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*"The Challenge of 1950"*

**Wholesaling**  
and  
**Retailing**

**By HENRY SMITH**

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April, 1949.



# WHOLESALE AND RETAILING

## I. Introduction

The British Labour movement is, on general principles, in favour of the control of economic life by the people. This conviction, which millions now share, springs from three main sources. First, the belief that the man who lives on 'unearned income' as the result of functionless ownership (this does not include the man who does a solid job of administration or supervision of his own business) is a source of poverty, in that he takes from the pool of goods and services which industry creates and puts in nothing by way of return. Second, the opinion that the profit motive does not in all cases guide production and distribution along the right lines. It leads to disproportionate attention being given to the desires of the rich rather than the needs of the poor; it may lead to supplies of essential goods being restricted rather than increased when the former is the more profitable course and if monopoly gives opportunity; it ignores many such indirect costs of production as the social cost of industrial disease. Third, the obvious fact that where unregulated private enterprise provides the sole source of economic activity periodic waves of general unemployment endanger the whole social fabric and cause endless misery.

To these three sources most of the policy of the movement can be traced. Redistributive taxation, which bears more heavily upon the rich than upon the poor and upon unearned than upon earned income, finds its moral justification in the first. It also finds its practical justification in the third, because the more equally income is distributed the less probable is it that shortage of buying power will lead to unemployment. The case for the nationalisation of industry is based on the second, in so far as the public must be protected from the extortions of monopoly or the wastes of competition when these are evident. It is supported by the third in those industries like steel, fluctuations in the level of whose activities cause unemployment and cast periodical burdens upon the state, which planned production could eliminate. As nationalised industries expand, their new capital will be owned by the state, profit upon it will provide a source of revenue alternative to taxation, and thus the burden of supporting the functionless will become lessened, implementing the first principles.

## 2. What is 'Control'?

There is nothing in all this, however, to prove that *all* economic life must proceed under the ownership or direct control of the state. The control of economic life by the people can operate also along other lines. The organisation of co-operative trading is an obvious example. But it goes much further than this. If incomes do not differ too widely between different groups in society (and a very considerable equalisation of real income, though not of the distribution of property, has already taken place) the ordinary working of the pricing system can constitute a very real 'control' of economic life, and one which is sensitive and quick to act. Every time the housewife takes her shopping basket past one shop to another where better value is to be obtained she is 'voting with her pennies' in favour of one product, or one standard of service, and against another. In those realms of economic life where monopoly does not give the seller an unfair advantage over the buyer, when there are few indirect costs which do not appear in the prices charged, and where the owner of property is not a functionless rentier but an active administrator, the ends of 'socialism' have been largely gained. In such cases therefore it is not an admission of failure for the socialist to concede that there is little for the state to do: it is rather a proof that his concern is with ends rather than means.

In some circumstances the case for the national ownership of *all* important institutions would become necessary to every government which was determined to achieve social justice. Such would be the case if there were a head-on conflict between the owners of property and the advocates of reform. If this happened, so that every concentration of property was a centre of active opposition to a reforming government, the size and strategic importance of a firm would alone determine whether it could safely be left in private ownership or not, without regard to whether its possession was of importance for the economic plans of the government. Happily, in England we have so far avoided such a situation. This pamphlet is written on the assumption that we shall continue to do so, and can thus treat the problem of defining a socialist policy for the distributive trades as concerned only with increasing the efficiency and the 'fairness' of this aspect of our national life, without reference to the strategy of conflict.

## 3. What is 'Efficiency' in Distribution?

What do we want the distributive trades to do? We want them to provide the service of bringing an adequate selection of goods to shops in suitable places—the 'shopping centre' in town and city



for clothes, furniture and the like, a shop as close as possible to the consumer's home for food and daily requirements. We want these services provided as cheaply as is consistent with decent working conditions for the people in the trade. All of us, however, do not want the same amount of service. Some live in remote country districts where the population is too thin for shops to have a large turnover, and where transport costs from the nearest centre of wholesale distribution are high. In this case the service we require, though not elaborate, is bound to be expensive. Others live in big urban concentrations, where distribution costs can be brought to a very low level: the sources of supply are close at hand and turnover is high. Some of us living in such conditions will want to save money, and will be willing to go to self-service or cash-and-carry shops where the range of goods may be narrow but the prices are low. But some, like the business or professional woman, will want a lot of service; they will require to be able to ring up one store which handles almost everything and have prompt delivery to the door. And the housewife whole-time or part-time in industry wants the equivalent—a shop on the street corner which will keep open late and stock most things. Both these types of service are expensive—the one because of high overheads, the other because of slow turnover. It would be a flagrant example of false economy, however, to lose the services of women skilled in industry and the professions because such services were not available. So we want a full range of service from the simple to the elaborate, all provided as cheaply as possible and reflected in different retail prices for the same goods bought in different circumstances.

## **4. The Layout of the Distributive Trades**

How far, before the war, did the distributive trades in Britain conform to this pattern? Do they constitute a department of national life in which the free play of the pricing system leaves little or no need for state action in the protection of the consumer or the elimination of inefficiency? On one count the distributive trades must be admitted to have fulfilled the requirements of the consumer most adequately. He had the choice, if he lived in a town, of buying cheaply with a minimum of service from the chain store, or more expensively with the provision of a wide range of service from the appropriate private trader, or of buying co-operatively and paying the bare cost of whatever services the local co-operative society provided. (The surplus earned in the last case is, of course, returned as dividend.) But what many people then doubted was whether these different prices were in effect low enough: whether they did not reflect the high costs of an inefficient system of distribution.



