retailing which require a minimum of capital) may be

evidence of victims of depression seeking an alternative occupation.

This series of examples serves to illustrate the relation, or lack of unitary relation, between prosperity, growth of population, and the increase of shops; it fails to do more than partly smooth out the wide variations in the rate of growth of shops in the same class. It only eliminates those due to geographical considerations. Let us consider those which remain. The widest variations occur in grocers, dairies, and general shops. In the majority of cases the movements are compensatory among themselves. In the west midlands group, for example, the fall in grocers and dairies is offset by a rise in general shops: in the north-west a fall in the number of general shops is offset by an increase in grocers and dairies.

The line of demarcation between the three groups is very narrow: most general shops are mainly grocers, most grocers sell butter and eggs, and many of the multiple grocers' shops call themselves dairies. Consequently, there seems to be every reason for taking them all together: if this course be taken, as in the Table, we get a much smoother and more feasible record of growth. For example the 47 per cent. increase in the number of dairies in the depopulating Welsh Marches thus becomes part of an increase of 2 per cent. in the number of shops calling themselves dairies, grocers, and general shops. Owing to the great similarity of the three groups in the composite class, one cannot draw conclusions from the 'internal' movement, and can only argue with any certainty about the growth of the composite class.

The same is true of tobacconists and confectioners: both sell each other's wares in a smaller or larger proportion and the fluctuations in their rates of growth are mainly complementary. Therefore one may, with some certainty, combine the two groups. As an example of the difficulty of exact classification of these two groups, it is noteworthy that, while the number of outlets for sweetstuffs is notoriously very large, the census total for England is in the neighbourhood of 33,000, and while the number of tobacco licences issued in 1931 was some 500,000, the census gives a return of some 13,000 tobacconists. And probably the

same arrangement can be applied to hardware and furniture shops: the 'pure' furniture shop and 'pure' ironmonger are quite distinct, but they are rare and the two species shade off into each other by imperceptible gradations.

Thus we come to the Table, in which the figures are rearranged to eliminate the results of unrealistic classification and arbitrary geographical boundaries.

TABLE I

The Average Annual Rate of Growth of Various Classes of Shops, and of Population, for a Series of Areas in England¹

Area	Total shops	Class A	B	C	D	E	F	G	H	I	Population
	%	%	%	%	%	%	%	%	%	%	%
1	5.2	5.0	1.0	6.0	11.0	10.0	-6.0	7.0	8.0	9.0	0.31
2	8.9	17.0	10.0	7.0	1.0	14.0	1.0	12.0	14.0	6.0	1.23
3	5.6	3.0	3.0	6.0	15.0	3.0	-10.0	0.0		5.0	0.5
4	5.1	-4.0	-6.0	3.0	1.0	11.0	-24.0	1.0	12.0	4.0	0.72
5	3.9	-5.0	2.0	1.0	14.0	4.0		1.0	-1.0	3.0	1.09
6	-1.9	1.0	-4.0	4.0	2.0	-6.0	-10.0	2.0	-2.0		0.13
7	2.0	0.0	-2.0			-4.0	-5.0	-4.0	9.0	-3.0	0.08
8	-0.8	2.0	1.0	-5.0	3.0	-7.0	15.0	-3.0	-7.0	-6.0	-0.01
9	5.0	16.0	0.0	1.0		-3.0	4.0	5.0	-8.0		0.20
10	16.0	10.0		14.0			17.0	14.0	7.0	0.0	0.63
11	1.8	5.0	6.0	16.0		0.0	-6.0	6.0	6.0	-4.0	-0.32
12	0.0	4.0	0.0	-2.0	8.0	-9.0	-5.0	3.0	-3.0	-5.0	-0.38
Classes as above; total for all England											
	6.4	6.3	4.7	8.3	12.4	7.3	-6.8	5.6	9.4	3.6	

Areas: 1, Lancashire; 2, London, Essex, Hertfordshire, Middlesex, and Surrey; 3, Yorkshire; 4, Derbyshire, Staffs, Warwickshire, and Worcester; 5, Lincoln, Notts., Leicester, and Rutland; 6, Cambridgeshire, Norfolk, and Suffolk; 7, Durham and Northumberland; 8, Hereford and Shropshire; 9, Devon and Cornwall; 10, Kent and Sussex; 11, Cumberland and Westmorland; 12, Monmouthshire.

Classes: A, General Grocers and Dairies; B, Confectioners and Tobacconists; C, Greengrocers; D, Fishmongers; E, Hardware and Furniture; F, Boots; G, Drapers and dealers in Textiles; H, Chemists; I, Butchers.

¹ Blank spaces have been left in those cases where the deficiencies of the technique employed (noted in the text) have led to results too far removed from probability. The least reliable of these estimates, also for reasons given in the text, are those relating to fishmongers and bootshops.

The results of inspecting this Table are soon enumerated. Taking the grocery group we find the only decline recorded in the two midland groups. This is probably due to the

growth of multiple shops and the spread of co-operation, as both districts record an increase in population above the national average and both are comparatively prosperous. The Metropolitan and south-eastern districts show the most rapid increase, as one would expect from their post-war development, and even the depressed areas and those with declining population show some advance.

Confectionery and tobacco show much the same development combined, the midland group show a decline in relation to the growth of population, while elsewhere development seems to have been hampered by depression rather than by depopulation.

Greengrocery is an interesting group, showing as it does the only class which advanced in number everywhere. This is no doubt accounted for by the fact that while the tastes of the consumer have been changing in favour of salads and fruit, there has, as yet, been no change in the 'atomic' nature of this branch of distribution. It does not seem possible to establish any correlation between the growth of greengrocers and either the growth of population or relative prosperity.

The class of fishmongers is probably, for reasons previously enumerated, unreliable as a basis for any deductions. Furniture and hardware shops, as one would expect, show a rate of growth very sensitive to the rate of growth of population, with the exception of the east midlands group.

Boot shops are also somewhat unaccountable in their behaviour, except for their relative increase (in common with all other types of shop) in the south-east.

Clothing shops in general, and textile shops, seem to have developed in the Metropolitan and south-east districts to the exclusion of the rest of the kingdom, with the surprising exception of the not-too-prosperous north-west, which is also declining in population.

Chemists' shops do not seem to rely for their multiplication or decrease upon either prosperity or growth of population. Both Yorkshire and Lancashire have been increasing fast while the east midlands were declining in spite of an increasing population. Decreasing population may mean an increase in the proportion of elderly persons, but it seems

that their wants are covered by established chemists, as witness the decline in the Welsh Marches.

Lastly, butchers seem to be independent of prosperity, increasing in London, Lancashire, and Yorkshire alike, but very sensitive to changes in population.

Examination of the growth of shops recorded in local directories which are published annually yield figures which seem to support the general conclusions arrived at. A few examples are catalogued in Table II.

TABLE II
Annual Average Rate of Growth of Shops, 1925-32

	Brighton ¹	Worthing	Canterbury & Herne Bay	Cambridge ²
	%	%	%	%
Bakers	1	0	1	-2
Boothops	7	1	1	-3
Butchers	4	2	1	3
Confectioners	5	4	8	0
Grocers	3	3	3	-1
Drapers	4	5	1	-2

It is also interesting to note that the changes in the numbers are by no means arrived at by continuous movements. For example, in Brighton, when the annual average of increase of all these types of shop taken together is 4 per cent., the yearly movements of the totals are:

1926	+6 per cent.	1929	+4 per cent.
1927	+5 per cent.	1930	+9 per cent.
1928	+1 per cent.	1931	+3 per cent.

¹ Brighton 1925-31.

² Cambridge is in one of the few areas where the number of shops is declining.

What most clearly emerges from all this is an impression of a tremendously rapid multiplication of shops. No doubt the figures are defective in nearly all cases: it is for this reason that they have not been subjected to any more complicated statistical treatment. Their great weakness lies in the fact that they cover different areas for different times and thus, for purposes of strict reasoning, the averaging of the rate of growth of one area from 1924 to 1930 with that of another for 1930 to 1932 outrages every canon of statistical science. But they show rates of growth which have been in operation, it may be for a longer or for a shorter time, during the period, and they indicate that, whatever the fluctuations

of the rate of growth, its order of magnitude over the whole period in nearly all the areas, and for nearly all classes of shops, has been such as to constitute a serious problem.

On the basis of this evidence of the growth in the number of retail outlets, further consideration of the reasons put forward in explanation is necessary.

The first of these, increased technical efficiency, can be dismissed in a few sentences. All that need be said is that the increase in the number of distributive workers and in the number of shops is altogether disproportionate to any increase in the efficiency of the consumption industries in general of which it is possible to conceive as taking place in the time. This is evident from the growth in the number of workers registered in the distributive trades during the period: at a time in which the total number of registered workers was in the neighbourhood of twelve millions, the number of distributive workers rose in less than ten years from one million to two. Taking this increase in comparison with the total number registered and allowing for unregistered employers and for independent workers, an increase in efficiency of some 88 per cent. per annum would have been necessary in order for the increase in distributive workers to have been due to this cause, even if the community had elected to take the whole of the increase in its potential income in the form of distributive services. Therefore increased productive efficiency must be ruled out of court as a principal cause, although it remains as an undoubtedly effective factor in the situation.

It is probable that although the community would not elect to take the whole of an increase in productivity in the form of increased retail services it might well take some, and undoubtedly since the War there has sprung up a genuine desire on the part of the consumer for more services from his retailer. But here again the magnitude of the change is altogether disproportionate. This may be seen most clearly by comparing the development of retail distribution with that of the laundry industry, which has undergone a considerable expansion since the War as a result of changing tastes. Yet the number of registered workers in this trade has only risen from 113,000 in 1924 to 153,000 in 1934—

an increase of 50 per cent. against the 100 per cent. increase in distribution. If the change in tastes since 1924 has only led to a demand for the labour of an additional 50,000 laundry workers, it is hard to believe that a genuine desire to have parcels sent home and to have doors opened by commissionaires can independently account for the employment of an additional million in distribution!

The next possible explanation is one to which it is necessary to devote a little more space. This is the explanation based upon the growth and migration of population. During the intercensal period 1921-31, the average annual growth of population was 0.552 per cent. for England and Wales. During the period 1924-31 the average annual increase in the number of workers registered in the United Kingdom under the Distributive Trades was 5.5, a rate of increase almost ten times as rapid.

Population was not only growing, however, but migrating: if the forty English counties and the cities of Birmingham, Bradford, Bristol, Hull, Leeds, Liverpool, London, Manchester, and Sheffield are taken separately, the rate of growth ranges from—3.8 per cent. in Cumberland to 30.8 per cent in Middlesex. More important still, in evidence of the general migratory character of the period, is the fact that, while the average rate of growth for England and Wales was 5.52 per cent, in only seven cases out of the forty-nine did the rate of growth fall between 4.5 and 6.5 per cent. In seven cases population declined, while in eight the rate of growth exceeded 10 per cent.

In these circumstances a considerable proportion of the increase in retail outlets was undoubtedly due to the necessity of providing retail facilities in new residential areas and to the impossibility of a corresponding shrinkage in areas of dwindling population. Some light may be shed upon the degree to which this cause was effective by comparing local changes in population with the record of new shop buildings assessed for income-tax. This comparison underestimates the growth of shops because, for reasons previously set forth, new shops exceed new shop buildings in number.

Take first those counties in which population was stationary, of which Durham, with an annual average intercensal

increase of 0.05 per cent., and Suffolk with 0.01 per cent. are typical: in the former the annual average increase in the number of shop buildings was 1.17 per cent., in the latter 1.19 per cent. With these may be compared the two counties which were growing most rapidly in population, Middlesex and Surrey. The average annual increase for the former is population, 3.08 per cent., shop buildings 3.93 per cent.: for the latter, population 2.7 per cent., shop buildings 3.86 per cent.

These figures, however, are based on the county as an area, and considerable migration may take place within the borders of a county which is not growing as a whole. This also may require new retail facilities. Let us therefore examine the proportion of new shop buildings to new dwellings. In Durham the former are 3.3 per cent of the latter, in Suffolk 4.4 per cent., in Middlesex 3.9 per cent., in Surrey 3.7 per cent. Thus the proportion of new shop buildings to new dwellings, in these four very dissimilar counties, is very similar; the two growing counties fall together between two stationary ones and the figure for all England, 3.7 per cent., is very nearly the mean. It therefore seems that the proportion of new shops to new dwellings has been fairly constant: examination of a series of sample counties shows proportions which fluctuate fairly closely about the national mean, with the exception of Cumberland, the county with the most rapidly decreasing population, and London, which for obvious reasons is in a class of its own. The percentage in the former case is 1.8 per cent., in the latter 9.0 per cent.

What conclusions can be drawn from these two facts, that in all counties the rate of growth of shops exceeds that of population, and that the proportion of new shops to new houses does not vary greatly? The former seems to indicate that everywhere the ratio of shops to population is increasing, the latter that the increase is due to migration. It is doubtful, however, if the figures relating new shop buildings to new houses are of very great value, owing to the extensive re-housing operations of the period: while the average intercensal increase in population was 0.55 per cent. that of houses was 1.9 per cent. In all areas, new housing was in

progress, irrespective of migration, and the constant proportion of new shop buildings to new houses seems to be evidence of factors at work to increase the number of shops in all areas, during a period in which social policy was directed towards the rapid development of state-subsidized housing. Indeed in one year of the period the ratio of non-subsidized to subsidized houses fell to 1 : 4. The close correlation between new shop buildings and houses thus appears to be fortuitous. In support of this view may be adduced the fact that in the three counties in which population grew most rapidly the number of persons per shop was 104.9, 93.4, and 88.8, as against the national average of 70. Further evidence supporting these conclusions is to be derived from the industrial surveys of the depressed areas published by the Board of Trade. In Lancashire the average annual increase of distributive workers (1923-31) was 5.3 per cent., against the national 5.5 per cent.¹ Even this trifling difference is attributable to the fact that the term 'Distributive Trades' covers numerous wholesale and export dealers who are extremely numerous in the city of Manchester and whose business was extremely depressed, this accounting for the fact that Manchester taken alone shows an increase of only 10.8 per cent. for the whole period. Indeed, within this area, of which the staple industry has been stagnant during the whole time, the Chorley and Preston area showed an increase of 67.8 per cent., and Oldham and Moseley area an increase of 61.7 per cent. in the number of workers registered in the Distributive Trades.

The authors of the Survey conclude, 'The survey region has benefited in employment from the expansion of distribution which has been found in the country as a whole.' Every part of the region, whether expanding or declining in population, and whether growing or shrinking industrially, shows this increase in employment.

On Merseyside² the annual average increase in distributive workers from 1924 to 1930 was 10 per cent. 'By 1930 this industry found employment for 75,500 persons, or nearly four times as many as any other single industry in the area.'

¹ *Industrial Survey of Lancashire Area*, B. of T., 1932.

² *Industrial Survey of Merseyside Area*, B. of T., 1932.

On the north-east coast area¹ the annual rate of growth of employment in the distributive trades was 3·9 per cent.: the annual rate of growth of population 0·01 per cent. The author of the Memorandum on Distribution attributes this increase partly to changes in the location of population within the area and partly to the changes in the organization or scale of doing business, laying particular stress on the growth of motor delivery services.

In South Wales² the four counties covered by the survey lost between 1923 and 1931 no less than 12·3 per cent. of their 1923 population: the sub-areas included in the area show different reductions in population, but only one, Carmarthen, shows any gain. Thus all the movements of population, with one trifling exception, have been away from rather than within the area. The number of workers in distributive trades registered within the area in 1930 shows an increase of 46 per cent. on 1923: those in actual employment show an increase of 30 per cent.

In the south-west of Scotland³ the population has declined by 0·1 per cent. since the 1921 Census, and there is no evidence of intercounty migration on a large scale, as the changes in population, with the exception of Dumbarton which is down 2 per cent, have been less than 1 per cent. in all areas. Between 1923 and 1930 the number of persons in distributive trades rose by 33 per cent. This evidence seems to prove conclusively that growth and migration of population were not responsible for the whole of the increases in the cost of distribution during the period, and that the main causes of the movement must be sought elsewhere.

