

## [Milking the consumer](#) [1]

Written by [Whig](#) [2] | Thursday 26 July 2012



Let's say that I'm a manufacturer of any product. Let's take pins, as a good Smithian example. There is an oversupply of pins in the market, due in part to domestic and overseas producers being able to manufacture pins more efficiently than before. As a result, prices for pins fall. This means that consumers are able to buy pins more cheaply. Because many pins are used in further stages of manufacturing such as clothes production, prices of clothes fall as well.

This means that consumers are able to buy more or better quality clothes or, by keeping their spending on clothing the same, divert the surplus into other areas of consumption or better yet, to save the surplus thus generating capital formation and future growth.

Some pin manufacturers will find that their concerns are no longer profitable at the new price level. This means that they must either reduce their own costs of production or go out of business. However, pin manufacturers going out of business should not be looked upon in a negative light as their resources can be redeployed more efficiently elsewhere and to satisfy other demands for consumption. If the reductions in cost are caused by foreign producers able to supply pins more cheaply, we should see this as a demonstration of comparative advantage and the benefits of free trade to all.

It may well be that the overseas pin manufacturers are in developing countries which benefit enormously from the additional employment and economic growth created in their economies. Of course, this is only the case if overseas pin manufacturers weren't subsidised and protected by their own governments but the fact that they may be does not justify my government in doing so.

Let's take another situation. I'm a dairy farmer, and the price which buyers are willing to pay for my milk falls. I realise that I can no longer make a profit in dairy farming. Do I accept that I should redirect my land, capital and labour into another area where I could make profit? No, it seems instead that I should exploit a bizarre political situation where farmers are somehow held up as sacrosanct and in which many people believe that we need to be self-sufficient in food production (as if the UK is somehow preparing for a future autarky).

Instead, I disrupt the supply chains of dairy processing plants and launch a [campaign attacking supermarkets](#) [3] and other purchasers of milk in an attempt to force them to either reduce their profit margins, punishing their shareholders who are likely to be the pension and insurance funds of British savers, or ? more likely ? pass the additional costs of artificially increasing the price of milk onto consumers via other means.

Moreover, instead of accepting that I am imposing a cost on all consumers which they may not all wish to pay, I protest and instead revert to using political and lobbying techniques in an attempt to coerce

purchasers of my milk to raise prices. Fortunately, politicians have so far resisted the temptation to interfere too far, or rather too much further, into the marketplace. Instead of redirecting resources to different forms of production which consumers may now be able to afford, I attempt to redirect their spending decisions whether they like it or not.

It must be added, of course, that there are gross distortions in the marketplace. Interventions in the shape of the CAP on the supply side and the various mechanisms by which government drives integration in the retail sectors on the demand side must be viewed as contributors to the way in which the industry is structured. As we must continually point out, if there is not a free market then there cannot be a market price reflecting supply and demand ? in other words a ?fair? price.

Nevertheless, the attempted use of political means to artificially inflate prices above the market rate ? to create an ?unfair? price rather than accept that rate is a troubling and problematical response. What makes farmers special and privileged above other producers in the economy? Farmers must recognise that [they must serve consumers](#) [4] and not the other way around.

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