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Book Reviews

Economics of Food Retailing

By Daniel I. Padberg. Cornell University, Ithaca. 292 pages. 1968.

This book by Daniel Padberg uses much of the data assembled by the National Commission on Food Marketing, but as the author states, the economic data are carried on through to conclusions on industry performance.

Padberg sets the stage for performance evaluation in the Introduction in relatively uncomplicated language. He recognizes that there are limitations on the ability of economic theory and analysis to discriminate between desirable and nondesirable performance. He attributes some of these to absence of data; some, to the shortcomings of methods of analysis, particularly those involving longer run dynamics; and some, to our basic inability to determine and weight together the views of members of society as to desirable and nondesirable attributes of performance.

Part I of the book deals with the organization of the food retailing industry. Padberg examines concentration in food retailing and in purchasing food products by retailers. He examines several other attributes of organization, including physical efficiency, cost behavior, and scale economies.

In part II, competitive behavior is examined, including the effects of local market concentration on behavior. Part III is devoted entirely to performance and part IV to conclusions. The book is replete with data, containing over 100 tables and 20 or so figures. The treatment of performance as being a flow of results over time is well done, and the historical aspects of behavior and performance are integral elements of Padberg's final assessment of the present state of performance.

There are few analytical points in the book with which this reviewer has any quarrel. Simply

to indicate that there are some weak spots, however, let me cite one example. Charts of composite retail price, by weeks, for three food chains in each of four cities were presented. Following a discussion of the charts, Padberg stated, "The price patterns of Chains B and C in City 3 and City 4, and particularly all chains in City 1 and City 2, represent the more typical price behavior of food chains. Each chain's price level is similar to its competitor's." If data for additional chains and additional cities are available, it would have been more effective and helpful to readers for these data to be presented. As it is, we only have the author's conclusion based on a small sample.

Professor Padberg concludes that "an unsolved problem of the food retailing industry is how to make this generally high level of performance available in low income areas." Yet, I found few indications that the performance of the industry in low income areas was particularly deficient. In fact, we might turn the conclusion around and state that an unsolved problem of society is how to raise low incomes. With this problem solved, the "excellent" performance in the retail selling market could be expected to generate high quality services and goods for all consumers.

This book seems likely to be quoted by members of the economic profession and the food trades for some years into the future. Those having responsibilities for education of industrial organization students or for regulation of the food trades should be aware of Padberg's conclusions. But they should also be aware that there were differences of opinions on the part of the members of the National Commission on Food Marketing as to the validity of the conclusions. Each person must decide for himself if the conclusions are valid.

John O. Gerald

Concentration and Price-Cost Margins in Manufacturing Industries

By Norman R. Collins and Lee E. Preston. University of California Press, Berkeley and Los Angeles. 116 pages. 1968. \$5.75.

Classical economic theory asserts that prices are higher and the gap between prices and costs is wider under monopolistic conditions than under perfect competition. Consequently, interest in concentration--i.e., the degree to which a small number of firms dominate an industry--is largely attributable to the impression that industrial bigness and monopolistic behavior are causally related. Actually characteristics and behavior patterns vary widely and this precludes a blanket acceptance of a direct link between abnormal profits and concentration.

Norman R. Collins and Lee E. Preston of the University of California at Berkeley studied the relationship between concentration and profitability in American manufacturing industries. The results of their efforts approximate the conclusions of a number of past studies examining the industry variability of industry price-cost margins.

The authors examine independent studies conducted by such prominent economists as Bain, Levinson, Fuchs, Weiss, Schwartzman, Stigler, and Sherman. With the exception of Stigler, these economists stated that there is no conclusive indication of any close correlation between industry concentration and profit rates. Collins and Preston conclude that there is a weak statistical association between concentration and profit indicators in manufacturing industries.

The authors' study, based on 1958 concentration data, is a cross-sectional analysis which measures concentration in terms of the share of the four largest firms. The analysis yields diverse results for the 10 major industry groups considered. Margins were loosely associated with concentration in six of the 10 groups. Geographic dispersion was a statistically significant explanatory variable in six of the 10 groups. The capital-output ratio was statistically

significant in only three cases. In short, the results are too varied to draw a single sweeping conclusion. However, it is noted that the measure of percentage of assets or percentage of shareholder equity showed a better relationship than percentage of sales.

As mentioned earlier, the authors used a concentration index as a measure of the degree of concentration. However, the concentration ratio provides only a partial measure of the monopoly power of large firms. This reviewer feels that an important issue of concern for economists studying this area is the efficacy of concentration indexes, particularly as a measure for antitrust actions. Apparently the U.S. Supreme Court, as revealed in recent antitrust decisions, makes almost exclusive use of this measure in deciding the constitutionality of a merger. However, the Court has not made clear at what percentage of market volume a merger is a restraint of trade. For example: the Court decided the merger unconstitutional in the Philadelphia National Bank case because the bank combination would oversee 33 percent of the banking market in the area, while in the Brown Shoe case the merger was declared unconstitutional when only 2.3 percent of the total retail shoe market was involved. Therefore, concentration measures can be expected to provide only a preliminary basis on which resources for further studies should be allocated.

Concentration is more likely than not a significant variable in the analysis of industry profit and price-cost performance, but other variables also are important and sometimes they appear to outweigh or offset completely the effects of concentration.

Despite the fact that the association between concentration and profits observed in this research is neither overwhelming in magnitude nor unvarying in occurrence, the study did reveal in the aggregate a significant misallocation of resources and excessive dollar profits. Thus, it presents good justification for continual examination of this area of economics.

Jack Ben-Rubin

The Beginnings of Agriculture in America

By Lyman Carrier. McGraw Hill Book Company, New York. 323 pages; reprinted by Johnson Reprint Corporation, New York. c. 1923. \$12.50.

Modern technology and the increase in the number of scholarly libraries, particularly in the newly established colleges, has made the reprinting of out-of-print journals and books a flourishing industry. The present volume is one of a series entitled *History of American Economy*, which is made up of reprints of the "important studies and source books relating to the growth of the American economic system." The series is under the general editorship of William N. Parker, Professor of Economics, Yale University.

Carrier, at the time he wrote this volume, was an agronomist in the old Bureau of Plant Industry. He was one of a group of economists, administrators, plant scientists, and others who believed that the historical approach would help in understanding current problems. Members of this group founded the *Agricultural History Society* and wrote many historical books and articles.

While much work has been done in the field of agricultural history since 1923, Carrier's book has never been supplanted. We know enough more about some of the topics he discusses to point out errors of fact and interpretation, yet the volume as a whole stands up remarkably well. It should be in every library, and is recommended to any scholar who is interested in the beginnings of our agriculture, both in farming and in such economic problems as labor and trade.

Wayne D. Rasmussen

Ranch Economics

By James R. Gray. Iowa State University Press, Ames. 534 pages. 1968. \$15.95.

The author states in his preface that ranchers are aware of peculiarities in their business, but that they lack knowledge in economic theory. The position of economists, on the other hand, is reversed. Consequently, this book is designed to help both groups by bridging the gap between ranching and economics.

As often happens in cases of attempting to serve two ends with the same means, the results may not entirely satisfy either. This is especially true from the economic theory standpoint if the book is to be used in classrooms. It is also likely that ranchers will have to draw on other sources for assistance, since most subjects are not treated in depth.

Gray is extremely knowledgeable about the industry from his close work with it for a number of years. However, his competence may have led to the inclusion of an excessive number of subjects, many of which are treated superficially.

The book provides an excellent bibliography of research done primarily on Western ranching. Both ranchers and students will find it a valuable reference source.

Robert L. Rizek