# PRICE "SPREADS" BETWEEN FARMER AND CONSUMER.

(K.O. Campbell)

## The Problem of Distribution.

With the attention given in wartime to the production problems of the farmer, the importance of the problems of distribution in agriculture tend to be overlooked. While the farmer can do a good deal about the former, he has no great measure of control over the latter, notwithstanding the costs of distribution are of vital concern to him. The consumer, also is interested in a reduction in distribution margins as a means to reducing the price he pays for food.

From the farmer's standpoint, farm income can be increased in two ways - apart from the use of Government subsidies - if efficient production is assumed. One way is to increase the amount of money spent by the consumer, the other is by reducing the cost of marketing. The practicability of enabling or inducing consumers to spend more money on food depends on finding some method of increasing the national income, or some way of getting more nearly equal distribution of purchasing power. On the other hand, reduction of marketing costs, with a consequent increase in farm income, would be somewhat more easily achieved if our marketing systems and costs were subject to careful scrutiny and more efficient methods were introduced.

The importance of the distribution problem to the welfare of the farming community and the consuming public was recognised by the United Nations Conference on Food and Agriculture in 1943. A major resolution of that Conference stated that:-

"WHEREAS -

1. The maintenance of food consumption among the peoples of the world at levels sufficiently high to satisfy minimum health requirements calls for the production of greater quantities of better food at reasonable prices;

2. Except in some countries where consumers largely produce their own food supplies, a substantial part of the total cost of food to the consumer consists of marketing costs (including the cost of assembly, grading, inland and sea transport, storage, wholesale and retail distribution), processing costs, and the rewards of enterprise;

3. In some countries, the provision of unessential services increases the margin between the producer and consumer;

4. Reduction in marketing costs and margins can benefit both producer and consumer alike.

The United Nations Conference on Food and Agriculture recommends:-

1. That the governments and authorities here represented take all practicable steps to reduce marketing, processing, storage and distribution costs, and margins between producers and consumers, particularly by the elimination of unessential services not required by producers or by low-income consumers.

2. That the permanent organisation ..... collect and disseminate information on marketing costs and margins in different countries and in international trade, on the factors which determine or influence such costs and margins, and on the steps taken by governments, by co-operative associations, and by private enterprise to reduce them."

It is the aim of this article to present some preliminary estimates of the magnitude of the distribution margin insofar as the Australian producer or consumer is concerned and to draw attention to certain characteristics of such margins.

Distribution Costs for Agricultural Products.

Table I shows the percentage of the retail prices of some major food commodities, which reached the farmer in 1944. Nominal values have been inserted for those commodities which were in short supply. No account has been taken of government subsidies in the calculation of equivalent prices to the farmer.

The percentage return to the farmer naturally varies for different products, depending upon various factors, including the amount of processing required, degree of transportation necessary, the perishability of the product and the complexity of the marketing agencies involved. For instance, producers received approximately 72% of what the consumer spent on butter and eggs, whereas they only received 26% of the retail price of bread and canned fruit. In the case of fruit and vegetables, the producer's share tends to fluctuate around 50%.

The figures given tend to overestimate the farmer's share of the consumer's food expenditure since no consideration is given to the retail value of all the products and by-products of such commodities as wheat and livestock. If this were done, it would be found that the total amount the consumer spends for the products of a bushel of wheat, for instance, would be larger than indicated, and the "spread" between farm values and retail values would be thereby increased.

Trends in Marketing Spreads.

In order to gain information as to the extent to which the farmer's share of the consumer's food £ has shifted in recent years, information has been compiled to show the retail cost to the consumer as compared with the farm value of 34 food products in the amounts estimated to be purchased annually by the average Australian consumer (Table II). The difference between the two figures represents, roughly, the charges made for processing, transporting and distributing this quantity of food to the consumer.

TABLE I.

RETAIL PRICE, PRICE TO PRODUCER, AND PERCENTAGE OF RETAIL PRICE RECEIVED BY PRODUCER FOR SELECTED FOODS, 1944.

| Retail Commodity | Retail Unit | Retail Price | Received by Producer | Percentage of retail price received by producer. |
|---|---|---|---|---|
| | | Pence | Pence | Per cent. |
| Bread | 2 lb. loaf | 5.84 | 1.54 | 26 |
| Flour, Ordinary | 2 lb. | 5.00 | 2.21 | 44 |
| Flour, Self-Raising | 2 lb. packet | 8.17 | 2.21 | 27 |
| Biscuits, Cracker | 1 lb | 12.05 | 0.85 | 7 |
| Corn Flakes | 16 oz. package | 13.25 | 3.46 | 25 |
| Oats, Flaked | 1 lb. | 3.66 | 1.16 | 32 |
| Sugar | 1 lb. | 4.00 | 1.16 | 29 |
| Rice | 1 lb. | 3.50 | 1.86 | 53 |
| Jam, plum | 24 oz. can | 13.57 | 2.93 | 22 |
| Peaches, canned | 30 oz. can | 13.31 | 3.11 | 23 |
| Pears, canned | 30 oz. can | 14.02 | 3.64 | 26 |
| Raisins | 1 lb. packet | 12.53 | 4.29 | 34 |
| Currants | 1 lb. | 10.78 | 3.80 | 35 |
| Apricots, dried | 1 lb. | 16.50 | 7.77 | 47 |
| Butter | 1 lb. | 20.05 | 14.60 | 73 |
| Cheese | 1 lb. | 17.08 | 9.00 | 53 |
| Eggs | 1 dozen | 26.26 | 19.01 | 72 |
| Bacon | 1 lb. | 22.44 | 12.15 | 54 |
| Milk, condensed | 14 oz. can | 9.70 | 2.07 | 21 |
| Milk, fresh | quart | 7.50 | 3.91 | 52 |
| Beef | 1 lb. composite | 10.75 | 6.71 | 62 |
| Mutton | 1 lb. composite | 8.98 | 4.74 | 53 |
| Pork | 1 lb. composite | 17.45 | 7.20 | 41 |
| Potatoes | 7 lb. | 8.78 | 4.17 | 47 |
| Onions | 1 lb. | 3.54 | 1.56 | 44 |
| Beans | 1 lb. | 13.20 | 6.30 | 48 |
| Peas | 1 lb. | 11.48 | 6.04 | 53 |
| Tomatoes | 1 lb. | 10.64 | 6.46 | 61 |
| Cabbage | 1 head | 14.24 | 8.53 | 60 |
| Carrots | 1 lb. | 3.82 | 1.78 | 47 |
| Apples | 1 lb. | 7.58 | 3.57 | 47 |
| Oranges, Navel | 1 dozen | 25.74 | 13.87 | 54 |
| Bananas | 1 lb. | 8.50 | 4.95 | 58 |

