Rationing

EACH OF US knows from personal experience that there is no more effective way of rationing a good than to make it more expensive *vis-a-vis* about-equally-acceptable alternative goods. Conversely there is no more effective way of promoting a good into heavier consumption than making it attractively priced *vis-a-vis* similar alternatives. The latter course has the effect of rationing usage of the item or items that become relatively high because of the price shift. The changing reactions of buyers to absolute and relative changes in price indicate the demand schedules and the elasticities of the products involved. Demand schedules and elasticities are, in effect, descriptions of how well this price rationing works for the products under discussion. Both will be more complicated for goods for which there are available, acceptable, economic alternatives (*e.g.,* specific fats, tin plate cans, waxed paper) than for those without truly acceptable alternatives (*e.g.,* fats in general, steel rails, newsprint).

As agricultural commodities, with an annual production cycle, demand schedules for specific fats and oils will be subject to seasonal alterations. For instance, if cottonseed oil is priced too high early in the season, usage may be cut so badly that even serious price weakness late in the crop year may be insufficient to clear stocks prior to the onset of new crop supplies, total fat consumption being pretty much a constant and other items having replaced cottonseed oil at least for that year. Frequently, as a result, cottonseed oil moves low enough, relative to other oils at the peak of the seed movement, so that heavy consumption and stock piling are induced. Then late-season rallies may not be able to ration usage sufficiently since there is a fair fixed demand for cottonseed oil in certain products. Actually the economics of substitution as between items is complicated by such hard-to-assess factors as captive oil production (*e.g.,* corn oil)), prejudice for or against certain items (*e.g.,* lard in compound cooking fats), habit on the part of the manufacturer (*e.g.,* cottonseed oil in certain applications), commitments because of advertising (*e.g.,* peanut oil and coconut oil in one margarine, corn oil in another), "gentlemen's agreements" against usage of imported fats (*e.g.,* coconut oil and palm kernel oil in margarine). Complicating things further are inventory policies that obscure shifts for long periods of time; for once an item is in your plant, you are unlikely to resell it. Sad to say, there are more besides these mentioned. However enough pattern emerges from the chaos to enable us to make a few very general observations about the past by looking at the statistics.

Figure 1 shows lard usage in shortening *vs.* lard price for the last 18 months. Shortening can be considered to be a sufficiently marginal use for lard so that we would expect to see a fair response to price changes, and such a response is apparent. The cutback in consumption, coupled with a similar price-induced cutback in export movement, is preventing us from running out of lard this year, a possibility had not consumption fallen off. Figures 2 and 3, soybean oil in salad-cooking oil *vs.* price and cottonseed oil in salad-cooking oil *vs.* price, indicate considerable sensitivity to price in this sector of the market. It is certainly indicative of a strong preference for cottonseed oil at a cent or less premium cottonseed oil over soybean oil but a remarkable fickleness at much over that. Even corn oil with its widely heralded patent-medicine properties is apparently not much immune to the usage rationing that comes from over-pricing (perhaps combined with an FTC crackdown on enthusiastic advertising, Figure 4). Figure 5 shows cottonseed oil as percentage of shortening *vs.* price, and it is obvious that even fairly good-sized market moves (both absolutely and relatively to soybean oil—see Figures 2 and 3) do not greatly disturb cottonseed oil's share of the market. This would seem to indicate a hard core of cottonseed oil users on the manufacturer level if not on the consumer level. It also may

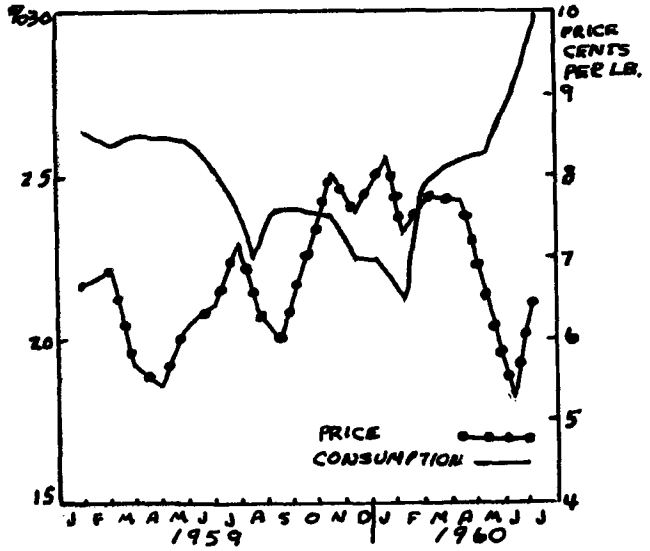

FIG. 1. Percentage consumption of lard in shortening *vs.* price of spot loose lard at Chicago 1-59 through 7-60.

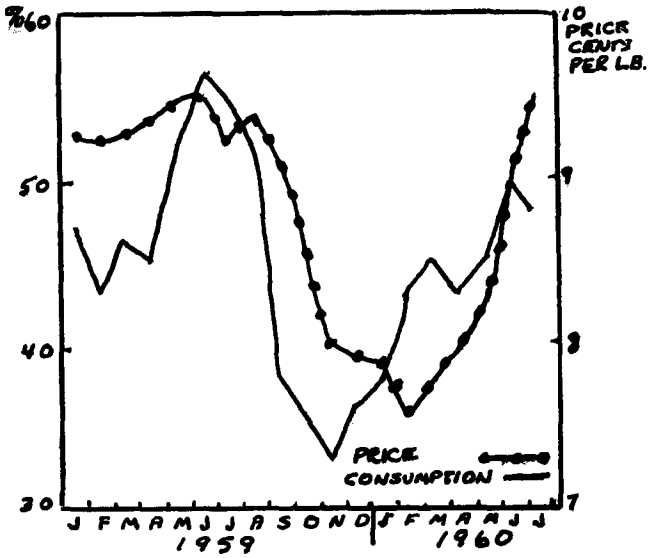

FIG. 2. Percentage consumption of SBO in salad oil *vs.* price of crude SBO, Decatur, Ill., basis 1-59 through 7-60.