The main criticism took the form of saying there were too many shops and that thus the total overheads of distribution were too high, because a smaller number of units and a smaller labour force would have done the job as effectively at less cost. Now no one knows how many shops there are in Britain, and until the census of Distribution is complete (why, in their own interest, so many shop keepers oppose this measure it is hard to see) we shall not know. (My own guess, which lies more or less midway between the estimates of others, is that before the war there were about 750,000 in Great Britain.) To put this more vividly, if we make the assumption that the normal size of residential street contains about a hundred houses with four persons to a house we have nearly six shops of one kind or another per street. In nearly every street, if shops were spread out evenly, there would be a grocer's, a general shop, and a shop selling clothing. For every two streets there would be a butcher; for every three a sweet shop, a green-grocers' and a paper shop; for every ten a chemist. This is certainly a lot of shops. But one cannot say that, therefore, the costs of distribution are too high. Many small shopkeepers earn a very poor living: indeed before the war there was a heavy annual rate of bankruptcy among retailers, a still higher number of less obvious failures, and (because the number of shops appears to have been growing pretty steadily) as steady a rate of ingress. Retail trade seems to have a fatal attraction for the optimistic amateur. Many small shops do not and cannot 'pay', and as they swallow up the savings of a succession of venturers the capital thus wasted subsidises the consumer by providing a shop in a place where a shop cannot, at current margins, cover its costs. So it may be the shopkeepers (or some of them) and not the public to whom the cost of distribution is high. But, on the other hand, may one not argue with equal probability that it is the high general level of gross profits or margins in the retail trade which attracts the victims? One seeks therefore for further evidence: some is provided by the figures for employment in the distributive trades. For every hundred employed in 1924 there were a hundred and thirty-three in 1931, a hundred and forty-four in 1935 and a hundred and fifty-two in 1939. During the war the number fell nearly to the 1924 level: it has since recovered considerably, though it is still well below 1939. Up to the outbreak of war, therefore, the labour force in distribution was growing much faster than the population or the national income. Some of this growth was due to the expansion within the distributive trades of the chain stores and co-operatives at the expense of the private trader: often the ex-owner would continue as a manager for a multiple, thus swelling the figures of employment. But from all the evidence available it seems that the total number of shops was growing, and that there was no *net* decline in private traders. Not only was the number of employees growing faster than in most trades, but it was growing faster than the total retail turnover.



For every hundred pounds of sales made by the average distributive worker in 1924, he sold (reckoned at constant prices, so as to afford a picture of the quantity of goods sold) only ninety pounds worth in 1931, seventy-nine pounds worth in 1939. Several reasons spring to mind as partial explanations of this. As a nation gets richer, which means in effect that a smaller number of workers are needed to perform the basic tasks of agriculture and industry, naturally more resources go into the service industries. But were we, over this period, getting richer at quite that speed? We got out of the 1930-34 depression on a building boom, so that many people by 1939 were living in newly developed areas, which had to be served by new shops. New techniques, like radio, were demanding the service of expert distributors. But the total number of workers was rising fastest and the volume of sales was falling fastest during the worst years of depression, when neither of these forces was yet fully operative. Taking all the facts into account it looks as if there is something queer about competition in the retail trade. There are two ways in which competition may work—by cutting prices or bidding up costs. Where an absolutely standardised product like graded wheat is concerned, and where no one seller can influence the market price because his share of output is so small, all is simple. The amount spent upon the product by consumers determines the price which the product will fetch, and old firms drop out if the price is too low for them or new firms come in if the price is favourable, until profits are about normal. But where the seller manufactures a branded product of which he is the sole supplier, he himself sets the selling price, and not the impersonal forces of the market. If a rival comes along with a close substitute he can cut his own price, or he can spend heavily on advertisement, or he can increase the quality or appearance of his product to make it more attractive. All these methods will cut into his rival's profits, the first by forcing him to cut prices in reply (so that the consumer will benefit), the two second by forcing him to spend more, which may not benefit the consumer at all. Competition of this latter type is of little use to anyone. It appears in retail trade in two forms.

Take first those trades like food and tobacco in which the customer makes frequent regular purchases. These trades are roughly divided up between the chain stores, the co-operatives, and the individual trader. The last-named vastly outnumbers the two former, and also handles the majority of the trade, but has a much smaller average turnover. In these trades the most convenient situation for the retailer is as close at hand as possible: the more closely the retailer pursues his customer, either by opening up in his street or sending a van down it, the more likely he is to secure custom. Both operations are costly: the latter for obvious reasons, the former because the fewer the number of customers served the higher the burden of overheads, and it stands to reason that a shop



cannot be *close* to an infinite number of people at once. So a great deal of competition between retailers does not consist of the competitive lowering of prices, but takes the form of opening up close to a group of consumers, and selling them goods at the prevailing price, but in a more convenient place. If there were fewer shops each with a bigger turnover, the actual cost of distributing goods would probably be less, but the convenience of the consumer, which is after all what he pays the retailer for, would be lessened. There seems to be little wrong with this, at least in a town where the consumer has the choice of foregoing the expensive luxury of proximity and going to the cheaper chain stores in the town centre should she so desire. But it tends to switch competition from price, which can be ascertained at a glance, to service, which is hard to evaluate. The practice of resale price maintenance, which prevents price competition in many consumers' goods, reinforces the tendency. Pure logic is a poor guide in a field where so few of the facts are known: in practice it seems as if the result is unduly to increase the number of shops, and from the rapid growth of the costs of distribution in the depression, when presumably distributors were all competing their hardest, the process seems pretty wasteful.

