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No. 175

SEPTEMBER, 1934

Vol. XLIV

THE  
**ECONOMIC  
JOURNAL**

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THE QUARTERLY JOURNAL OF  
**The Royal Economic Society**

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*Reprinted from  
"The Economic Journal"  
September, 1934*

London

MACMILLAN AND CO., LIMITED  
NEW YORK: THE MACMILLAN COMPANY

*Price Six Shillings net*

*All communications respecting Advertisements to be sent to  
THE ADVERTISEMENT MANAGER, 9, Adelphi Terrace, Strand, W.C.2.*

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AGRICULTURAL REORGANISATION AND  
PRICE CONTROL

By Ruth L Cohen.

## AGRICULTURAL REORGANISATION AND PRICE CONTROL

### I

SUCCESSIVE Governments in this country have recognised the need for some degree of reorganisation in agricultural marketing, and three Agricultural Marketing Acts have been passed.<sup>1</sup> Dr. Addison's Act of 1931 concentrates on the granting of facilities for a reorganisation of production and marketing, and to a lesser degree on the provision of powers to enhance price. Mr. Elliot's first Act of 1933 is mainly concerned to strengthen and extend the provisions which enable the farmers to increase the prices they receive. His second Act introduces only minor modifications.

This article discusses the powers conferred on farmers by the Agricultural Marketing Acts to control the prices they receive for their products, and the effect on prices and supplies of the more important schemes which have already been put forward. It does not deal with the important aspect of the possible improvement of efficiency in marketing and production.

Marketing Boards under the Agricultural Marketing Acts of 1931 and 1933 have been set up for hops, pigs and bacon, milk, and potatoes. The powers conferred on these Boards for regulating price are wide. No producer not exempt from the provisions of the scheme—and the exemptions are in all cases inconsiderable—may sell the regulated product except under the terms laid down by the Marketing Board. A marketing scheme under the 1931 Act may provide that all producers should sell only to the Board<sup>2</sup> or may

“empower the board to regulate sales of the regulated product by any registered producer by determining for such period as may be fixed by the board—

- (i) the kind, variety or grade of the product which may be sold;
- (ii) the price at, below or above which, the terms on which, and the persons to, or through the agency of whom the product or any kind, variety, grade or quantity thereof may be sold”;<sup>3</sup>

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<sup>1</sup> Agricultural Marketing Act, 1931; 21 and 22 Geo. 5, Ch. 42; Agricultural Marketing Act, 1933, 23 and 24 Geo. 5, Ch. 31; Agricultural Marketing No. 2) Act, 1933, 24 Geo. 5, Ch. 1.

<sup>2</sup> Agricultural Marketing Act, 1931, 5 b.

<sup>3</sup> *Ibid.*, 5 e.

Under the 1933 Act, in addition, any scheme may

“ provide for the determination from time to time of the quantity of the regulated product or of any description thereof which may be sold by any registered producer, so, however, that the scheme shall either specify the method of determination or require the board to prescribe it, and, . . . the method of determination may be such as to secure that the quantity (if any) which any particular registered producer may sell is determined wholly or partly by reference to the quantity of that product . . . which was, in some past period, produced or otherwise dealt with on particular land or premises or by particular persons.”<sup>1</sup>

Thus, first, a Board is given complete powers to enforce its price arrangements upon its members, and secondly, in an unequivocal manner so far as the 1933 Act is concerned, it is enabled to make provisions having the effect of limiting supplies, and so, to a certain extent, of determining the price which the consumers of its products shall pay.

Its powers, however, are not unfettered. First, the scheme must be accepted by a majority of the producers. Soon after it is approved by Parliament, a pool of registered producers must be taken; at least two-thirds of the registered producers in number, and registered producers capable of supplying at least two-thirds of the product must vote in favour of the scheme if it is to come into force. Further, if the Minister is satisfied that less than half the producers of the commodity in question, other than those exempt from the provisions of the scheme, voted at the poll, he must revoke the scheme. Once it is in operation registered producers elect the Board to administer it.

Secondly, the interests of consumers are, nominally at least, guarded. Two committees must be set up, a consumers' committee, and a committee of investigation.<sup>2</sup> The former, representing consumers' interests, is to consider and report to the Minister on

- “ (i) the effect of any scheme approved by the Minister, which is for the time being in force, on consumers of the regulated product; and
- (ii) any complaints made to the committee as to the effect of any such scheme on consumers of the regulated product.”<sup>3</sup>

The latter has access to the accounts and other papers of the Board, and is, on the instructions of the Minister, to consider and report to him

“ on any report made by a consumers' committee and any complaint made to the Minister as to the operation of any scheme which, in the opinion of the Minister, could not be considered by a consumers' committee.”<sup>4</sup>

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<sup>1</sup> Agricultural Marketing Act, 1933, Part III, 10 (1).

<sup>2</sup> *Ibid.*, 1931, 9.

<sup>3</sup> *Ibid.*, 9 (2) b.

<sup>4</sup> *Ibid.*, 9 (3) b.

“ If a committee of investigation reports to the Minister that any provision of a scheme or any act or omission of a board administering a scheme is contrary to the interests of (the ultimate) consumers of the regulated product, or is contrary to the interests of any persons affected by the scheme and is not in the public interest, the Minister, if he thinks fit so to do after considering the report and consulting the Board of Trade,”<sup>1</sup>

may amend the scheme by order, direct the board to rectify the matter, or revoke the scheme, the two former with the acquiescence of, and the latter by the consent by resolution of both Houses of Parliament.

