

BASING POINT PRICING AND REGIONAL DEVELOPMENT: A CASE STUDY OF THE IRON AND STEEL INDUSTRY. By George W. Stocking. Chapel Hill: University of North Carolina Press, 1954. Pp. vii, 274. \$6.50.

PROFESSOR Stocking's fine book is both narrower and broader than its title. Its account of the impact of the iron and steel industry's price formula upon regional location pays little attention to the West, with which previous discussions of the topic have been primarily concerned. Instead, it is focused almost wholly upon the production and use of steel in the South. The scattered evidence on this topic has been resourcefully brought together and definitively analyzed.

Although attention is given primarily to the impact of the basing point formulas of the steel industry upon industrial location, the book covers also the pricing system's economic background; its origins in the industry; the relation of the price formula to price stability, price discrimination, cross hauling, and efficiency; the law on basing point pricing; and the elements of a sound public policy. Though the discussion of these matters is brief, it is distinguished by consistent good sense and good proportion and is often both stimulating and illuminating.

The heart of the book is a close analysis of the significance of the Birmingham price differential for the development of steel fabrication in the South, both under the Pittsburgh-plus system and under the subsequent multiple basing point system. For the earlier period, Professor Stocking relies primarily on the experience of particular fabricators as it was set forth in the Federal Trade Commission's *Pittsburgh-plus* case.<sup>1</sup> For the latter period, he has analyzed unpublished data assembled by the Temporary National Economic Committee and has supplemented this statistical information by materials from various sources, particularly a report by the Board of Investigation and Research established under the Transportation Act of 1940. His conclusion is that although Birmingham mills could produce iron and steel at a cost lower than that of any other domestic producer and although the demand for steel in Birmingham's natural market area exceeded Birmingham's production, the expansion of output at Birmingham was retarded by a price formula which gave Northern mills ready access to the Southern market. He concludes also that the expansion of the steel-using industries of the South was significantly retarded by the fact that they were handicapped in the price they paid for steel as compared with their Northern competitors. The persistence of these conditions, he finds, was due not only to the price differentials included in the basing point system but also to the fact that most of Birmingham's production was controlled by United States Steel Corporation, which "necessarily subordinated the employment of its Southern properties to the combined interests of its national operations."<sup>2</sup>

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1. United States Steel Corp., 8 F.T.C. 1, 59, 60, *aff'd*, 4 FTC, STATUTES AND DECISIONS 789 (1944-48).

2. P. 111.

Professor Stocking's analysis is inconclusive as to the relationship between industrial structure and the price formula. He notes that industrial engineers employed by United States Steel reported in 1938 that the company had unduly neglected the profit potentialities of its Birmingham properties, and that as a result of this report the company included some expansion of facilities at Birmingham in its program of rehabilitation. It is not clear to what extent output at Birmingham may have been retarded by inefficient management of the corporation rather than by the profitable subordination of its southern producing interests to its larger interests elsewhere. Thus one is left uncertain whether the primary effect of the basing point system was to blind the corporation to its own best interests in the South or to serve as a device to further those interests.

Professor Stocking's brief discussion of the relation of the basing point system to the broader issues of price policy raises important questions that are left only partially resolved. He sees the steel industry's use of basing point formulas as a restrictive device designed to promote price stabilization. He regards the industry's desire for stable prices as a natural consequence of the varying geographic location of demand, the belief that demand is inelastic, the importance of fixed costs, and the fear that competition in periods of slack demand must be ruinous. He concludes that relative stability has been bought at the expense of higher costs to producers and higher prices to consumers and also at the expense of retarding the South's steel industry. He believes that the proper way to attack fluctuations in business activity is through fiscal and monetary policies, in the absence of which special control programs for particular industries, whether privately or publicly administered, probably do more harm than good. Hence he thinks it a proper expression of public policy for the Federal Trade Commission to attack conspiracies that rest upon basing point pricing and also to attack geographical price differentials, involving either phantom freight or degrees of freight absorption, which put local rivals out of business. But he suspects that the interest of United States Steel will continue to keep the expansion at Birmingham relatively slow and that oligopolistic influences in the industry may preserve restrictive pricing practices regardless of legal attack. He mentions (though he does not clearly endorse) a program of dissolution as a remedy for such influences. Yet he also thinks that if society does not find a way to stabilize economic activity at a high level of employment and income, the leaders of the industry "may be right" in their belief that price competition is ruinous.

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