The other main division of the distributive trades is that concerned with goods which are more expensive and less frequently purchased: clothing, furniture, domestic equipment and the like. Here the departmental store enters the picture; chain stores are again important, and tend to be linked very closely with manufacture; in the cheaper article the Woolworth type comes in. The private shop, however, except perhaps in boots and shoes and pharmacy, predominates again in numbers and in total, though not average, turnover. In this field co-operation is of relative unimportance. With shops of this kind the importance of proximity to the consumer is less. They tend to congregate together in shopping centres. Here also it would appear that price competition does not predominate: the reason is that while the consumer is not interested in having a source of supply near at hand (a service the convenience of which, if not its cost, is perhaps the most easy to estimate of all those which the retailer provides) he is in this field very largely an amateur. Moreover goods in this class tend to be much less standardised, so that price comparison is the more difficult. Women buying clothes perhaps form an exception, but even here a non-price element enters strongly into competition in the *cachet* which certain shops are held to confer upon their clientele. Even working-class shoppers are not immune from this influence. Perhaps because true price competition, which reflected faithfully the cost of the level of service provided in the price of the article, would be so hard for the consumer to recognise, another kind of price competition is (or before the war, was) frequently encountered. This is the employment of the 'loss leader', the article sold at below wholesale cost in order to create a reputation for cheapness



which other items of the stock in trade may (very profitably) belie. While most traders denounce such practices it is probable that more condemn them than are prepared to abandon them: the joint effect of the practice and its condemnation is quite possibly to create a feeling of uneasiness on the part of the consumer who has been offered a bargain, and to swing the balance of competition in this field also on to 'bidding up costs' by competition in architecture, decoration, delivery, and the provision of amenities.

If this diagnosis is correct, then on balance the working of competition in the pre-war distributive system did not adjust prices down to costs with ever increasing fineness (except for certain types of food distribution and perhaps in ready-made clothes), but tended rather to bid up the costs of distribution somewhat faster than one would imagine a genuine increase in the public desire for service and the multiplication of shops would have done.

Before passing on from this analysis of the pre-war structure and trends of change in the distributive trades to consider their present position, and the suitability of certain remedies which are now being advocated, we must consider the effect of the war.

## 5. Wartime Changes

During the war the fortunes of the food trades and the non-food trades were very different. The former lost some man-power, increased their turnover in some foodstuffs, decreased it in others, but did not appreciably dwindle in magnitude. They underwent a thorough process of control, by virtue of which by the end of the war some 95 per cent. of their turnover was subject to maximum prices. Margins however were not 'tight': indeed some firms made record profits during the war period with a minimum of risk. Maximum prices were set high enough to keep the majority of traders in operation, and, as sales were normally at maximum prices throughout the war, low-cost operators could not but make substantial profits. The lower costs of multiple store operation were, in general, no longer handed over to the public in lower prices as in peacetime. To a certain extent they no longer existed, as with most foodstuffs all distributors tended to buy at the same prices, and the advantage of the chain stores before the war lay in their more efficient buying machinery. The general set-up was that the Ministry of Food imported, bought home supplies, and sold on to the trade. Normally this latter operation was carried out by the medium of a 'wartime company' composed of all the prewar importers, each holding shares in proportion to their pre-war trade during a datum period. The company was paid at a rate based on, but not identical with, their pre-war profits, having regard to their changed functions and operations under control.



They then arranged for the employment of those of their staff who were necessary to do the work of supervising first-hand distribution under control, dispensed with the services of the rest (usually a majority) and kept the difference between the costs of doing the job and the payment made by the Ministry. Some of these companies still exist, in a state of profitable paralysis, and the work of supervising distribution is done quite cheaply and effectively by part of this pre-war staff. Considerable economies have been effected due to the simpler nature of distribution under control and the absence of risk, but these do not, for the most part, benefit either the consumer or the taxpayer. It is time that serious consideration was given to the question of whether the costs of first-hand distribution to the public should not be reviewed, and put on a current rather than an historical basis. In those trades, such as the meat trade, in which supplies are going to be short enough to entail rationing for a long time, and in which it will be still longer before the volume of trade is big enough to support any elaborate selling machinery, there is much to be said for recognising the *de facto* nationalisation of the wholesale trade and making it permanent. This would mean paying only for the work which is being done, and discontinuing that element in the sums paid to the wartime companies which was designed to 'keep them alive' until they could resume independent business.

Apart, however, from these changes, the benefit of which will only be realised if they are carried out to their logical conclusion, the Ministry of Food did little which can be claimed as rationalisation of the distributive machinery. Most food traders were licensed, but only for purposes of regulating the flow of goods in short supply; not, as some would advocate, as a means of restricting traders to a 'proper' number. (This proposal will be discussed later.) The range over which wholesalers could deliver was temporarily limited, but the scheme was designed to save petrol and manpower, not to make distribution more efficient, which is a much bigger issue. Similarly certain products were 'zoned', i.e., could not be delivered outside a certain range from the point of production, but this was part of a scheme designed to release factory premises for war production. The most promising of the war economies perhaps were the measures designed to cut out overlapping in milk distribution: this also will be discussed below. Some trades are now free from licensing again, though much price control remains, and there has been a quite substantial recovery in man-power.

The non-food trades suffered much more from the war, because of the proportionately greater decline in their turnover. Many goods were reduced to anything from one-fifth to one-half of their pre-war *value*, which, with increased prices, involved a much greater shrinkage in effective supply. Price control was developed with increasing stringency as the war proceeded, and a large number of shops, particularly small ones, went out of business. Abortive



attempts were made to secure an orderly contraction of the trade with some measure of compensation from the survivors for those who voluntarily withdrew. All that took place was that traders were licensed, and after the cessation of hostilities priority in re-entry was granted to those who had gone out of business during the war. It was assumed that by January 1st, 1946, all who wished to claim priority had done so, and since that date everyone has been free to enter the non-food trades. It is obvious that there has been a marked expansion from the wartime level: it is not known if the pre-war total has been reached.