Thus the final decision as to whether any action of a producers' board shall stand rests with the Minister, with the consent of Parliament. If any policy of theirs appears to injure ultimate consumers, or seems both to injure traders *and* to be against the public interest he may—not must—refuse to pass it.

This, however, is not all the power granted to the Minister by the Marketing Act of 1933. With the exception of a few agricultural commodities, such as liquid milk and potatoes, a substantial proportion of the home consumption is supplied by imports. Over these, also, the Minister is given some measure of control. The Board of Trade, after consultation with the Minister of Agriculture and the appropriate Ministers for Scotland and Northern Ireland, may make an order regulating both the quantity and/or quality, of the importation into the United Kingdom of any agricultural product, if it appears to the Board

“(a) that there have been, or are being taken all such steps as are practicable and necessary for the efficient reorganisation, by means of agricultural marketing schemes . . . of those branches of the agricultural industry . . . in whose interests the order is made.

(b) that without an order . . . the effective organisation and development of the said branches under such schemes cannot be brought about or cannot be maintained.”<sup>2</sup>

The Board, in making such an order, must take account of the interests of consumers of the product—and in this case consumers include persons who use the commodity for subsequent manufacture—of the probable effect on commercial relations with other countries, and of existing treaties, conventions or agreements.<sup>3</sup>

Finally, the Minister may, without the initiative of a producers' Marketing Board, under certain circumstances, control the sales of domestic agricultural produce.

“ Where

(a) the importation of an agricultural product into the United Kingdom is regulated by an order in force under the foregoing section; or

<sup>1</sup> Agricultural Marketing Act, 9 (5).

<sup>2</sup> *Loc. cit.*, 1 (1).

<sup>3</sup> *Ibid.*, 1 (3).

(b) the Board of Trade certify that arrangements have been made, to the satisfaction of the Board, for controlling the importation of an agricultural product into the United Kingdom,

then, if it appears to the Minister of Agriculture and the Secretaries of State concerned with agriculture in Scotland and Northern Ireland respectively, that an order under this section will conduce to the efficient reorganisation or organised development of any branch of the agricultural industry in the United Kingdom, or is necessary in order to secure the economic stability of any branch of that industry, the said Minister and Secretaries of State, acting in conjunction, may 'make' an order regulating sales of the said agricultural product or any related product by persons producing it in the United Kingdom or by boards administering agricultural marketing schemes, by determining for any such period as may be specified in the order :—

(i) the descriptions of the product which may be sold;

(ii) the quantity of the product, or of any description thereof, which may be sold;

so, however, that nothing in an order under this section shall apply to any product in so far as it is produced outside the United Kingdom.”<sup>1</sup>

The Market Supply Committee referred to in this section is an impartial body appointed by the Minister to advise him in regard to supply control, both of home-produced and of imported produce.

It is thus apparent that, both as the person who is responsible for determining the validity of consumers' objections to the actions of producers' boards, and as the authority who can in some measure control both imports and domestic sales, the attitude of the Minister is of fundamental importance to the price policy of Agricultural Marketing Boards.

The attitude of the present Minister of Agriculture may be suggested by the following selections from his speeches. In moving the second reading of the 1933 Agricultural Marketing Bill, Mr. Elliot said :

“ So we come bluntly upon the solution that we must seek to establish replacement value as the criterion of what shall be asked from the consumer for the product which he is attempting to consume. We must, therefore, ask ourselves what that level is to be. Is it to be determined by the lowest cost of the most favourably situated producers? . . . It is no longer the national policy to buy all over the world in the cheapest market, because we cannot afford it. . . . The replacement value must be, for the renewal of products which can reasonably be produced in this country as in any other, replacement value here in these islands. Here in these islands we intend to ensure that British agriculture shall continue to thrive, and, if we can ensure it, to flourish.”<sup>2</sup>

Again, in supporting the Order compulsorily to restrict imports of Danish bacon, he said,

<sup>1</sup> *Loc. cit.*, 2 (1).

<sup>2</sup> *Parliamentary Debates, House of Commons, Official Report*, Vol. 275, No. 48, March 13th, 1933, p. 1631.

“ While it was most desirable that the price of staple foodstuffs should not be pushed to unreasonable heights, it was a little unfair of hon. members to advance arguments based on the fact that bacon had been placed entirely out of the range of the working classes. If it was within their range in 1930, it was a little unfair to say that to-day, when it was nearly 3d. a lb. lower, it was out of their range.”<sup>1</sup>

From all his speeches it is fairly clear that Mr. Elliot believes not only in maintaining, but in raising the prices of British agricultural products, and that his interpretation of “ replacement value ” to British farmers is not necessarily merely a price which would induce them to maintain their present level of production, but one which would stimulate them to increase it.—“ Every one desired a greater production of food in this country.”<sup>2</sup> It seems reasonably certain that he would be sympathetic to a plan to raise prices by charging different prices for the commodity according to the uses to which it is to be put, or by a scheme which depended upon limitation of imports, provided that it also involved some degree of domestic reorganisation. It is not equally clear how ready he would be to assent to plans which necessitated any substantial increase in the home price accompanied by a restriction on home production.