Despite the fact that only portion of the total consumer's expenditure is considered and despite the limitations mentioned in the last section, it is believed that the trends in the distribution of the consumer's food £ and year-to-year fluctuations in the farmer's share are fairly well represented and accurate enough to warrant several important conclusions. The commodities entering into the budget are those used in compiling the Commonwealth Retail Price Index. The source of the retail and farm prices was the Bureau of Statistics.

TABLE II.

AMOUNT SPENT BY CONSUMER AND AMOUNT RECEIVED BY PRODUCER FOR 34 FOODS COMBINED.

1932- 1944.

| Year | Spent by Consumer | Received by Producer | Margin | Farm Value as percentage of retail value |
|---|---|---|---|---|
| | £ | £ | £ | Per cent. |
| 1932 | 17.9 | 6.7 | 11.2 | 37.5 |
| 1933 | 16.9 | 6.3 | 10.6 | 37.4 |
| 1934 | 17.5 | 6.7 | 10.8 | 38.5 |
| 1935 | 17.9 | 7.2 | 10.7 | 40.3 |
| 1936 | 18.0 | 8.0 | 10.0 | 44.6 |
| 1937 | 18.9 | 8.9 | 10.0 | 47.0 |
| 1938 | 19.7 | 8.7 | 11.0 | 44.2 |
| 1939 | 20.5 | 8.6 | 11.9 | 42.0 |
| 1940 | 20.7 | 9.0 | 11.7 | 43.6 |
| 1941 | 20.6 | 9.3 | 11.3 | 45.2 |
| 1942 | 22.3 | 9.2 | 13.1 | 41.2 |
| 1943 | 22.4 | 10.8 | 11.6 | 48.2 |
| 1944 | 22.3 | 11.2 | 11.1 | 50.0 |

These figures are represented graphically in Figure I (page 60). The first graph shows how the cost of a typical food budget has fluctuated during the period 1932-1944, together with fluctuations in equivalent farm values. The second graph reveals the actual margin between farm value and retail value, while the third shows the actual proportion of the consumer's food £ which was received by the farmer. The latter perhaps best illustrates the importance of marketing costs in contributing to the final value of consumer's goods.

It is somewhat unfortunate that data for only thirteen years are available. It is difficult in such circumstances to draw any conclusions as to long-term trends. Experience in other countries points to the significant fact that the farmer's share of the consumer expenditure is gradually declining and it seems probable that the same would apply in Australia for the reasons given later.

Insofar as data are available, the following interesting points might be noted:-

1. The tendency of distribution margins to remain relatively stable despite fluctuations in retail and farm values. In other words, it appears that middlemen, singly or as a group, appear to be more successful in their efforts to maintain charges and revenue, than are farmers in attempting to sustain farm prices and incomes.

2. In a period of rising farm prices, e.g., 1933-1937 and in the war-period, the middleman's share tends to fall, since the costs of distribution rise less than farm prices.

3. Similarly, when farm prices are falling there is a tendency for the middleman's share to rise, due to the inflexibility of distribution costs, e.g., 1937-1939.

4. The rise in retail prices in 1942 and the later rise in farm prices may be of some significance, although the lack of continuity of the figures may tend to overemphasise the lag. This may represent the effect of war-time inflationary tendencies prior to the advent of more effective price control.

## Factors affecting Distribution Margins.

The absolute and relative magnitude of distribution costs frequently appears unreasonable to the uninitiated. The fact that the margin between farmer and consumer prices is becoming larger leads to charges that distributors are making excessive profits or that they are becoming inefficient.

Changes in food margins from year to year are to be explained by one or more of the following factors: (1) Changes in wage rates and other cost factors: (2) Changes in profits and rates of return to capital invested in marketing enterprises: (3) Changes in the efficiency of the marketing system, and (4) Changes in the amounts and kinds of marketing services rendered. It is the last factor which is probably the most significant in determining long-term trends. A century ago, the farmer in a community produced about all the food that the community used. With direct marketing, costs were low, since transportation, grading, processing and packing were kept at a minimum. With the growth of urban centres simple methods of distribution no longer were possible, and the middleman appeared to carry out the task of purchasing the raw product from the farmer, assembling, grading, transporting, storing, processing and distributing the final product to the consumer. Costs of distribution are high because of the variety of services performed - services demanded by the consumer, not thrust upon him. Rising costs of distribution are a measure of service and quality rather than of inefficiency or excessive profits.