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# RESULTS OF STATE TRADING

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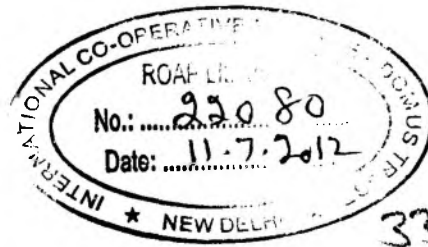
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# RESULTS OF STATE TRADING.

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## FOREWORD.

THE study of State and Municipal enterprise, the results of which are here offered to all those who are interested in the tendencies and developments of economic life to-day, was undertaken by the International Co-operative Alliance with three particular objects: first, to ascertain the value of the various experiments which have been made, some of them over a period of years, in collective enterprise under the control of the community, in relation to the results of similar enterprises in the hands of private traders; second, to enable some estimate to be made of their effect upon the co-operative organisation of commerce and industry and a comparison of their merits with the results achieved by the non-profit making system of economics which Co-operation represents; and third, to assist in the determination of what we may call, for want of a better term, a line of demarcation between those economic undertakings which lend themselves more particularly to the methods of voluntary association and those which demand the larger resources and wider responsibility of the public authorities.

The information obtained in the course of the enquiry has proved to be of considerable interest, not only to the immediate purpose of the enquiry, but also in its bearing upon the solution of a number of economic problems, and reveals some of the stronger currents in the present fluid state of the world economic system.

The co-operative organisation of production and distribution is obviously one of the chief and practical methods of solving many of the problems which confront the world to-day, when the old economic order is passing away and giving place to new. The co-operative system promises, if given fair and full play, to transform the present chaotic state into an orderly system of production for use, and to supplant the present higgling of the market by an associated planned economy which will produce the necessary equilibrium between supply and demand, production and consumption. There are, however, obviously large spheres, particularly in production, transport, and local supply services such as electricity and gas, where the voluntary system of co-operation could scarcely be applied. The technical and financial concentration of many modern industries turns them, to all intents and purposes, into private monopolies organised on a national or international basis, and makes their transfer under the control of national authorities a comparatively easy process. This is also true of a number of local services which are already being operated by the municipalities as public utilities. The future development, therefore, of a collective economy may be conceived as the organisation of numerous distributive services and of production in most branches of agriculture on a co-operative basis, while leaving the big industries, transport and local supply services, to the Municipal and State authorities.

During the last three decades the State and local authorities have extended their experiments beyond the sphere which we have indicated as being most suitable to their responsibilities and resources, to trading in various commodities, thus, in some fields, controlling production and distribution. It is into those enterprises that the

researches of the International Co-operative Alliance have been particularly directed, and the section of this work which deals with Municipal Trading represents a piece of original research which we are confident has not hitherto been published. The chapters on State Trading are no less important, but deal with activities about which many studies have already been made. They will, however, be found to present a freshness of critical treatment, which entitles them to full consideration and an angle of view that is not conventional.

The Alliance has been fortunate in having the collaboration of two highly trained research workers and economists in the persons of Miss Doreen Warriner, Ph.D., and Dr. E. Shenkman, who have been responsible for the whole enquiry and have prepared detailed and documented reports which they have afterwards concentrated in this volume.

Chapters I and III are the work of Dr. Warriner, while Dr. Shenkman has made the special study of Municipal Trade contained in Chapter II.

We have also to express our grateful acknowledgments to the London School of Economics ; the British Board of Trade and the Ministry of Agriculture ; the International Bureau of Local Authorities, Brussels ; the *Deutsche Städtetag*, Berlin ; the municipalities of Vienna and Berlin ; and the Swiss Peasants' Union.

H. J. MAY,  
General Secretary,  
International Co-operative Alliance.

London,  
April, 1933.





# INTRODUCTION.

## THE DIFFERENT TYPES OF STATE TRADING.

**I**N recent years the State has been taking up activities which it hardly touched at all before the war. Previously, the State undertook to provide services in which competition between sellers would be disastrous, if not impossible—railways, road construction, water, gas, electricity or telephones. But since the war many governmental authorities have undertaken trading in commodities where no conditions of natural monopoly affect the supply, such as wheat, milk, butter, meat and coal, and it is with these experiments that this booklet is concerned.

These enterprises, of course, only cover a small part of the whole field of State economic activity. With the problems of State control and ownership in general we are not here concerned. The many ways in which the State can control economic activities—by tariffs, wage regulation, immigration restriction, exchange control, or actual ownership of land and mines—have long been the subject of numerous investigations and discussions, which we cannot take into account ; our object has been to examine the enterprises in which the State's activity is limited to trading—to transactions of commodity buying and selling. In making this examination we have been obliged to confine our study to examples of State trading in countries where economic enterprise is to a greater

or lesser degree free, and where conclusions as to the results of the trading enterprise can be observed from its effects on prices and production. Where every economic enterprise is under State control it is difficult to estimate the commercial success of any single one ; every economic activity, production, consumption, trade, and credit-giving, is controlled, and in consequence the necessary standards for judging economic processes, the movements of prices of goods and services, are to a great extent hidden. Therefore we have been obliged to leave out of account the trading enterprises in the systems of State control applied in the Union of Soviet Socialist Republics and in the Fascist State ; we have only considered the State's success in taking over an economic enterprise where it has not, at the same time, taken over complete control of the economic system, and where, in consequence, the effects of trading by the State can be clearly seen and compared with the effects of individualistic enterprise.

At first sight it might seem as if the various State trading enterprises in existence—crop purchase, corn monopolies, municipal milk and fuel supply, match and spirit monopolies—have nothing in common, and that we have to consider only a collection of miscellaneous undertakings engaged in doing different things in different circumstances. It is true that there is no single economic process in action, but rather three. The enterprises can be divided into groups according to their economic purpose.

#### I.—REVENUE MONOPOLIES.

The enterprises in this group have been introduced by the State with the purpose of increasing its revenue by maximising the net profit from the sale of a commodity. This device for increasing the

revenues of the State has been in use since very ancient times, and we have here discussed only its newer applications and more recent developments. Its success must be judged by the extent to which the unitary control by the State is able to introduce economies in production and distribution.

These monopolies must be sharply distinguished from those in the other two groups, in which the object of State action is not necessarily to make a profit on its capital, but to give assistance to certain classes of its subjects.

## 2.—MUNICIPAL ENTERPRISES TRADING IN MEAT, MILK, AND COAL.

Here the primary object of governmental action has been to protect the consumer. Most of these enterprises originated in the war or post-war period, in times of high prices and food shortage, in which private enterprise could not function normally, so that State intervention was necessitated. In recent years there has been no great increase in the number of these enterprises. In this group the success of State trading must be judged, not by the level of profit on its trading capital, but by the extent to which the municipal undertaking serves consumers' interests better than the private trade or a Consumers' Co-operative Society.

## 3.—STATE ENTERPRISES (MONOPOLISTIC OR NON- MONOPOLISTIC AGENCIES) TRADING IN AGRICULTURAL PRODUCTS.

In this group the object of governmental action is to assist agricultural producers. Many States, both importers and exporters of agricultural

products, have devoted large sums to trading in agricultural produce with the object of raising or stabilising prices. Most of these enterprises have originated in the last few years, in which the situation—rapidly falling prices and a tendency to over-production of many food products—has been the reverse of that of the post-war years. Some, like the German crop purchases, have been enforced as emergency measures, attempting to stave off the fall in prices. Others, however, like the Swiss corn monopoly, are the outcome of a well-considered belief in the importance of prosperous agriculture, and may be considered as attempts at economic planning, to use a much-abused term. Some have been enforced as continuations and completions of existing voluntary Co-operative Marketing Organisations.

No general conclusions as to the effects of all three groups can be drawn, since each type of enterprise is undertaken for a different purpose. From the following pages it is evident that the enterprises have met with very varying degrees of success. State trading does not appear to be a universal solution for economic problems or a happy ending to all conflicts of economic interests. The individualist, looking for proof of the disadvantages of State management, can find here some examples to prove his case ; the collectivist, looking for proof of the benefits of State management, can find other examples to prove that the State has been able to introduce economies in production and distribution, to rationalise supply and prevent an increase in prices, or to give legitimate assistance to producers or consumers. The question of the limits of State action can never be concluded by an appeal to facts, because both the believer in *laissez faire* and his opponent found their convictions on fundamentally opposed economic and

political theories, on opinions and experience based on entirely different social and economic conditions. In any single country it may be possible—as it was, in fact, possible in Great Britain in the nineteenth century—to define clearly what the State should and should not do, but to transfer such a definition to other conditions may give rise to false and dangerous conclusions. For example, the German witness before the Macmillan Committee, who said that “In Germany there is too much bureaucracy in enterprise, and too much enterprise in bureaucracy,” was applying to Germany a standard of judgment essentially British (and a standard of judgment which events proved to be wrong in German conditions). In this short study we have brought together as many different examples of State trading as possible, and have attempted to see the effects of each measure in its own setting, and to ask whether *in that setting* State trading has justified itself, not to make any general comparison of the merits of State and private enterprise under all and any conditions.

For the Co-operative Movement as a whole, the question of whether the principles of Co-operation are furthered by these experiments is becoming increasingly important. In many of them, the Co-operative Societies, both Consumers' and Agricultural, have participated directly, for instance, in the administration of the Norwegian and Swiss import monopolies, in the Viennese meat supply company, and the Yugoslavian wheat export company. Even where there is no direct participation, the Consumers' Societies are almost always closely affected by the State enterprises which deal in the same commodities as they do themselves.

As data about these undertakings are not easily accessible, the information which follows has been collected from published works and from first-hand study of existing undertakings, in the belief that it will assist in forming opinion on the results of State management, and in giving direction to future schemes of collective enterprise.

## CHAPTER I.

# REVENUE MONOPOLIES.

### I.—THE REVENUE MONOPOLY COMPARED WITH DIRECT TAXATION.

**A** STATE revenue monopoly must be judged from a definitely capitalistic standpoint. It is instituted, not for social or political reasons (though such reasons may exist as a side issue), but for the purpose of raising the income of the State ; it is simply a profit-making enterprise, an alternative to other types of taxation. From the consumers' standpoint the critical question is not whether a State monopoly imposes a burden on consumption ; that it inevitably does and intends to do. The consumer must ask whether the burden is heavier or lighter than it would be if the industry was left free, and a tax imposed on the product. If the State monopolises production where otherwise no monopoly would exist, the monopoly management must be compared with the efficiency of capitalistic firms working under conditions of free competition ; if this alternative to a State monopoly is not free competition but a private monopoly, then State



management must be compared with private management.

A monopoly of the market, whether public or private, may benefit the consumer or injure him. If the absence of competition enables production and distribution to be concentrated in large units, the costs of production will be reduced and the State will earn a higher income without raising prices. On the other hand, the monopoly, by safeguarding the market, may prevent the adjustment of costs ; it may conserve obsolete methods of production, duplication of plant, multiplication of small works, and an excessive number of officials, so that the income derived by the State from the monopoly is low, at the same time as the price to the consumer is high. In the following examination of the existing monopolies we must consider how these two tendencies have worked, by comparing the merits and defects of existing monopolies.

Taxes on consumption, that is, excise and customs duties, and returns from monopoly, form one of the chief resources of the modern State. The proportion of the revenue derived from this source varies between 30 per cent and 60 per cent of the total tax receipts in different States. In countries where the average income per head is low, the tax on consumption plays a more important part than taxes on income, business turnover, or property. The countries of Eastern Europe are obliged to rely for the greater part of their revenues on income from monopolies and customs duties. But in recent years the importance of consumption taxes has decreased ; the great increase in expenditure since the pre-war

time has been met by increasing the taxes on incomes and property, as the following table shows :—

PERCENTAGE OF TOTAL REVENUE DERIVED FROM  
TAXES ON INCOME AND CONSUMPTION.\*

	Property and Income Taxes.†	Consumption Taxes.‡
Germany .....1913	63	35·0
1928	68·1	31·9
Great Britain .....1913	53·8	46·0
1928	60·3	39·6
France .....1913	46·6	51·2
1928	69·4	24·7
Italy .....1913	43·4	54·3
1928	58·9	40·3
Belgium .....1913	38·2	61·8
1928	73·9	26·1
Sweden .....1913	31·1	68·5
1928	37·7	61·2
Spain .....1913	52·4	44·3
1928	53·8	42·8

†Including turnover taxes.

‡Including excise and customs duties and monopoly profits.

The greater part of the receipts from consumption taxes are derived from customs and excise duties ; in countries at a higher stage of economic development, returns from monopoly are only a subordinate source of revenue, while in Great Britain and the Netherlands no State monopoly exists.

\* (This and the following table are taken from H. Gross, *Die Entwicklung der europäischen Finanzmonopole in der Nachkriegszeit*, *Weltwirtschaftsarchiv*, Jan. 1931.)

The following table shows the relative importance of the income from monopolies and consumption taxes in the total revenue :—

	Income from Monopolies as a Percentage of Total Consumption Taxes.	Consumption Taxes as a Percentage of Total Revenue.
Great Britain .....	+	39·6
Netherlands .....	—	37·0
France .....	32·3	24·7
Belgium .....	—	26·1
Germany .....	6·7	31·9
Spain .....	25·0	42·8
Italy .....	—	40·3
Austria.....	39·3	45·8
Poland .....	59·5	64·6
Sweden .....	17·5	61·2
Norway .....	12·3	62·0
Czechoslovakia .....	34·8	47·1
Bulgaria .....	5·3	66·0
Roumania.....	32·8	75·9
Yugoslavia .....	40·0	75·4
Lithuania .....	38·4	69·9
Estonia .....	26·3	60·9
Latvia .....	29·4	88·3
Turkey .....	51·0	76·3

In recent years, however, many new monopolies have been introduced and many of the old ones have been reconstructed. As before the war, the monopolies have been confined to what may be described as mass consumption luxuries—tobacco, matches, alcohol. The demand for the first two, matches and tobacco, is to a large extent interdependent ; about 60 per cent of the total match sales are purchased by smokers. Monopolies have also been introduced for the production of salt (in Italy, Austria, Yugoslavia, Greece, Turkey, Roumania, Poland, and Lithuania) ; petroleum

(Turkey, Spain, and more recently Newfoundland); and quinine (Italy, Greece); but these do not compare in importance with the tobacco, matches, and spirit monopolies.

## 2.—RECENT DEVELOPMENTS.

### (i) TOBACCO MONOPOLIES.

The production and sale of tobacco was monopolised in many European countries before the war: France, Italy, Austria, Spain, Portugal, Serbia, Roumania, and Turkey. Since the war monopolies have been introduced in Sweden, Poland, Danzig, Czechoslovakia, Greece, and Estonia. Other States have kept to the system of taxation of consumption: Great Britain, Germany, Switzerland, Norway, Finland, and the Baltic States.

To examine the effects of a monopoly we may take tobacco production in Austria and in Germany for comparison, as conditions are fairly similar. In Germany production is carried on by a large number of independent competing firms; in Austria tobacco production is in the hands of a long-established State monopoly.

#### *Reduction of Costs.*

If we set side by side the tobacco industry in the two countries, we see that the Austrian monopoly is strikingly more efficient than the German system of private manufacture and trade. We must compare the two by taking the average cost of production per hundred kg.\* of tobacco goods (*i.e.*, cigars, cigarettes, and pipe tobacco): In 1926 in Austria the cost was 550 marks†, in Germany in the same year 755 marks.‡ How can this great discrepancy be explained?

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\*100 kilogram = 220 lbs.

† 20 Marks = £1 (gold).

‡ These and the following figures are taken from Dr. Herbert Gross, *Tabakmonopol und freie Tabakwirtschaft*, Jena, 1930.

The greater part of it is due to lower wage costs per unit. The wage cost per hundred kg. of tobacco goods was 111 marks for Germany and 86 marks for Austria. This figure does not indicate a lower wage level in Austria than in Germany. The average nominal yearly wage per worker in the Austrian tobacco industry is 1,326 marks and in the German industry 1,137 marks. The contrast is partly due to the low wages paid in the small cigar factories in South Germany, as wages in cigarette factories, which are concentrated in large towns, are not lower than the general level. The Austrian wages, on the other hand, are better than the average ; the wages of men workers compare favourably with the best paid by private industry. The wages of women workers are considerably higher. If the real wages, that is to say, the purchasing power of the nominal wage, were compared, the difference in favour of Austria would be still greater.

It is the reduction of overhead costs which brings down the cost of production. The whole Austrian production is covered by 5 factories with a yearly average output of 9 million kg. In Germany, on the other hand, in 1926, there were 329 factories with an average output each of 850,000 kg. Sixteen of these, covering 60 per cent of the total production, are larger than the Austrian factories, but it must be remembered that the multiplication of small firms means an increase in costs per unit.