In order to take full advantage of the powers granted to them under the Agricultural Marketing Acts, and in order to induce the Minister to use his powers of limiting foreign competition, farmers must thus adopt Agricultural Marketing Schemes. Five schemes are at present in force in England and Wales, and others are under consideration. The Hops Marketing Scheme and the Potato Marketing Scheme were put forward by the farmers' representatives themselves. The Milk Marketing Scheme and the Pigs and Bacon Marketing Schemes were originally devised by Reorganisation Commissions appointed by the Government. All the Boards except the Bacon Marketing Board are representative of producers. The latter represents curers, and negotiates prices and contract terms with the Pigs Marketing Board. Some idea of their importance may be obtained by comparing the approximate output in 1930-31 of the products with which they deal. Hops represented only about  $\frac{1}{2}$  per cent. of the total output in England and Wales of livestock products and farm crops, potatoes about 7 per cent., milk and milk products about 31 per cent., and bacon about 4 per cent.

## II

The farmer's main objective in accepting these schemes was undoubtedly the hope of higher prices. Prices may be raised,

<sup>1</sup> Reported in *The Times*, November 16, 1933.    <sup>2</sup> *Ibid.*, November 25, 1933.



- (1) By stimulating demand—*i.e.* raising the consumers' demand schedule.
- (2) By reducing the margin which the middleman is prepared to accept, either by lowering costs or by increasing bargaining power, and so raising the demand schedule of the middleman.
- (3) By reducing imports, and so raising the demand schedule for the home product.
- (4) By reducing sales, either as a whole, or in the most profitable market, while leaving the individual farmer free to produce as much as he likes.
- (5) By reducing production, through various forms of limitation on the output of each individual.

It is not intended here to discuss the two former of these methods, in so far as they depend upon the improvement of the quality of production, upon standardisation and grading, or upon advertisement. Since it is not apparently proposed to supersede the existing channels of distribution, the effects of the schemes upon marketing costs will probably be limited to the economies which can be made as a result of better graded produce, and to the additional costs involved by the expenses of the Marketing Boards. The compulsory 100 per cent. membership, with its attendant prevention of undercutting, will no doubt increase the bargaining power of the farmers. It is, however, highly doubtful whether it will allow them to increase their price much at the expense of the middleman.

The third method, the limitation of imports, has been extensively used, but cannot be enforced by the Marketing Boards themselves. It is only by using the remaining two methods that they themselves can hope substantially to raise prices. The fifth method, the limitation of *production*, has not hitherto been applied, except in the case of a comparatively small tax on any increase in potato acreage. The fourth method, however, the limitation of *supplies* on the market, has been used by all the Boards except the Bacon Marketing Board. Clearly, in the short period, if the effect on subsequent production be ignored, producers would gain by limiting supplies on any market where the demand is less elastic than unity, even though the surplus product were thrown away. If the surplus product can be sold, though at a less remunerative price than in the main market, then it would pay to limit supplies on the main market even though demand were somewhat more elastic than unity, and to charge discriminating prices.

*Hops.*

The policy of the Hops Marketing Board<sup>1</sup> is conditioned by the following characteristics of the crop. The demand for hops is inelastic; their one outlet, except for the ruinous alternative use as manure, is beer; the cost of the hops is but a very small part of the cost of the beer. Imported hops are not a complete substitute for the home-grown variety, as brewers prefer to use a proportion of each. Hop vines vary much in yield from year to year, but hops may be stored; after two years' storage their value for brewing purposes declines substantially. So far as import restriction is concerned, no alteration has been made to the £4 a cwt. import duty imposed by the Finance Act of 1925. A committee representing the Hops Marketing Board, the Brewers' Society, and the Ministry of Agriculture has recently agreed to limit the importation of hops to 15 per cent. of the total market demand;<sup>2</sup> hitherto nearly a quarter of the consumption of hops has been imported. This agreement will be enforced, if necessary, under the Agricultural Marketing Act.

The Hops Board takes possession of all its members' hops and sells to the brewers at a price determined by bargaining. The brewers have guaranteed to contract in advance for at least two-thirds of their needs, and to compensate the Board for any of the remaining third which is unsold at the end of the season.<sup>3</sup> Any surplus above the brewers' not very variable needs the Board must either store, or sell at a very low price for manure. Its success in lifting price must therefore depend partly upon its power to segregate the surplus, and partly upon the fact that, since the cost of hops forms such a small part of the cost of beer, brewers can to a certain extent be squeezed without any increase in the price of beer.