¹ *Industrial Survey of the North-East Coast Area*, B. of T., 1932.

² *Industrial Survey of South Wales*, B. of T., 1932.

³ *Industrial Survey of South West Scotland*, B. of T., 1932.

IV

THE NATURE OF THE RETAIL MARKET

WE must now examine those peculiarities of retail markets which apparently allow increasing numbers of retailers to accompany an increasing gap between wholesale and retail prices. Besides the reasons commonly put forward for the increase of employment in distribution, for the growing disparity between wholesale and retail price levels, and for the multiplication of retail outlets—technical progress, changing standards, and migration of population—we must investigate the results of the partial and qualified monopoly which the retailer enjoys. Now this is a question which the increasing prevalence of partial monopoly, or 'imperfect competition' in the realm of production, as well as in that of distribution, has of late years brought to an increasing extent to the somewhat belated attention of theoretical economists. A body of theory, upon the essentials of which agreement is fairly general, has been evolved concerning the subject, and some understanding of its major concepts, and of those of its conclusions which bear upon the specific problems of retailing, is essential to the understanding of these latter.

As a preliminary it is of great interest to run through a representative series of opinions of the leading economists concerning retailing, in historical order. It will then be seen how closely the concept of partial monopoly and the growing recognition of its importance has been bound up with questions arising out of retail trade.

As in duty bound, we commence with Adam Smith. He commences his discussion with an eloquent recognition of the utilities of time, place, and divisibility which the retailer creates, and proceeds:

"The capital of the retailer replaces, together with its profit, that of the merchant of whom he purchases goods, and thereby enables him to continue his business. The retailer himself is the only productive labour whom it directly employs. In his profits consists the whole value which its employment adds to the annual produce of the land and labour of the society. . . .

'The prejudices of some political writers against shopkeepers and tradesmen are altogether without foundation. So far from it being necessary either to tax them or reduce their number, they can never be multiplied so as to hurt the public though they may be so as to hurt one another. The quantity of grocery goods, for example, which can be sold in a particular town, is limited by the demand of that town, and its neighbourhood. The capital, therefore, which can be employed in the grocery trade, cannot exceed what is sufficient to purchase that quantity. If this capital is divided between two different grocers, their competition will tend to make both of them sell cheaper than if it was in the hands of one only; and if it were divided among twenty, their competition would be just so much the greater and the chance of their combining together, in order to raise the price, just so much the less. Their competition might, perhaps, ruin some of themselves; but to take care of this is the business of the parties concerned, and may be safely left to their own discretion. Some of them, perhaps, may sometimes decoy a weak customer to buy what he has no occasion for. This evil, however, is of little importance to deserve the public attention, nor would it necessarily be prevented by restricting their numbers.' (*Wealth of Nations*, ch. V.)

This wholehearted confidence in the power of competition to protect the consumer is, of course, typical of the man and the period. The only danger for him is combination, and, despite the somewhat sinister note of 'this is the business of the parties concerned and may be safely left to their own discretion', it is regarded as axiomatic that the probability of formal or tacit combination is in inverse ratio to the number of competitors.

Ricardo refrains from any mention of the subject, and probably for this reason both Senior and McCulloch echo the sentiments of Adam Smith without further investigation. John Stuart Mill, who accepted the theoretical apparatus of his predecessors with very little criticism, but displayed some originality in its application to social problems, recognized the unorthodox behaviour of retail prices, and attributed their vagaries to the relative ignorance of the retail customer, and to the influence of habit.

'Either from indolence, or from carelessness, or because people think it fine to pay and ask no question, three-fourths of those who can afford it give much higher prices than necessary for the things they consume; while the poor often do the same from ignorance and defect of judgement, want of time for searching and making inquiry

and not infrequently from coercion, open or disguised.' (*Principles of Political Economy*, Bk. III, ch. I, § 5.)

The sufficiency of competition in protecting the customer is now not quite so confidently enunciated. If, over a fairly narrow range, discrepancies of price do not frighten away customers, it is clear that the sort of competition which is the direct resultant of the retailer's decision to maximize his profits will not in all cases lead to prices being at a minimum. Competition to sell at the absolute lowest price *as an end in itself* has no place in economic theory. Prices are only as low as is consistent with the efficient sellers' solvency when the customers are intensely sensitive to price.

The same reflection is suggested by Macleod.

'Persons who engage in trade must live by their trade; they must, therefore, necessarily charge their customer such prices as will enable them to support themselves out of the profits. Hence, when transactions are very trifling in number and magnitude, they must charge very high prices in order to enable them to live. . . . It is this circumstance that compels small shopkeepers in country districts to charge such high prices for their goods, to the great indignation of many well meaning but unreflective persons.' (*Principles of Economical Philosophy*, vol. ii, p. 46.)

It does not become quite clear in the context why the number of transactions is small: if the argument is to be confined to very sparsely populated districts, then it is quite consistent with the earlier view of Smith, but, if Mill's qualification be accepted, it appears probable that the phenomenon of relatively small turnovers and resulting high prices may appear anywhere.

This is put very clearly and forcefully by Cairnes, an economist whose present reputation is by no means commensurate with his capacity.

'In each place of sale there is but one seller, and though it is possible to compare his prices with the prices demanded elsewhere by others this cannot always be done at the moment, and may involve much inconvenience and delay. . . . This is one circumstance that distinguishes retail from wholesale selling. The other lies in the advantage which his superior knowledge gives the seller over the buyer in the transaction taking place between them—a superiority which has no counterpart in the relations of wholesale dealers.

'Not only in different localities, but often in different shops in the

same locality, it is quite usual to find the same articles, and the same quality, selling at widely different prices at the same time; and this quite in excess of what the special conditions of particular localities or situations might account for. This is not a satisfactory state of things: but though perhaps in some degree inevitable, because due to what we may regard as essential incidents of retail trading, the evil is, at least in this country, greatly aggravated by a cause which is quite removable, and which, we may hope, is in process of being removed. This is the excessive amount of capital, which, from one cause or another, has found its way into the business of mere distribution. . . .

'The source of this evil is, thus, the sluggish action of competition: and the remedy must be sought in the quickening of this action. . . . The definite result towards which such a process would tend is manifestly a reduction of the existing capital of retail dealing to an amount which would be no more than adequate to perform the services required of it.' (*Leading Principles of Political Economy*, p. 129 et seq.)

This excellent piece of analysis, combining and surpassing the views both of Mill and Macleod, is capped very definitely by Pareto.

'In retail trade, the influence of competition is frequently negligible. Retail sellers are extremely numerous, and their combined capital is equal to a much larger sum than that necessary to finance distribution. . . . It is noteworthy that the losses caused by this imperfect organisation of distribution are much greater than the cost of maintaining the superfluous retailers and of paying interest upon their capital. If it be assumed that, in a certain country, the total of these two sums was 100 per annum, it would be of great advantage to the consumers to pay directly this sum of 100 to their parasites, provided that they could be assured of a retail price level resulting from an efficient system of distribution.' (*Manuel*, French edition of 1909, pp. 460-1.)

After this, the sober and restrained comments of Marshall on the subject remind one, not unseasonably, that there are other elements besides that of monopoly in the problems of retailing. He delivers himself in the *Principles* very much in the manner of Mill.

'A man may not trouble himself much about small retail purchases: he may give half a crown for a packet of paper in one shop, which he could have got for two shillings in another. But it is otherwise with wholesale prices. A manufacturer cannot sell a ream of paper for six shillings which his neighbour is selling for five.' (*Principles of Economics*, ed. 6., p. 328 n.)

In his inaugural address to the Co-operative Congress of 1889 he had much to say concerning the inefficiency and redundancy of retail traders, but in *Industry and Trade* he is content with a cautious discussion of the imperfections of the retail market without, moreover, committing himself to any opinion concerning the relative strength of the forces in operation.

Taussig, who calls our attention to the non-monopolistic elements in retail prices and to the service which the retailer renders, says:

'Imagine that any one intending to buy a pair of shoes or a suit of clothes was called on to send notices of his proposed purchase a week or two in advance, to give a preliminary account of the thing wanted, and then to accept an appointment for a stated place or time at which the purchase could be made. It is easy to see how the work of retailing could be systematised, how the selling force would be kept constantly employed, how stocks would be kept to the minimum. As things now stand we pay heavily for the privilege of freedom in the use of our time, for vacillation and choice, for the maintenance of a stock and staff adequate for all tastes and all emergencies. It is common to speak of the waste of competition: much of it is in reality the waste necessarily involved in liberty.' (Quoted Pigou, *Economics of Welfare*, ed. 3, p. 320 n.)

The fact that the retailer renders services to the consumer, however, was recognized (and almost as clearly stated) by Adam Smith. This fact does not do more than justify the *existence* of the retailer: it does not explain why retail prices are what they are, only why there is a retail as distinct from a wholesale, price-level.

Wicksell, returning to the peculiar conditions of the retail market, carries the theory of partial monopoly a little further:

'In conclusion, we should not forget that practically every retailer possesses, within his immediate circle, what we may call an actual sales monopoly, even if, as we shall soon see, it is based only on the ignorance and lack of organization of the buyers. . . . The result is, not infrequently, an excess of retailers, apparently, for the convenience, but really to the injury of the consumer. If, for example, two shops of the same kind are situated at different ends of the same street, it would be natural that their respective markets would meet in the middle of the street. Now if a new shop is opened in the middle of

the street each of the others will, sooner or later, lose some of its customers to the new shop, since the people living round the middle of the street believe that, if they get the same goods at the same price, they are saving time and trouble by making their purchases at the nearest shop. In this, however, they are mistaken, for the original shops which have now lost some of their customers without being able to reduce their overhead expenses to a corresponding degree, will gradually be compelled to raise their prices—and the same applies to the new competitors who have been obliged from the beginning to content themselves with a smaller turnover . . . competition may sometimes raise prices instead of always lowering them, as one would expect.' (*Lectures*, vol. i, pp. 87–8.)

And finally, Birck:

'If now an additional seller comes into the market, the price should fall according to general principles: as a rule this does not happen because the retailers find that the small turnover does not cover the unchanged general expenses, and they come to a tacit agreement to keep to a higher price. . . . Competition in relation to the consumer is too often substituted by the *common intention* of the retailers, created by their common need, to drive up prices. . . . It is peculiar that where the multitude of retailers fix a high profit on sales, the larger concerns do not attempt to beat down the price. The large department stores in Copenhagen must—apart from certain specially advertised articles—be said to keep even higher prices than the middle-sized retail shop.' (*Theory of Marginal Value*, p. 290.)

He continues to urge upon his fellow economists the fundamental importance of a further development of a body of theory devoted to explaining the phenomena of partial monopoly. He was fully justified in his opinion that it was impossible to come to any final conclusions about retailing problems, or even about the possibility of coming to final conclusions about them, until this task had been fulfilled. It has now been carried out, at least in part; we shall proceed to survey the results, as an essential preliminary to any interpretation of the data now available concerning retail trade.

A timely warning to those readers who may have been led to anticipate an exposition of 'the new economics' seems to be indicated at this point. Of new and sensational bodies of doctrine of the type, mainly connected with monetary theory, which appear on the average once a quarter, this book knows nothing. Much of the subject-matter of this

section is anticipated in the extracts from earlier economists (quoted above): the only difference is that problems previously hinted at have now been made the subject of systematic analysis. Indeed, the general corpus of economic theory exhibits a coherence and a continuity which the layman, misled by the differences of economists upon minor questions and questions of application, seldom suspects. Economists from generation to generation may change the angle from which they approach a subject, or the subject upon which most of contemporary interest is concentrated may change, or individual economists, as they often do, may make mistakes. But their methods have remained fundamentally the same, from Adam Smith to the present day; even Marx, when handling economic questions, used concepts with which orthodox economists were familiar, and most present-day Marxists when dealing with economic problems appear to borrow their weapons from the armoury of Mr. J. H. Hobson, who employs tools common to all economists, even if his workmanship is somewhat individual and distinct. At the same time, the tools of economic analysis have been getting sharper and capable of operation with a greater degree of precision. And, in the same way as the axe of the primitive carpenter has developed into forms as diverse as the adze, the chisel, and the plane, so some of the concepts with which the earlier economists were content to work have been found to be of greater value for the explanation of the world of events after separation into the various elements of which they were composed, or rather, to revert to the analogy of the axe, after the possibility of the development of specialized instruments from a common parent has been recognized and utilized.

The most important of these 'technical innovations', and one which has played a leading part in the deliberations of theoretical economists for the last decade in particular, is the separation of the different implications which lie hidden in the word 'competition'. With the completion of this dissection has come a much sharper insight into questions of partial monopoly, and, because 'perfect competition' and complete monopoly are both equally rare in the real world, a much closer contact between economic theory and the

economic events which theory must interpret. A large number of critics have contributed to this clarification: in a general summary of this nature it would be invidious to name or quote any of them. But, commencing from the meaning of 'competition', it is now possible to develop in outline a body of economic doctrine which provides a satisfactory explanation of the whole class of phenomena of which retailing forms a part.

What does the word 'competition' imply? It is a word which has very little meaning standing alone, like the word 'excellence'. Excellence in growing tulips, and excellence in the art of being prime minister, is 'excellence' in either context, but it requires very different virtues and abilities in the two examples; it leads to very different results, and any attempt to transpose the possessors of those qualifications, on the plea that they were both excellent and, therefore, both alike, might result in the death of valuable plants, and, perhaps, in the fall of empires. In the same way 'competition' under Queensberry rules and 'competition' in all-in wrestling are not the same thing, and, if the assumptions proper to one are made concerning the other, the conclusions arrived at will be incorrect.

Competition, in economic terminology, has at least one meaning which is essential to the concept, and upon which it finally rests. This is, that, within the boundaries of the civil and criminal law, every person is free to obtain as large an income as he can from his possessions and abilities. But it does not follow from this that the dominant passion of the human race is the desire to increase money incomes. 'Income', to have any real significance, must mean 'general income of satisfaction', and the satisfactions which men can experience are fortunately various. To many of them money is the key, but some of them can only be obtained by the sacrifice of earning capacity. And we are not called upon, as economists, to come to any decision about the relative estimation which men place upon these satisfactions: the Spanish beggar asleep in the cathedral has as good a claim to the title of 'economic man' as has Mr. Henry Ford, or, indeed, St. Francis of Assisi. All three of them maximize their incomes of physical and spiritual satisfactions in face of the

opportunities they enjoy and the obstacles with which life confronts them. But most of the opportunities and obstacles in life are man-made, arising out of the attempts of other people to maximize *their* incomes. The beggar's preference for a life of indolence would be a potential obstacle to Mr. Ford should he desire to establish a factory in Spain, while the handiwork of Mr. Ford may well prove to be an obstacle to the beggar's inclination for sleep. The principle may easily be extended: some men have abilities which others wish to employ, others have possessions, of which the usufruct is desired by their fellows. All of them will sacrifice as little satisfaction as they can, in one way or another, and obtain as much. If they are free to strike a balance in this way, then, as the aspirations of one put a limit to those of another, they 'compete'.

This is all which is fundamental to the concept of competition. It is important to see how alien elements, or rather special qualifications, were introduced into the concept as the body of economic theory commenced to grow about the skeleton of 'perfect competition'. For a very long time it has been axiomatic among economists that under conditions of 'perfect competition' the economic resources of the community would yield the maximum results in terms of satisfaction. It will be observed that competition is now *perfect* competition. The fundamental idea behind this argument is that under conditions of 'perfect' competition the only way in which the individual could increase his income was by excelling his neighbour in the service of the community. Thus the manufacturer who could produce motor-cars most cheaply, i.e. with the smallest expenditure of the efforts and physical resources of the community, the barber, who, at the established price, could shave most rapidly and cleanly, would be rewarded by relatively high incomes for their services to their fellows.