All that has really happened to the distributive trades therefore is that they still operate very largely under price control, and are handicapped by allocation schemes for the supply of scarce goods which, being in the main based upon some datum period in the past, are inevitably inappropriate. But the basic position remains unaltered.

## 6. The Possibilities of Reform

What should be done? It would appear that unregulated competition in retail trade is not wholly effective in securing efficient and cheap service for the consumer. There are various proposals which have from time to time been put forward for particular branches of the distributive trades, but before proceeding to examine them let us review the general situation. Should the distributive trades be nationalised? There are several reasons why this would not be wise. Let us examine retailing first. If our diagnosis is correct flexibility and adaptability to the varying needs of the consumer are the main pre-requisites of an efficient system. There are not many economies of large scale to be enjoyed, except at the wholesale stage. Many small shopkeepers—retired from other occupations, of poor physique, or suffering from other disabilities—can make a modest living in the distributive trades and provide channels of distribution which would not otherwise exist, but could not do enough to justify paying them the minimum scale of wages which a state service would have to pay. It is difficult to see how a state service could run a village shop: the big chain stores seem to find that it does not pay them to complicate their organisation by widening the range of stocks sufficiently to operate in situations where a single shop has to sell everything. Moreover in food, and to a certain extent in local handicrafts, the small shop acts as a distributive centre for local products. In short, the complexity of the machine that would have to be created and directed would most probably defeat the ends for which it might be desired. Unregulated competition seems to be somewhat wasteful in distribution: state operation to be too clumsy. How then can competition be guided so as to



make it more effective from the point of view of the consumer? Proposals are sometimes put forward that shops ought to be licensed, in order that there should not be too many shops and, especially at the moment, to limit the flow of man-power into the distributive trades. Now undoubtedly unregulated competition may result in too many shops, and in retail prices which are too high. But there are three objections to licensing, which are insurmountable. First, it is doubtful whether a reduction in the number of shops would by itself do anything to reduce prices or even the use of man-power, though it might reduce the costs of those who remained in business. There is no point in setting up a public authority to protect the profits of established traders and to keep the enterprising out of the market. If distribution cannot be run as a state service, then competition, including competition between private traders and co-operative societies, must be stimulated and not checked. Second, no one knows what the right number of shops is for any particular place, though one may conclude that shops in general are somewhat excessive in number. Third, how are licensing authorities to be constituted, and what policy are they to follow? The difficulties which have been encountered in allocating shops on new housing estates here come into one's mind. Where there is room for only one of each type of shop—or where as part of a building plan only a few shop buildings exist—how are they to be allocated? To the highest bidder? That needs no licensing authority. To the private trader, or the co-operative society, or the multiple store as an agreed priority? Is the choice to be made by a body of traders, who could not be disinterested, or by a local authority, which might well have a bias in favour of or against co-operation? It is hard to see how licensing will protect the consumer, stimulate progress, or be fair in operation.

Price control, or more strictly the imposition of maximum prices by the authority of the state, is a weapon against inflation and to some extent against the wasteful use of man-power; not a tool for the reorganisation of the retail trades. In its former capacity it must be retained as long as the danger remains, and that may be for a long time. Full employment not only puts up costs but it increases purchasing power: the reaction to full employment of the manufacturer with a private market (even if it be only that provided by an accepted trade-mark) may well be to keep production down and prices up. In such cases to wait for supplies to become adequate and then to remove price control is the wrong policy: all the time that the forces of semi-monopoly are strong the maintenance of price control may be a condition necessary to ensure adequate supplies. In so far, then, as price control may stimulate production by preventing the restriction of supply from becoming profitable, it will hold off inflation both by increasing supply as well as by keeping prices down. In certain sections of the distributive trade in food this may operate. If competition between the wholesalers



of green-grocery is not very keen in a certain area, for example, a high wholesale price may be charged for perishable produce. This will tend to bring down the prices which the grower receives, by lessening the demand from retailers. The retailer in turn may be able to make a bigger net profit by selling a small number at a high price than a large number at a lower price. The result may well be, if price competition is not keener than sometimes appears, high prices for the consumer, low prices for the grower, waste, and the discouragement of production. Maximum prices, imposed at such a level that only sales in volume would have produced appreciable profits, might have set the wholesaler foraging for produce, and might have ensured that all that entered the shop was sold, by encouraging the demand of the consumer. For this reason we must be very careful how we take off maximum price regulations under conditions of full employment in any sphere of economic life where monopoly of any kind exist, and especially for perishable goods and branded consumer goods.

Even here, however, while maximum prices may prevent the abuse of monopoly power, they have no part to play as instruments of reorganisation. The reason is that, as wartime experience shows, maximum prices must be set with reference to the costs of the most expensive type of distributor whom it is considered necessary to allow to remain in business. Margins which mean bare survival for the village grocer mean excess profits for the urban chain store and easy dividends for the co-operative society, if all charge the maximum price. When purchasing power is abundant, they tend to do so: when it is not, then employment falls off and more serious problems than those of retailers' profits come to the fore. To zone the country into high and low-cost areas is an administrative impossibility, except for a limited number of goods which all come from one place: even here only the transport differential is covered. So any attempt to increase the efficiency of the distributive trades by 'squeezing' margins is (apart from a few possible exceptions) out of the case. The technique may work in industry, where one firm can at the same time expand output and lower its overhead costs when an inefficient rival is squeezed out. But in distribution it is no use to tell a disgruntled village housewife whose only local source of supply has gone out of business that she can now buy her food more cheaply in the next village.