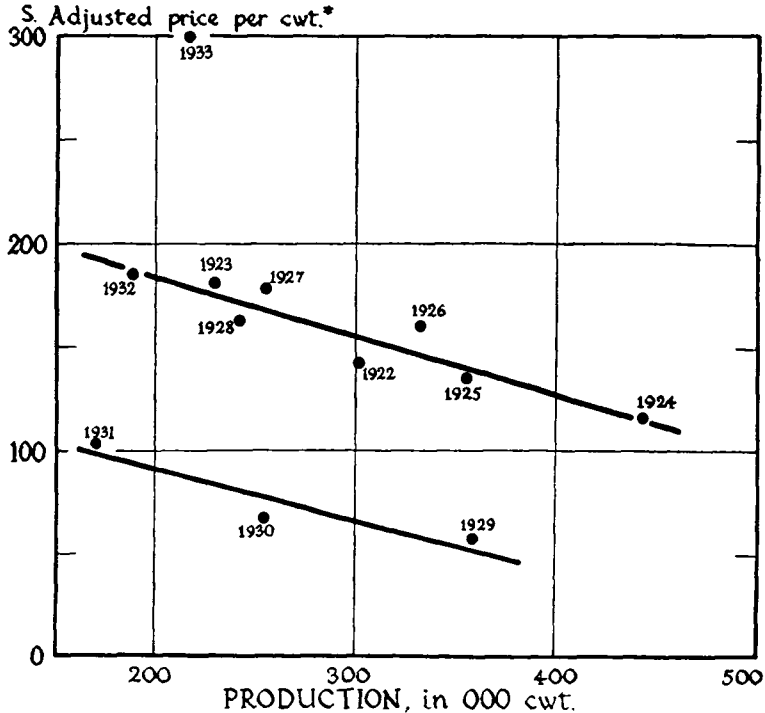
The Hops Board has so far marketed the two crops of 1932 and 1933, and has had no surplus to dispose of, owing to medium crops and favourable demand conditions. The effect of organisation on price is strikingly shown by the diagram. From 1917 to 1924 the State-enforced Hop Control operated, and from 1925 to 1928 the voluntary English Hop Growers Ltd., controlling initially 90 per cent. of the hop acreage, was in existence. Only in 1929, 1930 and 1931 was marketing unorganised. Conditions were particularly favourable for the sale of the 1933 crop. The duty on beer was reduced in April, 1932, demand was stimulated by the repeal

<sup>1</sup> See *The Hops Marketing Scheme (Approval) Order*. S.R. and O., 1932, No. 505.

<sup>2</sup> See Report of the Committee, Cmd. 4628.

<sup>3</sup> *Ibid.*

of prohibition in America, and the hops were of unusually high quality. Thus the price realised in 1933, averaging £15 a cwt., was exceptional. For the next five years an average price of £9 a cwt. has been agreed upon by the committee representing growers, brewers, and the Ministry of Agriculture.<sup>1</sup> This price slightly exceeds that obtained in 1932, and, though somewhat less than the average realised in the previous years of organised bargaining,



THE RELATIONSHIP BETWEEN THE ADJUSTED PRICE OF HOPS AND THE VOLUME OF HOP PRODUCTION.

\* The adjusted price is the price per cwt. divided by the Ministry of Agriculture's Index of Agricultural Prices, 1933 = 100.

1922 to 1928, is higher, relatively to general agricultural prices, than in these years.

In 1923 and 1924 sales were compulsorily limited by the Hop Controller, and from 1925 to 1928 acreage was restricted by voluntary agreements by members of the Co-operative Association; non-members, however, increased their acreage substantially, thus bringing about the collapse of the Association.

Thus a price as high as the agreed price of £9 a cwt. made necessary some restriction on acreage before the advent of the

<sup>1</sup> See Report of the Committee, Cmd. 4628.

Marketing Board. Now it is still more necessary. The Hops Marketing Board must now accept all a grower's hops, at the same price, whereas previously growers who sold all their output to one brewer may well have been discouraged from planting more vines by the knowledge that the brewer would only accept a limited volume.

The Hops Marketing Board fully expect an expansion of acreage, and to prevent this have put forward proposals for an individual production quota.<sup>1</sup> The brewers have agreed to this course in return for the bargain limiting prices to £9 a cwt., and the amended scheme awaits sanction by Parliament.

The general principle of the quota is that each producer is to be given a basic quota, equal (in general) to the average quantity of hops picked on his farm from 1928 to 1932 inclusive. Each season the Board will estimate the total market demand for hops, and give to every producer a quota which forms the same proportion of the estimated total demand as his basic quota does of the total of basic quotas. Quota hops will be paid the full price; hops in excess of the quota will only receive the small sums realised for hops sold as manure, unless some growers produce less than their quota amounts. If the market demand exceeds 110 per cent. of the total of basic quotas, then new basic quotas are to be allotted to the highest bidders.<sup>2</sup>

Clearly this provision, when in force, as it most probably will be this year, must discourage production by persons not at present growing hops, and must limit the rate of expansion of existing growers.

#### *Potatoes.*

The Potato Marketing Board<sup>3</sup> only began operations when the 1933 crop was largely sold. It has to deal with both maincrop and early potatoes.

The elasticity of wholesalers' demand for maincrop potatoes sold by growers is substantially less than unity for large crops. Thus a limitation of supplies sold for human consumption will certainly increase the producers' total returns, even if no outlet at all can be found for the small-sized "surplus" potatoes. In fact they can realise some return if fed to stock.

<sup>1</sup> See *Draft of Amended Scheme under the Agricultural Marketing Act, 1931, Regulating Marketing of English Hops*, published by His Majesty's Stationery Office.

<sup>2</sup> For a more detailed description see *The Agricultural Register, 1933-4*, Agricultural Economics Research Institute, p. 84.