It is essential, for the understanding of what follows, to be quite clear about the foundation of assumptions, in addition to the assumption of 'competition', upon which all this rests. In the first place it assumes that there is, confronting each producer, one price, and one price only, at which he can sell his product. If he attempts to charge a higher price

he will not sell anything at all, and if he sells at a lower price, he will make losses and, sooner or later, go out of business.

There is only one price at which he can sell his goods, because, if the same goods are offered at different prices, the seller whose price is the lowest will be sold out before the others are approached. If they are aware that is happening they will put their prices down, while the original seller, informed by the rapidity with which his stocks are vanishing, will put his prices up. Those who have bought at the original low price will resell some of their purchases in order to make a profit, and the result will be that after these preliminary alarms and excursions only one price will obtain. This will be the price at which the total quantity offered for sale is taken off to the market. So runs the explanation of why only one price can be current in a single market. It is easy to see that only in a professional market, like that for wheat or raw copper, are these conditions likely to be found. Thus in addition to 'competition', *perfect* competition assumes a market in which the conditions of a produce exchange obtain: the seller sells at the current price, which he cannot alter. It is obvious that the range of commodities to the sale of which conditions of such strictness apply must, in the real world, be extremely narrow.

The preceding paragraph portrayed a market in which it was assumed that a fixed quantity, like the lots in an auction or the contents of a fish market on a Saturday night, was available, and that all of it had to be disposed of. If, for this picture, we substitute that of a market through which supplies are constantly flowing to the consumer, exactly the same arguments apply, with one exception. In so far as they are the same, it is the quantity which it is anticipated will be coming on to the market over a specified time, instead of the quantity now available, which sets the price. But the exception is of some importance, because it shows that the conditions of the perfect market, which, as we have seen, perfect competition presupposes, are even stricter than has so far appeared.

It follows from the general principle that one satisfies one's most urgent wants first, known to the economists as the principle of diminishing marginal utility, that the larger the

quantity upon the market at a given time, or expected to pass through the market during a given period, the lower will be the price which it will fetch. Now if, when the producer is planning his operations, he finds that the market price (for him, the price which is *expected* to rule when his output reaches the market) is uncomfortably low, he may, if his normal output forms a large enough proportion of total output for a variation in it to alter the market price, decide to produce a slightly smaller quantity in order to obtain a slightly higher price. If he can do this, the conditions of perfect competition do not exist, because, instead of conforming to the market price, he can alter it. Thus, in order that the conditions of perfect competition may hold good, the individual producer must either produce an insignificant amount compared with the total quantity coming upon the market, so that his variation in output will not alter the market price, or, if he produces a larger proportion than this, the alternative sources which supply the market in conjunction with him must be able to expand production, without increasing their costs, so as to supply a quantity equal to that by which he is reducing output, thus causing the price to remain unaltered. An example of the first kind is to be found in the relation between the output of a farm in western Canada and the price of wheat at Winnipeg: as an example of the second may be taken an hypothetical fire in a factory of one of the great producers of cheap cigarettes, the result of which would almost certainly be a boom in the sales of his rivals, while his normal output was missing from the market, unaccompanied by any rise in price. This second example brings to light another point about perfect competition, not, however, a new one, but one which was implicit in the idea of a perfect market. This is that the product which is under consideration must be homogeneous: the market which we are considering is the market for *one* product only, and unless the buyer is indifferent as to the source from which his requirements are supplied this will not be the case. If the buyer is prepared to accept one brand of cigarettes when another at the same price is not available, then they are both, for the economist, the same product. Virginia and Turkish cigarettes at the same price are not the

same product, because the smoker accustomed to the one will not accept the other as a perfect substitute.

We can now catalogue the conditions of the 'perfect market' which have been added on to the concept of competition to make it into 'perfect competition'.

- I. There can only be one price prevailing in the market at the same time.
- II. No producer can, by his individual efforts, alter that price: he must accept it and either produce or refrain from producing as his cost conditions allow.
- III. As a corollary of I, the product of all the producers must be interchangeable: the consumer must be indifferent between them.

It has not yet been proven that such a state of affairs would result in the most efficient employment of the efforts and resources of the community. Nor has it been explained how the one price which we assumed to exist in each market was arrived at. Further tacit assumptions embodied in the concept of 'perfect competition' which are not to be found in the definition of 'competition' will be revealed as we perform these tasks.

To do so we must take a broad view, embracing the economic life of the whole community. At any given time the economic resources of a community consist of a given quantity of fixed plant and raw materials, the body of technical knowledge which is available, and the amount of labour which members of the community are prepared to do in order to obtain different levels of income. If we assume that those monetary difficulties which often prevent full employment have been overcome, so that no artificial barrier prevents all those who wish to barter labour for income from doing so, it is clear that co-operative groups of workers and of the owners of equipment and stocks will be formed, exhausting the whole of the economic resources available. The amount of equipment and stocks will depend on the activities of the past, the amount of labour which people are willing to do will depend upon how much income they want and how hard they are prepared to work in order to get it. In an advanced society the division of labour has rendered it possible for a larger real income to be obtained by means

of the production of each commodity becoming concentrated in the hands of those who produce it, sell it, and spend the proceeds in drawing from the pool of products resulting from similar specialization on the part of others. For the same reason that they specialize, producers will co-operate in order that the division of labour between industries may be still further subdivided into specialization upon each separate process. The term 'co-operative group' is employed in this context with due deliberation: it does not matter for the questions under discussion whether the group is organized by one man or by a committee, whether the owners of the fixed plant hire the labour or whether the labourers hire the fixed plant. Those questions are 'What will determine the size of these co-operative groups?' and, 'How will the resources of the community be allocated between the co-operating groups which produce each separate product?'

The second question is the easier one. Given their money income, members of the community will proceed to allocate their expenditure between the different objects of consumption in such a manner that the satisfaction they derive from the last shilling spent in one direction is equal to the satisfaction they get from the last shilling spent in another. This involves nothing more complicated, of course, than to announce that they behave with ordinary common sense: the only way in which one can speak of a man 'wasting money' from his individual point of view is to imply that he spends money on one thing when he would derive greater satisfaction from spending it on another. The result of this action on the part of everybody will be that a relative scale of preference, expressed in money, will hold for the whole community. If costs of production are now taken into account, costs resulting from the degree to which those who desire income are prepared to work in order to get it, and the rate at which, to aid them, they are prepared to pay for the hire of equipment, that quantity of each product will be produced of which the price is equal to the cost of production. If a lesser quantity is produced, then the price will rise, much or little, according to the place of the product on the communal scale, i.e. to the amount of other things people are prepared to give up in order to obtain their normal

quantity of it, and the incomes of the producers will rise. As their incomes are now in excess of those of the producers of other goods, the demand for which is falling off, some of the producers of other goods will change over to the production of the goods which are deficient, until the incomes of all doing work of equal skill and irksomeness in all forms of production are sufficiently uniform to prevent any further intra-industrial migration.

In terms of our original definition of competition, we can now see how the balance between the conflicting interests of all our 'economic subjects' can produce a kind of harmony. In each industry production will be carried up to the point at which the money payment which is necessary to secure the last amount of effort necessary to produce the 'ideal output', as defined above, is equal to the sum which the most reluctant consumer who will buy at all when that quantity is offered will pay for the product. As men are so diverse in their tastes, it is safe to assume that they can be ranged in order of their desire to enjoy any good, or their reluctance to undergo any effort. Thus all those who produce the product, except the last man to be attracted by the wage, and all those who enjoy the product, except the last consumer who will be prepared to pay the price, may be assumed to get more than they sacrifice from the transaction. This will be the case in all industries, as we have seen, and consequently it follows that, given the tastes of the community and the capacity of the producers, any deviation from this balance of interests, this 'condition of equilibrium', would mean that in one industry the reward of effort was in excess of that in another—in other words that the resources of the community were not being distributed according to the general balance of preference of its members.

So far this part of our analysis has been carried on upon the assumption that the market is perfect, as defined at an earlier stage, and no reasons have been produced showing why it is probable that it will not be. Moreover, part of the preceding passage sounded as if *individual* producers could migrate from industry to industry. Now, bearing in mind what was said about the conditions of a perfect market, it is clear that the factors which determine the size of the most

efficient co-operating groups of producers will affect both the extent to which it is possible for small numbers of producers to change their industrial location, and the degree to which it is possible that, for any one product, the price shall be independent of the actions of any one group of producers. We must, therefore, answer the second question, 'What will determine the size of the group of producers?' before proceeding further.

Under modern conditions the most efficient size of the 'firm', as we may as well call the productive group from now on, is mainly determined by a balance between the economies of large-scale production, which are essentially the advantages gained by splitting up and re-splitting processes of production into specialized operations, and the growing cost and difficulty of effectively co-ordinating all these processes as their number increases. In any given state of technical knowledge and stage of development of the art of scientific management, it is certain that, from the point of view of producing as cheaply as possible, an ideal size for the firm in any one industry will exist. If the firm is smaller, technical inefficiency will outweigh the ease and cheapness of management, while, if it is larger, then almost certainly it will be top-heavy with expenses of management. At the ideal size the firm will enjoy as many of the economies of specialization as are possible without incurring a sufficient increase in the costs of co-ordination and supervision to outweigh them. This condition will be at a different scale of production in different industries: in some, like printing, it may be satisfied by quite a small firm, while in others, like the motor-car industry, the ideal size for the firm is probably very large indeed. If the market is perfect, as previously defined, it is obvious that only firms of the ideal size, and thus of the maximum efficiency, will be able to operate. Nor is this all: they will only be able to produce that quantity at which the cost of production is lowest. So far, in comparing the efficiency of different scales of production, we have been comparing firms of different sizes, and we have seen that as the size of the firm increased from the very small to the very large, efficiency would increase over the range of sizes in which the economies of specialization outweighed the difficulty of

management, would reach a maximum at the ideal size, and would then decline as the latter commenced to outweigh the former. If we assume the ideal size of plant to have been installed, and review the costs for which it can produce different outputs, we shall find that the same phenomena recur. At low outputs, below those for which the plant was designed, the burden of fixed costs—rent of buildings, interest on fixed capital equipment, salaries of directors, &c., will have to be split up over a smaller number of units produced, and cost per unit will therefore be high. As output increases this burden of fixed costs will become progressively lighter per unit produced, but a point will be reached, when the output for which the firm was designed is being produced, beyond which any increase in production can only be secured at the expense of higher costs. Overtime, at special rates, will have to be worked, stocks of raw materials will exceed the available storage capacity, additional workers will be falling over each other's feet, and so on. These increased expenses will outweigh the fall in overhead costs, and the cost of production will again rise. Therefore, if the market is perfect, the price will be equal to the cost of the most efficient size of firm, operating at its most efficient scale of output. If more, or less, is produced, costs will exceed this price, as we have seen, and thus the quantity which can be produced will be quite definite. No alteration in the output of a single firm can, by the definition of the perfect market, alter the price, and only by producing one output can the firm cover its costs.

But now, reviewing the definition of the perfect market, a difficulty arises. Is it reasonable to suppose that in all cases the ideal firm, which may be very large and which tends to get larger with every technical advance, will not be able to influence price by means of altering its output? It will be recollected that this would be the case, (a) if the output of the firm was an insignificant part of total output, (b) if other sources of supply could increase their output, without *altering their costs*, when the first firm reduced output. We have now good reason to doubt if (a) exists in very many cases, and strong grounds for supposing that (b), if it can occur at all, will be quite exceptional. Thus, even without question-

ing the other elements in the definition of the perfect market (the indifference of consumers between the products of different firms), it appears very probable that to argue direct from the results of perfect competition to the desirability of unleashing 'competition' in its unqualified form upon the world is quite unjustifiable.

The concept of 'perfect competition' is thus revealed *not* as the natural and inevitable result of competition, but as a sort of code of Queensberry rules for economic competitors, a code which the earlier economists, with very little qualification, assumed to be normal in the conditions of the real world. Under more modern conditions it is becoming increasingly clear that perfect competition is only competition in special circumstances, and in somewhat unusual circumstances.

Let us, therefore, relax the highly improbable conditions of the perfect market, to the extent that we allow the output of the producer to have some effect upon the price at which he can sell. He is now confronted *not* with the market price to which he must conform, but with a series of possible prices at which he can sell and, associated with them, a series of quantities which, at each price, the market will take from him. How will he 'compete': what steps will he take to maximize his income? He will behave in exactly the same way as the producer for the perfect market: he will increase production all the time it pays him to do so, and stop at the point when a further increase would lessen his income. The circumstances of the two producers are different, however, in one very fundamental respect. The producer under conditions of perfect competition will only be concerned with his costs: the price per unit he will get for his product is fixed for him. He will produce until the *additional cost* of producing one more unit is equal to the *additional revenue* he will obtain from its sale. (This principle of action is fundamental to all competition, perfect or imperfect, but leads to very different results in the two cases.) As the price is the same whatever his output, the gain from one more unit produced will be the price of that unit: as the average cost of production, however, is different for each different quantity produced, the additional cost of producing one more unit will

not be the same as the average cost of production. It will be the prime cost (wages, raw materials, &c.) of the additional unit, combined with the altered share of the burden of overhead costs to be carried by a single unit. This will be less than average cost all the time that production falls short of the point at which average cost is at a minimum, because average cost is falling, and, clearly, the addition of any quantity to a series which causes the average of the series to fall must be less than the previous average. If the average height of a regiment of soldiers before a new recruit enlists is six feet, and, after he is counted in with them, is five feet eleven inches, then the height of the recruit must have been less than five feet eleven. In the same way the specific cost of that additional unit which brings the total of production up to that point at which average cost is at a minimum must be equal to average cost, and the succeeding one, which causes output to exceed the point of minimum average cost, must have a specific cost exceeding the average. As we have seen, the condition of a perfect market ensures that the price shall be equal to the minimum average cost of production, and as the previous paragraph shows, the specific cost of producing each additional unit short of the quantity at which average cost is at a minimum is less than the minimum average cost (which is equal to the price). Therefore it is less than the additional revenue which its sale would produce. Therefore the total net income of the producer will be less than it might have been, if he stops short of the point at which the cost of producing one more unit would be equal to the gain from its sale; therefore he will produce until the two are equal and then stop.

Let us apply this same principle of action to the producer for an imperfect market. As he increases his output the price of his product will fall: thus the same argument which illustrated the relationship between average cost of production and the specific cost of each additional unit produced will hold for the revenue obtained. If the price which the firm can obtain for increased quantities produced is falling, as it is almost certain to be, then the specific addition to revenue from the sale of each additional unit must be less than the average price. This is quite easily grasped if one

takes a simple example. If twenty units of the product can be sold at £100 each, and twenty-one at £99 each, the additional revenue from the production and sale of the twenty-first unit will be the new unit price, minus the fall in price multiplied by the previous output, i.e. $£99 - £20$ ($20 \times £1$), which is £79.

Now, as we have seen, the common principle of action for competitors under all circumstances is to continue production up to the point at which the specific cost of producing one more unit equals the specific gain from its sale. If the demand curve of the firm is falling, the point at which these two are equal will occur at a scale of production below that which the firm is operating most efficiently. A moment's reflection will make the reason clear. The specific cost of each additional unit is rising as it approaches the point at which average cost of production is at a minimum, and, by definition, rising faster than the average cost (which is falling). Over the same range of quantities, as the demand curve is falling, the specific addition to revenue is falling faster. Thus they are bound to meet before the point of minimum average cost is reached. This is only another way of saying that the monopolist will restrict production. The important thing about this method is that it shows how the element of monopoly, which may be slight or may be large but is nearly always present in a large firm's market, will be exploited if the producer for such a market follows exactly the same methods as the producer whose market is competitive. Thus it breaks down the clear-cut line of division between the wicked monopolist, who, all agree, should be restricted by law, and the virtuous competitor, in whose hands the consumer may be safely left.

