DISTRIBUTIVE MARGINS - A REJOINDER

P. Bowbrick[1]

In their original paper (4) Messrs. Reeves and Young stated that they had two aims. My comment (1) concentrated on their approach to the first, to determine "whether or not retailers operate markup pricing, the type of markup used and the extent to which variations in retail prices can be adequately explained by changes in prices at the wholesale level" (4). I also disagreed with their approach to their second aim "some attempt is made to identify factors, other than the level of wholesale prices, which influence the margins on individual products" in so far as they analysed aggregate data to identify individual retailers' policy on margins. In their reply (5) they do not question my refutation of their methods. I did not disagree with the use of aggregate data to analyse aggregate phenomena - on the contrary I argued that these data could not be used for anything else - yet the reply is confined to a defence of the use of regression equations on aggregate wholesale-price, retail-price and wage-rate data series for France, to provide short-term forecasts of food margins at retail level. My comment ignored this, as there was only passing reference to it in the original paper.

However, if aggregate data are to be used to analyse aggregate phenomena, the phenomena should be of interest, and the study should aim at solving real problems. The study should be built around a specific problem, like "is price control for beef desirable and practical?" rather than the vague "to help explain why the level of retail price varies considerably across the EEC in spite of the CAP and its 'common' prices" (5).

This would mean that the equations, unlike the ones in the paper (4),could and would be used for planning or decision making by firms or the state. Most of the 600 papers I know of on market margins appear to have been written, not because there was a problem to be solved, but because the researchers came across a data series for wholesale and retail prices, which suggested market margin analysis to them. In practice few people can resist the temptation to use any wholesale and retail data series that are available, even if they are wholly or partially irrelevant.

In my comment I did not argue that retailer surveys were an alternative to econometric analysis - thaugh in fact a study on the lines of Tilley and Hicks (3) for instance could have been used to make specific, testable, short-term forecasts of the effect of wage rates and other factors on margins, forecasts which would be of practical value to firms and the state.

I showed instead that it is necessary to obtain background information of this kind before such an econometric analysis is possible. Since one cannot use the same data to derive a hypothesis and to test it, and since relevant data for an analysis like the one attempted are almost unobtainable, one must derive as realistic and refined a hypothesis as possible from theory and previous empirical research before beginning an econometric analysis. From a crude hypothesis the most one can get is a tested crude hypothesis plus a more refined but untested hypothesis. When the first hypothesis is not supported by the facts it is not enough to present as a final result the hypothesis that another regression equation, which was obtained from the data for 1964-1971, and which has no support from any other studies, will continue to apply in future for some unstated reason. Had the hypothesis in the paper been based on appropriate studies, qualitative or quantitative, they might have been more realistic and have received some support from the econometric analysis.

Probably the commonest and most serious failing of present day economics is that economists refuse to abandon their conclusions when their hypotheses, theory or method are refuted. In this case for example, the authors continue to defend their study though they admit that (a) their hypothesis is apparently not supported by the facts; (b) their theory is wrong; and (c) their econometric method suffers from the weaknesses that their model was "over simplified" (5); that their data are irrelevant, distorted and possibly incorrect (4); that "auto-correlation of the residuals was present "that the lagged margin variable "may simply be a 'catchall', embracing a number of influences, and that this may be the reason for such high levels of correlation and high long-run effects being obtained when distributed lag models are used"; that there is insufficient identification; that there are limitations due to insufficient degrees of freedom; that several models were applied before the final choice was made; and that many variables believed relevant were left out because of data limitations.

I cannot accept the conclusion of Reeves and Young that we need analyses of retailers' cost structures, analyses of farmer-consumer price spreads, the collection of data and a review of the literature on market-margin analysis. Before anything else is done researchers must refute those papers which attack the logical and statistical basis for market margin analysis or develop an analysis which avoids their strictures. If this cannot be done, market margin analysis must be abandoned.

References

1. Bowbrick, P. "Determining Distributive Iv'oargins: A Comment", Oxford Agrarian Studies, Vol. V, 1976.

2. Fuller, W. A. and Ladd, G. W. "A Dynamic Quarterly Model of the Beef and Pork Economy", J. of Farm Econ., Vol. 43, No.4, 1961.

3. Tilley, R. P. R. and Hicks, R. "Economies of Scale in Supermarkets", The J. of Industrial Econ., Vol. XVIX, 1970.

4. Young, S. and Reeves, A. "Food Retailing Iv'oargins in France", Oxford Agrarian Studies, Vol. IV, No.1, 1975.

5. Reeves, A. and Young, S. "Market Margin Analysis: A reply to Mr. Bowbrick's comments and some suggestions for further Research", Oxford Agrarian Studies, Vol. V, 1976.