<sup>3</sup> See *The Potato Marketing Scheme (Approval) Order, S.R. and O., 1933, No. 1186.*

Under the Potato Marketing Scheme the Board is to take advantage of these conditions. Each year it will estimate, as early in September as possible, the total quantity of potatoes available for human consumption until the end of the next August. If, in the opinion of the Board

“ this quantity is likely to be substantially in excess of the estimated total quantity of potatoes required for human consumption in Great Britain, then the Board may from time to time determine, in such manner as the Board shall prescribe, the quantity of potatoes or any description thereof, which may be sold by any registered producers.”<sup>1</sup>

No definition is attempted of “ the quantity required for human consumption,” though it is clear that this amount must vary with the price charged, since the demand is not entirely inelastic. It is contemplated that, in general, the Board will limit supplies in any year of large production by prescribing a minimum sized riddle for each variety of potatoes, and prohibiting the sale for human consumption of potatoes which pass through this riddle. Thus from March to July, 1934, a minimum riddle of  $1\frac{3}{8}$  inch for some varieties, and  $1\frac{3}{4}$  inch for others was substituted for the  $1\frac{1}{2}$  inch riddle in general use. It is intended by this means to segregate the potatoes least suitable for human consumption, in order to maintain the price of the remainder. The producer is at liberty to dispose of his surplus potatoes, that is to say, the potatoes which pass through the riddle, in any manner, except for human consumption, that he desires. But such potatoes can only expect to realise a relatively low return.

This surplus segregation, when applied, must raise prices. It will have no effect on the perfection of the market. Thus it might be expected to stimulate production. The framers of the scheme foresaw this, and inserted provisions to discourage the increase. Producers who intend to increase production must notify the Board in advance, and will be advised against such action if the Board considers that market conditions do not justify it. Such advice would probably be some check on acreage increases. Further, if a farmer plants more than his basic acreage (that is to say, with certain minor modifications, the area planted in 1933, or on the average of 1931 to 1933, whichever the farmer selects), the Board may impose a non-recurring fine on the excess acreage of not more than £5 an acre. Any area thus fined will subsequently be added to the producer's basic acreage. With an average potato crop of  $6\frac{1}{2}$  tons an acre, this fine averages about

<sup>1</sup> See *The Potato Marketing Scheme (Approval) Order*, S.R. and O., 1933, No. 1186, Section 68.

15s. a ton; capitalised at 5 per cent. it amounts to no more than about 9d. a ton per year, or roughly  $1\frac{1}{3}$  per cent. of the grower's prices for potatoes. Such a fine is hardly likely to discourage growers who intend to increase their acreage permanently, though it may well prove a deterrent to in-and-out producers, who are induced to grow potatoes by temporary price rises. For a producer who wishes to expand acreage for one year only the fine would amount to about 30 per cent. of his expected price.

In addition, it is contemplated that imports will be restricted. Maincrop potatoes are at present subject to a duty of £1 a ton, and exporting countries have agreed voluntarily to limit their shipments. These restrictions have, however, probably had little effect on the prices of maincrop potatoes, since in years with as large a home crop and as low a home price as in 1933-34, only about 1 per cent. of the requirements of maincrop potatoes were imported, and on the average of 1922-23 to 1932-33 no more than 4 per cent. This low volume of imports was largely due to the synchronisation of fluctuations in yield in Great Britain and in neighbouring countries, and the resultant similarity in the movement of prices. If a marketing scheme in Great Britain were to raise prices—as it is intended to do—in years of large crops, then it might well be that a volume of imports far larger than hitherto would enter the country, and lower the price. The Potato Marketing Board thus justifiably regards its activities as dependent upon the control of imports, though it probably exaggerates the importance of their exclusion as a price-raising factor. It is likely, in fact, that the Minister of Agriculture will take steps to prevent the influx of imports nullifying any rise in price occasioned by surplus segregation.

The Potato Marketing Board cannot, for technical reasons, use the device of a minimum-sized riddle to raise the price of early potatoes, but must depend on import restriction. Imports form a third to a half of the total supplies of new potatoes, and are at present limited partly by relatively high tariffs, variable from month to month, and partly by the voluntary limitation of imports. It is unlikely that early potato prices will rise substantially until consumer incomes improve. In 1933, imports of early potatoes were only about half those in the previous year, while the home crop was of much the same size; prices of new potatoes from April to July were only about 75 per cent. of those in 1932. This decline can only be attributed to the reduced purchasing power of consumers.

*Milk.*

The Milk Marketing Board <sup>1</sup> cannot expect much help from import restrictions so long as Empire supplies remain uncontrolled, as under the Ottawa Agreements they must be until November 1935. About 80 per cent. of this country's milk production in winter, and from 50 to 60 per cent. in summer is used as liquid milk, and sold in a market protected from foreign competition by the difficulty of transportation. The remainder is sold mostly as butter, cheese, cream or condensed milk, and is subject to overseas competition. The price of these products is partly protected by tariffs, in so far as imports come from foreign countries, and, in the case of cream and the processed milks, by voluntary restrictions. In 1933, however, 58 per cent. of dairy product imports, expressed in terms of milk equivalent, came from Empire countries. The demand for butter, the only important product which comes to a large extent from foreign countries, is elastic.