But, it will be asked, will not the high profit earned by any firm in a strong position invite competition and thus reduce price to the competitive level? The answer is that it need not do so. To return to some of the quotations from the economists concerning retail conditions, one cannot argue that because there is a large number of competitors the market is perfect. The first explanation put forward, that of Adam Smith, is that it will be to the interest of retailers to form a tacit combination to keep prices up. Another, that

of Birck, is that as the market is divided between a number of firms, the sales of each will so decrease that overhead charges per unit sold will increase. This is obviously incorrect—just because costs have risen all round, there is no need for prices to rise. If the market is fairly perfect the weakest firm will go bankrupt, their customers will go to the others, whose costs will thus fall, and costs will equate themselves to prices in the normal manner. But if the entry of new firms, as it may do, causes the market to become *more* imperfect (collecting, as a new shop may do, customers from two other shops by establishing itself between them), then it is possible and probable that 'competition' may reduce profits without reducing prices. The real crux of the matter is the effect of new firms upon the degree of perfection of the market: nothing else matters.

We are now in a position to restate the theory of competition in a series of propositions.

i. There is no difference between the behaviour of the 'competitor' and the 'monopolist': both behave in the manner defined as competitive at the beginning of the chapter, but their differing circumstances lead to different results.

ii. Perfect competition is not the same as 'leaving things alone'. It is a special case of competition, and, where it occurs, it leads to the ideal output of the commodity concerned. Thus it is a desirable state of affairs: much economic legislation is devoted to obtaining the results of perfect competition (without legislators always being quite aware what they are doing).

iii. Imperfect competition always leads to a misemployment of the resources of the community: it makes prices too high and sales too low: it leads to too many firms existing in each industry, all producing below their capacity.

iv. Imperfect competition is the direct result of 'letting things alone' and allowing people to 'compete'. It does not, as perfect competition does, automatically correct mistakes in the scale of output, but tends rather to render them permanent.

v. The fundamental condition of imperfect competition is that the individual firm should be able to affect the price which its product fetches, either by means of restricting

output or by advertisement. This may be because (a) the most efficient size of firm is very large compared with the total demand for the product in question, or because (b) the product of the different firms in the industry is not completely homogeneous (customers are not indifferent between them).

vi. Where competition is imperfect because consumers have a preference (rational or irrational) for the product of one firm over others, it is impossible to say what the result of the entry of new firms into the industry will be. They will 'increase competition' in a quite undefinable sense, but unless they make the market more perfect they will not diminish costs. Indeed, if they do make the market more perfect, as one of the implications of the imperfect market is too many firms, all working below capacity, and as the diminution of waste implies operation at full capacity, they will reduce the number of firms below the original one, and run some risk of being eliminated themselves. Thus it is probable that a rapid multiplication of firms is a sign that competition is becoming *less* perfect.

This concludes our excursion into pure theory.

The path is now laid open to an explanation of the growth in the costs of retailing in terms of imperfect competition. There is no doubt that the retail market is extremely imperfect: the sales of a retailer do not take place at prices determined by forces outside his control (except when they are fixed by the manufacturer), but are, within limits, determined by the price which he sets. He is in this position because retail consumers are not indifferent between the sources from which they obtain their supplies. It is important, however, to differentiate between the various reasons for this state of affairs: the consumers' preference for retailers may be rational or irrational. (This dichotomy cannot be strictly maintained on logical grounds—if a person decides to do a thing the economist cannot go behind that decision, qua economist: other people's decisions and preferences, whether or not they are foolish according to his individual judgement, are the data from which he commences. But on 'common-sense' grounds the line is easy to draw, even if it is an imaginary line.)

In the first place come questions of location. It is obvious that the whole country, and indeed the whole of one really large city, like Manchester, is not one retail market. There are limits imposed, mainly by the leisure at the disposal of the housewife, to the area over which she can do her shopping. The area over which it is worth her while to compare prices depends largely upon the amount of her income, relative to the amount she intends to spend in any given way. Even with a very low income and plenty of free time it would not be 'worth the trouble' to go farther than the grocer's shop on the corner of the street in search of a larger two-pennyworth of salt, while even with a comfortable income combined with scanty leisure, a fairly extensive tour of the local shopping centre, possibly even a trip to a larger town, would be justifiable before purchasing new clothes. Considerations such as these explain why, for example, the street-corner general shop appears to be most firmly established in those districts where it has, in the fairly recent past, been usual for the housewife to be also a wage-earner.

In the second place come questions of information. Just as the consumer cannot indulge in unlimited peregrinations, so he cannot afford time for completely exhaustive comparisons of price: in nine cases out of ten he is an 'amateur' purchaser, without inclination to acquire any complete knowledge of the range of prices which the market can offer. Consequently he tends to draw his supplies from those shops which he has in the past found 'reasonable' without much inquiry into individual prices. This habit is the foundation of the practice of selling 'leading lines': a retailer may sell a few well-known products at sensationally low prices, often indeed below wholesale cost, in order to obtain a reputation for cheapness which he can spread like a cloak over his iniquities in other and less obvious cases.

Thirdly, and closely related to the preceding paragraph, come what may be termed questions of confidence. If a particular product has been sold at one price for a very long time, it is quite possible that that price may become as it were a 'specification' in the mind of the consumer: if the price changes upwards he will feel that he has been cheated, and if it changes downwards he will lose his confidence in

the article. Thus a fairly wide range of retail prices may become 'traditional', because the risk of changing them, for the retailer, outweighs the profitability of altering them to fit changed conditions of supply. This also rests upon the economy of the consumers' time which he derives from forming habits of expenditure.

Fourthly, there are those circumscribing amenities of distribution to which the consumer is extremely sensitive. It is obvious that *X*'s premises are more comfortable than *Y*'s; one trial of each will serve to convince that *X*'s people will deliver to-day and *Y*'s only to-morrow. These qualities can be very easily ascertained, while a comparison of the constantly changing prices of *X* and *Y* is a laborious and never-ending task.

The general effect of the circumstances which it is possible to divide roughly under these four heads is that they render it possible for any retailer to raise his prices above those of his neighbours to an appreciable extent before losing sufficient customers to them for the defection to outweigh the increased revenue from the remaining ones. If his neighbours follow suit he can raise prices still higher, and if, attracted by the level of profits being made in the locality, another retailer adds himself to their company, it will be to his advantage to create a similar position for himself. Should he try to 'cut' prices, he will probably find that he does not attract to his shop sufficient of the established customers of those who were operating in the district before his advent to cover his costs, and, almost inevitably, he will set out to build up for himself a private market among the inhabitants of his immediate vicinity, those whom he can attract to his shop by leading lines, and those whom he can secure by the offer of special services.

All this is very much like the more formal picture of the operations of an imperfect market which was drawn in the previous pages: it explains why there should be waste in retailing, why there should be too many shops, and why none of them should be serving as many customers as it might. What it does not explain, however, is the reason why all these stigmata of imperfect competition are increasing with the rapidity which seems to be the case; this reason is probably

to be found in the almost unbroken fall in wholesale prices during the period under review. Since its commencement, at first for reasons connected with the deflationary effect of the return of Great Britain to the gold standard at too high a parity, and then on account of the great depression, the wholesale prices of consumers' goods were steadily going down. As the wholesale price-level fell, it appears that retailers in general tended to let retail prices lag behind them, and to spend a considerable proportion of their increasing margins upon attaching customers more firmly to them by means of providing more and more expensive services. And the new firms, which the comparative prosperity of retailing, combined with the migration and growth of population, have enticed into retail trade, appear to have attempted to consolidate their position by similar methods. Therefore the retail market has been steadily becoming more imperfect, mainly because considerable expenditure has been devoted to the task of making it so, i.e. to attaching consumers more firmly to particular sources of supply. As a result of this increased imperfection of the market the profits of established retailers have, from time to time, temporarily increased, thus tempting new retailers into the trade, whose advent again increases the total cost of retailing. And so the process appears to have gone on.

This does not mean that competition has been absent, although it certainly implies the absence of 'perfect' competition. It means that competition has been present and extremely active, only it has taken the form of a competitive 'bidding up' of the costs of retail distribution rather than of a competitive reduction of retail prices. It is quite clear from the preceding analysis of the reasons which attach customers to a particular shop, how this has been done. Now shops, wherever they may be placed, have an advantage of location for at least some consumers who previously traded in places less 'handy' for them. And, although wholesale prices have been falling, they have seldom been falling fast enough for an appreciable reduction—a reduction sufficient to make itself felt by the consumer—to have been possible in one step. This is especially true for commodities of which the unit price has been small. There are limits to

which even a considerable reduction in wholesale price, considered as a percentage of the price per ton, can be translated into reductions in the price of units which are priced in pence, limits resulting from the limited divisibility of currency. It must in this connexion be observed that for all practical purposes the farthing is regarded rather as a nuisance than a coin, and a halfpenny is the smallest possible amount by which most prices can be reduced.

Thus, not only the insensitiveness of the consumer to minute changes in price, but the impossibility of making these changes in some cases, have combined to render the competitive offer of services and general amenities the most effective method of maximizing retail profits. Another factor working in the same direction, especially in depressed industrial districts, has been the possibility of employing cheap juvenile labour for delivery on an unprecedented scale. In many areas before the depression most juvenile labour went into industry: this becoming impossible, it became available, at very low wages, for employment in distribution.

Altogether, therefore, it appears to be as safe as any general assumption can be to conclude that the dominant factors in the growth of retail costs have been the imperfection of the retail market, and the opportunities which a period of falling wholesale prices and unemployment has provided for that imperfection to be deliberately increased.

V

THE CHANGING COSTS OF RETAIL TRADING IN GREAT BRITAIN

I

IN the light of the data which are now available concerning the growth in number of retail outlets, and of the analysis of the nature of the retail market contained in the last chapter, it is desirable to attempt to estimate the changes in the total cost of the process of retail distribution *to the consumer* (thus including both costs and profits) over the same period. We may reasonably expect it to have advanced considerably.

The following pages embody an attempt to ascertain how the total cost of retailing has increased from 1924 to 1931 in Great Britain. The figures illustrating the remarkable growth of employment in the distributive trades are, of course, public property and need not again be quoted; from time to time, figures like those of Mr. Colin Clark¹ for the trend of retail wage costs per £1 of sales are published, but the structure of retailing is so complex and of such diversity that it is doubtful whether even the joint statistics of the I.A.R.D. and the Bank of England are based upon samples wide enough to be truly representative. And, even if these latter are a reliable guide to changes in the courses of sales and prices, they tell us nothing of what proportion of our resources is being devoted to retail distribution, or of how that proportion is changing.

II

As a necessary preliminary to an examination of changes in the total cost of retail distribution, there emerges the task of constructing wholesale and retail indices of the prices of finished consumers' goods. Neither the cost of living index of the Ministry of Labour, nor any of the numerous wholesale price indices, excellent as they are within their proper spheres, is suitable for this purpose. Consequently an

¹ *The National Income*, p. 158.

attempt has been made to arrive at a somewhat more accurate picture of the behaviour of the prices of consumers' goods since 1924. Before that date too many disturbing influences were at work for the statistics to have any value for our purpose, while comparable pre-War figures are not available and, if they were, would lack the 'social homogeneity' which any period must possess, for the study of price movements by means of an index number to have any real meaning.

The wholesale price-level of 'retailed' goods is calculated as follows. Colin Clark's indices for the wholesale prices of milk, 'other foods', and 'other manufactures' are taken, together with their weights, from his index of consumption prices.¹ To them is added an index for boots and clothing, constructed from the Board of Trade index of wholesale textile prices, combined with an estimate of the normal cost of making up garments² and a weighted average of the import and export prices of boots and shoes. The whole is included at Clark's weighting for his similar index. He includes an index of the retail prices of drink, tobacco, and newspapers; as, almost without exception, these goods are sold at prices fixed by the manufacturer, it is fairly safe to assume that wholesale and retail prices move along parallel lines. Therefore this index has been incorporated in the wholesale index at Clark's weight.

The wholesale price of coal is taken from the Statist index; the two coal prices therein are reduced to a 1924 basis and averaged. The Ministry of Labour cost-of-living index gives an approximate ratio of 12 : 1 between the weighting of food and milk (taken together) and coal; this proportion probably weights coal more highly than is correct for a general index, as it represents working-class consumption only. Coal is therefore included in the wholesale index at a ratio of 7 : 91 to food and milk.

No attempt is made to include the prices of motors, petrol, lighting, amusements or transport, as these 'commodities'

¹ *The National Income*, ch. x. All succeeding references to this writer refer to this chapter.

² Wages in the clothing industries are regulated by a trade board, and thus vary with the cost-of-living index. In order to allow for the rapid growth of the rayon industry during the period the weights as between that and other fabrics are changed from year to year.

are considered to lie outside the boundaries of retail trade. The index thus formulated is presented as a rough guide to the movements of the wholesale price-level of those goods which pass through the retailing system.

TABLE I

The Wholesale Price-level of 'Retailed' Goods

1924	1925	1926	1927	1928	1929	1930	1931
100	89.9	94.2	90.0	90.4	87.7	80.2	73.5

III

The next task is to formulate a retail price index comparable with the above, and here the Ministry of Labour cost-of-living figures are the only guide. In the following tables the Ministry's indices for food (including milk), clothing and footwear, coal, and 'other items' have been included. Food, clothing, and coal have been reweighted in the same way as the corresponding items in the wholesale index. Some inaccuracy is inevitably involved in this procedure, because the Ministry's index is concerned only with working-class expenditure, and while the reweighting of the items may serve to bring the results into a more comparable shape, the nature of the sampling upon which they are based necessarily conceals changes which have taken place in the relative price-levels of different qualities of the same commodity. But a still greater difficulty arises in the comparison of the 'other items' group in the Ministry's index with the remaining articles in the wholesale index. The latter is very much more comprehensive than the former, and the discrepancies involved in reweighting and comparing the two are obvious and considerable. Moreover, the differences in quality which vitiate the comparison of the other groups reappear in a more formidable shape. However, as it is the only information available, it must be employed, although the result can only provide the roughest of approximations to the price movements which we seek to detect. It is therefore included in the retail price index, but at a lower weight than the corresponding items in the wholesale index; the weights of the latter are 515, 315 for miscellaneous manufactures and 200 for drink, tobacco, and newspapers; to

include the Ministry group at the same weight, as it does not include drink or so wide a range of manufactures, would be to render the retail index unduly insensitive, and it is therefore given a weight of 415.

This somewhat dubious method provides the retail price index; the wholesale price index is repeated for comparison:

TABLE II

	1924	1925	1926	1927	1928	1929	1930	1931
Retail price index	100	100.4	98.7	95.6	95.0	93.9	90.1	84.1
Wholesale price index	100	89.9	94.2	90.0	90.4	87.7	80.2	73.5

IV

The next step is to estimate, year by year, the wholesale value of the combined total of retailed consumers' goods produced in Great Britain and imported. The method is as follows: from the 1924 census of production is derived the total wholesale value of the goods which enter into retail trade, and the numbers of workers engaged in their production during that year in each branch of industry concerned. These latter provide a basis from which to calculate output in succeeding years, and, in conjunction with the wholesale index, to estimate its value. To complete the 1924 total there must be added, firstly, an estimate of the net imports of consumers' goods, which is obtained by a careful analysis of the import and export statistics; secondly, the figures provided by the Ministry of Agriculture covering the output of finished foods by agriculture and fishing (deducting those foodstuffs which, like wheat, appear in the census production as components of the gross output of other industries); thirdly, an estimate for coal. The Samuel Report estimates the domestic consumption of coal in 1924 to have been 33,750,000 tons; combining this, at its wholesale value, with the other total we arrive at a grand total of £1,749 millions for the wholesale value of the turnover of retail trade.