#### *Comparative Retail Trade Costs.*

The most striking achievement of the Austrian monopoly as compared with the German industry is its reduction of the retail trade costs. In Austria the retail trade costs per 100 kg. of tobacco goods amount to 176 marks, while in Germany

they are as high as 525 marks, a difference of 359 marks per 100 kg. This is due to the fact that the Austrian trade works with a smaller trade rebate (10 per cent) than the German, which works with an average rebate of 27 per cent. The Austrian retail traders work with a much larger average turnover per head (11,580 marks) than the German, which work with a turnover of 4,465 marks. The retail trade in Austria is concentrated in larger selling units than in Germany; in Austria a larger number of traders in tobacco goods trade in tobacco goods only, whereas in Germany nine-tenths of the traders sell other goods as well.

In Germany the high rebate is accounted for by the fact that the industry is in a state of over-production. As cigarettes are a proprietary article, competition between the firms can only be competition in turnover. Numerous small firms tried to compete with the larger by giving bigger and bigger rebates to the retail trade. This state of affairs lasted till early in 1929, when a cartel of manufacturers was formed and continued to maintain a high level of rebates. This excessively high amount has brought about a vast increase in the number of retail traders in Germany.

Costs of distribution are much lower for the Austrian than for the German trade, because in Austria the tobacco shops are located on the cheapest sites and are sometimes no more than a wooden stall, while in Germany they are expensively equipped shops paying high rents. The competitive struggle in Germany has also multiplied the cost of advertisement, which in Austria is unnecessary.

### *Profits.*

Comparison of the Austrian industry with the German shows that the monopoly brings in a

larger income than the privately managed industry. The average tax return in Austria in 1926 was 1,040 marks per hundred kg. of tobacco goods, compared with 678 marks in Germany. At the same time the Austrian monopoly can show lower production costs, lower retail costs, and yet sell at a lower price and pay a better wage than private concerns.

The Austrian monopoly's rate of return, though higher than the German, is not excessively high, as is shown by comparison with the retail prices and profits in other Central European countries :—

PRICES, COSTS AND TAX RETURN IN REICHSMARKS PER  
100 KILOGRAMS

	Austria, 1928.	Poland, 1928-29.	Czecho- slovakia, 1926-27.	Hun- gary, 1926-27.	Yugo- slavia, 1926-27.
Retail Price .....	1,854	1,904	1,240	876·8	1,256
Production and Trade Costs .....	779	736	350	425·5	394
Tax Return .....	1,075	1,168	890	451·3	862

Thus in Austria the profits amounted to 57·6 per cent of the retail price, in Czechoslovakia 72 per cent, Hungary 51·8 per cent, Poland 61·1 per cent, and Yugoslavia 57 per cent.

While it cannot be asserted that all other tobacco monopolies have been equally successful, yet there are good grounds for believing that State management in this branch can introduce economies.

The Swedish tobacco monopoly has been able to effect a reduction of costs and an increase in profits, as is seen from the following table showing the relations of costs and prices shortly after its

foundation in 1916, compared with the position in 1928 :—

	1916. Swedish Kronor* per 100 kg. tobacco.	Per cent.	1928. Swedish Kronor per kg. tobacco.	Per cent.
Retail Price .....	758	—	1,441	—
Production Costs.....	273	36·5	383	26·3
Distribution Costs .....	174	23·0	228	15·7
Fiscal Return.....	311	40·5	830	58·0

\*1 Swedish Krona = approximately one shilling.

### *Dangers of Bureaucracy.*

Before the war manufacture and sale of commodities by the State was believed to be of necessity inefficient, because it involved bureaucratic control. It is often argued that if the management of a commercial undertaking is submitted to a government department, it must be slow and hidebound ; lacking the incentive of profit, no proper control can be exercised from above : the administration becomes a collection of sinecures, the workers are subsidised at the expense of the State.

What truth there was in this accusation related to the French tobacco and match monopolies. These undertakings were certainly examples of the bad results of State trading, particularly the tobacco monopoly. Its administration was cumbersome in the extreme. In the first place, the head of the monopoly was the Minister of Finance, who had neither enough time nor enough knowledge to exercise adequate supervision, even if he was fortunate enough to remain in office more than a few months.† In the second place, the manage-

†See A. Lamarque, *Les Monopoles des Tabacs*, 1927, p. 34.



ment of production and the management of distribution was in the hands of quite different authorities, with no connection between them. These authorities were hampered by bureaucratic regulations. They were unable to dismiss a subordinate without the decision of the Minister ; they were unable to buy tobacco under the most favourable conditions, and owing to lack of working capital were obliged to let opportunities slip.

Both the administration and the factories were over-staffed and over-paid. Labour was recruited chiefly among the relations of the workers already employed, so that the employees of the monopoly enjoyed a privileged position.\*

Since 1926 these defects have been remedied. In that year the monopoly was separated from the Ministry of Finance and given an independent existence as the *Caisse Autonome de Gestion des Bons de la Défense Nationale*. The previously divided managements for production and trade were united. The principle of commercial freedom was introduced, so that the management could purchase at the most favourable times. The profits of the monopoly are now allotted to the service of the war debts. Since the reform of the organisation, the profits of the French monopoly have increased, while consumption has remained approximately on the same level :—

Year.	Consumption of Tobacco per Head. (Kg.)	Returns in marks per 100 kg. converted to 1913 values.
1926 .....	1,233	572
1927 .....	1,323	733
1928 .....	1,298	819

\**ibid*, p. 54.

## (ii) MATCH MONOPOLIES.

Almost all the State monopolies of matches in Europe (most of which were founded before the war) were rented during the years 1928 to 1930 in exchange for loans to the Swedish Match Trust, which came to be known by the name of its holding company, Kreuger and Toll, now in process of liquidation. It is difficult to draw any conclusion as to the efficiency of the State monopolies which were drawn into its sphere, since all its operations were carried out in complete secrecy. This concern enjoyed enormous prestige for a period of eight years, during which time it completely succeeded in bluffing the public into accepting it as a financial power, to such an extent that when a London newspaper offered a prize for the best list of investments, the winning entry placed the Swedish Match Trust first as a concern with widely distributed securities and a secure basis in the possession of State monopolies.

At the time of the collapse of the trust in April, 1932, it controlled three-quarters of the world's match production. Its growth in the past ten years had been extremely rapid, since the Swedish match industry itself only consolidated in the year 1917, and cannot be attributed simply to natural resources at the disposal of the Swedish industry. Sweden, although rich in timber, does not grow the type of tree necessary for match manufacture in sufficient quantities for its production, and imports part of its supplies from Eastern Europe. Nor was the power of the trust due to the advantage of skilled labour, except to a small extent. In its early years the Kreuger Match Trust owed its extension to the policy of not distributing profits as dividends, but investing its profits in the concern and in other companies ;

and to the policy of investing in dollar securities during the inflation period when other European concerns of a similar character were destroyed by investing in fluctuating currencies. It began as an industrial amalgamation, but in its later years it was not concerned only with match production ; by 1931 more than half of its total capital was invested in other companies ; it had become an investment trust and an international financier—on a completely fraudulent basis.

Kreuger's first attempt at using match monopolies as a basis for taking up foreign loans was made in Poland in 1925. Financial pressure compelled the government to institute a monopoly and rent it to the International Match Corporation for seven years in return for a loan of \*\$6 million at 7 per cent ; the monopoly was prolonged for a further 20 years in November, 1930, in return for a loan of \$32 million. Under this contract the government retained half of the yearly profits of the monopoly and received a yearly rent of 5 million zlotys.† Subsequently, loans were made on similar terms to Hungary, Yugoslavia, Turkey, Greece, Lithuania, Estonia, Roumania, Latvia, Danzig, Portugal, Algiers, and the South American States. So complete was the trust's domination of the market that the only entirely independent monopolies remaining in existence were those in Russia, Bulgaria, Spain, and Egypt ; in France a special compromise was made between the trust and the monopoly.

Where the trust did not succeed in renting a monopoly, or where no monopoly existed, it penetrated the market with cheap matches and gradually got all the factories under its control. The only countries where the Swedish Match

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\*£1 = \$4.82 (gold).

†£1 = 43 zloty (par of exchange).

Trust did not dominate production were Austria and Czechoslovakia—where production is controlled by the Solo A.-G., which repeatedly refused offers from the Swedish Trust—and Holland and Denmark. Elsewhere all the larger factories were in the possession of the trust.

*France.*—Attempts were made by the Swedish Match Trust to get control of the French State monopoly without success. The French monopoly was founded in the year 1872, when about 600 small undertakings were closed down and production concentrated on larger works in order to increase the yield of the tax. These continued till 1890, when the monopoly company was dissolved and carried on by the State as a production monopoly with five large undertakings; the wholesale and retail trade was left to free competition. This monopoly was not able to cover the whole French demand and matches were imported from Sweden and Belgium.

The French monopoly has been condemned by several authorities as inefficient.\* The output per worker is low; cost of production is high. As an example of its ineffectiveness may be mentioned that for years the monopoly sold boxes of matches purporting to contain 60 matches which never contained so many as 60; at length, after protests, the monopoly changed the label on the box to 50 matches, although the boxes still contain 55 or more.

The ineffectiveness of the monopoly may be judged by the fact that it earned more from the sale of imported matches than by the whole production of its own matches. A commission reported in 1925 that the State would receive more

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\*See Dr. Erich Schaff, *Internationale Verflechtungen in der Zundholzindustrie* (Hessische Beiträge zur Staats und Wirtschaftskunde, Volume II, Leipzig), 1929, pp. 84–86.

revenue from a tax on matches and the abandonment of the monopoly. In consequence of this decision M. Poincaré wished to rent the monopoly to the Swedish trust, but under the pressure of political parties, particularly the political organisation of the workers in State concerns, this project had to be abandoned, and the monopoly was re-introduced. The French Socialist parties opposed the renting of the monopoly on the ground that the worker would receive lower wages.

Poincaré made a further attempt to rent the monopoly to the Swedish trust in 1926, but the idea was given up in favour of a plan for co-operation between the State and the Swedish Match Co. This second proposal was refused, but a similar one was accepted in 1927. The government took from the trust a loan of 75 million dollars at 5 per cent, in order to pay off an American loan taken in 1920 at 8 per cent. Thus the transaction brought the French treasury a yearly profit of 2½ million dollars. No provisions were made under this contract for the dissolution of the French monopoly, but it is believed that the Swedish trust secured some concessions on timber contracts and match imports for the French market. Apart from this, it is not known what advantages the Swedish trust obtained.

#### *Relations with Consumers' Co-operative Societies.*

The trust's expansion directly affected consumers' co-operative societies which owned match factories in different countries, particularly Germany and Finland.

*Germany.*—In 1930 a State monopoly was instituted with the object of holding the balance between the German firms and the Swedish, which gave the co-operative factories a special position. In the years before the war the German Government attempted to regulate the production by

allotting quotas to the different factories, but this measure did not succeed. Most of the factories in the years before the war belonged to a syndicate, which, owing to competition from outsiders, never succeeded in regulating prices. After the war, at the close of the inflation period, the industry found itself in a state of over-production and violent competition, and in 1926 was demanding the introduction of a State monopoly, just at the time when the Swedish Match Trust was penetrating the German market. The German industry, financially weakened by the internal competitive struggle, was unable to resist the competition of the trust's factories. The trust was able to buy the weaker factories, close them down, and concentrate production on the most efficient works, and in the course of a year or two 70 per cent of the German demand was covered by factories in the trust's control. The German industry then asked the Government for protection, which resulted in the Match Industry Restriction Law of 1928. Under this law a company was formed, the *Deutsche Zündholz-Verkaufs Aktiengesellschaft*, which was to have the monopoly of the export and sale of matches for the whole of Germany. This company divides the total orders, giving 65 per cent to the Swedish and 35 per cent to the German factories (thus giving the German works an artificially favourable position). At the same time a further law was passed prohibiting the foundation of new factories and the expansion of the production of the already existing factories by more than 33 per cent.

The match factories of the Consumers' Co-operative Societies, which covered 7-10 per cent of the German consumption, were exempted from the provisions of the law to some extent. The *Grosseinkaufs-Gesellschaft deutscher Consumvereine*

(C.W.S. of German Consumers' Societies), Hamburg, is entitled to supply matches to its affiliated Consumers' Societies, but this supply is limited to 23,000 standard cases per year, a standard case in the sense of the law containing 600,000 matches. Should the development of the Society justify it, the supply may be increased (or reduced), but this additional supply must not exceed 230 standard cases in any calendar year after the passing of this Act. This provision may, however, be changed and the total supply of matches of the Wholesale Society to its affiliated Societies fixed at 12 per cent of the total sales of the whole country during the previous year, its own supplies being included in the total for the country.

The *Grosseinkaufs- und Produktions-Aktiengesellschaft deutscher Konsumvereine* (Wholesale and Productive Joint Stock Company of German Consumers' Societies), Cologne, is entitled to supply matches to its affiliated Societies, but the supply is limited to 3,700 standard cases per year. This supply may be increased (or reduced) in proportion to the development of its turnover, but the additional supply must not exceed 37 standard cases per year. This supply may also be regulated on a different basis and fixed at 2 per cent of the total sale of matches throughout the country, its own sales being included in the total sales.

This law can hardly be considered as advantageous as a complete monopolisation would have been. It guarantees the survival of the small works, putting an end to the competitive struggle, without combining the works into more efficient units.

*Finland.*—In Finland two co-operative match factories (belonging to *Suomen Osuuskayppojen Keskuskunta* and *Osuustukkukauppa*) had a hard struggle with the trust; by the beginning

of the year 1927 it controlled two-thirds of the Finnish production. An agreement was finally made, according to which the co-operative factories acquired a great influence over the fixing of prices on the national market ; the internal price could not be raised without the consent of the co-operative factories, while, on the other hand, export had to be undertaken in co-operation with the factories dominated by the trust.

Now that the trust is in process of liquidation, it is probable that the factories which have been absorbed by it will return to their independent existence. The obligations of the States to pay interest on their loans will presumably remain in force, or the monopolies may return to State ownership.

Can it be said that the Swedish Match Trust improved the organisation of the match industry ? It is probable that if its factories were compared with independent ones, they would appear the most efficient, since in the early days of its expansion the trust relied on profits from the match industry. But not necessarily all the factories which it ruined or absorbed were less efficient : it was financial power, not technical efficiency, which defeated its competitors. The trust was able to flood the markets with cheap matches with which independent factories were unable to compete, even if they were equally efficient. ' Finance capital ' may entirely upset the working of free competition, since it represents economic power which is not based on superior economic efficiency.

The Kreuger Trust seems to have been a mere concentration of ownership and does not appear to have introduced any reorganisation among the factories. The final reports of the accountants



investigating the accounts of the trust show that they were manipulated from its earliest days. In the years 1929 and 1930 the trust paid a dividend of 30 per cent on its share and debenture capital, and declared that its actual earnings were 72 per cent in 1929, 56 per cent in 1930, and 40 per cent in 1931. The auditors' report shows that the actual earnings of the five companies during recent years was  $1\frac{1}{2}$  per cent of the average capital invested. From 1918 to 1932 Kreuger obtained £115 million from the public, and his available funds, including bankers' advances and real profits, amounted to £158 million. Of this sum he appropriated £24½ million for his own use; £36½ million was distributed in dividends; and only £97 million was actually invested. As the trust never had an economic basis, a comparison of its factories with the State-managed factories can have no bearing on the question of the efficiency of State management.

### (iii) ALCOHOLIC SPIRITS.

Most of the existing spirit monopolies are fairly recent institutions. Before the war alcohol monopolies only existed in Switzerland, Serbia, and Russia. Since the war monopolies or semi-monopolies have been instituted in Germany, France, Norway, Sweden, Latvia, Estonia, Poland, and Turkey. In most countries the State monopoly of spirits only extends to sales, and does not undertake production. In Germany, Sweden, and Czechoslovakia the Government has instituted a selling company which takes over the spirit from the distilleries at a fixed price and resells it at two different price levels according to the purpose for which it is consumed. In some countries the selling organisation is half private and half official; this method is found in force in Hungary, Roumania, Denmark, and Czechoslovakia.

In Austria and Czechoslovakia the present organisations were set up because the private trade and the State monopolies showed themselves unsuccessful. Before the war, spirit production in Austria and Hungary had been regulated by private cartels formed in three districts in the year 1911. The cartels raised the price of spirits considerably, and thus stimulated investment in the industry and the construction of new factories. Profits were brought down, and in order to increase the revenue of the State it was proposed to form a monopoly, with the result that still more new factories were built with the hope of being purchased by the State. In the old Monarchy a monopoly was never introduced, but a law was passed fixing the selling price of spirit. After the independence of Czechoslovakia was proclaimed, the official selling organisation was transformed into a monopoly. In Austria no monopoly was introduced; one was contemplated, but rejected owing to the fact that a large quantity of spirit is produced from fruit and that this production is carried on by thousands of small scattered enterprises. In 1926 a law was passed which gave the *Spiritusstelle* the exclusive right of importing and exporting, buying from the producers and fixing prices. In Czechoslovakia the official organisation was transformed into an independent company, the Society for the Sale of Spirit, which was given the sole right of selling spirit for the home market and for abroad, with the exception of spirit for productive purposes. It is obliged to control home consumption of spirit of all kinds and to pay a tax of 8 crowns (1s.) per hectolitre of spirit. The total sales of spirit are divided among members of the Society in agreement with the refiners and according to a fixed

scale. Thus the Society is indirectly responsible for the financial results of the distilleries.