Before the scheme came into operation the marketing of milk was not entirely unorganised. Some buyers, mostly dealers supplying London and other large cities with liquid milk, bought under the terms negotiated annually since October 1922 by the Permanent Joint Milk Committee, composed of representatives of the National Farmers' Union and of the National Federation of Dairymen's Associations. Two prices were recognised, "liquid" and "manufacturing" price. The latter was based on the price of imported cheese, a fairly good measure of the price which could be obtained for milk turned into cheese in this country in factories. The liquid price was paid, under the form of contract most commonly used, for a proportion of the supplies in any month, averaging over the year 80 per cent., and supposed to represent the proportion of total purchases which could be sold for liquid consumption; manufacturing price was paid for the remainder. The two prices, which in the earlier years of the operation of the scheme had been much the same towards the edge of the milk sending area in the summer months of manufacture, had since 1929 begun to diverge substantially.

A great many buyers who manufactured the bulk of the milk they purchased into cheese, butter, or other products, especially those in the less accessible regions, did not use these contracts, and paid a price well below the Permanent Joint Milk Committee's price for liquid milk. Some of these buyers sold a part of their

<sup>1</sup> See *The Milk Marketing Scheme (Approval) Order*, S.R. and O., 1933, No. 789.

milk—and a part which they endeavoured to increase as the spread between the two prices widened—on the liquid market.

Some producers manufactured their milk themselves into butter and cheese. Rather under a fifth of the milk in the country was sold by producer retailers, in markets frequently limited. Finally, some producers, in specially favourable positions, were paid by dealers liquid price for all their milk.

Such was the position before the Milk Marketing Scheme came into force. It was believed that, in the absence of any compulsory scheme to limit undercutting, the price of liquid milk would have to fall more nearly to that of milk manufactured, since a number of dealers who paid only the manufacturing price were cutting into the liquid market of dealers buying under the Permanent Joint Milk Committee's contracts.

The Milk Marketing Scheme prevents undercutting. All producer-retailers, and all producers owning more than four cows and selling to others than their servants or households, are brought within its scope. All producers selling wholesale must sell their milk through the Board, which charges substantially different prices for the milk according to the uses to which it is put. These prices were to have been determined during the first year of operation of the scheme by negotiation between the Milk Marketing Board and representatives of the distributors, together with persons appointed by the Minister; since no agreement could be obtained, prices were in fact fixed by three arbitrators appointed by the Minister.

Liquid milk prices averaged about 1s. 4d. a gallon from October to February, 1s. 2d. in March, and 1s. from April to September. Just over one-half of the manufacturing milk was made into cheese and butter, at prices based on the price of imported cheese, and ranging during the winter from 3½d. to 4½d. a gallon. Milk made into other manufactured products was charged at its realisation value, in some cases as much as 9d. a gallon. The spread between the different categories of manufacturing milk is, however, tending to narrow as a result of substitution of products charged at the lower rates for those charged at the higher. There remains a spread of 5d. to 6d. a gallon between average liquid and average manufacturing price.

The liquid price, both for summer and winter, averages much the same as the liquid price payable in the previous year under the Permanent Joint Milk Committee Scheme. But, as it *must* be paid by all dealers selling on the liquid market, it probably represents an average increase in liquid wholesale prices, particularly



in the summer months when fewer buyers previously paid the contract price. Further, in the absence of the scheme, undercutting would almost certainly have pulled down liquid prices nearer to manufacturing prices. The basis of payment for manufactured butter and cheese is the same as in previous years, but no data exist to compare the prices paid for other products.

All producer-retailers and other retailers were from October 1933 to March 1934 prohibited from selling milk at less than the "prevailing retail price" for their district, and since April must charge minimum margins between the retail price and the Board's liquid selling price; these margins vary from 8*d.* a gallon in rural areas to 10*d.* a gallon in large towns. They have been established partly to prevent undercutting by the producer-retailer and partly as part of a bargain with the dealers, for certain concessions granted by them in the details of the price agreement.

Retail liquid milk prices from November 1933 to June 1934 averaged  $\frac{1}{4}$ *d.* a quart more than in the corresponding months of the previous year.<sup>1</sup>

Eleven district pools are operated. Each is made up of (i) the payments by dealers for milk supplied from that region, (ii) producer-retailer contributions, (iii) any payments from the inter-regional compensation fund and (iv) the Government subsidy on manufactured cheese.

Producer-retailers pay a levy to the district pool in their region, as their contribution for the maintenance of the pool price. This levy equals, on each gallon of milk that they sell, the amount of the inter-regional compensation levy plus three-quarters of the difference between the liquid price of the region, minus the inter-regional compensation levy, and the pool price for the region.

The inter-regional compensation levy, hitherto charged at 1*d.* a gallon, is designed to compensate in part the regions where a large proportion of the milk is manufactured for their exclusion from the liquid market by the elimination of undercutting. The levies from each district are placed in a national fund, which is paid out to the districts with the lowest pool prices. From October to February only 85 per cent. of the amount collected in any month was paid out in that month. The remainder was accumulated for distribution in summer months, when a large proportion of the milk supply must be manufactured. In March and April the whole amount collected was distributed in the same month, and in May, also part of the fund accumulated during the winter.

The Government has guaranteed to the Board from April 1,

<sup>1</sup> *Ministry of Labour Gazette.*

1934, a price of *5d.* a gallon in summer and *6d.* a gallon in winter for milk manufactured into cheese or other products. Accordingly they will pay to the Board, to be credited to the pools, the difference between the realisation prices for cheese or other manufactured products and these amounts on each gallon of milk manufactured or turned into cheese on farms. This payment is to be repaid if and when the realisation value of milk turned into cheese exceeds *6d.* in summer or *7d.* in winter.