Similar estimates for the following years can be compiled by a slightly more involved method. The import and export statistics and the agricultural and fishing figures are available year by year; the Samuel Report cites evidence in support

of the view that the domestic consumption of coal will not alter appreciably during the decade succeeding 1924, and this is assumed to be the case. The volume of home production, however, is more difficult to estimate; the only guide to changes in output is the Ministry of Labour record of the number of workers registered in each industry; this may be corrected by deducting for each industry the average percentage of unemployment for the year. Unfortunately, the classification of the Ministry is not identical with that of the census of production. The procedure adopted is to substitute the Ministry figures for those of the census, employing those groupings which most nearly coincide, and thus to obtain for each industry a *per capita* output by dividing the gross output in 1924, as recorded by the census, by the number of workers employed in 1924 in the most closely comparable Ministry of Labour group. In some cases fairly bold approximations have to be made where the discrepancy between the two classifications is great.

For each year subsequent to 1924 the number of workers employed in each industrial group is multiplied by the value of gross output per head in 1924; this provides a preliminary estimate of the volume of output in terms of 1924 pounds. Two corrections must, however, be made before these figures can be employed, as they show a fall in 1928 which is due to the changes which took place in the basis upon which employment statistics were compiled in that year, and as they do not allow for changes in industrial efficiency. Persons aged 65 and upwards ceased to be insurable under the Unemployment Insurance Acts as from the 2nd of January 1928; consequently the multipliers for output per head cease to apply. It is estimated that in 1927 (July)¹ of a total of 12,131,000 insured persons, 447,000 were over 65; the estimates of output for 1928 and subsequent years are consequently multiplied by 1.038. Unfortunately, this method ignores the differing proportions of elderly workers in different industries, and the variety of their output per head, but in view of the general imperfection of the statistics concerned it is doubtful if more elaborate treatment would be justified.

¹ *Vide the Ministry of Labour Gazette.*

The correction of the output estimates for changes in output per head is a more difficult task. When these estimates were first compiled (1933) only the preliminary surveys of the 1930 census of production were available; they provided figures for output per head in the food, drink, tobacco, clothing, textile, leather, printing, paper and stationery industries, industries comprising the majority of those producing finished consumers' goods. The changes in output per head do not differ greatly between these industries, and an unweighted average exhibits a decline in the value of output per head of 4.4 per cent. on 1924. As the wholesale price-level fell in 1930 to 85.5 per cent. of 1924 (the index here employed refers only to home manufacturers of consumers' goods), the rise in 'volume' of output per head in 1930 was 11.8 on 1924. If this rise be assumed to have been a smooth and continuous process, taking all industries together, a series of multipliers for the annual estimates of output compiled on the basis of the 1924 figures can be employed to allow for growing efficiency. It is now possible to reduce the estimates of home production (which are of course in 1924 values) to their wholesale values, and to add to them the figures for coal, net imports, agricultural produce, and fish, thus obtaining an annual record of the wholesale (or rather factory) value of the total turnover of retail trade.

Some apprehension may well be felt concerning the reliability of results arrived at by such a roundabout method, and the writer therefore refrained from publishing them in their original form. The majority of the detailed results of the 1930 Census of Production are now, however, available, covering those industries which in 1924 produced 88.1 per cent. of the goods under consideration. If the 1930 value of the output of these industries be multiplied by $100/88.1$, assuming that the group of small industries representing 11.9 of the total output in 1924 have grown at the same rate as the majority, a grand total of £1,754 millions for the wholesale value of retail turnover in 1930 is arrived at, and this is very close indeed to the estimate of £1,758 millions which the original method produces. In view of this similarity the 1925-9 estimates are presented with some confidence.

THE CHANGING COSTS OF

TABLE III

Factory Value of Retail Turnover

(£000,000's)

1924	.	1,749	1928	.	1,787
1925	.	1,783	1929	.	1,815
1926	.	1,731	1930	.	1,754
1927	.	1,721	1931	.	1,556

It is now possible also to construct an index of the 'volume' of retail turnover, on the assumption that annual wholesale values expressed in terms of what the same expenditure would have purchased in 1924, give a rough approximation to physical volume.

TABLE IV

Volume of Retail Turnover

1924	1925	1926	1927	1928	1929	1930	1931
100.0	103.0	105.0	109.3	112.9	118.3	124.4	121.0

V

It is now necessary, as a preliminary to estimating the total cost of retailing in 1924, to ascertain the total cost of distributing consumers' goods in that year, which includes the cost of wholesale distribution and of transport. This is estimated by Clark to have been £550 millions, on his estimate of 'total consumption', which differs from the figures quoted above as the wholesale value of retail turnover by the inclusion of several classes of goods which do not pass through the retailing system. His ratio of distribution costs to wholesale value is 550 : 1,857; if the same ratio be applied to our total the cost of distribution appears as £514.5 millions. But in view of the particular types of commodity which the former total includes and the latter ignores, it is probable that this is somewhat too high, and the total cost of distributing retailed consumers' goods in 1924 is therefore assumed to be in the immediate vicinity of £510 millions.

VI

On this foundation it is possible to erect a recombination of the preceding data, which indicates the approximate value of total retail sales in 1924, and which can also be

employed to show the course of subsequent changes. The method is as follows: the sum of the wholesale value of the components of retail turnover with the total costs of distribution for 1924 provides an estimate of total retail value for that year. For following years the 1924 retail total is multiplied by the 'volume' index and reduced to current values by the retail price index; the result is as follows:

TABLE V
Total Value of Retail Turnover

(£000,000's)					
1924	.	2,259	1928	.	2,423
1925	.	2,337	1929	.	2,510
1926	.	2,342	1930	.	2,532
1927	.	2,361	1931	.	2,299

As in the case of the wholesale estimates the method by which these totals are derived is so indirect, and is open to such possibilities of major error, that the writer would hesitate to present them were it not for the fact that an independent estimate is possible and seems to confirm their accuracy. It is possible to check the 1930 total in the following manner.

The U.K. Temperance Alliance estimates expenditure upon alcoholic liquors in that year at £277·5 millions. Mr. Colin Clark, to whom I am greatly indebted for this and other services, has worked back Feaveryear's estimate for total expenditure on food from 1932 to 1930, producing a total of £1,173 millions. Other retail sales, including motors and petrol, but excluding tobacco, are estimated by the Bank of England Statistical Department at £932 millions. Working back Feaveryear's estimate of petrol sold for private consumption, we deduct £18·5 millions from this total; on the basis of the 1930 census of production it seems probable that allowing for net exports, the proportion of cars destined for employment as taxis, and retail margins, a further deduction of £30 millions is sufficient to cover the retail value of private motor-cars. Finally, the retail value of the consumption of tobacco must be added, which Feaveryear estimates at £136 millions, bringing the total up to £2,480 millions.

As this is an estimate of *sales*, and the total of Table V

is of the retail value of output plus imports, the slight divergence of 2 per cent. is probably accounted for by the accumulation of stocks in the early stages of the depression. If this is the case, then the estimate of the total cost of retailing for that year as presented in Table VI is probably somewhat inflated and should be only slightly in excess of £560 millions.

VII

In order to arrive at estimates of the cost of retailing during the period under review it is now only necessary to ascertain the cost of 'wholesaling' and the cost of transport of retailed goods. The former may be easily, if somewhat arbitrarily, disposed of by accepting the assumption that wholesalers' charges amount to 5 per cent. on the retail value of all consumers' goods taken together, and have remained unchanged since 1924. The latter present a more difficult problem. Railway rates have fallen, and a considerable amount of traffic has passed out of the hands of the railway companies into those of the road haulier; both these movements testify to a lower cost per ton-mile, but neither sheds any light upon the extent to which transport costs enter into retail prices over and above wholesalers' charges. Some industries have been becoming more concentrated over the period, some have been moving closer to the great centres of population, some have been becoming more scattered. While all these changes have affected transport costs, and while their general effect has probably been to decrease them, it is difficult to come to any precise conclusions concerning the general trend of change from year to year.

In these circumstances it is boldly assumed that the total cost of transporting retailed consumers' goods (before their final sale) has varied with their total 'physical volume' (see Table IV) and that the appropriate rail costs of 1924 can be taken as a basis. Clark estimates that in 1924 the cost of rail transport for finished consumers' goods was £26 millions and the joint transport cost of bunker and domestic coal was £13 millions. The Samuel Report estimates the normal consumption of domestic coal at 33.75 million tons,

and bunker requirements at 18.77 millions. Allowing for the fact that the haul of domestic coal tends to be longer than that of bunker coal, £9 million may be assumed to represent the transport of domestic coal, giving a total transport cost of £35 millions for retailed goods in 1924. For the succeeding years wholesalers' charges are calculated upon total retail values, and transport charges upon physical volume in the same way. Thus it is possible to present finally an estimate of the total cost of retailing for each of the years 1924 to 1931.

TABLE VI

	<i>The factory value of retail turnover</i>	<i>The total value of retail turnover</i>	<i>Costs of wholesaling and transport</i>	<i>The total cost of retailing</i>
	(£000,000's)	(£000,000's)	(£000,000's)	(£000,000's)
1924	1,749	2,259	148	362
1925	1,783	2,337	153	401
1926	1,731	2,342	153	458
1927	1,721	2,361	157	483
1928	1,787	2,423	160	476
1929	1,815	2,510	166	529
1930	1,754	2,532	171	607
1931	1,556	2,299	157	586

These totals are somewhat surprising. It must be remembered, however, that they do not represent an advance of similar proportions in retail *margins*: they refer to a steadily growing volume of retail turnover. Moreover, there is one fundamental defect in this compilation which can only be guarded against by a generalized warning. The volume and value of goods at wholesale is the value of goods *produced* and imported: this is not necessarily identical with the quantity *retailed* in the same year. This affects the estimates of wholesale and retail value alike, as the estimates of retail sales are derived from the *volume* index and the retail price index. Thus for the years in which stocks were accumulating the total cost of retailing shown in the table is artificially inflated. This is an unavoidable weakness in the method employed: its recognition leads one to expect that while the trend in retailing costs depicted is not necessarily incorrect, the year-to-year figures may be suspect. In particular is

this true of 1930—a year in which stocks were accumulating, as invariably occurs during the onset of depression—and the total for that year, and probably for 1927, clearly require scaling down.

To what extent is external corroboration possible? In the first place it is possible to provide a certain amount of evidence which is only partially independent, as it depends upon the acceptance of the estimates of total retail turnover employed above. It relates to the value of retail sales per head of distributive workers employed, and gives a rough indication of the trend of wages costs during the period, allowing of course for the fact that all distributive workers are not shop assistants, and that if the proportion of shop assistants included in the Ministry of Labour totals of distributive workers was falling during the period the trend of retail wages costs would be exaggerated.

TABLE VII

	1924	1925	1926	1927	1928	1929	1930	1931
Index of value of sales per worker	100	98	93	89	90	89	89	79
Index of retail prices	100	100.4	98.7	95.6	95.0	93.9	90.1	84.1

It will be noted that the index falls with considerably greater rapidity than the index of retail prices, showing over the period an appreciable rise in the average labour costs of distribution. This is clearly shown by an index illustrating the changing ratio of expenses to sales. Returning to our estimate of the total costs of retailing, this index is obtained by dividing the total costs of retailing by the value of retail sales for each year:

1924	1925	1926	1927	1928	1929	1930	1931
100	107	118	128	123	133	149	162

This record of costs includes profits, as it is obtained by subtraction. At this point one can pass over to completely external and independent evidence: it can be compared with the cost ratios of a group of large and not unrepresentative retail co-operative societies, which are available since 1928.

1928	1929	1930	1931
100	107	111	123

For purposes of comparison our national index can be rebased:

1928	1929	1930	1931
100	108	121	129

It is also possible to obtain from statistics published by the Co-operative Union an index showing the changes in wage costs per £1 of sales (unfortunately this cannot be carried back further than 1925).

1925	1926	1927	1928	1929	1930	1931
100	104.5	102.3	106.5	108.1	112.8	135.1

The disproportionate increase in 1931 is due to the rapid fall in prices in that year, combined with the impact of the depression on those industrial areas where the co-operative movement is strongest. It is of interest to note that the increase in the co-operative costs, although considerable, is appreciably less than those of the general average, of which it forms a very considerable proportion.

It appears, therefore, that a very considerable increase in the total cost of retailing took place between 1924 and 1931. Much of this increase, especially at the latter part of the period, must have been the inevitable result of falling wholesale prices working in conjunction with a relatively 'sticky' retail price-level. To the extent to which this cause was the predominating one the growth may be expected to be temporary and the recent stability and still more recent upward trends of wholesale prices may be expected to reverse it. The same may be said of that increase in the number of retail outlets which may be referred to the same cause. Yet it does not appear probable that the *whole* of an increase of the order of magnitude shown can be explained in terms of 'natural' time-lag. Certainly the increase in wage costs cannot be referred to the same cause, except in so far as it may be argued that the reluctance of the average retailer to reduce his staff during depression has led to a heavy fall in sales per head. This clearly comes into the picture, especially in the case of the co-operative figures quoted, but the rapid growth in the percentage of distributive workers unemployed during the period renders it impossible of universal application. Consequently it may be assumed that

the forces inherent in the manifest imperfection of the retail market were in the ascendant during the period and that a substantial proportion of the advances in cost recorded are of a permanent character.

Such evidence as is available for the post-1931 period appear indeed to indicate that such has been the case. We are now upon the eve of an organized attempt to commence the serious compilation and analysis of retail statistics, and it would be unwise to attempt to anticipate the conclusions of the Statistical Department of the Bank of England upon the information which it has collected. The general conclusion which we set out to establish, however, that the growth in the number of shops during the period of falling prices was accompanied by increasing total costs of retailing, and that the scale of that increase was too large to accept of any explanation except in terms of the theory of imperfect competition, is extremely unlikely to be invalidated.

VI

THE TREND OF CURRENT CONTROVERSY

I

THE question of how far perfect diagnosis need be before it is made the basis for curative treatment is one which presents problems common to medical and economic science. The patient may die, or the disease may continue to increase until it becomes ineradicable, while the diagnostician is still in search of a formula or uncertain about the interpretations of ambiguous data. This is the real 'Doctor's Dilemma', and the doctor himself cannot resolve it. Every fresh diagnosis which is made, however, alters the situation: it may render remedies previously proposed of doubtful value, or of certain efficiency, or it may reveal a situation in which no known treatment promises relief.

Consequently, the best method of approach to a discussion of those remedies which have been suggested for the alleged ill health of the final stage in our distributive system would seem to be, firstly, to summarize what appears to be the most accurate diagnosis; secondly, to enumerate the proposed panaceas, in each case indicating the precise evil they are designed to eradicate; and thirdly, to evaluate, in the light of our analysis of the situation, both the relative importance of the evils and the probable efficiency of the proposed cures.

We have produced evidence in favour of the view that there has been a tendency in the past decade, strongly marked from 1924 to 1931 and almost certainly persisting to-day, for the total costs of retailing to increase to the consumer, and for this increase to be accompanied by an increase in the costs, as well as the profits, of the retailer, and by a very rapid increase in the number of shops. Furthermore, we have proved (it is hoped) that the increase in the total cost of retailing was considerably greater than the growth of productive efficiency during the period could have justified, or than changes in the tastes of the consumer might have independently called forth, and also that the increase in the number of shops was in excess of that necessitated by the

migration of population or by the results of rehousing schemes.

This rapid increase of costs we attributed mainly to the imperfection of the retail market, i.e. to the 'amateur' status of the retail purchaser, which leaves initiative in the hands of seller rather than buyer in respect of price and service policy, and thus, almost inevitably, has led to competition between retailers taking the form of a competitive 'bidding up' of costs, which has rendered the retail market still more imperfect, but which appears also to have kept the profits of retailers down to a 'normal' level. And another closely related factor in the situation was suggested to be the discount policy of those producers of consumers' goods who 'maintain' the retail prices of their products. In both cases the root of the problem was found to lie in market conditions which led retailers to seek command of more resources than were strictly necessary for their function of distribution, and, having obtained them, to underemploy them. Consequently, the test which must be applied to any proposal for the reform of retailing which claims to do more than merely eliminate some technical inefficiency peculiar to a single branch of trade, is to inquire either what its effects will be upon the 'perfection of the market', or, how far it promises to reproduce the effects of a perfect market by means of some other method than that of 'free consumer's choice'.