*The Position of Agricultural Co-operatives.*

In Central Europe the greater part of the spirit output is distilled from potatoes in agricultural distilleries. Most of these are organised on a co-operative basis. In Czechoslovakia the agricultural distilleries cover about three-quarters of the total supply; and about half of their production is in the hands of agricultural co-operative distilleries, which include all the larger enterprises. In Austria the co-operative distilleries are fewer in number and smaller in size, though they appear to be increasing in number, since 18 co-operative distilleries were producing in 1928, as compared with only one in 1926.

The special legislation in Czechoslovakia safeguards the position of the co-operatives in that it affords to the agricultural distilleries a secure market which, under conditions of free competition, they would probably lose to the industrial distilleries.

*Results of the Double Price Level.*

All spirit monopolies have adopted the principle of fixing two price levels for the sale of spirit, according to whether it is to be used for drinking or for non-drinking purposes. The price of drinking spirits is heavily taxed, as it is considered desirable to restrict consumption and to increase the revenue of the State as far as possible without reducing consumption of spirit for other purposes.

In consequence, spirit monopolies in recent years have found it difficult to dispose of increasing output, as their own policy has checked the consumption of spirit. In Germany the spirit monopoly in 1930 was obliged to keep stocks

amounting to three-quarters of the previous year's sales. Production in the years 1925-30 increased, but the total sales declined, so that the stocks under the control of the spirit monopoly increased to  $1\frac{1}{2}$  million hectolitres.\* Formerly the taxable sales (that is, sales for drinking purposes) were more important than non-taxable sales; now the reverse is the case. The plan of making good these losses by increased taxation of drinking spirit has shown itself a failure. The German spirit monopoly, previously a profitable undertaking, is now only artificially maintained by the Treasury. The consumption of spirit, which 30 years ago amounted to 2 million hectolitres, about 3.7 litres per head of population, has now fallen to half a million hectolitres per year, about 0.78 litres per head. The chief cause of this is the high price of drinking spirits, and this in its turn is caused by the high price at which the monopoly administration takes over from the agricultural distilleries. For the year beginning October, 1931, this price was fixed at 49.35 marks† per hectolitre, that is, about twice the world market price.

### *Compulsory Consumption.*

In order to increase the sales of the spirit monopoly, the governments in many countries have enforced measures making it compulsory to mix spirit with petrol. A law was passed to this effect in Germany in 1930, and in Czechoslovakia in 1931. By this means it is expected that the sales of the monopoly will be considerably increased. In Berlin and in Prague the price of the new mixture of petrol and alcohol has been the

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\* 1 hectolitre = 100 litres; 1 litre = approx. 1 quart.

† 1 Mark = 1s. (Gold).

subject of endless discussions between the socialist and agrarian interests.

In spite of the defects of management, it is not proposed in any of these countries to abolish the monopoly. Under a régime of free competition, the industry would still find itself threatened by over-production, and would probably resort to some form of cartel regulation to reduce productive capacity. It may be argued that the agrarian interests benefit from the possession of a monopoly, but this could be best guarded against by enforcing a more moderate price policy and not by abandoning the monopolistic form. Abolition of the fixed price régime would severely affect the agricultural distilleries which provide employment on the land, particularly in the poorer agricultural districts.

### 3.—THE GENERAL RESULTS OF STATE MANAGEMENT.

From this examination of the different State revenue monopolies, it seems that many of the accusations levelled against the manufacture and sale of commodities by the State must be withdrawn. Taking the principal criticisms of State management one by one, it appears that scarcely any of them can be generally applied.

First, it is commonly said that a State revenue monopoly is less productive than a tax on consumption. While this may be true in some cases, comparison of the Austrian and German tobacco production shows that a monopoly can be more productive than a tax, at the same price level.

The second criticism is that a State monopoly may abuse its monopolistic position by raising prices. This the monopolies of tobacco and

matches have not done ; but the spirit monopolies undoubtedly have, with the result that stocks have increased and the monopolies' own financial position has weakened to an extent which would ruin a private undertaking. On the other hand, it must be borne in mind that limitation of consumption in this special case is not in itself injurious.

The third argument against the State monopoly, that its costs are too high, is also refuted by the figures which we have given showing the reduction of costs since the operation of the Austrian tobacco monopoly, and the comparison of costs of the Austrian and German tobacco production. Both the Austrian and Swedish monopolies have rationalised production and distribution of the product.

It is certainly true that costs of production and distribution under the old French tobacco and match monopolies were extremely high, but, as we have seen, these monopolies were a by-word for inefficiency ; they have now been reorganised on a commercial basis, and the chief abuses connected with the system have been abolished. It is possible, no doubt, that the operation of State monopolies may be corrupt and inefficient, particularly in those European and South American States where political morality is low, since it is impossible that the monopoly management should rise above the level of the administration in general. But there is no reason to suppose that in the modern State the monopoly management would be attended by abuses of this kind ; where the standard of political morality is high, as in Switzerland and the Scandinavian countries, State management can face any criticisms of this kind.

Another common criticism of State management is that it restricts the consumer's choice by

reducing the number of brands of a commodity. This is undoubtedly true of the Austrian tobacco monopoly, and is, in fact, one of the chief ways in which it has been enabled to reduce costs. Three chief brands take up 83 per cent of the total sales ; only one or two brands are sold at the same price. In Germany, on the other hand, more than 50 different brands of cigarettes can be obtained at the same price level. But the consumer does not really suffer, owing to the fewer number of brands, for the Austrian monopoly has the great advantage of being able to sell a uniform quality of cigarettes. The competitive struggle in Germany drove different firms to introduce new brands repeatedly, and, when their good quality had secured a market, to sell an inferior cigarette under the same name ; thus the consumer could never rely on the quality of any but the most expensive brands. The quality of the Austrian brands is unequalled at the price.

The most serious accusation against the State monopoly is that it may become the prey of special interests. This has certainly happened. In France the labour unions were able to resist any reduction of employment or wages in the factories. In Czechoslovakia and Germany agrarian interests have been able to resist reduction in the price of spirit. But it may be doubted whether such influence as this is very injurious. It is not a concealed and corrupt method of gaining economic advantages such as the tariff promotes. Its effects and its extent are quite clear, and, if exaggerated, there is the remedy of legislation available.

CHAPTER II.  
MUNICIPAL TRADING IN  
COMMODITIES.

**T**HIS study is limited to those countries in which municipal trading in commodities is conducted on a large scale. It is necessary to take into consideration that there is very little statistical or other information relating to municipal trading in commodities. Most of the undertakings engaged in this branch of trading do not publish their balance sheets in the ordinary way, and there is hardly anything available in the existing literature of economics bearing upon the special questions.

For the purposes of the enquiry commodities have been chosen which have a special interest from the point of view of Consumers' Co-operative Societies, *i.e.*, milk, meat, coal, and the restaurant business. It would be quite impossible to examine the activities of every municipal undertaking trading in these commodities, and we have, therefore, chosen for study a few undertakings in Germany, Austria, Hungary, and New Zealand which are generally regarded as model institutions.

In order to investigate various aspects which cannot be disclosed by any balance sheet, a personal investigation was undertaken and first-hand information obtained from the authorities managing the various municipal undertakings in Brussels, Vienna, Nürnberg, Frankfurt-am-Main, and Berlin.



## I.—THE LEGAL POSITION OF MUNICIPALITIES.

In many countries the scope of economic activities of municipalities is definitely restricted by law. In Great Britain any extension of these activities must, in each individual case, receive special legislative sanction. In Germany the regulation of the 17th October, 1927, relating to the municipalities, requires that any new municipal trading organisation must receive the approval of the State Supervisory Board. These regulations do not affect the existing undertakings, and, as was explained to us in the offices of the *Deutsche Stadtetag* in Berlin, they are not felt as a serious restraint by the municipal authorities, as since 1927 there has not been a noticeable tendency to extend municipal activities in the economic sphere ; on the contrary, a certain shrinkage of these activities has made itself felt. Amongst the individual German States, the constitution of Bavaria extends to the municipalities the right to take up any form of trading they choose, but, of course, the above-mentioned federal regulations relating to Germany as a whole restrict to a certain extent the provisions of the Bavarian constitution. In Thuringia any kind of economic activity which extends beyond the boundaries of the municipality must have the approval of the State authorities. In Austria, the country which has made the most extensive experiments in the field of municipal trading, the scope of municipal activities can be defined by the authorities of the federated States. Vienna is, according to the Austrian constitution, not only the capital of the country, but also one of the federated States, and is quite free to undertake any form of municipal trading so long as it does not infringe the general provisions of the federal

law, which set certain limits to the establishment of monopolistic undertakings. For all practical intents and purposes the policy of the Vienna municipality is limited only by the available financial resources and by considerations of a social and political character. In South-Eastern Europe, and also in Poland and the Baltic border States, the law definitely establishes the functions of the municipalities in the economic sphere. In New Zealand, where municipalities have shown extraordinary enterprise in the domain of trading, any extension of economic services on the part of the municipality must have the approval of the Dominion Parliament.

The right of the highest authority in the State to intervene in, to limit or even to prohibit the economic activities of the municipality is important from two points of view. On the one hand, the State can use its power in the interests of private commercial circles, which may regard with disfavour the development of trading enterprises which would come into direct competition with themselves; and, on the other hand, the State can use its supervisory functions most beneficially for the majority of the population in cases when the municipality attempts to create a monopoly out of certain services rendered to the population, and to make competition legally or practically impossible. The municipalities in Germany, Czechoslovakia, and Austria, and in many other countries, have the right to establish monopolies, but they must receive the approval either of the State or the federal authorities.

The development of municipal trading in commodities in various countries is, to a large extent, the result of the decision of many enterprising municipalities to organise and develop various local services. This tendency, noticeable in pre-war

times, was strengthened during the war, when local authorities were made responsible by law for supplying the population with many commodities. The organisation of municipal establishments to provide bread, milk, coal, clothes and various other goods in Berlin, Frankfurt, Budapest, Vienna, Warsaw, Moscow, and in many other towns, must be largely attributed to the needs of war time. After the termination of the war a very strong movement in various countries, supported by socialist and progressive parties, advocated the retaining of the municipal trading undertakings which had already been set up. But this extension of municipal enterprises, though it could be largely attributed to an arbitrary intervention on the part of the State, and though it was facilitated by the breakdown of private industry and commerce, has aroused much criticism. The fact that the municipalities were in many instances quite unprepared to undertake the new functions imposed upon them was used as an argument against municipal trading. Many influential writers and organised political parties, more particularly on the Continent, have taken the view that, although private enterprise was unable to carry out many of its most important functions in time of national crisis, it is better suited to carry them out in times of peace. This criticism, coupled with a weakening of the influence of the organised socialist movement in the years following the post-war period, has induced many municipalities on the continent of Europe to give up enterprises which they had started during the war. In Great Britain, the municipalities, being controlled by political parties who are definitely against any form of interference with private trade, have always cut short any attempt to indulge in trading.

## 2.—MOTIVES FOR COMMODITY TRADING.

Municipal Trading, in the sense in which the term is generally used in the literature of applied economics, can be divided into two spheres, firstly, the supply of water, gas, electricity, and the ownership of various forms of communication—undertakings which are all included in English-speaking countries under the name of public utilities—and, secondly, municipal trading in various commodities.

There is, at present, very little difference of opinion with regard to the municipalisation of those services within the boundaries of the city which can be classed as public utilities. In many countries they are already organised as public utilities and are practically in the hands of the municipalities; in other countries there are even in operation special laws which secure for the municipality a monopoly in the carrying out of these services. The reason why so little objection can be raised against transferring their ownership to the hands of the municipal authorities is that the supply of electricity, water, gas, &c., tends to be naturally monopolised. It would never pay in an average-sized town to have two undertakings supplying water, gas, &c., because of the large amount of capital involved and the high overhead costs. The provision of such services must inevitably become a business of very large and powerful organisation, which cannot but occupy an arbitrary position in fixing the rates and other charges. From the point of view of the consumer it is undoubtedly preferable to entrust such monopolistic powers, not to a privately owned and practically uncontrollable undertaking, but to the municipality; in democratically governed municipalities such transference is absolutely necessary.

In regard to municipal trading in commodities the position is not so clear. The first and fundamental reason which speaks in favour of municipalisation of public activities—the tendency of these services to become unrestricted monopolies—does not apply to commodity trading, though it might become a monopoly in the control of the municipality. There is no danger that milk, meat, bread, or coal supplies may become monopolised by one big private undertaking, for there is always the possibility of small companies springing up and competing recklessly with the combines, so long, of course, as the latter do not enjoy an exceptionally favourable position in regard to taxation or credit. On the other hand, while the consumer can take over the control of the supply of water, gas, electricity, &c., only through a democratically elected municipality, in the case of commodity trading society has developed a system of Consumers' Co-operatives which embody all the advantages of public and controlled undertakings without the many disadvantages which turn municipal and State undertakings into bureaucratic organisations, and which avoid the difficulties involved in interlocking the finances of all undertakings owned by the municipality with the general municipal budget.

The intervention of the municipal authorities in the domain of commodity trading may have four different motives :—

- (a) considerations of sanitary control ;
- (b) the desire to build up model undertakings and stimulate improvement in trading methods ;
- (c) the necessity of exercising an effective control over the market and influencing the price policy of various undertakings

supplying the population with commodities of primary necessity ;

- (d) the inefficiency of private trade and the slow development of co-operative trading.

State and municipal health authorities, in controlling and inspecting the meat and milk supply from the hygienic point of view, sometimes reach the conclusion that their activities should not be confined to inspection, but should be extended to trading, as their only way of exercising effective control over these commodities, upon the quality of which depends to a very large extent the health of the children and the adult population of the town. Even in such countries as Great Britain, where private trade has shown great organising ability, and where the town councils are strongly opposed to any interference with private trade, the idea of municipalising milk supplies is now attracting much attention.

In Germany the milk supply is in the hands of the municipal authorities in many big towns. The same can be said of Australia and the United States. Recently, Berlin, Glasgow, and Vienna have been discussing the question of municipalising the milk supply. Where pasteurisation of milk is legally enforced, as in some German cities and in Canada, public control is a necessity. Not only does the installation of machines require a large capital investment, but also the process of pasteurisation means that there is only one quality of milk sold, and, therefore, a fixed price is paid to the producer by the dairy and a fixed price is paid by the consumer. Thus the margin for distribution costs is fixed, and this supply of milk becomes a "service" rather than a trading activity.

The participation of municipalities in trading in meat is limited in most cases to the ownership and organisation of meat markets and abattoirs and other institutions where the slaughter of animals is carried out. The considerations in favour of the municipalisation of the meat supply do not differ from those put forward with regard to milk. The functions of supervising the slaughter of animals and inspecting the quality of meat have brought the municipalities face to face with the whole problem of meat trading and made them actively interested in the organisation and distribution of this commodity. In addition to this, meat is regarded as an article of primary necessity which constitutes a very important item of diet and absorbs a substantial portion of the budget of the poorer sections of the population. Consequently, it is regarded as an important social obligation to exclude profiteering from the trade. During the last ten years a tendency has been noticeable among municipalities in Central Europe to increase their interest in the meat trade, especially the trade in frozen meat. Amongst European municipalities Vienna has shown the greatest interest in meat trading, and the mixed company with its subsidiaries which has been set up for this purpose now plays an important role in the total supply of the population. In Denmark and partly Australia the meat supply is mostly in the hands of Co-operative Societies; in Canada, U.S.A., and Great Britain it remains mostly in the hands of private trade organised in big combines on an international scale.

The efforts of a few municipalities to set up restaurants have usually been stimulated by the inefficient way in which these businesses are conducted by private trade, and the inability, for

a number of reasons, of Co-operative Societies to perform these services.

Typical examples of municipalities engaging in trading in order to influence the development of prices and to counteract the profiteering of private trade can be found in the municipalisation of the coal supply by the Berlin municipality, and the organisation by the municipality of Warsaw and other Polish towns of shops selling various commodities at prices slightly below those ruling in private shops. It is interesting to note that, in order to prevent speculation and other abuses, the amount of goods sold to each customer is usually limited.

### 3.—THE MILK SUPPLY IN NÜRNBERG AND WELLINGTON, N.Z.

For our study of municipal trading in milk, we have chosen two countries, Germany and New Zealand, where this branch of economic activity has already left its experimental stage and appears as a permanent feature of the economic organisation of the country. According to our investigation in the year 1931, 30 big German cities, each with a population exceeding 50,000 (excluding Berlin, where the milk supply is entirely in private hands), possessed 48 milk depôts, 9 of which are owned and managed exclusively by the municipalities, while 20 depôts represent mixed undertakings in which the municipalities are participating with private trade or Co-operative Societies. In these depôts, municipal milk is distributed in bulk and in some is also pasteurised. The municipalities perform mainly the function of wholesale distributors, leaving the retail business in the hands of private traders. Only in a few instances do they take over the whole distribution. The technical process of pasteurising, testing, and certifying milk



according to a certain standardised system is concentrated in the hands of municipal or semi-municipal milk distributive centres.

