

TOBACCO PRODUCTION AND DISTRIBUTION
IN THE UNITED STATES
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1. The researches were centered around the American leaf tobacco markets. They were carried out to understand better what factors ultimately do determine prices and to describe, if possible, the leaf tobacco markets in one or more econometric models. Especially as far as the latter purpose is concerned, however, they are still in a very early phase.

2. Tobacco farming in the United States is highly specialized. Tobaccos form a group of crops rather than one, each crop having distinctive uses and distinctive markets.

In government statistics, the main basis for classification is provided by the method of curing, except for the cigar types. They distinguish a flue-cured, a fire-cured, an air-cured and sometimes a sun-cured tobacco class. Each class contains again two or more types which differ in character and quality as a result of different soils, biological strain and cultural methods. For purposes of price support, the government sub-divides the so-called air-cured class into Burley, Maryland and dark air-cured types.

3. The government classification, including the last sub-division, could very well be used for our purposes, too. For then we have to do with five classes and sub-classes, within each of which the prices of the different types were always highly correlated with each other, while the average prices over the different classes moved more independently from each other.

As, however, this independency was not complete and, moreover, from an economic point of view, the classes could be considered to have some important features in common, it was considered profitable to study each of them more or less along with the others. Cigar tobacco types, however, were left out

4 Tobacco is a one-year crop and an important cash crop for a very great number of relatively small farmers. Practically always the whole production is sold at auctions in the year of harvesting. Therefore, the supply of leaf tobacco was, in the short run, very inelastic and highly competitive until 1933

From 1933, however, acreage, production and/or marketing controls were so important in most years that they considerably changed the nature of supply

The Agricultural Adjustment Acts of 1938 provided since 1938 for the setting of national production quotas which are proclaimed by the government but subject to ratification of 2/3 of the growers.

5 Tobacco buying and manufacturing, in contrast with the agricultural production, show in all sectors a high degree of concentration. In 1949 three companies sold 77.8% of all cigarettes in the U.S. and in 1947 eight companies made a little over 80% of all snuff, chewing and smoking tobacco. Purchases on the leaf markets are mainly made by six major buyers. Three of these are the three biggest cigarette producers in the U.S.A.: the American Tobacco Company, Reynolds, and Liggett and Myers. The fourth is the Imperial Tobacco Company, a big English trust. The fifth, the British American Tobacco Company, are manufacturers having their plants all over the world and the sixth, the Universal Leaf Tobacco Company, owns no tobacco product factories itself but operates as an independent buyers, packers, and exporters firm for many manufacturers abroad and in the U.S.A.

6. While tobacco farmers, on one hand, cannot keep the raw tobacco very long because the process of so-called "redrying," which is necessary to make tobacco tenable, is too much of a large scale process and requires too much capital investment to be done by them, tobacco manufacturers, on the other hand, always keep considerable stocks. For them this is absolutely necessary because two or three years of "aging" are required to give the leaf the proper qualities for smoking and to maintain a reasonable uniformity of blends. But the length of the aging period is also sufficiently flexible to make the very fact that they do have stocks provide manufacturers with much more bargaining power than the farmers have

7. The demand for tobacco products seems to be very inelastic with respect to price. Tennant^{1/} found some evidence of substitution among different tobacco products and between different price classes of one given product, especially in periods of acute depression. But consumption of tobacco products depends mainly on long run trends in taste and fashion and furthermore on income.

8. To protect the farmers against the effects which, given the small elasticity of demand and supply in the short run, variations in supply due to exogenous factors may have on their income, a system of price support is carried out by government besides the acreage control. Under this system, non-recourse loans and government purchases keep tobacco prices from falling too far under parity. Except, maybe, for the dark tobacco types, the aim of this system of government support of prices is not to subsidize the farmers in this way, but to introduce some elasticity into the

^{1/} R. B. Tennant, The American Cigarette Industry, Yale University Press, 1950

short run supply of the leaf to manufacturers so that they cannot make prices collapse entirely by just behaving a little bit reserved in buying. By making possible the pooling and storing of short run surpluses on the supply side of the market, the system provided also a reasonable protection for the farmers against such temporary unbalances as occurred during and after World War II when all buyers for the United Kingdom were suddenly withdrawing from the market.

Until now the program did not lead to any considerable losses or accumulation of tobacco stocks with the government agencies that made the purchases and the loans.