And at this stage the characteristics of a perfect market may well be passed in review. The presence of perfect competition in a market for manufactured products connotes a single price, equal to the cost of production of the most efficient sized plant operating at the optimum scale of production. As we have seen there are difficulties attached to the application of this concept to the market for retailing services. The quantity of retailing services provided is not capable of exact measurement, nor are they separately priced, apart from the retail prices of which they form a component part. Thus the conditions of a perfect market in retailing services, which would result in retail margins exactly commensurate with 'service' provided, can hardly be expected to exist. In order for them to do so as the result of free consumer's choice an enormous quantity of energy and time

would have to be devoted by the individual consumer. Cases exist, such as the market for women's clothing, in which the exercise of meticulous choice is in itself a pleasurable occupation, or such as the market for stable working-class foodstuffs, when vigilance is a stern economic necessity. In these instances the conditions of a perfect market often appear to obtain, but they may be regarded as exceptional in respect of retailing in general.

If, then, the main characteristics of a perfect market, the recognizable single price and the clearly marked optimum of scale and of output, cannot be applied as practical tests to the world of retailing, by what criteria are proposals for reform to be judged? By two only: do they promise to lower retail margins to the consumer, and do they propose to check the drift of economic resources into retailing? Because, if the conditions of perfect competition are hard to detect when they exist in retail markets, this is not true of the opposite tendency. The growth in the total numbers of retail outlets, in the total cost of retailing, in the total numbers registered as normally employed in retailing and in the proportion of these unemployed, all point in the same direction.

The main headings under which proposals for reform may be classified and examined are:

- (a) Proposals to regulate the number of shops by means of a licensing system.
- (b) Proposals for the extension, or, alternatively, for the abolition, of systems of retail price maintenance.
- (c) Proposals, or aspirations, for the extension of consumers' co-operation over a wider field.

II

The first of these, proposals to regulate the numbers and/or qualifications of retailers by licence, emanate from a surprisingly large number of sources and are advanced for the most widely varying reasons. One may detect among the defenders of existing voluntary schemes, and the proposals for more comprehensive and compulsory ones, motives including the interests of existing shopkeepers, the interests of manufacturers, the interests of employees, dislike of

disorder, enthusiasm for town planning, concern with the low standards of many small shopkeepers, and, lastly, pure misunderstanding of the problem.

As an example of a voluntary scheme already in successful operation, we may cite the Distance Limit Policy operated by the National Federation of Newsagents, in co-operation with the Newspaper Proprietors Association. (For a fuller description of the scheme the reader is referred to the Report of the Committee on Restraint of Trade.) Briefly the objects of the scheme are to prevent newcomers from setting up in business close to existing newsagents. The aspirant must either buy an existing business or satisfy a committee, composed of newsagents, wholesalers, and representatives of the publishers, that the district in which he proposes to set up is not properly served by the existing newsagents. Some 25 per cent. only of applicants to these committees are successful. The interests of the parties concerned in this arrangement are sufficiently clear without any further exposition. There is no pretence that the function of a newsagent is a skilled or specialized one, or that the maintenance of standards approaching the professional is desirable. This claim, however, is maintained by associations other than those of chemists, dentists, and the like, whose claim is clearly legitimate. Dealers in photographic materials, for example, limit entry to their ranks by means of a somewhat elastic 'professional' standard, while at their 1934 conference the Federation of Grocers' Association instructed their Council to investigate the possibility of a voluntary scheme for the registration of qualified grocers. But it is of interest to note, in this connexion, an extract from the *Grocer* of July 21st, 1934, quoted by Hoffman in his pamphlet *Shops and the State*:

'The rock bottom fact has to be faced that there are now too many shops and too much competition for retail trade, not all of it by a long way of a desirable character.'

Schemes of this type, whether full grown or in the embryo stages, whether openly restricting entry or maintaining hypothetical professional standards, are fairly clearly designed in the interest either of the retailers, as in the case of the newsagents, or, as in the case of the Tobacco Trades

Association, in order to assume the maximum of control by the manufacturers over the conditions of retail sale. In these circumstances it would be unfair to criticize them as ineffectual attempts to render the retailing world more efficient and its operations less costly: it would equally be redundant to praise them for any efficiency they may provide: it would equally be unwise to accept the advice of their protagonists in instituting schemes of reform. They are devoted to the preservation of existing sectional interests.

On a somewhat different level one must discuss the proposals of Mr. Hoffman and the Shop Assistants Union.¹ He proposes the registration of all existing shops.

'Once registration was carried through, it should be within the power of some competent Judicial Authority set up for the purpose by the state, having some local knowledge, to grant a Certificate or Licence only to such shopkeepers in future who proved either that the needs of the community were not being properly catered for, or that there was some new form of distribution in his undertaking.

'It is not intended by this suggestion that the granting of the certificate or licence would be any guarantee of the services which would be rendered by the licensee. The intention is to rather prepare the way for qualitative service by the prevention of more shops being opened in a market which is already catering fully for the requirements of the people. . . .

'It may be urged that competition is being removed. The answer to that is, in this country there is more than enough competition going round in shopland to last for the next 50 years. The same answer is sufficient for those who urge a monopoly would be created. In any case, if a prejudicial monopoly was being created in a district that could be urged before the Commissioners as a reason for a newcomer to be let in; moreover, if the Labour Party's proposal for a Consumers' council were set up, there would be protection for the public in that way. Undertakings, understandings, arrangements in respect to prices do occur now under the existing circumstances. What we do know is that the unregulated opening of shops is wasteful and expensive, and works untold wrong to hundreds and thousands of employed persons.'

The main concern of Mr. Hoffman is with the welfare of distributive workers, and proposals affecting the working conditions of some two million wage earners clearly bulk

¹ *Shops and the State.*

sufficiently largely to clear their advocate of any charge of 'sectarianism'. And he sees in the rapid multiplication of shops a menace to the standard of living of shop assistants.

'Those who desire to see Distribution a public service, staffed with those who have knowledge of the goods they are handling, happy and proud to serve the community, secure in their occupation, relieved of those terrible anxieties which now beset them morning, noon and night, must be prepared to stamp out that form of competition which drags all down to the level of the lowest and worst.'

But his proposals, as they stand, amount to presenting secure monopolies to existing retailers (in place of their existing 'insecure monopolies') in the hope that a share of the monopoly profit will go to the worker in the industry. Now to lessen (or rather stabilize) the number of retailers will no doubt do something to lessen the flow of resources into distribution. It will thus, by reducing the rate of recruitment of distributive workers, do something to lessen the rapidly growing incidence of unemployment among them. But the large number of shops is not a cause, but an effect, of the imperfection of the retail market. Merely to restrict entry will increase the profits of existing retailers, because, by lessening the incidence of overhead costs in a bigger turnover it will lessen the average cost of operation. Only if it makes the market more perfect, however, i.e. if it makes buyers more indifferent between different sources of supply and more sensitive to changes in price, will the increase in efficiency resulting from restricted entry to retailing be reflected in a fall of the cost of retailing to the consumer. Securing their existing market to retailers does not, on the face of it, promise to have this result.

In fairness to Mr. Hoffman it must be remembered that he does not propose to leave matters here. The powers of the licensing commission, as he points out, should be exercised in the interests of the consumer, and he also envisages a general control over retail prices via a consumers' council. The danger of the proposals as they stand, however, especially in view of the general sympathy which bodies like chambers of commerce have recently been evincing for similar proposals, is that they are far more likely to be put into practice at an early date than is the establishment of any effective

consumers' council, and it is also extremely unlikely that, as far as one can make effective political forecasts, any licensing authorities likely to be set up will be free from bias or unswayed by influence.

Another aspect of the proposals is also open to criticism: it may be as well to let the interested party speak for itself. The leader writer of the *Co-operative News* for 23 February 1935 comments as follows:

'Mr. Hoffman's solution is registration and licensing of all shops. In recent articles we have pointed out how that idea is growing in strength among private traders.

'No co-operator will deny that the distributive trades require re-organisation. Re-organisation is obviously necessary, and it is bound to come. What the co-operative movement must watch is that in the name of re-organisation co-operative progress is not throttled. There must be a licensing authority to operate a licensing system. A right of objection to the granting of licenses is bound up with the establishment of an authority. If Mr. Hoffman's plan eventuates, no new co-operative shop could be opened anywhere without first facing the licensing body and the full blast of objections from already established private traders or multiple shops. Licensing would suit every type of business except the co-operative movement. It would virtually guarantee the market of the small trader and the combine, and, applied under capitalism with no control over prices, it would make it easier to enforce price extortions on the consumer. *The co-operative movement would be the chief victim of such a system, unless it was framed to exempt mutual organisations not trading for private profit.* Otherwise, co-operators can only oppose it, for all-in licensing with no exemption for co-operative societies would mean that a great working class movement had been put in chains, and the capitalist control of distribution had been made a legal permanency.

'There is, however, one big principle which we must keep in mind. If the grocers in an area decide that there are enough grocery shops for that area; or the drapers, or butchers, or greengrocers, or fishmongers decide similarly; they might conceivably have some title to impress the fact upon whatever licensing authority may be set up. Some regard might be had for their view that somebody else should be prevented from planting a shop to win trade and profit for himself; but that would set up the principle that our present suppliers, who live on the profit they make out of essential services, should be allowed to corner the distributive trade for themselves. An entirely different

situation arises when the members of a co-operative society, settling in a particular area, decide that they want to be supplied with their goods from their own shop, and it is the purchasers and prospective purchasers who have the chief title to decide on a matter of that kind.'

The amount of weight one should attach to this criticism depends, of course, upon the value which is to be put upon consumers' co-operation as a solution to the distributive problem. As this is to be treated by itself in a later section, we must here postpone judgement, passing on to three more proposals for the regulation of entry to retailing, which seem to be of sufficient importance to merit serious consideration. The one of these which seems to follow most directly in order of relation from the scheme of Mr. Hoffman, who writes from the point of view of the shop assistant, is the work of Mr. Neal, in his book *Retailing and the Public*. The author is intimately connected with the direction of large-scale retailing, and in fairness to him it must be noted that his tentative proposals for zoning and licensing shops form a very minor part of a fairly long work devoted to explaining the mechanism of retailing and making suggestions for the improvement of its technical efficiency. He introduces the subject by saying:

'And yet, with the signal set at danger, and at a time when the surest hope is concentration, we are standing by while a combination of circumstances is certainly maintaining, if not adding to, the multiplicity of distributive outlets. We appear, therefore, to be blinding ourselves to the fact that there comes a point where an increase of competition in a relatively scattered industry is failing in its presumed purpose: and is as likely as not to assist in raising prices by adding to the expense of winning business.'

Here, it will be observed, Mr. Neal, with his firm grasp of the realities of retail policy, has put his finger on the vital spot. He does not speak of 'increased overhead costs'—which can only increase prices if they lead to tacit or formal combinations or agreements—but of the increased cost of winning business. It is one of the characteristics of an imperfect market, as we have seen, that the optimum size of productive or distributive unit cannot operate at full capacity, because of the cost (either positive by means of advertisement, or negative, by reason of the decrease in prices which

is the condition of increased sales) of increasing its scale of operation. The obstacle to expansion, however, is not the existence of a host of small and inefficient retailers as such. It lies in the adherence of consumers to specific sources of supply, and this can as well exist in a market composed of a small number of efficient department stores, all thwarting each other's attempts at expansion to full capacity, as in a market which one optimum size distributive unit cannot expand to cover because of the obstinate adherence of groups of consumers, each to some small and (possibly) less efficient shop. The small shop may be undesirable because it is dirty, or because it lures its proprietor by the promise of a fictitious freedom and an improbable chance of future opulence to accept an incredibly low standard of life for himself and, only too often, for his children. It may be a blot on the fair urban landscape of Manchester or Stoke-on-Trent. It is not, however, except in so far as its presence gives rise to tacit combination, or results from the subsidies of manufacturers in search of a large number of outlets, a cause of high retail costs and prices. It is a symptom of the causes which make them possible and call it into being as their agency.

Consequently, Mr. Neal's tentative proposals for licensing and zoning retail outlets, excellent as they are from the point of view of town-planning, do not, any more than the proposals mentioned before, really affect the point at issue. They would, of course, affect the incomes of the surviving shopkeepers. As he points out (p. 190):

'For the remaining shopkeepers of that town it should offer the possibility of more efficient and satisfactory trading. Accordingly, were they charged with the duty of assisting as an organised body in the liquidation of the position, it is not unreasonable to suppose that it might prove to be worth their while even to incur some small levy for the purpose.'

It might indeed! It remains to discuss two slightly different sets of proposals, one emanating from the Commission on the Registration of Shops in the Irish Free State, and the other from an Irish economist. The former, of which the proposals are outlined below, appears to have done very little in the way of breaking new theoretical or statistical ground in arriving at its conclusions, but appears to have

accepted fairly whole-heartedly the 1927 Report of the Tribunal on Prices. The passage in this document which bears most closely upon the point at issue runs as follows:

'We are agreed that there are too many retail shops in this country, and that the multiplicity of shops does not create competition or tend to reduce prices. It has in fact the contrary effect. Prices are fixed at levels which enable the least efficient shop to live, and it is allowed to live to the advantage of the more efficient shops in the same trade and at the expense of the consuming public. Every shop in excess of the most economical number adds its burden of unnecessary overhead and running expenses to the prices of goods consumed.

'We are also agreed that a substantial reduction in the number of shops, accompanied by supervision of prices by the Prices Board would enable material reductions in the prices of articles of general consumption to be realised. The only practical means of securing this reduction which occurred to and has been considered by us is the licensing of shops; but the subject is one of such difficulty and complexity that we are not prepared with the information at our disposal to make any definite recommendation.'

It is not necessary, in view of what has been said before, to spend much time in sorting out the arguments in this passage. To bring it into line with the analysis of Chapter IV it would be necessary to say 'the multiplicity of shops does not create *perfect* competition, and therefore does not tend to reduce prices', and again it would be necessary to rephrase the passage about prices being fixed at levels which allow the most inefficient shop to live. Clearly there is no reason why retail prices *should* be fixed at this level unless they are fixed by manufacturers for reasons of their own. The correct description of the position would be to say that the conditions of the market are such that when retailers act in a manner calculated to maximize their profits the result is a large number of shops, all operating below capacity. The concept, which appears to be in the minds of the Tribunal, of a single retail price-level common to all shops, and set by the cost of operating the 'marginal shop', is extremely misleading.

But the report is indeed on firm ground when it recognizes that, if the number of shops was reduced, the average costs of operation could be lowered, and in addition, that this would provide conditions under which it would be *possible* for prices to be lowered, although special legislative

pressure might be necessary to make use of this possibility. Since the presentation of this report the Free State Government has assumed powers to control retail prices, although, so far as is known at present, those powers do not yet seem to have been extensively employed. A census of distribution is also in course of tabulation for the Free State: therefore the proposals of the Commissioners must be interpreted in a context of existing or developing machinery for the control of the monopolies which licensing by itself would tend to create or to confirm.

The novelty in their proposals lies in an attempt to avoid a repetition of the wholesale creation of vested interests resulting from the licensing of public-houses in England, by means of a dual system of registration for premises, and of licenses attaching not to premises but to individuals. It is proposed that only licensed retailers in specified registered premises should be allowed to operate. Otherwise the proposals run fairly closely parallel to others: considerations of sanitation and town-planning are evoked in connexion with the registration of premises and considerations of personal qualifications and existing retail facilities in connexion with the issue of new licences.

Finally we must include a very ingenious suggestion concerning the taxation of retailers put forward by Mr. Joseph Johnson before the Statistical and Social Inquiry Society of Ireland in 1927:

'Hitherto it has been the custom to tax persons who make a profit. For obvious reasons this custom is likely to continue. If our analysis is sound there are, however, excellent reasons why certain other persons should be taxed *for not making a profit*. The inefficient retail trader on the margin of a number of retail trades, which is in any case excessive, seems to be the main cause of high prices, and his high prices to be the main cause of the high prices and high rates of gross profit of his more efficient rivals. Why not raise the margin of business efficiency by taxing these unprofitable servants of the community out of existence as business men?