Amongst the cities where, apart from private traders, there are milk depots exclusively owned by municipalities are Köln, Frankfurt a.M., Essen, Aachen, Karlsruhe, Trier, and Hildersheim. In Mannheim and Nürnberg and many other towns there are mixed undertakings. In Stuttgart, the *Milchhof* (the largest municipal undertaking after Nürnberg) is a mixed undertaking; one-third of the capital is controlled by agricultural co-operatives, one-third by the municipality, and one-third by the private trade.

The following table gives a list of mixed undertakings and shows the share of municipalities in the capital of the companies and their average daily turnover in litres\* in the years 1926-1930.

Town.	Share of the Municipalities in the Capital of the Company.	Daily Turnover of the Company in Litres.
	%	
Nürnberg .....	60	183,086
Düsseldorf .....	50	50,000
Stuttgart .....	33	120,000
Dortmund .....	33	49,000
Duisberg .....	67	51,000
Mannheim .....	83	80,000
Barmen .....	50	20,000
Bochum .....	50	35,000
Krefeld .....	45	28,000
Mülheim .....	75	15,000
Saarbrücken .....	26	30,000
Oberhausen .....	50	25,000
Offenbach-am-Main .....	40	17,000
Heidelberg .....	33	18,000
Ulm .....	20	13,000
Jena .....	67	5,500
Kaiserslautern .....	92	9,250

\* 1 litre = approx. 1 quart. 4.5 litres = 1 gallon.

In order to get an inside knowledge of the work of the municipal system of milk pasteurisation and distribution, we have made a special study of the Bavarian Milk Supply Company of Nürnberg (*Bayerische Milchversorgungsgesellschaft*) and the *Milchzentrale* in Mannheim. The Bavarian Milk Supply Company was chosen because it is the biggest undertaking of this kind in Germany, its daily turnover in raw milk, which amounted in 1930 to 176,786 litres, largely exceeding that of any other company, as is shown in the above table.

The aims of the company were officially outlined as follows :—

- (a) To supply milk and milk products to the population at reasonable prices. For that purpose an adequate organisation must be created for collecting, sterilising, and pasteurising the milk, and manufacturing various milk products out of the surplus. Thus, not only are the interests of the consumer be provided for in the best possible way, but the marketing possibilities of agriculture are increased considerably.
- (b) To support all efforts to better the quality of the milk and to create a commodity which is absolutely unimpeachable from the hygienic point of view. For this purpose the company has created a wide net of collecting centres supplied with refrigerators and other similar equipment, and sends specially trained members of the staff to instruct the producers in the best ways of securing the highest quality of milk and of taking the necessary hygienic and sanitary precautions.

The company assumed its present name in the spring of 1930 when its capital was increased from 700,000 marks to 1 million marks, but it has existed since October, 1915, when the municipality of Nürnberg decided to engage in milk trading on a large scale and set up for that purpose a special company with limited liability, having a capital of 180,000 marks, eight-ninths of which belonged to the Municipal Council and one-ninth to the *Bayerische Vereinsbank, Nürnberg*. The first and immediate purpose of setting up this special company was the insufficient milk supply of the town and its surroundings, and the bad quality of milk, which was regarded as responsible for various epidemics which broke out from time to time, and for the very high infant death rate in Nürnberg.

During the 15 years since its establishment, the company had amalgamated with similar undertakings in the neighbouring towns and developed into a big undertaking supplying milk to the greater part of Northern Bavaria, and milk products, cheese, chocolate, and even butter to other parts of Germany.

The capital of the company is nominally one million marks, 600,000 being contributed by the municipalities of Nürnberg, Fürth and Regensburg, 250,000 by an agricultural group consisting of four associations of dairy producers, and 150,000 by two associations trading in milk. But, according to information given to us at the head office of the company in Nürnberg, actually all the investments of the company—comprising the central milk depôts, laboratories, butter, chocolate, cheese and other by-product producing factories, provided with their own water supply and electric current—largely exceed the nominal capital.

The quantity of fresh milk collected and used by the company for the production of sterilised and pasteurised milk and of various dairy products amounted to 5·3 million litres in the first year of its activity, but increased to 24·3 million litres in 1920 and to 66·8 million litres in 1930. The following table, taken from the reports of the company, shows its development during the first 15 years of its existence :—

Year.	Quantity of Milk Delivered to the Company.		Average Daily Delivery.		Total Value of Milk Delivered during the Year.	Average price per Litre paid by the Company. (Franco Nürnberg)
	(Thous. Litres)	(Thous. Galls.)	(Thous. Litres)	(Thous. Galls.)	(Thous. Marks)	(Pfennigs)
1916...	5,374	1,182	15	3	1,048	19·50
1920...	24,272	5,339	66	14	1,773	7·16
1925...	43,615	9,594	119	26	10,676	24·48
1928...	58,273	12,819	159	35	12,879	22·10
1929...	64,528	14,195	177	39	14,086	21·83
1930...	66,826	15,267	183	41	15,129	21·80

The milk is usually delivered direct by agricultural producers' Co-operative Societies and farmers on the basis of special arrangements fixing certain prices and quantities. Any quantity in excess of that fixed by the arrangement is accepted by the company at a lower price. The number of communities of agricultural producers supplying milk to the company in the northern part of Bavaria amounted in 1930 to 553 communes with 11,386 milk producers and 40,191 cows. The difficult economic position of northern Bavaria (in Nürnberg alone, with a population of 460,000, there are about 88,000 registered unemployed who, including their dependents, represent at least a

half of the population) has considerably diminished its purchasing power and inevitably affected the turnover of the company. Its turnover has declined, however, only by 5 per cent, while in other towns the fall reached much more considerable dimensions, amounting very often to 20–25 per cent. The company tried to make good this fall in turnover in sterilised and pasteurised milk by an increase in sales of various dairy products and many by-products. In 1930, the total production of butter reached 1.2 million lbs., and of hard cheese 1.3 million lbs.

The company supplies its produce to 715 traders, 56 large institutions, 98 schools, 39 factories, 172 boarding houses and 79 restaurants set up specially for trading in milk (*Milchhallen*). It has 22 storing arrangements of its own in 14 towns, and manages, together with the association of milk traders of northern Bavaria, 10 milk restaurants in Nürnberg and other cities.

The company has shown very great enterprising ability. During the last two years it has totally re-equipped its works, constructed a fine building and equipped it with the most modern methods of manufacturing various dairy products. At the same time it has carried out, with considerable success, an extensive propaganda campaign for increased drinking of milk in schools, restaurants, and factories. An analysis of the balance sheet shows that the expansion of the activities of the company was made possible by liberal financing extended to it by the interested municipalities through municipal banks. The construction of the new building and the complete technical re-equipment of the works of the company involved many million marks, which were borrowed with the help of municipalities on very favourable terms. These credit facilities put the company in a

privileged position in comparison with other institutions, which would have to borrow the money either from Germany or abroad on most stringent conditions under which the company would hardly be able to pay its way. In an interview, one of the chief officials told us that if they had to pay for the money borrowed at the same rate of interest paid by any first-class private undertaking, they would be unable to carry on. The sums necessary to pay interest alone would absorb the net income of the company, and in this case the amount charged to cover trade and overhead expenses would hardly suffice. At present the company adds to the price per litre paid to the producer approximately 9 pfennigs\* to cover all costs of production and distribution. It constitutes a final price, averaging between 24 and 31 pfennigs per litre according to the quality of the milk. The additional 9 pfennigs are distributed in the following way: 5 pfennigs are paid to private traders who perform the function of retail distributors; 3 pfennigs go to cover the overhead and administrative expenses of the company; and 1 pfennig goes to a price equalisation fund.

To form an opinion upon the financial and commercial results of the company, it is interesting to compare them with the method of working and results of a similar undertaking in the City of Wellington, New Zealand. The causes which brought the New Zealand Company into being are similar to those which were responsible for the appearance of the German Company. The milk and cream supply of the City of Wellington were in a most unsatisfactory condition, and the minutes of the Public Health Committee of the Town Council show that the question was discussed

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\*100 pfennigs = 1 mark = 1 shilling.

on many occasions between 1910 and 1918, when an expert was appointed to report on the situation in the milk trade. He revealed a most deplorable state of affairs as to the methods of handling milk, maintaining premises and plant, and the general lack of facilities for cooling and keeping milk. This report was followed by the Wellington City Milk Supply Act of 1919, under which an undertaking of a monopoly type was founded (the Wellington City Milk Supply Department) and special facilities for pasteurising and cooling milk were arranged. A country dairy factory (the Rahui factory at Otaki) was set up to overcome the difficulty of fluctuating supply and demand and also to provide for the supply of cream to the city, which had been unsatisfactory under the old system.

The constitution of the Milk Supply Department was established by the law of 31st August, 1926. According to this law a special board was appointed to supervise the activities of the Department. The board fixes prices and the general policy of the Department, which is administered independently from the municipality. The Rahui factory has since been enlarged and re-equipped with modern refrigerating, milk cooling, and cream pasteurising plant. During recent years the turnover of the company has increased considerably, as is shown by the following table :—

Year.	Total Quantity of Market Milk Sold.	Total Quantity of Bottled Milk Sold.	Total Quantity of Cream Sold.	Total Revenue.
	(Thous. gallons)	(Thous. gallons)	(Thous. pints)	£
1926.....	1,420	1,073	194	199,628
1927.....	1,567	1,218	196	211,974
1928.....	1,736	1,364	196	223,710
1929.....	1,785	1,418	199	235,729
1930.....	1,871	1,475	211	241,815

During the years 1919 to 1922 relations with the retailers were regulated as follows : the city was divided into four distributing companies, each to operate in a separate block ; 5d. per gallon was paid to the company to cover the costs of distribution and 2d. was added to compensate the retailers for the goodwill of their businesses. In this way, according to the available calculations, the consumer paid to the retailers for the loss of their businesses approximately £38,000 yearly during three years in succession. In 1922 the Milk Department took over the whole distributive system and installed a complete bottle washing, filling, and capping plant.

Originally the capital requirements of the City Council Milk Department were met out of a loan extended by the City Council of approximately £80,000. This money was sufficient for the working of the Department, and there was no necessity to draw upon the corporation's general funds, either for capital or for other purposes, while the considerable losses which the Department sustained during the first years of its existence were made good subsequently out of accumulated profits.

The working expenses of the Milk Department increased from £64,873 in 1926 to £72,213 in 1930, and though the proportion of working expenses and capital charges to total revenue decreased during the same period from 40·7 per cent to 34·7 per cent, it is still very high and explains the substantial spread between the average costs per gallon of first grade milk purchased from the Wellington Dairy Farmers' Co-operative Association and the average price per gallon of milk sold by the Milk Department, as is shown by the table on page 56.



Year.	Average Cost per gallon of First Grade Milk.	Average Selling Price per gallon.	Spread between Cost and Selling Price.	Average Retail Selling Price per gallon. (Bottled.)
	Pence.	Pence.	Pence.	Pence.
1926.....	14·261	26·333	12·072	27·333
1927.....	13·855	25·929	12·074	26·916
1928.....	13·949	24·333	10·384	25·333
1929.....	14·365	24·333	9·968	25·333
1930.....	13·901	24·333	10·432	25·333

These figures show that the costs of distributing, sterilising, and pasteurising milk absorb nearly a half of the total retail price.

The facts and figures at our disposal show that since the municipalisation of milk by the city of Wellington the quality of milk now supplied to the population is much higher than it was when the supply was in the hands of private trade. At present the Government standard under the public health regulations fixes a minimum content of 3·25 per cent of butter fat. The average test of milk over a period of years has worked out at 4·2 per cent, not falling below 3·8 per cent during the early summer and rising as high as 4·7 per cent in the late autumn and early winter. The producers are encouraged to maintain high fat producing herds, so that the consumer is assured of milk rich in butter fat. The basis of purchase prices shows that milk prices follow the trend of butter fat prices, and there is no inducement for producers to add water to their milk.

At the same time, a study of the balance sheet of the Wellington City Corporation Milk Department shows that the revenue has increased to an extent which does not justify the increase in the working expenses, and that the proportion of the working expenses and capital charges to revenue

is still very high, and it is interesting to note that, while the total cost per gallon decreased from 14·4 pence in 1929 to 13·9 pence in 1930, the average price per gallon of milk sold remained unchanged at 24·3 pence, and consequently the spread between the costs and the selling price increased from 9·9 pence to 10·4 pence. The stability of retail prices, the increase of the spread between retail prices and costs, and the high proportion of working expenses to revenue, can be explained to a certain extent by the fact that the Milk Department has occupied, for all practical intents and purposes, a monopolistic position, and any form of competition on the part either of Co-operative Societies or private traders has been made impossible.

The same feature can be observed in the activities of the Bavarian Milk Supply Company of Nürnberg. The total content of butter fat has also increased there from 3·3 per cent in 1925 to 3·43 per cent in 1929. The municipality has developed technically a model institution which turns out a commodity of very high quality, and the improvement in the milk supply has directly affected the health conditions of the town. But the price policy of the Bavarian Company, from the point of view of the consumer, cannot be regarded as absolutely unimpeachable. It is interesting to compare the milk prices in Nürnberg, where the milk supply, up to 80 per cent, is monopolised by the Bavarian Milk Supply Company, with the prices in Munich, another Bavarian city, where there is no central milk supply organisation. (In both cases we are taking as a basis prices free on rail). In Munich the price came down from 23·2 pfennigs per litre in 1925 to 17·8 pfennigs in 1930. In Nürnberg it decreased to a much smaller extent and amounted to

24·5 pfennigs in 1925 and 21·8 pfennigs in 1930. To a certain extent the divergence can be explained by the strong influence exercised on the board of the Bavarian Milk Supply Company by the agricultural organisations which are interested in keeping the price on as high a level as is practically possible.

The same policy of stabilising the price on a relatively high level is pursued by another municipal undertaking, the *Milchzentrale* of the city of Mannheim, which was established in 1912. Though there is legally no municipal milk monopoly, the *Milchzentrale* has achieved a monopolistic position through the provisions of the Milk Law, which introduced a system of opening milk shops on the basis of special licences or concessions given by the municipality. The municipality has exercised its authority in such a way that at present there are in Mannheim approximately 190 milk traders in comparison with 471 in 1910, though the population has increased in the same period from 194,000 to 265,000. We mention this fact only to show how municipal authorities can create a monopolistic position for their undertakings. In this case the policy of the municipality can be explained and supported from the point of view of the consumers, because private trade has undoubtedly proved, at any rate as far as Mannheim is concerned, a most unsatisfactory system of milk distribution.

The analysis of municipal activities in the milk trade shows that the intervention of public authorities undoubtedly ameliorates the conditions of milk supply so far as quality, sanitary and hygienic conditions are concerned. But as regards prices, municipal trading does not introduce any alteration. The municipal undertakings have a tendency to stabilise prices on a certain level which

suffices to cover the relatively high overhead and administrative expenses. The pursuance of such a price policy is facilitated by the fact that in most cases the municipal milk trading organisations do not fear any kind of competition and, what is most remarkable, are able, in spite of their monopolistic position, to make ends meet and even to show a profit, only because they enjoy cheap credits from municipal financial institutions and are not subject to the same taxation as private and co-operative trading concerns.

#### 4.—THE VIENNESE MEAT SUPPLY.

An important commercial organisation for the purpose of supplying meat and manufactured meat products to the population has been evolved by the Municipality of Vienna. It consists of a special organisation which buys and slaughters livestock—the *Deutsch-österreichische Wirtschaftsverband für den Viehverkehr A.G.* (German Austrian Association for Cattle Trade, Ltd.), with a capital of 1 million sch.,\* 50 per cent of which belongs to the municipality and 50 per cent to the local chambers of agriculture in Lower and Upper Austria. In the management and the supervisory board of the *Wirtschaftsverband* the Consumers' Co-operative Societies and the Agricultural Producers' Co-operative Societies are strongly represented. The company has two subsidiaries which it controls jointly with the Co-operative Societies. The first is the *Wiener Fleischbänke G.m.b.H.*, which is engaged in selling fresh meat to the population. Of its capital, recently increased to 200,000 sch., 50 per cent belongs to the *Deutsch-österr. Wirtschaftsverband für den Viehverkehr* and 50 per cent to the Austrian Co-operative Wholesale Society. The second consists of two amalgamated

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\*£1 = 34 Austrian Schillings (gold).

companies, the majority of the capital of which has been acquired, viz., the *Produktiv-Gesellschaft der Wiener Fleischselcher, Gen.m.b.H.* and the firm *M.Wotraubeck A.G.*

The *Deutsch-öster. Wirtschaftsverband* buys livestock from the home market and from abroad, which it slaughters and sells either directly or through its subsidiary companies. Consequently the municipality manages not only the markets and slaughter houses, but also, through these companies, takes a very active part in supplying meat to the population. During the year 1931, according to the information obtained from the Municipality of Vienna, the company sold 16,474 head of cattle against 12,920 in the previous year. The participation of the company in the total trade in cattle of the city of Vienna amounted to 14.6 per cent in 1931, but it is necessary to take into consideration that, on the home market, it played an even more important part, functioning practically as an agency of the Federal Government in carrying out its agricultural policies. Even greater is the participation of the *Wirtschaftsverband* in the trade in pigs. The total delivery to the central markets of Vienna from abroad and from the home markets was 855,643 head. Of these the company was responsible for 150,805, i.e., 23 per cent of the total and approximately 50 per cent more than in the previous year. The total turnover of the central meat markets of Vienna in fresh meat amounted in 1931 to approximately 9 million kg. and the turnover of the company during the same period to 5,726,662 kg. Consequently the company was responsible for more than 60 per cent of the total supply of fresh meat to the town.