From the pools must be deducted, first, the expenses and reserve fund of the Board, now assessed at  $\frac{1}{4}d.$  a gallon, and, secondly, *1d.* per gallon of milk made into hard cheese on farms, and  $\frac{1}{2}d.$  per gallon for milk made into soft cheeses, which the Board has offered to pay to farm cheese-makers, in addition to the Government subsidy, in order to induce them to keep their milk on the farms. The remainder of the pools is divided between the producers supplying dealers in that region, in proportion to the volume of milk supplied by each. Thus every producer in any region receives the same amount, at the buyer's station, plus any special sums due to him for regular deliveries throughout the year. Producer-retailers receive a price related to the price paid to other producers.

Average regional pool prices, from October to February, were in the neighbourhood of *1s. 2d.* a gallon. In March they fell to about *1s.*, and in April to about  $10\frac{1}{2}d.$  a gallon. They showed a maximum range of *2d.* a gallon from the highest priced South-Eastern region, to the Western districts with the highest proportion of manufactured milk.

No exact data exist to compare these prices with those received in previous years. Farmers near the markets, selling the bulk of their milk liquid, have probably lost as a result of the scheme, while farm cheese-makers, and those previously selling the bulk of their milk for manufacture, have gained. Farmers previously selling on the old Permanent Joint Milk Committee contract terms probably receive much the same price this year as last, though more than they would have had but for the scheme.

The scheme has also probably rendered the market more perfect to a number of producers. The Milk Marketing Board, under the terms of the scheme, must accept any milk when producers can find no market for it, and pay for it in the pool price, less not more than  $\frac{1}{2}d.$  per gallon, a deduction which hitherto has not been made. Previously a number of farmers supplied local markets, or dealers who were only prepared to accept a limited amount of milk, particularly in the summer. The scale of produc-

tion of both these classes was therefore checked by the impossibility of disposing of more than a certain volume of milk. The scheme contains no direct provisions for limiting production. Thus, while it may lead to some contraction of production from producers nearest to the markets, it will probably involve on balance an expansion, particularly in the summer months. Certainly it will result in higher production than would have prevailed in its absence. The extent of the increase will depend to a large extent upon the profitability of other forms of farming.

### *Pigs.*

The marketing of bacon is now in the hands of two Marketing Boards. The Pigs Marketing Board <sup>1</sup> represents the farmers and negotiates with the Bacon Marketing Board <sup>2</sup> representing the curers. A Development Board <sup>3</sup> is in contemplation, to be composed of representatives of the two Boards, and to take over the major part of their price control functions.

The Marketing Scheme deals only with bacon, which has hitherto represented about 30 per cent. of the pig meat production in Great Britain, the remaining 70 per cent. being used as pork, imports of which are prohibited on account of transmission of animal diseases. About 85 per cent. of Great Britain's bacon consumption was imported during the crop years 1927-28 to 1931-32, of which over 90 per cent. came from foreign countries. It is now intended to stabilise total supplies of bacon and hams in the United Kingdom at 10,670,000 cwt.—the estimated average supplies available from 1925 to 1930, a period when imports were 22 per cent. less than in 1932. It was believed that this reduction of total supplies would engender a price sufficiently attractive to increase the home production of bacon pigs. Home producers contract with the bacon factories for the quantities of pigs they will deliver in any year. No limitation was initially placed on the volume of their contracts, which in October 1933 were 50 per cent. greater than was expected, but it is intended that the future rate of increase should be limited to 10 per cent. every four months. The volume of imports which may enter the country in any year is then fixed under the Agricultural Marketing Act at 10,670,000 cwt. minus the volume of home bacon contracted to factories.

From September 1933 until April 1934 the farmers were given

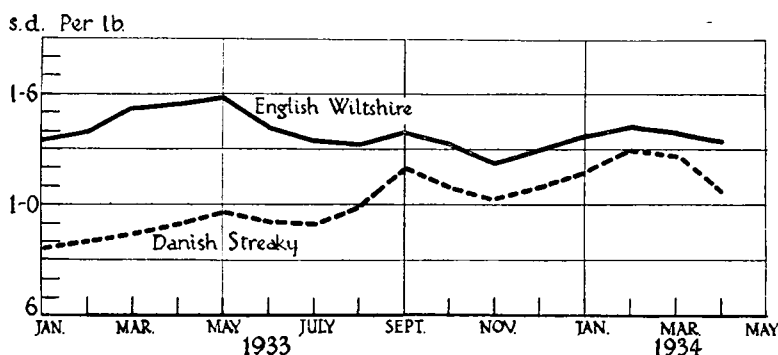
<sup>1</sup> See *The Pigs Marketing Scheme (Approval) Order*, S.R. and O., 1933, No. 686.

<sup>2</sup> See *The Bacon Marketing Scheme (Approval) Order*, S.R. and O., 1933, No. 683.

<sup>3</sup> See *The Bacon Development Scheme*, published by the Pigs and Bacon Marketing Boards.

additional security by being paid for their bacon pigs a minimum price based on the prices of feeding stuffs, which form 75 to 90 per cent. of the cost of producing pigs, and varying also with the quality of the pig. It represented a slightly higher price than that prevailing in previous months, when prices appeared to be at the depth of the pig cycle. In very few months between 1925 and the end of 1931 were actual bacon pigs prices as low as they would have been if the formula price had been in force.<sup>1</sup> Thus the minimum price hardly represented an increase in bacon values to the 1925-30 level.