'As it actually operates in the case of retail trade the income tax system appears to be a tax on honesty and proper business organisation, and a premium on all the unbusinesslike qualities which depress the margin of efficiency and indirectly maintain maximum retail prices.

'A licence duty of about £5 for each establishment, payable by all

retailers whether they make a profit or not, but *credited as a prepayment of income tax* in the case of those who prove to be liable for that amount of income tax or more, would operate in the opposite direction. The efficient would have to pay no more taxation in all than before, and would have no possible excuse for raising prices. The incidence of the tax would thus be on the less efficient or the less honest. The tendency would be for their numbers to diminish and the tax would be operated in such a way as to result in the survival of the optimum number of retailers by the elimination of the unfit.

The raising of the margin of business efficiency would tend to lower prices and rates of gross profit. At the same time the *net profits* of the survivors would be quite likely to increase, in consequence of the increase in average turnover and the diminished incidence of overhead charges.

There would, however, be a possible danger of a positive and partial monopoly being abused. A theoretical remedy for this is to foster the growth of consumers' co-operative societies. One possible method of doing this is to levy the retailers licence duty at a lower rate on such societies. It would be more scientific, and also more effective from this point of view, to substitute a "turnover tax" at a rate which should not exceed 1%, for the licence duty, to treat this as in the other case, as a prepayment of income tax, *but not refundable*, and to levy the "turnover tax" on consumers' co-operative societies at a lower rate, or altogether exempt them from it.

As in the report of the Tribunal on Prices, the blame is put on the inefficient marginal retailer who fixed high prices. It is only in a perfect market, however, that prices are determined by the marginal firm. Thus the most admirably ingenious proposals to tax this mythical person out of existence lose weight as a method of remedying the imperfection of the retail market, though they would remain of considerable interest as a method of eliminating the inefficient which might be put into practice *pari passu* with measures of price control, were it not for the fact that any measure of price control which re-created the conditions of a perfect market, i.e. those in which only the optimum firm could operate at its most efficient scale of operation, would automatically eliminate them.

And this is the fundamental weakness common to all these attempts to eliminate the inefficient retailer in the interests of reducing distributive waste. If he can exist at

all, then the retail market must be so imperfect that his elimination would only lead to the redivision of the spoils among the survivors. If it is possible by measures of legislation to reduce distributive waste, he will automatically be eliminated, provided that suitable steps are taken to see that he does not 'hang on' at the expense of reducing the wages and increasing the hours of his employees. Therefore, if the job can be done at all, he does not matter; while if it cannot, there is no reason for driving him out of business in order to add to the profits of multiple shops and department stores.

III

We must now pass on to consider proposals for the regulation of retail prices. These fall into two groups—proposals for regulation by the State and arguments in favour of the existing system by which manufacturers fix the retail prices of their products, allow a discount off these to retailers, and refuse supplies to any retailer who does not conform to the published conditions of resale.

State regulation, as we have seen, is a necessary condition for the proper functioning of any system of licensing retail outlets and restricting their number. It may operate in two ways, either by the publication of scales of maximum prices or by the establishment of consumers' councils to which appeal may be made in cases in which charges are considered to be unreasonable. The fundamental objection to these proposals is that legal maxima always tend to become minima, as a glance at the history of railway rate legislation will show. Either in the case of published prices decreed by a central authority, or in the case of precedents established by decisions of a consumers' council, it appears to be almost certain that the maximum prices recognized by the authorities would come to rule in the market, regardless of the costs of distribution. These prices would necessarily be set high enough to cover the costs of efficient distributive establishments operating under the most difficult condition, i.e. providing for the consumer of a very sparsely populated district, where shops must be available, but where the number of customers must of necessity be so small that no efficiency of organization could render the costs of retailing

very low, or serving depressed areas where customers are numerous but the average purchase so small as to ensure a disproportionate cost in the cost of serving, wrapping, and the like. Consequently, a level of prices which would enable these necessary distributive services to carry on would be high enough to ensure wholly disproportionate profits for more fortunately placed retailers. The language employed by the Free State Tribunal on Prices would indeed apply to the situation thus created.

Alternatively, it might be possible to 'zone' retailers according to the necessary costs of distribution necessitated by the peculiar circumstances of the markets they serve, in the same way as trade-union rates of wages in, for example, the building trades, vary from district to district according to variations in the cost of living. But, as the second example of a type of high-cost area quoted above makes clear, it is not possible to determine the necessary costs of retailing in an area according to some simple single criterion such as density of population. Thus the establishment of maximum prices, graded by areas so as to eliminate superfluous profit, would be a stupendous task even for the most elementary products like bread. When it is considered how fashions in clothing, furniture, and even food change, how wide a range of qualities may be obtained in almost any product, and how unhomogeneous a class of goods may be covered by a name like 'stockings', the impossibility of establishing a system of price regulation sufficiently flexible and yet sufficiently accurate will be realized. Inevitably it would lead either to monopoly profits, or to a shortage of supplies, according as it erred on the side of generosity or of niggardliness. Probably it would do both at the same time for different groups and almost certainly it would lead to less satisfactory results than free, not to say perfect, competition.

Therefore, as we saw when considering the matter that restriction of entry to retailing without price control would be valueless, the enormous difficulty of controlling prices in a manner which would combine justice with efficiency is an additional argument against any system of licensing.

All the reasons that can be advanced in criticism of State regulation of retail prices appear to apply with greater force

to the control of retail prices by manufacturers, who do not even profess to undertake the task in the public interest, but in the interest of their own profits. As this system is already very important (for example, it completely dominates the tobacco trade, is important in the grocery trade, and is becoming so in the clothing trade), and as it has recently been defended by the report of a select committee, it is worth while examining in some detail.

Each retailer may be assumed to be in possession of a 'private market', the limits of which are more or less determined by the preference of his customers for dealing with him rather than paying the same or even a slightly lower price for similar goods elsewhere. But the privacy of this market, and the monopoly profit arising therefrom, may be encroached upon by the manufacturer who produces a branded and advertised product.

He also possesses a private market among retail consumers; in the interest of his reputation he will tend to introduce wherever possible a system of price maintenance, so that the public may not be antagonized by the sight of a well-known product of identical quality offered for sale at varying prices. This involves fixing a profit for the retailer who handles the product. Upon what grounds will this be fixed? The two private markets overlap and to this extent lose their privacy; the choice of the consumer is not 'soap from X or from Y ' but ' A brand or B brand from X or Y '. Moreover, it may well be that the retail price fixed for A brand soap, and the retail discount thereupon, harmonize admirably with the sales policy of X , but do not fit in with that of Y , while the conditions of sale of B brand are quite congenial to Y , but, on the quantity sold, would involve a loss to X . It may even be the case that the makers of A brand offer a specially high discount to those retailers, X among them, who will promise to handle A brand to the exclusion of all others.

Under these circumstances the consumer will be faced with the alternative ' A brand from X , or B brand from Y '. If he is conscious of a preference for dealing with Y , but also for A brand soap over B brand, the two private markets are in open conflict. What, under these circumstances, decides

the retail prices of the two brands, and what decides the margin which their producers allow to the retailer?

The report of the Lord Chancellor's Committee on Restraint of Trade¹ contains a valuable analysis of the bargaining power of both sides and indicates the principal factors at work.

'Under the price-fixing system, as under conditions of unregulated retail prices, the manufacturer sells his goods in more or less free competition with other manufacturers to the wholesale or retail trader. If he has a popular trade mark or has spent large sums in advertising, so that his goods pass easily and quickly into consumption, he may expect to obtain a better price or to dispose of a larger quantity. In any case he must, under conditions of price maintenance, charge a price uniform to all, subject perhaps to discounts. . . . If the article is one of popular use for which there is a good demand, the retailer's margin is likely to be fixed at a lower figure than if the article is one of a special kind in limited demand, because in the latter case the presumption is that the cost of distribution per unit is relatively high. To a certain extent, we were informed, the manufacturer has the alternative of relying upon advertising to create the demand for his products (in which case he may be able to get his output retailed on a comparatively narrow retail margin) or relying upon the retailer to push his goods (in which case a relatively wide margin must be allowed).

'In general the manufacturer has to bear in mind that his goods may be in competition . . . with goods sold by the retailer under his own label and with unbranded goods: and the profit margin which he allocates to the distributor as well as the final selling price to the consumer may be assumed to be influenced by these circumstances. In particular cases, where a manufacturer has something approaching a monopoly, and where the interest of the public is assured by the article being in common use, the retailer's margin may be reduced to a small percentage.'

Having thus summarized the position of the manufacturer the report continues to consider the position of the retailer:

'Although in the case of price-maintained goods he has no say as regards the price he has to pay for the goods, or the price at which he may sell, he is in theory quite free to decide whether or not he will stock price-maintained goods and if so which particular goods: and he is therefore, in theory, also free to refuse to stock those which do not yield him what he regards as an adequate profit. In practice his

¹ *Restraint of Trade*. H. M. Stationery Office, 1931.

effective power of choice, so long as he remains in the trade, may be circumscribed. In some trades the greater part of the supplies are branded, and where this is the case he may be largely restricted to choosing which particular brands he will stock. If a great part of the range of branded goods is in the hands of a single manufacturer his economic independence vis-à-vis that manufacturer is further diminished.

'He may lose a customer if he does not stock a particular proprietary article which is asked for by name. On the other hand he has considerable power of influencing demand by salesmanship. He may choose which article he will exhibit prominently in his window and on the counter and when a particular brand is not asked for he can sell the brand which yields him the most profit, or an article under his own label, or an unbranded article.'

The report then goes on to outline the case most remote from that of the retailer who finds the majority of his wares both branded and price-maintained and in the hands of a single manufacturer (which is not unlike the position of the tobacco trade), that of the big department store and the multiple shop whose private markets are strong and well defended. We are told that they

'tend to develop their own special lines and to a certain extent to avoid manufacturers' brands. They do their own advertising and prefer to trade on their own reputation rather than rely upon manufacturers' advertising and proprietary goods: and the representatives of the department stores who gave evidence before us claimed that as a result of cheaper buying the stores are able to place their own lines in the hands of the consumer, quality for quality, at lower prices than those fixed for proprietary goods by the manufacturers.'

It remains to examine in what manner this phenomenon of price maintenance may be expected to influence the structure of retailing. The manufacturer of an advertised, branded, and price-maintained commodity is a complete monopolist in respect of that commodity: were he also the retailer of that commodity (as many such manufacturers are), he would at once proceed to the production of that quantity of his product which could be sold at the price yielding him a maximum monopoly profit. His demand curve, however, being also a 'manufactured product', would in part at least depend upon his cost of production, if the cost of advertising be included therein.

For any volume of output there is an optimum combination of manufacturing and selling costs yielding a maximum return. These maximum returns for each possible separate volume of production will in turn, upon inspection, reveal an absolute maximum, which it will be the aim of the producer to secure.

The position of the producer is not radically altered if we regard him as selling through the ordinary retail channels. His objects will still be the same, but his expenditure upon selling will be slightly different. He may, as we have seen, spend a little less on advertising and 'spend' a little more on securing the active allegiance of the retailer: he may in other words aim at a larger total monopoly profit to be secured by means of sacrificing part thereof to the retailer.

The degree to which he is dependent upon the goodwill of the retailer depends upon the proportion of the turnover of the average retailer handling his product which that product represents. Other things being equal, the larger the proportion of the retailer's turnover represented by the product, the stronger the position of the producer, and vice versa. But this position again depends partly upon the producer's expenditure upon advertising; it is even possible for the producer to force the retailer to handle a line which does not cover the cost of retailing it at the maintained price, if his advertising has been successful enough to make his commodity one which every 'respectable' business in that branch of retailing must carry. Thus part of his advertising costs may be finally borne by every consumer of the class of goods handled by the type of retailer concerned!

At the other extreme, where the proportion of the retailers' turnover represented by the product is, in the nature of things, small, as in the case of certain medicinal products, the more the producer spends upon advertising (short of making his product, as above, a 'necessity for respectability' under which circumstances the position is different) the *larger* is the margin he must allow the retailer in order to ensure that his sales are large enough to cover his costs. In all cases the 'marginal' retailer, the man who is on the verge of decision whether or not to handle the branded product, presents circumstances in which the factors at work show themselves most clearly.

The producer will increase the discount on his price-maintained commodity until the volume taken by the retailers is that for which his campaign of advertising and the equipment of his factory were designed, or until his falling net receipts render it more profitable for him to restrict production. The main difference between the producer in a strong or a weak position *vis-à-vis* the retailer is that in the first case the 'marginal' retailer is unique and in the second he is representative. Before passing to the study in detail of the marginal retailer's position, however, a somewhat paradoxical aspect of the activities of the price-maintaining manufacturer must be examined.

The paradox lies in the fact that the 'price maintainer', in pursuit of a maximum monopoly profit, appears to have created in the retail market at least one of the conditions of perfect competition. For the demand curve of the individual seller (or producer) under conditions of perfect competition is a horizontal straight line—and so it would seem is the 'demand' curve of the individual retailer under conditions of price maintenance, because he is only permitted to sell at one price. This is not the case, however, because the *quantity* which the retailer can sell at any one price is limited by his market: fixing the retail price therefore determines both what he may charge, and how much he will sell. Thus, when all prices of all products handled by the retailer are maintained, it is the 'authority' maintaining the price which finally determines the size of the retail business. In a trade if the 'authority' is the producer, or wholesaler, as will be the case under the circumstances given if he is the supplier of all, or a large proportion, of the products handled, he may determine the size of the business. He may, in a trade where the large units of retailing are the more economical, exercise his power of determining the gross profit of the retailer so as to eliminate all but the larger and more efficient. Or he may consider that a larger total sale of his product will result from a larger number of retail outlets, and may thus allow a retail margin sufficiently large to stimulate the entry into the business of a large number of sellers.

The 'authority' need not, however, be the producer, although in most cases where price-maintained goods

constitute a large proportion of the turnover of the average retailer, this will tend to be the case. If the producer is only one among many supplying a price-maintained product to be sold through the same channels, the 'authority' really fixing retail margins and prices will be the retailer, who here is in the stronger bargaining position. In this case the prices and margins fixed will be determined by the elasticity of demand for the product in the private market of the average retailer. Here also a tendency will exist for a monopoly price to be extorted and shared, and even if this policy is unsuccessful, attempts in its direction will tend to increase the costs as well as the gross profits of retailing.

Thus in general we may expect these tendencies to exist in a more or less strongly marked degree wherever price maintenance exists. It will, except where a deliberate policy of excluding the inefficient has been followed by strong producers, tend to make the position of the retailer a little more monopolistic, and to make the reaction of the retail market to falling wholesale prices a little slower.

In view of the power which the right of the producer to fix retail prices gives him to determine the scale and efficiency of retailing, it appears that the continuance of such a system is too heavy a price to pay for the security of the producer. His argument in favour of its continuance, which was accepted by the Committee, was that if he advertised a particular brand at a given price, and if retailers, for purposes of their own, sold it temporarily at lower prices, the effect on the public would be such as to destroy the reputation of the brand. This is no doubt true: the remedy seems to be a reduction in his expenditure upon advertisement and such a reshaping of retailing as will remove the necessity of the retailer resorting to such catch-penny devices as 'leading lines', i.e. selling well-known goods below cost in order to lure people into the shop, where they may buy other less well-known goods at prices considerably above cost.

