

### Supreme Economics

Free market capitalism won a victory in the U.S. Supreme Court last week with a ruling that lets manufacturers refuse to do business with retailers who charge their customers less than a minimum price.

In 1911, the Court ruled that such minimum price arrangements – known as resale price maintenance – were *automatic* violations of federal antitrust laws. Now these arrangements are allowed unless they somehow prevent competition or harm consumers. This is good news.

Imagine a company that develops a new product, one which requires significant advertising, customer training, a unique sales environment, or a commitment by a retailer to take risks with inventory.

One way for manufacturers to enhance sales is to ensure that retailers have ample profit margins – enough to reward risk-taking, or re-coop the costs of widespread advertising and customer training. This can be achieved by mandating a minimum price.

Under the 1911 ruling, manufacturers had little recourse against discount retailers. If they did not provide the environment desired by the manufacturer, advertise, or offer customer training they could “free-ride” on the value created by full-service retailers.

This lack of freedom for manufacturers deterred some from developing products where customer training played a major role. Even if a manufacturer thought free-riding was reducing sales or profits, it could do little to stop it.

One way to get around the old ruling was for manufacturers to open their own stores. Another way was

to provide better business deals to retailers who strictly follow a “suggested” retail price. But vertical integration, by limiting the number of retail outlets carrying a product, itself carries costs. And other arrangements by manufacturers courted legal risk. If discounters complained about a *de facto* minimum price arrangement, a manufacturer could be at huge risk.

Now, with the new Supreme Court ruling, we expect some changes at the retail level. These include less vertical integration, fewer discounters (including on the Internet) for products that require wide advertising or training, and better service and sales at established stores.

More important is that producers, at the margin, will be more willing to develop innovative products, confident an army of retailers can be drafted to make sure consumers are aware of their potential and operation.

But won't resale price maintenance raise prices, contributing to inflation? We don't think so. While some prices may initially rise as discounters come under pressure from manufacturers, this will be a relative price shift, not a boost in overall prices. The Supreme Court does not control monetary policy, which is the ultimate cause of inflation.

In markets the consumer is the ultimate sovereign. Producers who set their prices too high lose market share, or never get it in the first place. Letting a producer contract with a seller as desired enhances freedom, encourages innovation, and boosts our standard of living. There's nothing wrong with that.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-2 / 9:00 am	ISM Index - Jun	55.2	<b>56.2</b>	<b>56.0</b>	55.0
7-3 / 9:00 am	Factory Orders - May	-1.2%	<b>-1.5%</b>		+0.3%
<i>Sometime</i>	Domestic Auto Sales - Jun	5.3 Mil	<b>5.2 Mil</b>		5.5 Mil
<i>during the day</i>	Domestic Truck Sales - Jun	7.1 Mil	<b>7.2 Mil</b>		6.8 Mil
7-5 / 7:30 am	Initial Claims - Jun 30	315K	<b>325K</b>		313K
9:00 am	ISM Non-Manufacturing - Jun	57.5	<b>59.2</b>		59.7
7-6 / 7:30 am	Non-Farm Payrolls - Jun	125K	<b>125K</b>		157K
7:30 am	Unemployment Rate - Jun	4.5%	<b>4.5%</b>		4.5%
7:30 am	Average Hourly Earnings	+0.3%	<b>+0.3%</b>		+0.3%
7:30 am	Average Weekly Hours - Jun	33.8	<b>33.8</b>		33.9
7:30 am	Manufacturing Payrolls - Jun	-10K	<b>-20K</b>		-19K