## 7. Co-operation

To return to our objective; we want the distributive system to be flexible and efficient, and by efficient we mean that we want it to provide various levels of service at prices in step with the cost of each different level. Competition as in fact it works does not seem



to secure this end, but it seems hard to see how general administrative measures can be devised in order to ensure that it will. One of the reasons why competition does not reduce costs to a minimum is that each shop has to some extent, inevitably, a 'private market' composed of those living in immediate proximity. The other is that the retail buyer is, in many fields, an amateur. Ideally, distributors standing in a relationship of trust to the consumers, acting as it were as their agents in selecting stock and advising choice, providing service on a scale and at a cost determined by the reasonable needs of different types of consumers and not by the strategic advantage which the location of a shop may afford, would provide what is required. Now in theory consumers' co-operation does all this, and in practice it goes a very long way. But this pamphlet is concerned with analysing the problem and examining the possibilities of action. Consumers' co-operation is a voluntary movement, and indeed owes most of its advantages to this fact. So while one may wish it well, trust that it succeeds in its task of internal reorganisation in search of increased operational efficiency (and in many fields, like that of the development of self-service installations, co-operative societies are among the pioneers) there is little that state action can do for it. In the field of taxation it is manifestly right that co-operative dividend should be free from income tax because it is not income. It represents the return of the excess of price over the actual costs of distribution, which is charged to cover uncertainty. Apart, however, from upholding this principle, there is little which legislation can do to aid co-operation which would be welcome to co-operators or would add to the influence of co-operation, except to see that manufacturers or traders do not discriminate against co-operators. This is picked up below.

## **8. Improvements from Without**

How can private distributive businesses be induced to adopt what are, in fact, the standards of the best among them, and compete in such a manner as to benefit the consumer? That is the shape in which the question finally emerges. Many factors operating towards this end must come from outside distribution. As the standard of education improves people will shop more discriminately and the lure of the 'loss leader' will become less effective. The institution of a public or semi-public body, enjoying privileges under the law of libel, which published formulae and estimates of the cost of production of consumers' goods, and which gave disinterested information and advice to the prospective purchasers of the more expensive kinds of domestic and personal equipment would be a great advance, and is whole-heartedly to be advocated.



If we are successful in maintaining full employment so that the confident expectation of secure and well paid employment becomes general, then it is probable that the superior advantages of a safe job in industry will tend to set a limit to the proliferation of superfluous shops. If paydays were staggered, so as to avoid the concentration of some types of shopping upon the week-end for all but the ultra-conservative, the labour force in distribution might be more effectively employed. But against this background what we need is, in effect, more competition in the sense of the application of initiative to distributive problems and the abolition of measures which protect the relatively inefficient from disturbance.

## 9. Price Fixing for Profit

There is one field in which a change in the law is overdue. Over a wide range of branded consumers' goods—tobacco, stationery, electrical equipment, toilet and medical requirements are cases in point—retail prices are fixed over the head of the distributive trades by the manufacturers, who withhold supplies from retailers if they charge lower prices. In some cases the margins fixed are arrived at as a result of discussion with retailers' organisations: in many, a trade association operates a 'stop list' covering the whole range of goods handled, so that a retailer who refuses to charge the manufacturers' retail price on a single isolated product may lose the whole of his stock in trade and be driven out of business. The practice is defended by the manufacturers on the grounds that without it no continuity of production planning would be possible and thus the benefits of mass production would be lost. In the face of experience in the U.S.A. where the practice was for long illegal and where it now finds only a modified tolerance, this is ridiculous. It is defended by the distributors' organisations on the grounds that the trader is as entitled to the 'rate for the job' as is the trade unionist in industry, and also on the ground that competition in the provision of service is 'healthy' but that competition in the field of price will undermine the whole structure of distribution by putting the 'legitimate' trader out of business and leaving the field to the 'price-cutter' who provides poor service and is 'here to-day and gone to-morrow'. Neither of these arguments will stand impartial examination. The 'job' of distributing cigarettes or toilet soap is *not* the same in the middle of a busy city and in a village shop, nor are the costs comparable. Moreover the trader is not in the same position as the artisan: he sets out to stand or fall by the relative value to the consumer of the services he provides, and if he expects to enjoy profits must bear the contingent risk of loss. If all the shops in the trade, irrespective of their cost of doing business, charge the same protected price, *then*



the 'price-cutter' may build up a fictitious reputation for cheapness on the strength of cutting the price of the protected goods while he overcharges on others. But it is the system of price-maintenance which creates the problem: abolish it and the piratical price-cutter (if he *is* a pirate) will be disarmed.

The evils of the system are twofold. When prices and margins are fixed by manufacturers in association with retailers the two may well be sharing an abnormally high level of profit. Even when this does not take place, the price which the village or suburban shopkeeper must obtain to cover his expenses is higher than the urban trader needs. Thus either the more favourably placed retailer makes more profit than is necessary, or too many shops come into operation in the centres of population, thus lowering the turnover, putting up the costs, and reducing the profit of others. Profits are reduced, but the consumer is not assisted and manpower is wasted.

The abolition of the practice, however, involves certain legal difficulties. It would be easy to render the concerted employment of the stop-list by a trade association illegal, but when a manufacturer is selling directly to a retailer to prevent him from including resale conditions in the sales agreement would be to limit freedom of contract. On the other hand, if the retailer is to be forced to choose between offering his customers what he considers to be the best variety of a product and charging a price which he considers too high, or selling another and inferior product at a price which he considers reasonable, his freedom is very appreciably limited. So there is a 'conflict of freedoms' involved. Is the way out so to alter the law that producers of consumers' goods will be unable to refuse to sell their products to a solvent buyer? There are certain difficulties involved in such a course of action: the producer of such products as refrigerators or motor-cars is obviously, in the interests of his own reputation, concerned that sales to the consumer should be undertaken only by persons competent to advise on technical points, arrange adequate demonstrations and provide after-sales service. In such cases the producer might well maintain the right to restrict sales to distributors in command of suitable technical qualifications. The same is obviously true of drugs, and provision exists. Moreover the manufacturer could not be expected to quote wholesale prices for less than the bulk in which he normally packs for resale. Is there, however, any reason why, subject to provision for proper qualifications in the relatively narrow field where they are of consequence, manufacturers should not be required to sell their goods at the usual wholesale terms to anyone who is prepared to buy in the usual wholesale quantities?