IV

The third set of proposals—those for a wider extension of consumers' co-operation—are of the utmost importance; sufficient, indeed, to warrant a brief summary of the develop-

ment of the movement. Historically, consumers' co-operation in the form in which we know it to-day arose out of ethical disapproval of the system of private capitalism combined with practical dissatisfaction with high prices and adulterated goods. Accepting the ruling market price as the basis of its operations, the early society proceeded to open a small shop, deal in the principal necessities, and distribute the difference between wholesale prices plus cost of operation and the retail price among the members in proportion to their expenditure. As the committee who did the buying for the society also purchased from the society (to put the argument on the lowest possible level) the stock in trade was free from adulteration—an attraction of which the importance is only to be realized after reference to the blue-books of the period. Moreover, the general level of efficiency in retailing was so low, and the business so overcrowded, that even management committees most prone to the peculiar vices of committees could not but make some surplus to distribute if they took the wholesale and retail prices as they found them. Thus there was the added attraction of 'painless saving' for the co-operator.

It is not difficult, therefore, to understand the rapid success which followed upon the introduction of consumers' co-operation on the Rochdale model. It became, however, increasingly difficult to maintain the original principles unchanged in their application, as the movement grew. This is most clearly to be seen if we take the question of defining the 'ruling retail price'. For the pioneers in Rochdale the 'ruling retail price' was that charged by the shop on the corner of Toad Lane. But very soon we may suppose that the shop on the corner, and a lot more like it, went out of business. What was the co-operative society to do when it became, as it very often did, one of the forces determining retail prices in an area? The answer seems to be that in a good many cases they followed a somewhat conservative policy, aiming at maintaining the rate of dividend on purchases which they had originally set up in totally different circumstances. This is vividly illustrated by contrasting conditions in the north of England, when co-operation was first established and where in many places the price policy of the local

society sets the price for most of the necessities of life, with those in the south, where co-operation is comparatively weak and of recent establishment. This tendency was examined in some detail in Chapter II.

Consequently the ideal of consumers' control of retail distribution has become in some areas slightly obscured. In place of being a movement open to *all* consumers, and organizing profitless distribution in their interests, it has become in some areas a movement open only to those who wish to 'save as they spend'.

Apart from this drawback, however, the theoretical advantages of consumers' co-operation as a method of organizing retail distribution appear to be considerable. If the wastes of distribution are, as they appear to be, mainly resultants of the 'slackness' of the consumer (a slackness which is probably quite justifiable considering the inroads into the leisure of the individual which its elimination would necessitate, but of which the collective results may be serious) then 'self-government for consumers' seems to be the way out. It is probable that the price of absolute distributive efficiency, like that of liberty, is eternal vigilance: if this means the sacrifice of all the leisure of all the people all of the time, then the price is too high. But, given a system of representative government, the situation changes, and this is essentially what co-operation sets out to do.

This does not mean that the principle of free consumers' choice is in any way abandoned, or the right of the consumer to choose for himself in any way infringed upon, by co-operative organization. The retail consumer is, on the whole, a necessarily passive creature, unlike the 'professional' consumer of raw materials for productive purposes. He does not produce specifications and insist upon their being fulfilled, except when he is buying things like fishing tackle, and even in such cases, when he does, he finds in the majority of instances that he cannot get them, because they are not manufactured and his individual and unique demand is too insignificant to set the wheels in motion. Thus, inevitably, his choice is restricted to the range of possibilities in the form of products and prices which are offered to him. He cannot find out all the prices, or experiment with all the

products, and he therefore falls an easy prey to such tacit agreements between retailers as exist. (It is probable, however, that tacit agreements play a lesser part than is generally supposed in retail policy.)

Most important of all, the 'product' which he is offered by the retailer is not just, for example, a hat. It is a hat at the street corner or a mile away, a hat to carry home or to be sent by messenger, a hat bought after a wait of ten minutes in a small and busy shop, or a hat promptly acquired among luxurious surroundings. And the price of the hat is also the price of all of these subsidiary amenities. Moreover, the price of the hat may have to pay not only for the comfort of possessing a hat but also for the spiritual exaltation of possessing an *X* hat, or the confidence of freedom from baldness at thirty inspired by possession of a *Z* hat—both these intangible satisfactions having been created by very expensive advertisement. If the first enterprising entrepreneur who started to add these amenities together succeeded in attracting customers, it is almost certain that his example would be followed by others, and soon the man who wanted a plain, simple hat to put on his head and take away might well find himself enjoying, and paying for, a host of unwanted services.

It is here that consumers' co-operation, with its technical detail in charge of experts but its policy controlled by committees of more or less ordinary consumers, should be of great value in checking the upward race of distributive costs by offering goods for sale under conditions of sober comfort if not of luxury, in avoiding the wastes of advertisement, and in general giving a range of choice to the consumer in which the prices really represent the cost of producing and selling the article concerned, and not the most profitable policy for a semi-monopolist in an imperfect market.

At this point, having set out the theoretical case in favour of consumers' co-operation, it is well to pause and inquire how far co-operation in action fulfils its promises. And for the purposes of this review it will be as well to pass over the ethical case for co-operation. This is founded upon the claim that the movement provides a living wage for its employees and does not operate for private profit: like all

arguments in the sphere of ethics its strength depends upon the extent to which those to whom the claim is addressed sympathize with or abhor its presuppositions. The question which it is relevant to ask, however, is, 'Does the co-operative movement in practice provide retailing services more cheaply than the private trader?' Or, in other words, 'Is the machinery of co-operative distribution of sufficient *technical* efficiency to enable its theoretically superior position to result in superior results?'

The question, especially in its first form, is difficult to answer. In the case of the staple articles of working-class diet, when the market is fairly 'perfect' as a result of the vigilance of the housewife, co-operative margins do not appear to be wider than those of the multiple shops. Differences in quality make comparison difficult, but if allowance be made for dividend in those areas where a high dividend policy is followed, this generalization appears to be justified. This, however, is what one would expect, and reflects no especial credit upon co-operation: in this field the problem of distributive waste is by no means acute. The demand of the wary housewife is very susceptible to slight differences in the price of daily necessities, and if the admittedly well-organized chain stores introduce a change in prices, the co-operative shops follow promptly, even if they do not lead. It must be emphasized that the strength of co-operative trading lies in the sphere of groceries, bread, and milk, and that it caters mainly for working-class needs.

The other branches of retail trading, especially clothing and furniture, where there is little uniformity of product and no clearly defined price-level and where the average customer is far less expert, provide a field where one would expect to find the superiority of the co-operative system most clearly demonstrated. Unfortunately one seeks evidence of obvious superiority in vain. The proportion of co-operative trade which consists of non-food sales is low, and prices in these departments do not appear to be appreciably less than those ruling in private shops handling similar goods. The chief difficulty here lies in making suitable comparisons: in general, the quality of the materials and workmanship in co-operative goods is considerably

superior to their design.¹ Thus it is hard to know whether to compare excellently finished but poorly designed co-operative products with those of a similar standard of design or of workmanship. If the former course be adopted, then in most cases a higher price for the co-operative product seems justified; if the latter, the product of private industry will normally command the higher price.

Yet it appears to be in these branches of distribution that the greatest economies might be effected and that the influence of an organization standing in a fiduciary relationship to the consumer might be of the greatest value. It behoves us, therefore, to ask the reason why co-operative influence is so slight—and so slightly beneficial—in this sphere. The answer is probably to be found in the relationship existing between management committees and permanent officials in most societies.

In order for the committee elected by the members of a co-operative society to supervise its management to make the greatest contribution to the efficiency of the society as a distributive agency, it should have the outlook and interests of a consumers' council. The professional management is naturally interested in increasing sales and maintaining distributable surplus to the exclusion of further ends. To this interest the ideal committee would oppose that of the consumers, *qua* consumers—opposing proposals to adopt the margin of gross profit obtaining among private traders where this is in excess of the necessary cost of providing reasonable service in the department concerned, in spite of the effect upon surplus; opposing proposals which seek to attract custom by means of 'competitive ostentation', in spite of the effect upon gross sales. In this way, although the degree of imperfection in the general market for the classes of goods concerned would make the task a difficult one, co-operative committees might succeed in keeping prices in fairly strict conformity with the lowest possible cost of distribution in many branches of retailing where

¹ This conclusion was reached without reference to the speed with which co-operative design adapts itself to changes of fashion. In so far as the movement exhibited a tendency to produce *good* designs and only modify them slowly and reluctantly, the present writer at least would approve.

the pecuniary interests of private traders (or the professional interests of co-operative managers) would otherwise tend to increase both costs and retail margins.

Unfortunately, however, management committees appointed by co-operators do not often appear to take this view of their function. Considering themselves as the equivalent of the board of directors of a limited company, and filled with a laudable zeal for the rapid extension of co-operative enterprise, they tend to allow considerations of total turnover, distributable surplus, and growth of membership to constitute their major concern. No one but their constituents has, of course, any formal right to criticize this attitude. But it may with justice be pointed out that the real efficiency of retail co-operation would very probably be increased, and the interests of the consumer better served, if they confined their activities to the presentation of the consumer's point of view rather than identifying themselves with, and seeking to participate in the actual business of, the management.

In the larger societies, no doubt, a management committee needs to exercise functions similar to those of a board of directors: the enterprise they conduct is the property of those who elect them. It seems desirable, however, that in some of these societies the experiment should be made of organizing co-operative 'consumers councils' after the manner of the 'board of supervisors' imposed upon the directorate by German company law, although their functions would be different. The results would probably amply repay the trouble and outweigh the increased complexity of organization involved.

There is also another angle from which the efficiency of co-operation must be examined. Even if the representation of consumers were perfected, so that none of the efforts of the co-operative organization were misdirected, those efforts might themselves be weak and ineffectual. The net balance of advantage might thus be lost. How do the expense ratios of co-operative stores compare with those of private traders?

It is not easy to provide an answer. The bases upon which the accounts of local co-operative societies are presented are far from uniform, in spite of the efforts of the Co-operative

Union to secure uniformity. Even in so far as comparison is possible the returns show wide variations from place to place. No representative expense ratios for private traders exist for comparison, even in the limited sense in which a crude average like that presented for co-operative trade on p. 143 may be called representative. Consequently one is driven back upon generalizations.

The co-operative movement pays higher wages than does the average private firm, *vide* the Shop Assistants' Union, but its scale of remuneration for the higher administrative posts is comparatively low. Probably, therefore, it can cream off the labour market for assistants¹ (except for the strongly marked tendency on the part of the societies to train their own), but appears to be restricted in the higher ranks to those who deliberately prefer co-operative employment. Employees commonly enjoy greater security of employment than the general run of shop assistants: fear of dismissal may stimulate efficiency on the one hand, security of tenure on the other may generate loyalty. The level of efficiency, at least in those branches of co-operative trade which are most fully developed, does not appear to be lower than that in private trading, even allowing for higher wages. In those branches of trade where co-operation is still almost in the experimental stage the level of efficiency appears to vary very greatly from place to place, and even the vaguest of generalizations would be dangerous.

There is one further technical point in favour of co-operation. The co-operative movement can expand its operations without increasing its average costs of distribution, in a way that seems to be impossible to the private trader. The latter has to bid for new customers with increased 'facilities' while the market of the co-operative store expands automatically as the membership of the society grows. A certain amount is spent by all societies on propaganda aimed at increasing membership, it is true, but the sums concerned are quite insignificant compared with the cost of expansion of a great department store.

¹ Except for drapery. Apparently young women prefer to accept the greater 'social advantages' (and normally lower wages) of employment in the department stores!

Moreover, the co-operative society has far more knowledge of its own market than has the private trader—or rather it has material available from which such knowledge can be extracted. The practice of paying dividend upon *purchases* renders it necessary to keep account of every purchase made by a member. Thus it is always possible for a society to find out to what extent its members deal consistently with it, how far the customers of one department patronize or avoid another, whether the customers of a new department repeat their visit or not. Information such as this, unique among 'cash' traders, provides a basis for scientific market research which should go a long way towards covering the extra cost which the working of the 'check' system imposes upon a co-operative society. It is far from certain that the average society makes as much as it might of the opportunities thus afforded, but if it did so it is probable that the advantages of cheap expansion which the movement already enjoys would be much enhanced.

How far, to summarize these inquiries, may the co-operative movement in action be said to fulfil its theoretical promise as a force making for efficiency in retail distribution, in the sense in which efficiency was defined at the commencement of this chapter? Despite the faults of organization which hamper it in those fields where it might be of the greatest value, its influence is clearly exercised in the right direction. And, manifestly, that influence might be increased by improved methods, although reform can only come from within. Moreover, it has one considerable achievement at least to its credit.

This concerns the growing custom of economizing labour behind the counter by selling goods, especially groceries, in standardized packages. This development has been accompanied, among private traders, by the creation of enormous (and enormously expensive) reputations for particular names on the outside of packets containing ordinary standardized products, which enables the particular brand concerned to be sold at prices very considerably above the price of an almost identical quality of the same commodity sold 'loose'. From this perversion of a desirable economy the co-operative movement has remained free: its packeted

goods remain comparable in price with the cost of the product they contain.

In conclusion, therefore, one may envisage with considerable hope the extension of consumers' co-operation to a more dominant position in retail distribution, especially in those fields where it has so far been least active. Indeed, in view of its many advantages, one is tempted to wonder why it has not expanded with even greater rapidity than it has done. The answer lies in the cause of the whole *malaise* of distribution—the 'slackness' of the consumer. Were it not for this, as we have seen, there would be no problem to solve, and as it exists one cannot expect the advantages of co-operation to be any more manifest to consumers than the other opportunities and advantages they habitually overlook.

Even if it were probable that the political situation in England would in the immediate future permit of retail trade being handed over *en bloc* to the co-operatives, as in Russia, the wisdom of such a step would be disputable. In the first place such action would mean that the movement must inevitably lose its elasticity as a voluntary organization, and hence that some of its value as a protection to the consumer might be sacrificed. Secondly, it is doubtful if the present directing personnel of the movement would either be willing to shoulder the enormously increased responsibilities of such a position or be willing to relinquish their positions in favour of people who were prepared and competent to do so, even if these, as seems unlikely, could be found.

It does seem desirable, however, that legislation should be framed giving every possible advantage to the growth of consumers' co-operation on its present voluntary basis. This might take the form of differential taxation, as suggested by Mr. Johnson, or of publicity provided by the State. The development of efficient distribution and the elimination of waste in retailing is at least as justifiable a reason for State propaganda as were the objects propounded by the Empire Marketing Board. In any case it is clear that the recent decision to submit co-operative societies to taxation from which they had previously been exempt was a retrograde step which should be reversed at the earliest opportunity.

V

What form it seems desirable that reorganization should take has been pretty clearly indicated, by a process of elimination, in the course of this review of proposed panaceas.

The extension of consumers' co-operation, combined with an increase in its efficiency, appears to offer a solution to the distributive problem which does not, on the one hand, present problems of control too difficult to solve, or, on the other, threaten to hand the consumer over to an interlocking structure of productive and distributive monopolies.

The flexibility of co-operative machinery allows the circumstances of different areas to be reflected in prices, while the fundamental identity of interest between co-operator as consumer and co-operator as distributor should, if the representative machinery operates with efficiency, ensure that prices will not be fixed by considerations of monopoly profit. Thus it may avoid the rigidity of a system of State controlled retail prices—without which the licensing of retailers would lead to increased monopoly profits—while the reluctance of the producers of 'proprietary goods' to supply co-operative societies bears witness to the manner in which co-operation, even as at present organized, presents a barrier against the domination of retail distribution by the producer.

Unfortunately, in view of the potential advantages of consumers' co-operation as a means of checking the prevailing distributive waste, it does not seem feasible to propose to hasten its development or improve its organization by legislation of a 'positive' character. Indeed, all that it seems possible for the State to do is to give the movement a maximum of differential advantages over private trading in order to encourage a growth that cannot be forced and that must maintain its organic nature if the movement is to retain its identity and its value.

This conclusion to our investigation may appear to resemble an invitation to the powers that be to proceed with a policy of constructive inactivity. But the task of this work has throughout been conceived as diagnosis rather than pre-

scription. 'Lastly, all that is contained therein is in submission unto maturer discernments; and, as I have declared, shall no further father them than the best and learned judgements shall authorize them: under favour of which considerations I have made its secrecy public, and committed the truth thereof to every Ingenuous Reader.'

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