So long as the Co-operative Societies are in possession of half the total capital of the company

and take an active part in its administration, it cannot be regarded purely and simply as a municipal undertaking, but represents a new form of mixed company which, undoubtedly, will be copied wherever there is a strong Co-operative Movement and a democratically-controlled municipality.

The company has a special agreement with the Federal Railways by which it secures considerable rebates on the general freight charges. In order that the producer may be able to deliver his livestock direct without using the services of the middleman, the company, in collaboration with the Agricultural Chamber of Commerce of Lower Austria, has arranged special facilities for the collection and delivery of livestock. Special cattle trucks are in circulation in the respective districts, and the farmer simply delivers his animals to the station, whence they are sent direct to Vienna. Both the *Niederösterr. Schweine und Rinder Uebernahmestelle* and the *Viehvermittlungsstelle* in the federated states are making great use of these services of the company. The company has also extended credit facilities to agricultural producers in order to help them to market their produce under more or less normal conditions. In 1931, it advanced credits against 8,454 head of cattle and pigs, compared with 2,360 head in the previous year.

In the financial report for the year 1931 the *Wirtschaftsverband* makes the following remarks with regard to these sections of the company's activities :

“ Undoubtedly it will contribute considerably to the rationalisation of trading in cattle if the farmers in the federated states will sell their livestock for delivery to the Viennese markets directly

to the company. As the company possesses such an extensive and competitive organisation, such transactions could not possibly be unfavourable to the interests of the farmers."

The financial position of the *Wirtschaftsverband* is shown by the summarised balance sheet for the year ending 31st December, 1931, given below :—

ASSETS.	
	Schillings.
Cash in Hand .....	36,453·59
Debtors .....	3,451,787·80
Stocks in Hand.....	798,117·29
Property .....	222,825·42
Investments in other Companies ...	765,828·92
Other Assets .....	30,000·00
	5,305,013·02
Total .....	5,305,013·02
LIABILITIES.	
Share Capital .....	1,000,000·00
Various Reserve Funds .....	875,000·00
Amortisation Fund .....	206,841·80
Creditors .....	3,083,676·46
Other Liabilities .....	96,703·22
Net Profit .....	42,971·54
	5,305,013·02
Total .....	5,305,013·02

As already stated, the share capital, which is fully paid up, amounts to 1 million schillings, but there are 5 different reserve funds which bring the total capital controlled by the *Wirtschaftsverband* to approximately 2·1 million schillings. Investments in various companies, including the subsidiaries mentioned above, amount to 765,828 schillings.

The gross profit reached in 1931 the sum of 1,137,022 schillings, of which 1,083,057 schillings went to cover various trading, overhead and administrative expenses, and 11,173 schillings

to cover amortisation ; 42,791 schillings represented the net profits, which were distributed as dividend at the rate of 2 schillings per 50 schilling share, which can be considered as very moderate. This municipal undertaking is undoubtedly a very happy form of co-operation between the various interested bodies. The company itself is a form of co-operation between the Municipality on one hand and the Agricultural Co-operative Producers on the other, but through its subsidiaries it collaborates closely and in a businesslike manner with the Consumers' Co-operative Societies, thereby escaping the danger of becoming a bureaucratic municipal undertaking.

The *Wirtschaftsverband* is engaged, as already mentioned, in wholesale trading in livestock and fresh meat, but it also participates with the Austrian C.W.S. in a special retail meat concern, viz., the *Wiener Fleischbänke-Gesellschaft*. This company must be regarded as a semi-municipal undertaking ; the municipality participates actively through the *Wirtschaftsverband* but on the other hand the consumers are very strongly represented and the general manager is appointed by the Co-operative Societies. The *Fleischbänke-Gesellschaft* sells fresh meat to the population of Vienna in 63 shops situated all over the town ; it also supplies meat to the hospitals, schools, and to the Co-operative Societies which trade in meat. Its turnover amounted to 4.9 million kg. in 1929, but decreased to 4.6 million kg. in 1930. It remained approximately at the same level in 1931, but the first three months of 1932 showed a sharp fall in the sales of ham, pork, mutton and lamb, and the turnover amounted to only 1 million kg. as compared with 1.3 in 1931. This fall reflected,



to a certain extent, the general shrinking of consumption in Vienna as a result of the economic depression, but at the same time there were undoubtedly certain business reasons connected with the method of working adopted by the Company. Special measures were decided upon in 1931 with a view to increasing the number of customers, and a special propaganda campaign was undertaken by all branches. The Company has been compelled to discharge a number of employees on account of the fall in turnover, but in spite of this expenses are still very high and amounted to approximately 22 per cent of the total turnover in the first quarter of 1932 as against 17 per cent during the same period in 1931. An increase in turnover and a decrease in expenses would, it is expected, place the Company on a firmer basis.

The other subsidiary of the *Wirtschaftsverband* comprises two amalgamated undertakings for the manufacture of finished meat products, the *Produktivgesellschaft der Wiener Fleisch-Selcher* (Company of Viennese Meat Curers) and the firm *M. Wotraubeck*. The majority of their capital belongs to the *Deutsch-österr. Wirtschaftsverband für den Viehverkehr*. The amalgamated undertaking has factories for the production of sausages, soap and ice, and also produces various kinds of fat and margarine. Its turnover increased considerably during 1931, the total number of pigs slaughtered reaching 131,351 in comparison with 85,000 during the previous year. The total turnover of meat, pork, ham, sausages and various by-products, such as soap, fat for technical purposes and margarine, amounted in 1931 to 1,720 wagon loads, as against 1,559 in the preceding year, and the turnover of the ice factory to 976 truck loads in comparison with 1,046 in 1930.

During 1931 the amalgamated companies carried out a thorough financial and technical reorganisation. The factories producing sausages, margarine and ice were entirely re-equipped and in place of steam power up-to-date electrical turbines were installed, involving a considerable financial outlay.

The balance sheet of the amalgamated companies shows a very sound position. The gross profit amounted in 1931 to 2,411,624 schillings of which 2,059,021 schillings was spent on trade and overhead expenses ; 165,000 schillings constituted the net profit. The company plays an important rôle in supplying the town with an essential commodity. It has also acted as an agent of the Municipality and the Federal Government in their policy of regulating pork prices. On the other hand, in close collaboration with the Chamber of Commerce of Lower Austria and the Federal Ministry of Agriculture and Forestry, it has taken the necessary measures to ensure the use of a greater proportion of home-grown livestock and has re-arranged the whole process of production in such a way as to make possible a greater use of home-produced meat.

The *Deutsch-österr. Wirtschaftsverband für den Viehverkehr*, which constitutes a holding company, and its two subsidiaries, occupy an important position on the Viennese meat market and are undoubtedly in a position to influence the development of prices and the general trend of the market in any direction desired. These three companies, however, represent a combination of interests which at first sight appear irreconcilable. There are agricultural producers represented by the Producers' Co-operative Organisations, organised consumers represented by the Austrian Consumers' Co-operative Movement, and the Muni-

cipality with its socialist majority. The companies themselves are organised as ordinary commercial undertakings, but there are the necessary safeguards to prevent them from pursuing a purely profit making policy, and subordinating their activities to a wider conception of the interests of the community. Regarding the activities of the three companies from the point of view outlined above, we must admit that Austria has laid the foundations of an economic system which might be realised in every other country where the necessary economic and political conditions are present.

#### 5.—THE BERLIN FUEL SUPPLY.

For our study of municipal trading in coal we have chosen the company set up by the Municipality of Berlin, the biggest city on the continent of Europe. This company, which is known as the *Berliner Brennstoff-Gesellschaft* (The Berlin Fuel Company), was organised in 1917 to supply the population with a substitute for coal, but when the war was terminated, and the coal shortage came to an end, the Municipality decided to retain the company and to use it for the regular supply of coal to various municipal institutions and to the population at large. In 1922 the company was reorganised as a purely municipal undertaking, firstly, to supply municipal institutions and other public bodies of various kinds with coal; secondly, to trade in coal and wood; and thirdly, to carry out special measures decided upon by the Municipality with the object of improving the conditions of living of the poorer population of Berlin.

We have been informed by the Municipality of Berlin that special instructions were given to the company to make service to the public the

object of its work, and not to aim at profit making. The selling prices must be kept on such a level as to enable the company to cover all expenses involved. Its statutes, approved by the City Council on 24th August, 1922, provide that any profit in excess of the requirements of amortisation of capital and accumulation of the necessary reserves should be transferred to the Municipality and applied to any purpose which the latter may consider to be for the good of the community.

The company is governed by a general manager, a supervisory board, and a meeting of holders of share capital, which is almost entirely in the hands of the Municipality. The general manager is appointed by the City Council; the supervisory board consists of 17 persons appointed partly by the Executive Committee of the Municipality and partly by the general meeting of City Councillors.

At the commencement of its activities the company supplied coal only to various municipal undertakings. The expansion of its activities began in 1924, when it signed an agreement with a Consumers' Co-operative Society in the city of Berlin to take over the supply of coal and wood to its members. Since then the Company has extended its operations, and in 1928 it was in possession of 24 coal depôts in various parts of the town occupying a total area of 56,000 sq. metres. By the end of December, 1931, it had 25 depôts with a total area of 87·8 thousand sq. metres. All the warehouses, especially those which are situated on the wharves, are fitted with modern equipment for the transport and unloading of coal, and a considerable sum has been invested in this equipment, which is kept up to date.

During the last five years the company has, according to the information supplied by the balance-sheet, sold the following quantity of coal :—

1927-28, April-March .....	400,000 tons.
1928-29, April-March .....	491,000 „
1929-30, April-December .....	345,000 „
1930, January-December.....	444,098 „
1931, January-December.....	460,723 „

Expressed in money, the turnover of the company amounted to 16 million marks in 1928, 14·8 million marks in 1930, and 14·7 million marks in 1931. A considerable volume of business is done with private persons. There are no figures available to show the proportion of business done with the general public, but the balance sheet for the 1st January, 1930, gives indirect evidence relating to this. The total indebtedness of all customers of the company amounted on that date to 2,743,000 marks, out of which municipal undertakings accounted for 1,463,000 marks and the general public for 1,274,000 marks. We were informed by the Municipality that the relationship between dealings with municipal undertakings and dealings with the general public in the total turnover corresponds approximately to their respective share in the total indebtedness, and the figures, therefore, indicate that the company does nearly as much business with the general public, including members of Co-operative Societies, as it does with the Municipality of Berlin and other public bodies.

We were also informed that private trade is conducting a campaign against the company in the Press and in the Prussian Diet, and in furtherance of this is making indiscriminate use of the accusations of corruption and inefficiency

which have recently been levelled against the Municipality of Berlin. Private traders hope in this way to secure the dissolution of the company.

In order to draw certain conclusions with regard to the financial and commercial results of the Company's working, it is necessary to examine the balance sheet. We, therefore, give below a summary of the balance sheet for 31st December, 1931, which does not differ greatly from those for the preceding years :—

ASSETS.

	M.
Capital not paid up .....	15,000·000
Cash in Hand .....	13,090·91
Current Account Deposits and Cash at Bank .....	350,281·06
Bills .....	14,092·34
Capital Investments .....	2,298,625·65
Stocks in Hand.....	856,672·86
Debtors .....	1,836,763·82
Other Assets .....	18,958·17
	<hr/>
Total .....	5,403,484·81

LIABILITIES.

	M.
Capital .....	20,000·00
Reserves .....	415,000·00
Amortisation Fund .....	1,804,875·07
Special Delcredere Fund .....	100,000·00
Loans from Berlin City Bank and Berlin Municipality.....	950,000·00
Other Credits .....	1,192,932·56
Acceptances .....	658,435·40
Other Liabilities .....	50,586·02
Profits .....	211,655·76
	<hr/>
Total .....	5,403,484·81

In November, 1923, the investments of the company in buildings, storage accommodation, transport equipment, &c., amounted to 2,298,000 marks. Between then and the 31st December,

1931, 1,804,000 marks were written off for amortisation purposes. The yearly amount allotted for this purpose was usually considerably in excess of the actual amount spent on the renewal of existing equipment and the estimated amount of its deterioration. The balance sheet on 31st December, 1931, valued the equipment at 493,000 marks, if the amount put aside for amortisation purposes is deducted from the nominal value of the capital investments. These figures undoubtedly represent a considerable under-valuation of the property of the company, and constitute to a certain extent a hidden reserve which had been accumulating during the previous eight years.

In addition to this, the company accumulated considerable sums in respect of profits, amounting to 91,000 marks in 1927-28, 150,000 in 1928-29, 72,600 marks in 1930, and 211,655 marks in 1931, only a part of which is transferred to the Municipality. The large increase in the profits in 1931 was explained by the fact that much less was spent than in the previous year on the purchase of new equipment and on other capital investments.

On the other hand, the overhead and trading expenses have increased very considerably during the last few years, while the turnover of the company, as already indicated, remained more or less stable. In 1927-28 overhead and trading expenses amounted to 2,686,000 marks; in 1931 they had increased to 3,245,826 marks, but they never amounted to less than from 22 to 23 per cent of the total sales of the company, not including interest, amortisation, &c. This large increase in expenses is much criticised, being regarded as too high in comparison with private trade.

A study of the commercial results of the company shows that it has been able, firstly, to keep its trading and overhead expenses on a relatively high level ; secondly, to allocate a considerable part of its gross profits to amortisation ; and thirdly, to accumulate substantial reserves out of accumulated profits, only a part of which is transferred to the Municipality. The following three points explain how such results can be obtained :—

1. The company does not pay all the taxes to which private trade and Co-operative Societies are liable. For example, it is exempt from the property tax, which is very high in Germany, and would, under the special conditions under which it operates, absorb a considerable portion of its gross profits.

2. The company works with a considerable amount of money borrowed on very cheap terms. The balance sheet given above shows that it enjoys credits from the Berlin City Bank and from the Municipality direct to the amount of 950,000 marks. On 31st December, 1931, this sum represented approximately half of its total working capital. On these credits the company pays small charges in comparison with the rate prevailing at present on the German money market, when first-class bank acceptances are discounted at 6 per cent per annum. If the company had to borrow money on the open market it would involve it in expenses which would absorb a considerable part of its profits.

3. The company undoubtedly enjoys certain advantages as compared with private traders in regard to securing orders from the municipal undertakings. The Berlin Municipality explained this as follows : the company does not exercise a monopoly in the supply of fuel to municipal



undertakings, hospitals, schools, kindergartens, &c. The principle of public tender is retained, and if private firms quote lower prices the business goes to them. On the whole, however, the prices quoted by the company are lower than those quoted by private firms, and in practice all the business, as a rule, goes to the company. We have even been supplied with figures showing that municipal undertakings have made substantial economies because of the lower prices quoted by the company, and a figure averaging from 1 to 1.5 million marks per annum was mentioned for the period from 1925-26 to 1931. But such big customers as the municipal institutions of a town with a population exceeding 5 million are entitled to a considerable discount in regard to wholesale quotations. In practice the company enjoys an option, provided all conditions are equal, in respect of all municipal and governmental orders, and can regard these authorities as permanent customers. In many cases the Municipality places its order, as a matter of course, with the *Berliner Brennstoff-Gesellschaft*, and the prices are subject only to a *post factum* control by a special Superintendent.

Apart from that, special conditions are arranged in cases where the company has acquired, at the request of an interested public body, considerable stocks of coal and other kinds of fuel many months before the season starts, thus incurring risks of price fluctuation, storage, and interest charges.

These three considerations, firstly, immunity from certain forms of taxation, secondly, cheap money, and thirdly, the advantages of having a permanent customer and a privileged option with regard to all municipal orders for fuel, place the company in a very favourable position, and explain its ability, in times of crisis, not only to

avoid reducing its trading and overhead expenses, but actually to increase them considerably.