The establishment of this principle would be of great value. In the first place many manufacturers refuse to sell to co-operative societies, sometimes on the ground that the payment of dividend



is 'price-cutting', sometimes unconditionally, and this undoubtedly has a restrictive effect on the development of co-operation. There is little doubt that hostility to the co-operative movement as such is at the basis of this attitude. If retail societies could purchase the usual wholesale quantities of any product on the usual wholesale terms, and could sell them at any price and pay any dividend upon them which they involved, and if the products of the Co-operative Wholesale Society could similarly be bought and sold by any private trader, the range of healthy competition would be appreciably widened, to the benefit of the consumer. Secondly, one of the problems of distribution is the sparcity of shops in the rural areas, and their high cost of operation. Anything which would increase the turnover of the village shop-keeper, and thus, by spreading his overheads, keep down his costs, would lessen the troubles of the rural housewife. Why should not such goods as bicycles, perambulators and basic tools, which are commonly sold from printed catalogues, be distributed through the village general store? Moreover, why should not groups of consumers who are willing to go to the trouble of saving money by 'doing their own retailing' through buying clubs be entitled to buy at wholesale prices if they are willing to buy the normal wholesale quantities? In our present manpower shortage—which may well prove to be a permanent feature of full employment—if people want to 'lend a hand' why should they be less welcome in distribution than on the land?

This extension of the principle which appears to be involved in the abolition of resale price maintenance might of course be heartily opposed by the various trade associations of retailers.

## 10. Labour in Distribution

In the past the retail trades have often been very bad employers. While the wages and conditions afforded by many of the more enterprising and progressive firms and by the co-operative societies compared favourably with ordinary industrial wages, many other firms before the war took shameless advantage of the weakness of the labour market, and paid scandalously low rates, particularly to juniors of both sexes and to women. Because of the small size of the usual unit of employment and for other obvious reasons (including, in some cases, a misplaced sentiment of superiority) shop assistants are difficult to organise in Trade Unions. In the years immediately before the war, however, the two unions covering the trade, now happily united, had considerable success in reaching agreement with groups of employers, the scope of which was increasingly widened with the co-operation in some cases of the more enlightened among the employers. The wartime labour provisions made the agreements so reached binding on the whole



of the trades concerned, and allowed the other trades to be covered: under the Wages Council Act of 1945 the results achieved have been increasingly placed upon a permanent basis, until now most distributive workers are covered by Wages Regulation Orders.

There is nothing incompatible between welcoming this and advocating that, in general, the distributive trades should be allowed to continue on a competition basis and indeed encouraged to compete. If the labour market worked as it does in some elementary textbooks on economics, so that wages were pretty well equal in all trades having regard to the relative skill required in some jobs and the inevitable unpleasantness associated with others, then we could be sure that no worker was treated unfairly, and also that no labour was wasted by being kept in a job where it produced (and earned) less than it could do elsewhere. So all that minimum wage legislation does is to reproduce the hypothetical results of competition. The employer will pay what is fair to the worker, and what is right from the point of view of society, which cannot afford to have labour wasted. Against this background of legislation, which prevents the shopkeeper who falls behind in the race from recouping himself at the expense of his helpless employees, and thus being unfair both to them and to his competitors, let the traders undertake their traditional function of trying to excel each other in the provision of service and economy.

There is, however, another aspect of labour relations in distribution which is not yet in sight of a satisfactory solution: that is the question of hours of employment. Here, in the past, the weight of the unions has been thrown in behind the agitation for limiting the hours during which shops can remain open. At the present time the union is pressing for the closing of shops on Saturday afternoon, in order that the social life of the shop assistant may be brought into line with that of the industrial worker. This is a dangerous principle, and can easily come into conflict with the public interest: one thinks with some dread of an extension to Britain of the general paralysis which overtakes the provision of services over the week-end in certain Australian towns. One thinks also of the woman in industry and her shopping problems. Here surely the right line of development is the fixation by union action, reinforced by legislation, of a global limit on the weekly working time of the shop assistant, and a relaxation of limits on the periods during which shops may keep open. If a shopkeeper wants to keep open till nine, or on Sundays, and do the work himself, why stop him? If he is willing to pay overtime, or to organise a shift system—thus getting more 'distribution' out of his premises and setting other buildings free for alternative jobs without increasing the total labour in the trade—why not let him? If the general body of shopkeepers can, through their associations, reach agreement to limit hours, here is a function which seems to be a more proper



one for a trade association than organising the boycott of price competitors.

So far we have been dealing with the general problems of the distributive trades. While the specific problems which have from time to time emerged in this field are innumerable, special attention has in the past been drawn to the defects in the existing system of distributing agricultural produce, and in particular milk. To these we now proceed.

## II. The Marketing of Agricultural Produce

The marketing of agricultural produce, fruit and vegetables in particular, has always been surrounded by controversy. It is, however it be organised, an expensive business, because of the inevitable losses in weight and quality involved in the time taken between gathering and consumption. Inevitably the farmer contrasts price per unit or per pound on the farm with the retail price (which may well, for any given quantity sold off-farm, be realised upon a much smaller one). The consumer contrasts the price paid in an occasional direct contact with the grower with that charged by the shop which maintains a regular stock. Critics from both ends of the scale compare the position in England, where producers and consumers are all intermingled, with that in countries where produce is, often by means of co-operative organisations, assembled, graded and dispatched for export.

