The Equimarginal Principle, and the Fallacy of Prorating
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The Equimarginal Principle, and The Fallacy of Prorating

Prorating is cutting everyone or every firm back by the same fraction. It is often practiced, both within and among firms. In corporate or governmental "economy drives," for example, sometimes every division is cut back by 20% on its personnel. (The government of B.C. did that a few years ago, to great distress.)

More commonly and routinely, cartels engaged in restricting output to maintain price will cut back every member by X% of something -- usually either capacity, or historical production. The U.S. Department of Agriculture (which administers the cartel of U.S. farm producers) has often required every farmer producing a certain crop to reduce his acreage of land by X%.

If we cut labor by 20%, producer A of high MP/AP_w loses nearly 20% of output; producer B, of low MP/AP_w, loses much less than 20%.

A's ϵ of production (MP/AP) is high, and his MP curve is flat over a long reach.

In practice the U.S.D.A. cuts back on land. This is easier on B, who is rich with land and skimpy on labor. A, the high volume/acre producer, has a high AP for land, and misses each acre a lot.

Again in practice it is common for many cartels, formal or informal, to allocate markets in proportion to capacity of land and plant. Large capacity is intimidating and gives power in bargaining on such matters. The result is to increase the total asset requirements of producers.

For example when they prorate production of oil in Texas they allow each well to produce so many days per month. When they limit overfishing in most fisheries of the world they let each boat fish just X days per week. This does not bother those with excess capacity in wells or boats; but may wipe out their opposite numbers. In this, as in so much legislation, there is a clear class bias.