We cannot, however, observe in the activities of the company any sign of a deliberate price policy. In practice it pursues the same policy as any private institution, though it enjoys certain privileges which place it in a favourable position. We were also unable to trace in the activities of the company any attempt to protect the interests of consumers in general.

## 6.—TRADING IN OTHER COMMODITIES.

### *Restaurants.*

In Vienna restaurants have also been organised on a municipal basis. In 1923 the *Wiener öffentliche Küchenbetriebsgesellschaft m.b.H.* (Viennese Public Kitchens Company) took over a number of badly-organised and badly-managed war-time restaurants which catered for the poorest sections of the population and were used by the American Commission which helped Austria during the period of post-war crisis. The company was later reorganised into an undertaking with a capital of 100,000 schillings apart from two reserve funds amounting to 67,000 schillings. Half of the capital belongs to the Federal Government and half to the Municipality of Vienna. At present, the company owns 35 restaurants equipped in a most up-to-date manner and, in addition, supplies nearly all schools, kindergartens, and observation centres (*Uebernehmungsstellen*) with meals. It should be noted that the restaurants are not intended to satisfy only the needs of the poorest parts of the population, many of them being situated in the centre of the town. They have the appearance of clean, homely, and well-cared-for restaurants, where the citizen can obtain at

a relatively moderate price a very good meal in a most comfortable and pleasant atmosphere. (No alcohol or tips are allowed.) A dinner consisting of three courses, which are more than enough to satisfy the average adult, can be obtained at a price from 1·47 sch. to 2·60 sch. (10d. to 1s. 6d.). A supper is served in many of the restaurants in the centre of the city for 1·50 sch. There are also a variety of dishes which can be chosen separately at much lower prices.

In the organisation of the restaurants the company has employed the newest methods applied in Europe and in America. The largest restaurant is capable of serving 10,000 customers a day, while the company's establishments can deal with 25,000 customers a day. As already mentioned, the company caters also for school-children, hospitals, children's homes, and supplies about 20,000 portions of food daily to 81 kindergartens and 88 school-children's food centres.

The latest figures at our disposal are for the year 1930, and show that the total turnover amounted to 5·9 million schillings in comparison with 5·4 million schillings in 1929. The value of food consumed in the restaurants during the year was 3·8 million schillings as compared with 3·7 million schillings in the preceding year.

The financial and commercial results of the company are shown in the balance sheet for the year ended 31st December, 1930.

ASSETS.	Schillings.
Cash in Hand and Bonds .....	104,366·45
Stocks .....	166,235·50
Debtors .....	33,636·80
Property, Equipment and other Investments .....	1,395,860·40
	1,700,099·15

LIABILITIES.

	Schillings.
Capital .....	100,000·00
Reserve Funds.....	73,000·00
Creditors .....	741,396·34
Amortisation Fund .....	780,047·96
Surplus .....	6,654·85
	1,700,099·15

Though the nominal capital, together with reserves, is only 173,000 schillings, the total capital invested amounted on the 1st January, 1931, to 1,300,000 schillings, a considerable part of which was written off, while the amortisation fund amounted that year to 780,000 schillings. The gross profit reached 427,370 schillings in 1930, or approximately 9 per cent of the total turnover. Out of these profits 148,000 schillings were applied for amortisation, and the remainder for trading, overhead, and administrative expenses.

As already mentioned, the company gives the general impression of being a well-managed commercial undertaking. One point, however, requires special observation. Its price policy was adjusted in such a way as to make possible every year the accumulation of considerable funds, which would enable the company to open new branches and extend the activities of the old ones. If the company could find other means of financing its activities, it might fix prices on a lower basis than at present.

*Bakeries.*

The municipality of Budapest established a bakery in 1903 to supply the requirements of various municipal establishments, especially hospitals, &c. The increase in the price of bread compelled the municipality to enlarge the undertaking, and subsequently, especially in the post-

war years, the bakery has satisfied a considerable portion of the needs of the population in bread, macaroni products, &c. It is estimated that at present it supplies one-fourth of the total requirements of Budapest in bread, which is sold in 7 shops owned by the municipality, in 55 shops trading in various commodities of first necessity, and in 88 restaurants belonging to the municipality. The bakery originally worked with capital borrowed from the municipality, but this has since been paid back.

In addition to the bakery, the municipality of Budapest controls another undertaking, which trades in various commodities of primary necessity and has four departments: (a) slaughter houses and butchery; (b) an egg department, which has its own poultry farms; (c) a poultry department; and (d) a milk department, which supplies the population with milk, various dairy products, and also deals in certain goods of colonial origin. The greatest turnover is in butter, cheese, eggs and other dairy goods, but the undertaking also occupies a very important position in supplying the population with meat, sausages, &c. A comparison of the prices charged by the municipal undertaking in its shops with those charged by private companies shows that municipal prices are 10.3 per cent lower than the prices charged by private tradesmen, and it is estimated that during the last five years the population of Budapest saved from 10 to 15 million pengös\* per annum. It is very difficult to analyse this figure, but, at any rate, the fact that the municipality of Budapest has been compelled to engage in such a variety of activities shows that there is a widespread demand which cannot be properly satisfied by private traders.

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\*£1 = 27.82 pengö at gold parity.

## 7.—RELATIONS WITH CONSUMERS' CO-OPERATIVE SOCIETIES.

Municipalities usually engage in such branches of trading as are certain to become the subject of monopolistic organisation, the provision of services such as gas, water, and electricity supply, and ownership of various means of communication within the boundaries of the city. It is preferable to establish such services as municipal monopolies rather than monopolies in the hands of private enterprise. This natural and legitimate development of municipal trading must be regarded as advantageous from the consumers' point of view, as the consumer is able, through a democratically elected municipality, to exercise a greater control over the policy of such an undertaking than could be done if it were privately owned.

The municipalities, however, come into direct competition with co-operative societies when they encroach upon the trade in such commodities as milk, bread, coal, &c. The objections which can be raised to municipal trading as compared with co-operative trading concerning milk, meat, bread and coal, are as follows :—

- i. There is no real necessity for municipalities to engage in commodity trading, as this function can be performed by co-operative organisations, which are directly responsible to the consumer and are not influenced by any political considerations, such as necessarily penetrate the activities of any municipality in the world. The public has less control over the trading activities of a municipality than is exercised over the activities of a co-operative society by the consumers.

There is no general assembly of consumers equivalent to the general meeting of a co-operative society, but only the rough and tumble of the municipal elections, when purely municipal matters are usually lost sight of in the fight for more general policies.

- ii. There is no doubt that municipal trading is more bureaucratic and less elastic in operation than co-operative trading, and shows a tendency to exploit its monopolistic position at the expense of the consumer. Municipal undertakings are rarely conducted as self-supporting enterprises, but as departments of the municipal council. Even where they are organised as independent joint-stock companies or companies with limited liability, their losses are generally met out of the municipal funds, while their profits are taken into the general accounts of the municipal budget, and very often used to decrease the rates.

The study of the cases where the municipality has taken over the milk, coal, meat, and bread supply, leads us definitely to the conclusion that municipal control has brought about in its own area a considerable improvement in the quality of the commodity and methods of distribution, but from a commercial and financial point of view the results of the operation of a municipal undertaking cannot be regarded as satisfactory, even in the case of model institutions. When municipal authorities trade in articles of primary necessity they enjoy a privileged position in that, firstly, they are immune from certain forms of taxation; secondly,

they rely as a rule upon cheap credits from municipal financial institutions; thirdly, in their selling policies they can count upon such big customers as the various municipal undertakings, for though officially the principle of public tender is maintained, in practice the municipal supply company undoubtedly receives more favourable treatment than co-operative societies.



## CHAPTER III.

# STATE MARKETING OF AGRICULTURAL PRODUCTS.

**I**N recent years many State agencies have been instituted to trade in agricultural products. Some of these were a direct outcome of the collapse of prices, which began in 1929 with the fall in the price level of staple agricultural products, wheat and other corn crops, coffee, cotton, and sugar. State action has proceeded on four main lines :—

- (1) Purchase and sale of crops and holding of stocks by a State-financed company.
- (2) Marketing schemes in connection with stock holding and crop restriction, known generally as valorisation.
- (3) Centralisation of export.
- (4) Maintenance of the inland price by a State monopoly of sales.

### 1.—PURCHASE AND SALE OF CROPS.

In the United States Government intervention on the market for agricultural products has not been entirely confined to crop purchase and sale; the United States Federal Farm Board was instituted in the first place to erect a marketing system with a single sales organisation for each important product. It was constituted under the

Agricultural Marketing Act in order to promote effective and orderly marketing, to protect, control and stabilise the movement of prices ; firstly, by minimising speculation ; secondly, by introducing a more efficient method of distribution ; thirdly, by encouraging the organisation of producers into effective associations, and financing a form of marketing system comprising the private producers and co-operatives, and establishing special agencies for that purpose ; and fourthly, by controlling surpluses in any agricultural commodity and preventing them from causing undue fluctuations and decreases in price.\*

The Federal Farm Board, in pursuance of this policy, then assisted the farmers' co-operatives to form the National Grain Corporation. This acts as the selling agency of 36 associations of different types of co-operatives, with district selling agencies in different parts of the country. The Federal Farm Board began its policy of stabilising prices by offering loans to co-operatives up to stated values on various grades in the leading terminal markets. As this support proved inadequate, the Grain Stabilisation Corporation was recognised early in February, 1930, on the recommendation of the Wheat Advisory Committee.†

During the year 1930 the Corporation held control of a quantity of wheat equalling approximately half the visible supply of wheat in the United States. "In actual fact, the Board entered the market three times, either directly or through its subsidiaries, and on each occasion apparently with the belief that the low prices were only temporary ; in the autumn of 1929, when it made loans to growers to enable them to hold their

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\*See *Year Book of Agricultural Co-operation*, 1931, for full details of the Federal Farm Board's achievements.

†1st Annual Report of the Federal Farm Board, Washington, 1930.

wheat ; during February to May, 1930, when the Grain Stabilisation Corporation bought futures ; and finally, in November, 1930, and later when it again entered the futures market, first in support of December futures in Chicago and later of May futures. But the interesting feature is that on each occasion the Board supported wheat prices at a lower level, roughly at 115, 105 and 80 cents respectively. The recovery of prices, which was essential to the success of these operations, never came, and the Farm Board was left to carry forward its heavy stocks, purchased to a large extent at prices far above those ruling to-day.”\*

At the same time the Federal Farm Board undertook the purchase of cotton. In order to stabilise prices it stated that it would loan the equivalent of 16 cents a pound to members of the Co-operative Associations in the various States. The cotton farmer could then draw an advance on his cotton, and the association would market the product. By the end of 1931 it was estimated that the Corporation controlled about 3·5 million bales.

Up to the 30th June, 1931, the Farm Board had purchased 329·6 million bushels of wheat at a cost of 270 million dollars, the average price being 81·97 cents per bushel. Sales up to 1st November, 1931, amounted to 140 million bushels. Part of this amount (25 million bushels) was exchanged for 1,050,000 million bags† of Brazilian coffee, under a barter agreement with the Sao Paulo Coffee Institute (to be described in the next section). Stocks of the Farm Board on the 1st November, 1931, reached 189·6 million bushels. At the beginning of 1932 the Farm Board's stocks

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\* *The World's Wheat Situation*. Paper by Mr. R. R. Enfield read before Section F. British Association on September 24th, 1931.

† 1 bag of coffee = 132 lbs.

still amounted to 160 million bushels of wheat (41·6 million quintals). It was feared that these stocks would be thrown on the European market at low prices. As the Grain Stabilisation Corporation had no longer sufficient capital at its disposal to hold the stocks, the undertaking had to be liquidated. In the last report of the Federal Farm Board the total loss on the wheat purchase up to the spring of 1933 is stated to have been 160 million dollars (£33 million). The total loss of the United States Government on all Federal Farm Board marketing and stabilisation schemes are estimated by Mr. Morgenthau, chairman of the Board, at about 350 million dollars (£72·3 million).

The purchasing operations of the Federal Farm Board alleviated the agricultural situation in the initial stages of the crisis by holding the burden of the American wheat surplus off the world market, but this policy undoubtedly intensified the present crisis, by increasing uncertainty as to the Farm Board's future policy.

In Germany the government has several times intervened to support corn prices, though a coherent plan for the marketing of all agricultural products on the lines of the Federal Farm Board legislation has not so far been introduced. The object of government intervention has been to make the country, as far as possible, self-supporting. The various measures applied (apart from increases in the tariff duty) began with the enforcement of a compulsory milling quota in 1929, which was followed by the introduction of import licences, a quota agreement with Poland as to the distribution of the rye surplus, and the institution of a maize monopoly.

The purchase of rye was not undertaken solely with a view to raising the price of rye, but also

with the object of redistributing supply. German agricultural policy is dominated by the necessity of reconciling the interests of the Eastern rye growers and the Western livestock producers. The greater part of the world supply of rye is grown in Eastern Germany, Poland and Russia: small quantities are only imported from overseas in times of shortage. The pre-war German system aimed at forcing the export of rye from Eastern Germany (which then included part of Poland) by means of import licences. The surplus rye was consumed by the livestock feeding farms of Denmark and Holland, while the pig-feeding farms of North-Western Germany used imported feeding, barley and maize. The object of post-war policy was to retain the rye surplus in Germany, and supply it to the pig feeding-farms of North-Western Germany, without depressing the price of rye for human consumption. The demand for rye bread is slowly decreasing with the rise in the standard of life, and it is considered necessary to prevent a price fall in the interests of the Eastern agriculturists, who cannot convert to other crops except to a limited extent. The direct purchase of rye was undertaken because an increase of the duty on feed barley would have injured the livestock feeders in the West at the expense of the livestock feeders in the East.

The rye purchasing action was undertaken by the *Deutsche Getreide-Handels-Gesellschaft G.m.b.H.* (Germany Corn Trade Company), and financed by the *Getreide Industrie-und-Commission A.G.* (Corn Industry and Trading Company). The latter was, until 1928, the chief trading institute of the agricultural co-operatives. In 1929 it was taken over by the *Rentenbankkreditanstalt* and the *Preussenkasse*, a government institution which was originally a central banking institute of the Co-

operative Credit Societies.\* The actual rye purchasing policy, though it was conducted through semi-co-operative institutions, had, in fact, no real connection with co-operative marketing organisations, which play a relatively unimportant part in the marketing of grain. The company bought rye at the current market prices, and resold it in an "eosined" form, that is, treated by a harmless chemical which renders it unfit for human consumption. In order to stimulate consumption in the West, purchasers of eosined rye were given the right of importing the same volume of feeding barley at a lower rate.

The first rye purchasing action began in the autumn of 1929 and continued until March, 1930. During January and February stocks accumulated, and the company was obliged to cease purchasing, as it had exhausted its financial resources. Owing to the price rise in March, it was able to sell off 1,000 tons of rye at good prices. In May the price fell again, the company received a large credit from the *Getreide Industrie-und-Commission A.G.*, a second purchasing action began, and in order to avoid a further fall in prices reselling of the rye in eosined form was introduced. Rye prices were maintained at a level of 160-170 marks per ton, a price about twice as high as that ruling on foreign markets. In August, 1930, it was generally believed that the Government rye purchase would continue only until the elections in September, so that in August the company found itself with 6 million quintals (over half a million

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\*The Agricultural Credit Co-operatives suffered heavy losses through the currency inflation, and the *Deutsche Zentralgenossenschaftskasse*, the so-called *Preussenkasse*, was originally created to supply them with State credits. In November, 1932, it was financially reorganised and brought entirely under the financial control of government institutions, leaving the agricultural co-operatives with only 15 per cent of its capital under their control.

tons) of rye on its hands. In the middle of September the purchasing action ceased as the credits at the disposal of the company were exhausted.

The actual loss incurred by the company by this policy amounted to 60 million marks (£3 million), not including the resale of stocks in its possession when the action terminated. The action has been severely criticised on the grounds that the importance of rye to the German producer did not justify this expenditure. It was argued that the right course would have been to enforce restriction of the area under cultivation, rather than to maintain prices. But the policy was defended on the grounds that the area under cultivation would diminish of itself, as it in fact did during the following year, to an extent sufficient to maintain the rye price at 160 marks per ton, so that the problem of the rye surplus no longer existed. It is argued that in the following year, 1931, rye prices would have risen still further if the company had not bought large quantities of Russian wheat for disposal. In defence of the price supporting policy it is argued that there is, in fact, no world market for rye, since the chief producers, apart from Germany, are Russia and Poland, from both of which exports are forced by trade policy, and that therefore the German Government was justified in protecting producers of rye from catastrophic price falls.

Both these attempts to support prices, though temporarily effective, probably cost the community more than they were actually worth to the producers. They had the effect of increasing the acreage of crops of which the price was falling, instead of decreasing it. The Federal Farm Board, it is true, undertook a propaganda campaign for the decrease of the area under wheat, but this could have little effect when it was inducing the

farmer to plant more by holding up prices. Although the German action was admittedly an emergency policy, State purchase of crops was undertaken again in the winter of 1932-33. Since high tariff protection and quota regulation have proved unable to maintain the price level, the proposal for the formation of agricultural cartels is gaining support. These organisations would be compulsory organisations of producers empowered to standardise the quality of agricultural products and, at the same time, to fix prices.