It was hoped, however, that the effect of import restriction would be to permit the producers to bargain with the curers to pay a price higher than the formula price. The Re-organisation



AVERAGE RETAIL PRICES OF ENGLISH WILTSHIRE AND DANISH STREAKY BACON AT HARROD'S, BARKER'S AND SELFRIDGE'S IN 1933 AND 1934.

Commission assumed that if, by cutting imports, total supplies could be reduced to the level of 1925-30, then the price received by pig producers, both domestic and foreign, should be able to be increased to the prices prevailing in those years. The decline in purchasing power was ignored. Further, it appears that, at the moment, British and Danish bacon are to a large extent non-competing commodities. During 1933 imports of bacon from Denmark were progressively reduced, until November 1st by voluntary agreement, and subsequently by Order in Council. The diagram indicates that in fact the main result of this restriction has been to lift the price of imported bacon. Until the application of the formula price in November, the prices of British bacon pigs did not rise. However, in spite of a great increase in volume, the price of home bacon did not fall. The limitation of imports and decrease in total supplies, though efficacious in enabling a larger

<sup>1</sup> Murray, K. A. H., *The Farm Economist*, Vol. I, No. 1, p. 6.

volume of home bacon to be absorbed at much the same price, have not, as the Commissioners hoped they would, increased the price. Consumers have not turned from Danish to English bacon as a result of the narrowing of the price spread between the two.

With the present low level of purchasing power, not only does it seem impossible to pay more than the formula price for bacon, but also, in all probability, price will even fall below this level. In the first contract period, when farmers contracted to deliver nearly 50 per cent. more pigs than was expected, and when wholesale prices of English bacon did not rise, curers, paying the formula price, found themselves faced with substantial losses. A loan of £160,000 was made out of public funds, to be repaid by a levy on pig producers in the ensuing months of the new contract period.

Subsequently, however, until the end of 1934, the basis of payment has been readjusted to take into account the realisable price for English bacon, and to divide between farmers and curers any gain or loss from its fluctuation.<sup>1</sup> In May 1934 the average wholesale price of Wiltshire bacon was about 99s. a cwt., and the basic price of bacon pigs 11s. 11d. a score; and by June it had fallen to 11s. 8d., a level below the original formula price.

Supplies are not to be further restricted and therefore there seems to be little reason to expect a rise in British bacon prices; consequently bacon pig prices are unlikely to rise to any important extent as a result of the Marketing Scheme. They will, however, be stabilised, at any rate partially. In addition average prices may be increased, even though the price of every grade is left unchanged. The Pigs Marketing Board's system of payment by quality has already led to a remarkable increase in the proportion of pigs going into the higher grades.

The introduction of the scheme led to a large increase in the number of pigs coming forward on the bacon market, though actual supplies fell short of the contracted amount. Part of this increase was undoubtedly at the expense of the pork market, as evidenced by the relatively high prices of pork pigs. The other part represented an increase in the number of pigs. It is, however, doubtful how far this expansion may be expected to be permanent. No important difference has been made by the scheme to the perfection of the market. Some producers may maintain their numbers as a result of the greater price stability offered by the scheme. Others may do so as a result of the higher returns following the improvement in quality which has already shown itself.

<sup>1</sup> For details see the *Journal of the Ministry of Agriculture*, Vol. XL, No. 12, March 1934, p. 1165.

It remains, however, fairly clear that a part of the increase in production was due to unduly sanguine expectations of the effect of the scheme on prices. Bacon pig prices have not been raised substantially compared to feed prices, and it is this relationship which largely determines the quantity of pigs.<sup>1</sup> Further the formula price, which is unlikely to be exceeded, appears not to cover present costs for many producers. The calculations on which it was based over-estimated the number of pigs weaned per sow, adopted as a basis the number of pigs weaned instead of the number marketed, and postulated an unusually high standard of efficiency in feeding.<sup>2</sup> It is unlikely, therefore, that the whole of the increase in the number of pigs will be for long maintained.

It would thus appear that the Hops Marketing Scheme has raised prices and will increase acreage unless the quota provisions are put into force. It is too early to say what effect the Potato Marketing Scheme will have on prices, though it has it in its power to increase them; its action in this respect may well be conditioned by the response of acreage. The Milk Marketing Board, if it has not raised prices, has at least maintained them; again the prices prevailing may well have been determined by the necessity of preventing an expansion in acreage. The Pigs Marketing Scheme so far has had little effect on home bacon pig prices, but has led to an increase in production, partly owing to over-sanguine expectation on the part of producers, but partly by offering greater stability, and by stimulating higher quality production.

RUTH L. COHEN

June, 1934.

*Agricultural Economics Research Institute,  
Oxford.*

<sup>1</sup> Murray, K. A. H., "The Future Development of the Pig Industry in Great Britain," *Empire Journal of Experimental Agriculture*, Vol. 1, No. 3, September 1933, p. 219.

<sup>2</sup> Menzies-Kitchen, A. W., *The Farm Economist*, Vol. I, No. 2, p. 26.

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