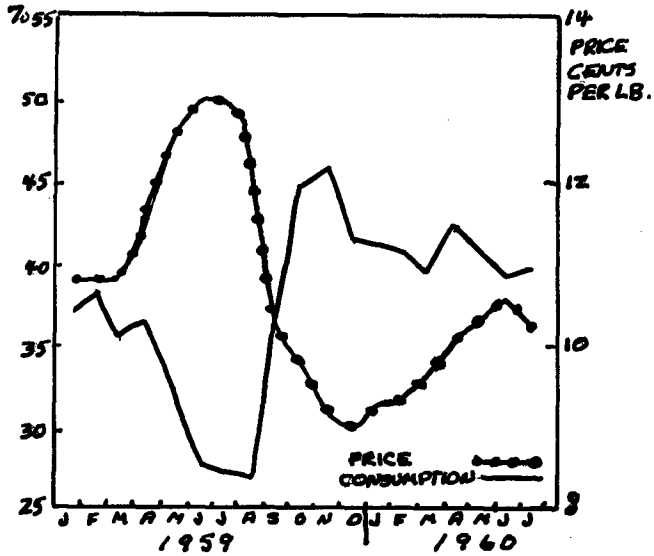

FIG. 3. Percentage consumption of CSO in salad oil *vs.* price of Valley CSO 1-59 through 7-60.

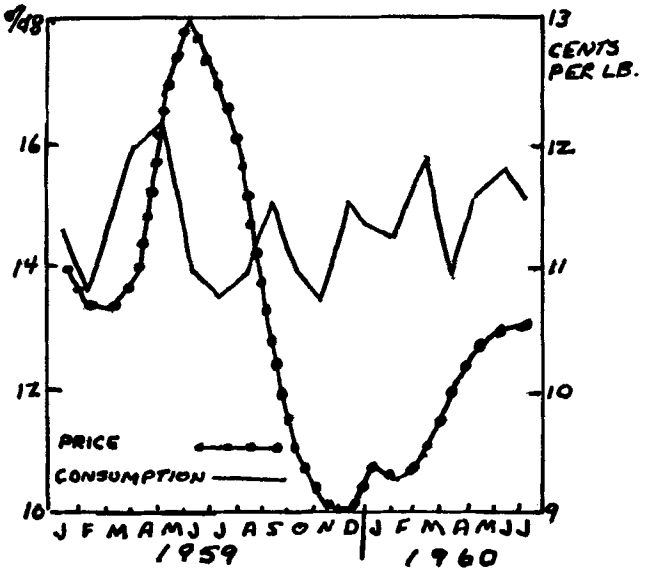

FIG. 4. Percentage consumption of corn oil in salad oil *vs.* price of crude corn oil, Midwest Mills, 1-59 through 7-60.

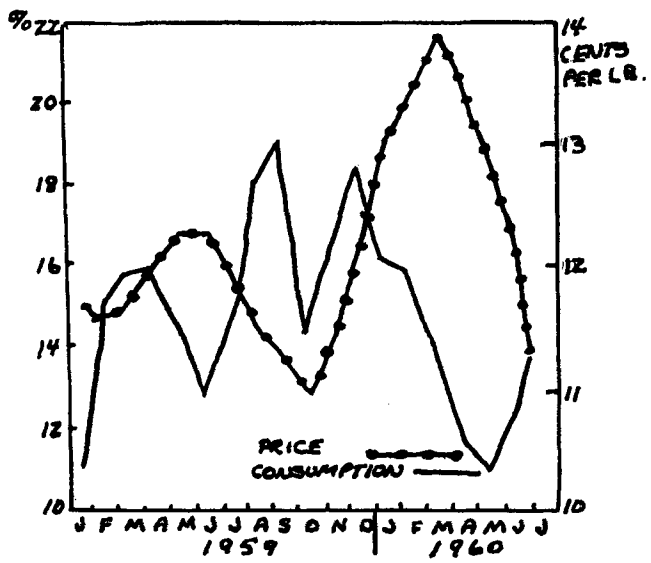

FIG. 5. Percentage consumption of CSO in shortening *vs.* price of Valley CSO 1-59 through 7-60.

indicate lack of interest in cottonseed oil at premiums outside of this hard core.

Thus in most of these items we see tendencies for the fluid price mechanism to perform the function expected of it, allocation. This function incidentally has always disturbed planners and politicians. For each is convinced that he has a better scheme of allocation than that constructed by the market. When these artificial allocations go awry, planners tend to resort to ration coupons, marketing controls, or nicking of the taxpayer for surplus disposal. They forget that the only really effective ration coupon is the oblong green one in the pocketbook.

JAMES E. MCHALE, Merrill Lynch, Pierce, Fenner, and Smith Inc., Chicago, Ill.

Oronite Chemical Company, San Francisco, Calif., and Nippon Petrochemicals Ltd. will build Japan's first detergent polymer and alkylate plant in Kawasaki. The plant, to be completed by late 1961, will be operated by the newly created Nippon Petroleum Detergent Company, using Oronite patent licenses and know-how. The new unit will be capable of meeting all of Japan's growing demands for detergent alkylate.