In view of the subsequent price fall it must be concluded that these actions were mistaken. If State intervention had been directed rather to giving the producer a better price by reducing the margin between wholesale and retail prices, and had created market organisations with this end in view, instead of attempting to raise prices by accumulating stocks, the producer and the community would have been better served.

## 2.—REGULATION OF SUPPLY.

From the results of the State marketing operations described in the preceding section, it appears that State trading in products with the object of raising producers' prices tends to accumulate stocks and cannot succeed in preventing a price fall. If action of this type is to be effective, the State must be able to enforce a restriction of the supply as well as centralisation of sales, and for restriction of supply to be possible it must possess power to control production. Restriction of production has been attempted by many groups of producers, industrial and agricultural. In the sphere of industrial production these restriction schemes have usually been enforced by cartels, voluntary agreements between producers. In agricultural production producers are usually too



numerous and too widely scattered to permit cartel regulation, and restriction schemes have usually only been able to continue when enforced by the State.

State restriction schemes have only been applied successfully where the greater part of the world supply is concentrated in any one country. Of these the most successful have been the valorisation schemes for Brazilian coffee and Cuban sugar. These schemes have been very thoroughly examined in the special memoranda of the Royal Economic Society, and here it is only proposed to outline their main features.

### *Coffee.*

The Brazilian coffee valorisation schemes were intended to provide a method of stabilised marketing suited to the peculiar conditions of coffee production, the enormous variation in coffee crops from year to year. The demand for coffee is "inelastic," *i.e.*, does not increase or decrease very much if prices fall or rise, so that a big crop means a big price fall. The object of the valorisation schemes was to level out the price variations by carrying the surplus crop from a good crop year over to succeeding bad years. From 1906 until the middle of 1932, five valorisation schemes were applied by the State of Sao Paulo or by the Brazilian Federal Government. These schemes were mainly carried out with the help of foreign loans, which were used to finance the accumulated stocks and to regulate the delivery of coffee to the ports. At times the Brazilian Government tried to restrict production ; at other times it tried to hold stocks from the market, but in all cases it aimed at keeping prices on a level which it considered remunerative, since its budget depends on the revenue from the taxation of coffee

production and export. The valorisation was carried out as much in the interest of the State itself as of the producers.

The methods applied by the Brazilian Government have been subjected to a very detailed criticism in a Special Memorandum of the Royal Economic Society by Mr. J. W. F. Rowe, in which their main result may be thus summarised : Up to 1925 the benefits which the producer secured by and through the greater price stability considerably outweighed its cost to him. After this period valorisation undoubtedly served to maintain prices at a higher level than they would otherwise have found ; production was stimulated, stocks increased, as did also Brazilian indebtedness to New York and London banking houses. The decision (December, 1931) of the Brazilian Government to destroy its stocks of coffee as a means of maintaining prices aroused severe comment, though it was only the logical outcome of the extreme policy of protecting producers' interests which the Government always pursued. During the year 1931-32 870,800 bags were withdrawn from stock for destruction in comparison with 559,000 bags in 1930-31.

To the coffee consumers the schemes have been definitely injurious. Exploitation of the consumers was a matter of deliberate policy. " There is little doubt that the popular idea amongst the Sao Paulo planters was that the consumer would pay the costs involved in the defence scheme ; in brief, the prospect, as then envisaged by them, was that prices would be permanently maintained at a profitable level, without cost to themselves, instead of dropping periodically to a ruinous extent."\*

As a result, the European and American con-

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\*Rowe, Royal Economic Society, *Special Memorandum No. 3. Brazilian Coffee.*

sumer of coffee ultimately has to pay, firstly, for the stocks which it is intended to destroy, secondly, for the very high costs of Brazilian borrowings abroad, and thirdly, for the upkeep of the unnecessarily large Brazilian public administration, which derives its necessary resources from taxing the production and export of coffee.

### *Sugar.*

Schemes for restriction of the output of sugar have been applied both by voluntary agreements between producers and by governments. The sugar industry has been in a state of permanent crisis for the past ten years. Production, during the last few years, has been progressively outstripping consumption, and in the fight for the world market the competition between beet sugar and cane sugar has become more and more acute.

In the two cane sugar producing countries, Cuba and Java, schemes to regulate production and stabilise prices were applied in Cuba on a compulsory basis by the Government and in Java on a voluntary basis by the producers. The first Cuban scheme was applied in the year 1925-26, when the President, on the application of the Planters' Association, introduced a compulsory 10 per cent reduction of the crop, estimated at 5.2 million tons. A production tax amounting to five dollars for each bag of sugar exceeding the allotted quota was established. Thus the scheme was simply a restriction of supply. In 1926-27 a similar scheme was applied. In spite of the restriction of production, the world stocks, including those in Cuba, increased substantially, and the rise in prices which took place in December, 1926, only had a temporary character.

In 1927-28 a Sugar Defence Commission was established which was empowered by law to fix

the total amount of Cuban crop and its distribution between the home market, the United States of America, and the rest of the world. The marketing of the quota allotted to the United States was left in the hands of private traders and the rest was disposed of by the Defence Commission acting as a single seller. The Cuban crop was restricted by the Presidential Decree of 15th January, 1928, to 4 million tons, but this measure failed to stop the fall in prices. Actually Cuba was producing one million tons less, but Europe harvested one million tons more than the year before, and the available stocks increased. The failure of the restriction scheme of 1927-28 persuaded public opinion and the Government to give up all restriction schemes, and in 1928-29 the crop was uncontrolled. For the year 1929-30 a Co-operative Export Agency was established, not as a State institution, but as a single seller of the Cuban crop. The Agency tried to stabilise the prices on the basis of 2 cents per lb., but it only succeeded in selling one-tenth of the 1930 crop, even at a price which averaged about 1½ cents in New York. The Agency actually collapsed in the middle of 1930 and prices came down in September of the same year to 1·13 cents.

The experiences of the Java producers were in the beginning more successful. The United Java Sugar Producers' Association was a Co-operative Export Agency controlling about 75-90 per cent of the total production. The headquarters of the organisation was situated in Holland. Its general policy was to sell sugar before it is made, leaving the exporters and dealers to perform the risk-bearing function of holding stocks. The Association had never pursued any restrictive policy. Remaining an organisation of producers, it tried to adjust their production programme to

the requirements of the market, but naturally in a time of falling prices and falling consumption, when the merchants and middlemen are unwilling to hold stocks on the required scale and have even refused to hold stocks at all, the Association could not decline to perform the function of stock holding, which was otherwise fundamentally contrary to its policy. The accumulation of stocks from 1.5 million tons on 1st September, 1930, to 1.9 million tons on 1st September, 1931, and 2.9 million tons on 1st September, 1932, made the position of the Association very difficult. The Chadbourne scheme, adopted in 1931, did not bring the expected results. It led to the resignation of a considerable number of sugar-producers and by the end of 1932 the Association had ceased to function. A new Association was promoted in 1933 under the name *Nederlansch Indische Vereeniging voor de afzet van Suiker*, generally known as "Nivas," which provides on one hand Government control, and on the other greater freedom of action for members. For the purpose of facilitating the adjustment of productive programmes to the market conditions, it was decided that the purchasing prices of the Association should be fixed in strict accordance with the actual market quotations, the freight conditions also being taken into consideration. The headquarters of the Association is in Soerabaya, Java, whereas previously the marketing of Java sugar was concentrated in Amsterdam. The newly created Association controls 100 per cent of the production of the island and contemplates a considerable reduction in acreage and production in the course of the next few years.

With the object of maintaining their sugar beet acreage, most European States have concentrated the sugar beet factories in cartels, membership of

which is compulsory. Each factory is allotted a production quota, which it may not exceed. The price of sugar is fixed by the producers under State supervision ; the highly protected home markets are supplied with sugar at a high price, while the surplus is exported at much lower prices.

In 1930-31 the further drop in world prices and the heavy accumulation of world stocks (which reached a record figure of 8.5 million tons in April, 1931, in comparison with 5.4 million tons in April, 1928) brought all principal sugar exporting countries together. But the international discussions which took place in Berlin in 1928 and in Brussels in 1929 failed to bring about an agreement. At last an international scheme known as the Chadbourne Export Restriction Scheme was initiated in January, 1931, and a final agreement was signed in May, 1931, by Cuba, Czechoslovakia, Germany, Poland, Hungary, and Belgium.

The basic principle of the convention is the allotment to each country of export quotas for the next five years based on its present productive capacity and past exports. A special clause provides that the production should roughly correspond to the whole consumption, plus the export quota. The immediate result of the signing of the Chadbourne Scheme was that three million tons of surplus sugar were kept off the market and that the market is now enabled to calculate more or less accurately the future deliveries. It was planned that during the following years the production in Cuba and Java should be slightly less than the amount needed for consumption and export, and in this way it was hoped to eliminate any additions to the accumulated stocks. Under the scheme the export quotas allocated to each country are dependent upon existing prices. It

was agreed that exports might be increased by 5 per cent if the average world price for sugar (on a basis of polarization of 96 degrees) was stabilised on a level equivalent to 2 cents per lb., f.o.b. Cuba for prompt shipment for a period of 30 working days. When the price reaches 2·25 cents a further increase of  $2\frac{1}{2}$  per cent in export is permitted, and if the quotation reached 2·50 cents the quota may again be increased by  $2\frac{1}{2}$  per cent. This Convention carries out certain recommendations of the report of the Economic Committee of the League of Nations presented on 4th July, 1929.

The Chadbourne scheme was successful during a short period in 1931, but did not prevent the drastic fall of prices in the spring of 1932, because production increased substantially and the figures of consumption fixed by the Convention were considerably over-estimated—a mistake which is always committed by promoters of restriction schemes. The visible supplies in countries which joined the Convention continued to accumulate and increased from 5·9 million tons on 1st September, 1930, to 7·2 million tons on 1st September, 1931, and 7·5 million tons on 1st September, 1932. The breakdown of the whole scheme has so far been prevented through a voluntary abstention by the most important member-countries from taking full advantage of the export quotas allotted to them under the Convention.

### 3.—EXPORT SYNDICATES.

Many exporting countries, in particular the British Overseas Dominions, have enforced legislative measures regulating the export of agricultural products. In New Zealand, to mention

some outstanding examples, the export of meat is regulated by an export control board for standardising and grading the product ; similar measures have been applied in South Africa to exports of fruit, eggs and milk, and taxes have been applied on agricultural products to raise funds to be devoted to further specialised production, citrus fruits, cotton, wool, eggs, butter and cheese. Among European countries Denmark's rationalisation of agricultural exports remains outstanding. But although these measures directly affect the marketing of products, the State's activity does not actually supersede the private trade or joint marketing organisations, and therefore cannot be considered as State trading.

In recent years, however, several States have instituted export syndicates, financed by State funds, not merely to standardise quality, but to raise prices, control production, extend the market, and reduce costs by bulk handling of the crop.

The countries of Eastern Europe, Roumania, Yugoslavia, and Poland have made extensive use of this method. These States, which are obliged to export their agricultural produce in order to obtain an export surplus, and which find the tariff walls in Western Europe a severe obstacle, have been discussing joint marketing for their surpluses since the summer of 1930. They were unable to organise an international wheat selling company, as they originally planned, but in the different States official exporting companies were instituted.

In Yugoslavia the position of the peasant farmer was an extraordinarily difficult one ; firstly, because of the shortage of cheap long-term credit ; secondly, as a result of the ever-increasing indebtedness of farmers to the banks ; and



thirdly, the difficulty of marketing the surplus on foreign markets. The Yugoslavian Government was pressed to tackle these three problems. On the proposal of the National Union of Agricultural Co-operative Societies, the Association of Yugoslavian Exporters and the National Office for Development of Foreign Trade, the Government, at the end of 1929, decided to form a company with a capital of 30 million dinars, divided into 30,000 shares of 10,000 dinars\* each. The capital was partly subscribed by the State and partly by Agricultural Co-operative Societies and export firms. The company, in addition, received a credit of 20 million dinars from the Ministry of Trade and 50 million dinars from the National Bank. Consequently, in the very beginning of its activities, it had at its disposal a capital of 100 million dinars.

The purposes of the company were : to undertake the direct placing of agricultural products, mainly on commission, for its different constituent groups, *i.e.*, the National Union of Agricultural Co-operative Societies, exporting firms, exporters, &c.; to make purchases on its own account ; and to take an active part in the construction of elevators and to promote proper grading and standardisation of agricultural products. It was decided that the company should deal only with large export supplies, leaving to the exporters the marketing of smaller quantities in the neighbouring foreign countries.

At the beginning of its activities, in the middle of 1930, the company found itself in a difficult position. The continued decline in the price of cereals on the world market, and the competition with overseas countries and with

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\*£1 = 276 dinars at gold parity.

Soviet Russia, made the European importing countries practically inaccessible to Yugoslavian wheat. In order to meet the difficulty, the company requested the Government for authority to purchase the quantities of wheat offered by Yugoslavian farmers at prices corresponding to those ruling in Central Europe, reserving the right, in the event of falling prices, to sell for future delivery the whole of the stocks not sold for cash. From 1st August to 1st December, 1930, it exported half of the total wheat export of 1 million quintals.\* In the first five months of 1931, the company was able to dispose of scarcely any wheat. Subsequently two favourable contracts were concluded, under which 1 million quintals of wheat went to France, and half a million quintals to the Czechoslovakian Co-operative Wholesale Society. Before these contracts were completed the company had exhausted its capital resources, but after the conclusion of the French loan to Yugoslavia in November, 1931, it was able to continue its activities.

The company raised prices paid to the home producer ; its policy was, to a large extent, responsible for the fact that the prices of Yugoslavian wheat during the first half of the agricultural year 1930 were almost stable, while the world market price fell steadily. In August, 1930, Yugoslavian wheat was 30 dinars above the price of Canadian wheat. In 1931 the company paid the farmer 160 dinars per 100 kg., at that time about three times the world price. This high price could only be paid to the home producer by raising the price of wheat inside the country, so that the home consumer (the mills) paid 240 dinars per 100 kg.

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\*1 quintal = 100 kilograms or 220 lbs.  
10 quintals = 1 short ton.

Syndicates for livestock export have been created in Poland, Bulgaria and Roumania. The syndicate of Polish exporters of pigs and livestock, established in 1928, was, in fact, a compulsory organisation, since a tax on export was imposed on all exporters not members of the syndicate. The syndicate attempted to standardise and improve the quality of livestock exported by imposing certain minimum conditions on its members. At the same time it succeeded in finding new markets for cattle and sheep in Italy and France. It was intended to carry out an organisation programme for all important agricultural products, particularly poultry, animal products, and potatoes, but as shortage of funds compelled the liquidation of the syndicate in May, 1932, it is unlikely that these schemes will be further developed for the present.

The flax export monopoly in Latvia, like the other State exporting agencies, has incurred heavy financial losses. At the end of 1930 the official purchasing price paid by the monopoly for flax was £56. 10s. for one ton " R " flax, to which must be added costs of management £6. 10s. The actual market price of flax was at that time £36 per ton, so that the State, in exporting 12,000 tons of flax from the 1929 harvest incurred a loss of £324,000.

From the liquidation of most of these schemes owing to shortage of capital, it appears that the authorities concerned attempted undertakings beyond their feeble financial resources, and aimed at subsidising the home producer rather than pushing export sales. But should financial conditions improve, it seems likely that these efforts at centralised marketing will be resumed. The Central Unions of Agricultural Co-operative Societies in Roumania, Bulgaria, and Yugoslavia have been discussing joint marketing of their agricul-

tural exports, and it remains to be seen if the Co-operative Societies will succeed where the official organisations have failed.

#### 4.—IMPORT MONOPOLIES.

The import monopoly is essentially a protective measure. It has been applied with a certain degree of success for the sale of corn crops in certain European countries where the peasant farmers form a large proportion of the population, and where it is desired to guarantee the peasant farmer a price for his wheat and corn crops without imposing a higher tariff duty, and to keep the price under supervision. Under a monopoly a State agency buys the whole of the home grown crop (wheat or other corn) at a fixed price, higher than the world price, and certain quantities of foreign wheat at the world market price, reselling to the millers at a price somewhere between the two prices. If the monopoly is to work as a financial success it must be able to balance its loss on the purchase of home grown wheat against its profit on the purchase of foreign wheat. These losses and profits can only be balanced in countries where the larger part of the demand is covered by imports. In any case the monopoly raises the price of corn to the consumer above the price at which it would stand under conditions of free imports; but if an import duty were imposed which would raise the price to the producer by the same amount the consumer would pay a higher price than under the monopoly.