As a long series of public and private enquiries shows, all is not well with the marketing of agricultural produce. Too much probably goes through Covent Garden, although the existence of a big centralised market makes for a lessening of waste because of the greater probability that there will be *some* buyers for all produce and some sellers of whatever the distributor wants to buy. But there are not enough good local markets, and those that exist are often expensive to employ because of location, layout, and market customs. Moreover there appears to be a general consensus of opinion that the bargaining position of the wholesaler is often unduly strong. (That is why, all the time that purchasing power is abundant, there is much to be said for wariness in abandoning price control in this field). There is, however, an almost infinite diversity in the channels along which produce finds its way to the consumer, and there is no space here to describe or consider them. They range from direct sale from grower to consumer at the one end, to sale through a commission agent in a central market to a wholesaler who in turn supplies a retailer. Moreover the different functions are not distinct: in some cases a grower is also a com-



mission agent and a wholesaler at the same time, or a shop may be in common ownership with a market garden. And, in general, there is a sound reason in most cases for the local arrangements, whatever they may be, although often they might be more efficiently operated. Here is a field, therefore, in which the reforming legislator must tread lightly.

Before the war the Agricultural Marketing Acts sought to increase the efficiency and decrease the cost of distribution by placing certain bargaining powers, and control over distribution in the hands of the organised growers. In theory the argument supporting this policy seemed very sound. The grower, it was assumed, wished to sell as much as possible: he thus would wish the retail price to be as low as possible. But he also wished to retain as much of the final price as possible: thus he would be concerned so to increase the efficiency of the distribution process as to get it done as cheaply as possible. The flaw in the argument is that it ignores the possibility that the *total* income of the grower may be increased by selling less at a higher price, and that he may be willing to bargain with the distributor to keep prices high and share the proceeds. The importance of this consideration may be shown by the fact that the farming world showed little inclination to take advantage of the power given to them during the period elapsing between the passing of the first Act, and that of the second, which gave powers to restrict imports.

One cannot in a few sentences generalise about a position so complicated as that created by the Marketing Acts; the schemes under them were framed and commenced operations against a background of low and falling prices and extreme insecurity for the producer. The position has now radically changed, and the public interest in efficient distribution has been reinforced by the recent general guarantee of minimum agricultural prices by the state which in many cases involves subsidies. The Lucas Committee, reporting recently in the light of the present circumstances, rejects a return to the principle of producers' control. Their ground is partly that there were manifest faults and hardships to the consumer involved in the pre-war schemes, and partly that the produce bought from the farmer at guaranteed prices now starts upon the process of distribution as public property. They reject also the retention of the present machinery of the Ministry of Food, on the ground that the commercial operations involved in either undertaking or supervising the further selling of the foodstuffs is unsuited for the civil service with its necessary tradition of caution, and also because the Ministry is 'distributor minded' on account of the high proportion of experts from the distributive trade now operating the Ministry machinery. They advocate the setting up of commodity commissions, appointed by the appropriate Ministries and composed of men of proved business and administrative ability, with powers to supervise the process of distribution and retain an interest in the produce after



it passes out of their ownership. To ensure this the Commissions should, they suggest, possess powers to license distributors as a means of enforcing policy (*not*, in view of what it will be remembered was said above, to ensure that there are the right number of distributors), and also be empowered to enter any field of distribution themselves in order to provide examples or obtain knowledge of costs at first hand.

As the report stands its proposals are far from specific, but it is probable that, in view of the complexity of the problems with which the reorganisation of marketing is confronted, the proposals they advocate are the best possible. But everything depends upon the wisdom and vigour with which the wide powers they advocate are employed by the Commissioners. And the warning which they give in their reference to the Ministry of Food is of wider application. Not only may persons chosen for their commercial experience be biased by loyalties or preconceptions relating to the particular trade from which they come, but the whole atmosphere and tradition of commercial life, while making for fluency and quick decisions, may handicap the man so trained from giving due weight to the public interest as effectively as a civil service training may disable a man for rapid action. This is part of the general problem of staffing any nationalised service, and the report does not enable us to escape from it.

The Government has introduced legislation (The Agricultural Marketing Bill) designed to limit the powers of the producers' boards should they again function. Henceforward the board to administer a scheme under the act must include non-producer nominees of the Ministry of Agriculture. Moreover the Minister is to have power to interfere with the operation of schemes when they appear to him to conflict with the consumer interest, subject to a subsequent inquiry by a public committee of investigation. Thus the position seems to be that the boards are to operate mainly as guardians of the producer interest, subject to greater safeguards for the consumer. In this way they would fit into the frame-work of distribution suggested in the Lucas report.

## **12. Milk Marketing**

### **Some similar cases**

Milk marketing is a special case, and is the subject of a special report, the Williams Report, published in 1948. Here the vices inherent in the Agricultural Marketing Scheme were particularly marked before the war, and the influence of the Board was exercised

to prevent competition from keeping down the retail margins on milk. The committee came to a conclusion not dissimilar to that of the Lucas Committee: they consider that a single independent milk commission should be set up, to work under overall direction by the Government, but free in its day to day operations. Its function would be to control the flow of milk from farm to town, controlling transport and town and country depots. The latter, it is proposed should remain in private ownership though paid by the Commission but may be bought out where redundant: the Commission, it is proposed should have power either to take over depots or create new ones when circumstances demand such action. Processing, bottling and retailing should, it is proposed, remain in private ownership, although the Commission should have power to enter this field when they consider private service to be poor, or in new towns. Maximum retail prices for milk should be retained. (There is much more in the report, particularly about the cleanliness and safety of milk, but we are here concerned only with the marketing problem.)

