

# Michigan Law Review

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Volume 47 | Issue 6

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1949

## Machlup: THE BASING POINT SYSTEM

Michigan Law Review

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### Recommended Citation

Michigan Law Review, *Machlup: THE BASING POINT SYSTEM*, 47 MICH. L. REV. 870 ().

Available at: <https://repository.law.umich.edu/mlr/vol47/iss6/33>

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THE BASING POINT SYSTEM. By *Fritz Machlup*. Philadelphia: Blakiston Co. 1949. Pp. vii, 275. \$5.

To present an economist's stand on the controversial subject of basing point pricing before Congress acts on the matter, Mr. Machlup, professor of political economy at Johns Hopkins University, extracted the material used in this book from the manuscript of a forthcoming book to be entitled *The Economics of Price Discrimination*. The introductory material includes a succinct description of the mechanics of basing point pricing and an exceedingly good analysis of the broad problems of business, economics, law and politics inevitably involved in any discussion of the subject. To serve as further background for theoretical treatment of the economic problem, a review of the case histories in the steel, cement and corn products industries is graphically presented. Next follows a detailed analysis of the myriad arguments which have been advanced by the proponents of identical delivered prices under the basing point system. Making effective use of what may be called sarcastic logic, the author's arguments lead to the conclusions that the system as it has been used by some industries is an effective means of obtaining monopoly advantages and is inherently discriminatory. His refutation of the often stated position that a pattern of identical delivered prices is the natural result of competition among rival-conscious members of a stable industry is quite convincing. Less effective is the reasoning tending to demonstrate that basing point pricing is detrimental to the interests of smaller producers, depending as it must upon the premise that either businessmen themselves do not understand what has been happening, or that, knowing their interests are being abused by the larger concerns, they are content to remain silent to avoid incurring the wrath of their more powerful competitors. The chapters describing the monopolistic and discriminatory nature of basing point pricing should be of most value to lawyers, as the economic analysis at these points is couched in terms of existing law. The remaining portions of the book are devoted to demonstrating that from a standpoint of economic theory current law is not sufficiently stringent. The author concludes that because basing point pricing stifles most of the important functions of supply and demand, the system should be expressly outlawed, and finds that such a move would not result in the dire consequences imagined by businessmen. As his arguments are logical in nature, their cogency depends upon the validity of the many hypotheses assumed. Whether or not one agrees at all points, the book is valuable as the considered opinion of a self-styled "old-fashioned liberal." The convictions of economists with similar political philosophies are bound to have much influence on the course taken in the enforcement of existing law.