The only country which has regulated the marketing of agricultural products systematically and continuously in this way is Switzerland. This method of import restriction could be successfully applied because only a small amount (25 per cent) of the total wheat consumption is covered by home

production. A monopoly with the sole right of import and sale of wheat and rye was instituted during the war and continued until 1929. During the war years it ran at a loss, but after 1922 its balance sheets showed a profit. The cost of working the monopoly, which covers the surplus price paid to home farmers, and the costs of storage and administration, amounted to 10-11 million Swiss francs yearly (£427,000),\* which was covered by an increase in the price of bread. The costs of wheat storage and the surplus price paid to producers amounted to 8½ million francs, and it is calculated that this represented 2 Swiss francs per 100 kg. of wheat, or 2 centimes per kg. of bread, so that if a yearly consumption per head of 100 kg. (200 lbs.) is reckoned, the burden imposed on the consumer by the monopoly would amount to about 2 francs (1s. 8d. gold) per head per year.† The farmer was guaranteed a price per 100 kg. of wheat, varying from 38-45 francs,‡ which should be 8 francs higher than the cost of foreign corn at the Swiss frontier.

A difficulty accompanies a scheme of this kind, however, when applied in a country where corn is grown to any extent for consumption on the farm: the higher price induces the producers to grow more corn for the internal market, with serious disadvantages to remote mountainous districts which rely largely on their own corn for feeding their livestock. To overcome this difficulty the Federal Government was, therefore, obliged to grant a direct subsidy, the flour premiums, to those producers who grow corn but do not sell it. These subsidies cost an additional 4 million francs, which was borne by the Federal Government, so

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\* 25 Swiss francs, gold = £1.

† See Dr. Gottfried Keller, *Zur Getreidefrage*, Aargau, 1926.

‡ A wheat price of 40 francs per 100 kg. is equivalent to 66/- per quarter at gold parity.

that the total cost of maintaining the monopoly was about 15 million francs.

The system was attacked because it imposed almost the whole burden of the higher price on the bread consumer, rather than on the whole population. For this reason it was eventually decided to abolish the monopoly and give the corn producer the same price support by transferring the whole of the cost to the Federal Budget. Home grown cereals are now purchased by the Government at a price fixed at 8 francs per 100 kg. above the world price, varying from 38-45 francs per 100 kg. The cereals are distributed to millers. The purchase is carried out exclusively through the agricultural co-operatives (except in the mountain cantons), which are obliged to give the same treatment to members and non-members. The import of foreign grain is permitted (under the previously existing tariff rates) but the millers are obliged to buy home grown wheat in a certain proportion. The Federal Government only continues to import foreign corn to maintain a store of 40,000 tons for national emergencies. Flour can be imported only by the Federal Government. As it was feared that the free import of corn, in conjunction with the higher price for home grown wheat, would cause a decline in corn production for home consumption by inducing farmers to sell all their corn at the higher price and purchase foreign wheat or feeding stuffs, it was decided to raise the flour premiums by 50 per cent. This proved insufficient : in 1930 self consumption declined and a larger proportion of corn was sold. In consequence, it was found necessary to pass legislation compelling farmers selling corn at the surplus price to consume a certain proportion of their own corn.

Under the new system the price of bread was lower than under the monopoly :

Price of Bread in Bern :	Per kg.
End of June, 1929 (monopoly in force) .....	†50 centimes
15th May to 1st October, 1930 (new system) ....	48    "
18th June to 30th June, 1931 (new system) .....	38    "

† 50 centimes = approximately 5d. (gold).

During this time, however, the price of wheat was falling rapidly, so that the reduction cannot be attributed entirely to the new system.

The total costs were considerably higher than under the monopoly, 23 million francs in 1931 and 21 million francs in 1930. This increase must principally be attributed to the fall in world prices, which depreciated the value of the stocks of wheat held by the Government. With the fall in world prices the span between the Swiss inland price and the world price increased, so that in 1932 it was decided to reduce the minimum price to 36 francs per 100 kg.\* The effect of the monopoly has been to increase the acreage under corn crops in Switzerland.

A monopolistic system of control has recently been instituted for butter. For the prosperity of the agricultural producer the maintenance of the butter price is as important as the price of corn, since the Swiss peasant relies for the greater part of his income on the sale of milk and milk products, the export of cheese having fallen off in recent years. It was considered impossible to raise the import duty on butter (at present standing at 1·80 francs per kg.) and in consequence a butter monopoly was introduced. The regulation of the market for butter is more difficult than for corn, as more than half of the home consumption is covered by the home production. In March, 1932, a central agency was created, *Butyra*, controlled

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\*This is equivalent to 60/- per quarter. The British farmer receives 45/- a quarter under the present Wheat Quota Act.

by four groups—the Central Union of Swiss Milk Producers, the Swiss Butter Union, the Union of Swiss Consumers' Co-operative Societies, and the Union of Independent Butter Producers. It is operated by a controlling commission composed of three representatives of each group and one representative from the Economic Ministry of the Federal Government, and presided over by Dr. B. Jaeggi, President of the Administrative Committee (*Verwaltungskommission*) of the Union of Swiss Consumers' Co-operative Societies.

The control is essentially a monopoly :

- (1) It purchases all home produced butter at a price fixed in accordance with the milk price ;
- (2) It imports foreign butter in accordance with the demand estimated as a percentage of the average imports in the two years 1930–31 ;
- (3) It resells the butter to the retail trade at a price which enables the latter to sell to the consumer at a price not exceeding a fixed level, at present 5 francs (4s. 2d.) per kg. for table butter, and 4·50 francs (3s. 7d.) for cooking butter.

The four groups belonging to the agency may import butter to an extent sufficient to cover home consumption. Other importers outside the company may receive special licences for butter import, but these imports are subjected to a fee in addition to the duty, varying according to the span between home production and foreign butter, so that non-members cannot import more cheaply.

The internal price is maintained at a considerably higher price than the foreign price : in May, 1932, the price of best Danish unsalted butter was



1·75 francs per kg. in the country of origin. The actual cost of the higher price and the administration is estimated at 4 million francs per annum.

In Switzerland organised agricultural producers have been able to secure a guaranteed price for their most important products, because they have stated their claim for a higher price on the same grounds as the industrial trade unionist demands a higher price for his labour. For the peasant farmer the higher price represents an additional return on labour, rather than on capital, and in consequence the Swiss farmers' organisations have claimed that the peasant should not sell the product of his labour at a price which will reduce his standard of living considerably below that of the town worker. This claim has been well substantiated by the results of the book-keeping system applied to peasant farms, which show that the earnings of Swiss peasant farmers, even with a guaranteed corn price, do not compare well with those of the industrial worker in the towns. For Governments which are committed to belief in social and economic equality, some method of controlling the results of guaranteed prices on farmers and farm workers' incomes is essential. In countries where the farmer is a capitalist, employing wage labour, it is impossible to claim guaranteed farm prices as a means of ensuring a minimum standard of living to the worker. But in countries where the land is in the hands of small peasant farmers, whose income from the farm represents chiefly a family wage, such a claim can be well justified on social and economic grounds.

In the Scandinavian and Baltic countries, where economic and social conditions are similar to the Swiss, *i.e.*, where industry has developed against a background of peasant farming, similar mono-

polies or methods of regulation have been instituted.

In Norway a State monopoly (*Statens Kornforretning*) existed from 1924–27, controlling only imports of wheat and flour and not the home production. Norway covers 70 per cent of its corn and flour consumption by import. Agricultural producers found it difficult to compete with foreign corn as they only produce small quantities for sale, and the wheat co-operatives were small local organisations unable to found a national agency. Until 1927 the State purchased only small quantities of domestic wheat, as its buying prices did not then include any bonus and were lower than the prices most growers could secure from private individuals.

In 1927 the Government abandoned the monopoly of imports, but undertook the purchase of practically the whole of the domestic wheat crop suitable for human consumption at fixed prices, which were legally guaranteed to remain at least equal to the corresponding prices of imported wheat delivered at Norwegian ports. As in Switzerland, a premium to the producers of wheat for consumption on the farms was paid out of the proceeds of the import duties on wheat and wheat flour. Subsequently, in 1929, the monopoly was reconstituted, and is now controlled by a committee of seven members appointed by the Parliament; of these, four represent Co-operative Organisations—two from the consumers' societies and two from the farmers' societies. The monopoly now purchases all home grown wheat suitable for human consumption, and resells it. The selling price is about 4 crowns\* per 100 kg. higher than the price of wheat at Norwegian ports

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\*1 crown = approximately 1 shilling.

(not including the duty). After the home grown wheat is cleaned and mixed to a uniform grade it is distributed to the various flour mills. The mills desiring to buy imported wheat are required to pay a fixed price and to grind the grain according to instructions from the monopoly administration. In marketing flour the Norwegian mills and the wholesalers of imported flour are required to sell at specified prices which are uniform throughout the country. Each miller and each wholesaler of imported flour receives a fixed fee for every 100 kg. of flour he sells.

The monopoly succeeded in stabilising prices. According to an American investigation\* of its price policy, the spread between quarterly average prices of Norwegian wheat and quarterly average British parcels prices was more irregular than the spread between the prices of Danish and Swedish wheat and British parcels. This discrepancy resulted primarily from the operations of the grain monopoly, as, owing to its operation, the Norwegian consumer did not reap the full benefit from the fluctuations in the world market, and the span between Norwegian prices and the world price was as great as it was in Germany, where corn prices are supported by a high tariff on wheat.

Sweden, Holland, and Czechoslovakia have also introduced corn monopolies ; Sweden and Holland for imports and home production, Czechoslovakia for imports only. In Austria the institution of a corn monopoly has long been discussed, but none of the various projects have so far been carried out. In France a project for State control of corn marketing has recently been put forward by the socialist parties. Czechoslovakia has also recently instituted (December, 1932) official syndicates to

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\*Wheat Studies, Stanford University, *The Wheat Situation in Scandinavia*, 1931.

regulate the trade in livestock, meat and bacon, milk, milk products and eggs. The syndicates, composed of representatives of agricultural producers' co-operative societies, the wholesale trade, and the consumers' co-operative societies, are to control imports, to assist home marketing, and to stabilise prices.

Of these examples the most interesting is that of Holland. The protection of agricultural producers runs counter to the country's accepted economic policy, which is opposed to tariffs and to State intervention of all kinds. In spite of this tradition the Wheat Law, passed in July, 1932, constituted a State agency which is, in fact, a monopoly similar to the Swiss. To protect producers a milling quota was introduced, compelling millers to grind 25 per cent of home grown wheat. It was necessary at the same time to introduce some means of distinguishing home grown from foreign wheat, and to give the home grower a better price. All producers selling to the eight existing marketing organisations (some of which are co-operative in character) could obtain a higher price for wheat. As only wheat sold to these organisations is considered home grown wheat, growers were given a strong inducement to sell to them, and the marketing organisations were actually given a monopoly. The eight associations have now been formed into a Union which deals directly with the central millers' organisation. The price paid in February, 1931, was 12.50 gulden per 100 kg. (21s. per 100 kg.), more than twice the world price at the time.

State monopolies for crops have also been instituted in Latvia and Estonia. A monopoly for rye, grain, and flour was instituted in Estonia in 1930, giving the Government the sole right of importation and purchase of corn, with power to

grant licences to individuals for import. Rye is purchased from the farmers, or from their Co-operative Societies, at prices fixed with reference to the cost of production in various districts, for which purpose records of the agricultural book-keeping department must be consulted. Other commodities (sugar, honey, coffee, tea, wine, margarine, fish, milk, cream, butter, and eggs) have been brought under the monopoly administration. The régime imposes a severe strain on the State's financial resources. In Latvia the State has purchased rye and wheat from the farmer at fixed prices since 1930, and more recently (in April, 1932) a monopoly was instituted, the profits of which are to be devoted to assisting butter and bacon production. In Lithuania no monopoly has been instituted, but the Government buys grain from the farmers at fixed prices, to establish a grain reserve for the regulation of the market. The purchases are made through the medium of an organisation uniting the Agricultural and the Consumers' Co-operative Societies, *Lietukis*, founded in 1930.

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To summarise the results of all these governmental trading experiments is not easy, since most of them have only recently been instituted. It is clear from the experience of the Swiss and Norwegian monopolies that this method of assisting producers does not impose an excessive burden on consumers and can be conducted without an excessive increase in prices or heavy financial loss. Whether assistance to the peasant farmers is justifiable is a question too wide to be discussed here ; but, as has already been pointed out, it is important to observe that, in the countries which

have used this method, the protection to producers is very largely a protection of labour and not of capital. The peasants' minimum price can be justified in the same way as the claim for a minimum wage in industry. But the State trading policy pursued by the Federal Farm Board and the German Government cannot be defended in this way because the estates of Eastern Germany and the grain growing farms of the United States are definitely capitalistic undertakings, and the farmer claims to make a profit on capital rather than to make a living by his labour. If it is admitted that the State should protect the interests of working producers in agriculture, as in industry, it appears that the State corn monopoly is to be preferred to the protective tariff or to crop purchases in the open market, though it is not so easily applicable in countries where farming is organised on a capitalistic basis. It permits price fixing in accordance with cost of production, giving producers a degree of security, and at the same time permits control of prices by representatives of consumers' interests.

##### 5.—THE POSITION OF AGRICULTURAL CO-OPERATIVE SOCIETIES.

Under many of these State marketing schemes producers are legally compelled to market their produce through the State agency, which, therefore, draws the already existing Agricultural Co-operative Societies into its sphere and may easily supersede them. Is this situation desirable from the standpoint of the Co-operative Societies ?

It is difficult to deny that some application of compulsion is necessary if agricultural marketing organisation is to be put on a permanent basis. The old days when the farmer produced for a local

market, and free competitive marketing was possible, are long past ; to-day in many countries he produces for a world market. But the farmer, even the large farmer, is a small producing unit as compared with the units in modern industry, and in the modern capitalist system he finds himself at a disadvantage as compared with other producers, unless he can combine for collective or co-operative marketing of his products in order to obtain some stability of prices. But the task of organising collective marketing of agricultural products is extremely difficult, far more difficult than in industry. Collective and co-operative marketing has made great strides in certain branches of agricultural production where the product is localised and capable of standardisation—Danish bacon, Brazilian coffee, and milk in many countries. But in the two most important branches of agricultural production, corn crops and livestock, it is impossible to speak of a generally successful advance in collective or co-operative organisation. The varying conditions of production and the varying character of the product impose almost insuperable difficulties in the way of establishing organisations covering large areas, except by legislative measures enforcing membership of marketing organisations.

But these measures should be confined to the foundation of marketing agencies by strengthening existing organisations. The British Agricultural Marketing Act of 1931 follows a procedure of this kind, and is not really open to the charge of co-operation by compulsion. The Act gives a majority of farmers the power to compel a minority to support a co-operative marketing scheme, but the scheme itself is organised on a voluntary basis. When the scheme has the approval of two-thirds of the producers

concerned, the remainder are bound to bow to the will of the majority. Previously a minority of producers, by staying outside, could reap the benefits of co-operative action without bearing the responsibilities of organisation, and many attempts to organise marketing on a large scale failed.

But the State marketing schemes described in the previous sections went much further than this: the intervention of the State was used, not to strengthen the existing organisations or to stabilise prices, but to raise prices and subsidise agricultural producers by the use of public financial resources to an extent which economic and social conditions did not justify. The agricultural co-operatives in the United States, Germany, and the countries of Eastern Europe, although they have not been responsible for the policies pursued by the State organisations, have undoubtedly given strong support to attempts at price fixing through Governmental marketing agencies, since it appeared to be the only hope of creating reasonable security against the rapid fall in the price level. But these attempts at control were carried far beyond the powers and the aims of the co-operative organisations themselves. In the countries of Eastern Europe, where the co-operatives are financially dependent on State subsidies to a very large extent, the intervention of the State resulted in an investment of capital in excess of marketing possibilities.

In consequence the agricultural co-operatives in these countries seem to have gained little from these schemes. The advantage of a fixed price level which State marketing offers, which in these countries has been a temporary advantage only, may be outweighed in the long run by loss of independence. Since all producers obtain the same



treatment, a co-operative society no longer offers to its members any special inducement to sell through it. In the opinion of an independent observer, Mr. C. R. Fay, the Agricultural Co-operative Societies in the United States have lost far more than they have gained by the far-reaching State intervention of the Federal Farm Board, which may finally undermine the co-operative basis of organised marketing.\*

The defect of State action up to the present has been its attempt to organise too ambitiously, to subsidise rather than to organise. The same objections do not apply to the import monopolies in Switzerland and Norway, where an exorbitant price policy or excessive financial support have been obviated by the division of control between Consumers' and Agricultural Co-operative Societies, and where, in consequence, it has been possible to give the farmer the security which, in these countries, he is justified in demanding on social and economic grounds. In this form the intervention of the State is both necessary and useful ; it puts the voluntary organisations on a permanent basis, and provides machinery for adjusting the interests of producers and consumers.

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\*This view was expressed in an address by Mr. Fay to the British Association in September, 1932.