All signatories of this report are agreed upon this as an immediate policy, and the proposals are sound. But two members—a distinguished business man from the distributive trade and an equally distinguished agricultural economist—would go further, and argue that a further step should be taken in the future, vesting milk distribution in public ownership and operation. Their arguments are that marked economy in the distribution of milk at retail, in their view amounting to 1d. per quart (or 10 per cent. of the retail price) is possible if overlapping is cut out, that the loss of choice to the consumer loses its significance as the provisions for clean and safe milk become operative, and that at the earlier stages of distribution, where all agree that the flow of milk must be centrally directed, it would be cheaper in money and manpower to have a public authority doing the job than to have two sets of people, one doing the work and the others controlling them. Their reasons for not pressing for immediate nationalisation—for which at the proper time the case is overwhelming—are that such measures of competition as the main report proposes to reintroduce would have the effect of reducing the profits which some distributors have made as a result of the enforced economies (to them) of the existing scheme, and thus would reduce the compensation to be paid to a more reasonable level. They are conscious also of the pressure on Parliamentary time.

Let us, however, be frank. While these reasons have weight it is probable that many in the Labour movement will seize upon them with relief as an excuse to postpone the decision of what is to be done when the two principles of national ownership and consumers' co-operation come into head-on collision, as they do here. What is to be done? The economies possible from unified milk distribution arise from its *unification*: little could be gained by providing a public service to which service by a co-operative society was the



only exception. While to single out consumers' co-operatives for exception from a nationalisation programme would not be indefensible, as confining a vital service to two forms of non-profit-making organisation, it would greatly weaken the strong economic case for nationalisation. But the powers taken might well allow an option to local authorities to appoint co-operative societies, and co-operative societies only, as their sole distributing agents. To hand over the whole job to co-operative societies as has been proposed by some would conflict with the voluntary principle and might embarrass co-operative managers. It would cause a problem where no such societies exist, and would alter the whole relationship between the state and the co-operative movement. (In an out and out struggle between right and left it would be the best way out, as it would both strengthen the economic power of co-operation and tie it more closely to the political party, but we are not planning for such a contingency. We assume ordered progress by common agreement: thus we must not only propose what is fair, but what is 'manifestly seen to be fair'). To leave co-operation gradually to establish a monopoly would be to postpone the benefits of unification permanently. Thus, as all are agreed that milk should ultimately pass through supervised depots to ensure its safety, so that direct distribution from farm to consumer will represent an ever diminishing proportion of the whole, the objective should be to organise the distribution of milk as a public service, step by step, as the safety provisions extend. The supervisory commission should pass over into an operating commission.

Very much the same position exists with regard to the distribution of coal, and when the unified grading at which the Coal Board aims is complete the similarity will be even greater. Here again it is in the unification of the distributive system that the economies lie, and so the problem is the same. If milk distribution is nationalised, and administered by local bodies or perhaps leased to co-operative societies should this prove acceptable, then the same course should be followed for coal. With regard to bread, there is probably much more genuine scope for real consumers' choice: while most bakers carry a similarly wide range of types the quality and texture of the bread resulting from different baking techniques can vary a lot. A unified bread distributive scheme could in theory carry all kinds of bread, the small-oven loaf as well as the product of the big steam bakery, but to do so would be to complicate distribution. Either the one van would have to carry all types, or vans from different bakeries would follow each other round, as at present. If consumers were content with a uniform type of bread, then economies both at the production and distributive ends would be possible. But here the choice of the consumer is of much more real importance. It is not at all certain that the gain would be enough to warrant the change.



## Summary

In this short space it has only been possible to deal with the more important issues concerning the distributive trades and those about which, in the general absence of knowledge, something at least is known. The following proposals emerge from the review.

1. For the present, and indeed for a long time to come, nationalisation of the distributive trades would be undesirable. Exceptions to this are those branches of the wholesale food trade in which supplies threaten to be short enough to necessitate strict control for some time to come. They are *de facto* nationalised to-day, but are remunerated by the taxpayer on a scale designed to provide for their re-establishment in the future. The distribution of milk should also be organised as a unified service as soon as the proposals for the safety of milk, which demand centralised treatment, can be implemented. Coal distribution should be treated likewise.

2. The consumer can be protected against excessive overcharge by maximum price control, though this cannot be used as a major instrument to bring about efficiency in distribution. Consequently, all the time that purchasing power runs ahead of supplies and wherever monopoly exists, great care should be taken in relaxing price control.

3. In the distribution of agricultural produce there is little that can be suggested as a definite programme. All the public investigations into the problem so far have reported that they are dissatisfied with much of what their limited investigations have reached. It is obviously desirable that the Commodity Commissions recommended by the Lucas Committee should be set up, with powers as wide as was suggested, and that these powers should be exercised to the full in order to experiment and gain experience. But let us be realists: no one knows quite what can be done in this field: till we know more let us hang on to price controls, which obviously save us from the worst, until authoritative experiment makes clear what should be done.

4. Competition in the distributive trades appears to work somewhat wastefully, in that it often takes the form of bidding up cost, or the opening of superfluous shops. Licensing would not remedy the situation: the best way out seems to lie in improving the quality of competition, and increasing its intensity, particularly in the field of price competition. The institution of a public authority to advise the consumer on prices and qualities, the general development of education, and the abolition of resale price maintenance should also operate in this direction. In particular, the action of trade associations in operating 'stop lists' in this connection, and the denial of supplies to co-operative societies, should be prohibited.