

PRICE MAKING IN A DEMOCRACY

BY
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PREFACE

This volume has had a distinctly unusual, if not unique, publication history. The first chapter appeared as a pamphlet in January 1942; between then and July 1943, the eleven chapters of Parts I and II, together with Appendixes A, B, and C appeared in a series of twelve pamphlets. Now, after a lapse of more than two years since the beginning of serial publication, this material (with all the chapters revised and some of them extensively rewritten) together with three additional chapters and four additional appendixes are presented in book form. Three chapters have been dropped from the original list but the length of the treatment extended some 50 or 75 pages beyond what was planned in the early stages of the work.

The reasons for serial publication were stated in a prefatory note in the first pamphlet of the series. The decision grew largely out of a belief that there was an "active and steadily mounting interest in the modern workings of the private enterprise system, approached from the standpoint of price and production policies." There was doubt in the writer's mind, however, as to when business thinking would be most keenly alert to the issues involved or able to devote attention to them. It seemed, therefore, that it might be wise to begin presentation of the material at an early date but to defer the appearance of the final volume until a time not much in advance of the beginning, at least, of post-war re-conversion activities.

Other reasons for adopting the pamphlet form of

pre-publication were stated in the prefatory note to the first chapter as follows:

"We believe that this procedure has two advantages besides the earlier presentation [of part of the material] which it makes possible. The final volume will extend to some 375 or 400 pages and, in view of the character of the subjects discussed, may prove a somewhat formidable reading assignment in these busy days, even for those who are particularly interested in the problems with which it deals. But anyone can find a period of leisure sufficient to read a pamphlet of 25 to 40 pages. Furthermore, the interval between pamphlets gives the reader time to turn over in his mind each section of the argument and define his own degree of acceptance or points of dissent. Thus he can mature his own thinking as he moves from one chapter to another over a longer period than is ordinarily devoted to the reading of any particular book.

"From the standpoint of the author also, this extended contact with the reading public has marked advantages. It is hoped that many readers will write the author with reference to points at which they find the argument unclear or in their view faulty as to its statement of facts or the reasoning based upon them. Many of these comments will undoubtedly contribute to clearer statement and a more close-knit argument as the text is revised for presentation in ultimate book form. Some of these reactions, too, will no doubt prove highly illuminating and entitled to consideration as alternative interpretations even where the writer does not find himself able to accept them."

The response to this invitation for readers' criticisms and suggestions has been gratifying. The written communications and oral comments which have come to the author during the ensuing months have been both in-

teresting and enlightening. They have shown an extreme range of agreement and dissent, both on particular details of the analysis and on the underlying postulates and major conclusions.

To all who have contributed to this running forum, the author expresses his deep appreciation mingled with regret that he could not agree with all the divergent views presented. In "signing off," a final invitation is extended to all readers of the book for new or supplementary comments. Possibly some who have been moved to criticism or suggestion with reference to earlier chapters have reserved judgment until they could see the concluding chapters, whereas others may find doubts they have already expressed somewhat removed by the rewriting of passages in the earlier preprinted chapters or by the supplementary discussion of Part III. Others may have had their dissent strengthened or new grounds for divergent views raised in this finishing process. Whether by way of disagreement, acceptance, or supplementation all such commentary will be cordially welcomed.

EDWIN G. NOURSE

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PART I
PRINCIPLES

CHAPTER I

BETWEEN AUTOMATIC AND AUTHORITARIAN PRICE MAKING

The coming of world war forced most businessmen to concentrate their attention sharply on short-run problems of getting maximum output in accordance with specifications and schedules drawn up for them by the military experts. The public, too, has become preoccupied with immediate questions of jobs gained or lost, of high taxes, war-bond buying, and consumer deprivations. For managers, workers, consumers, and legislators alike, ordinary economic issues, even those of the most fundamental sort, have been pushed into the background by zeal to serve a common cause in the hour of crisis.

But though this war activity and war psychology may dim our recollection of the economic problems we were wrestling with a few months or a few years ago, it has by no means blotted them from our minds or furnished solutions for them. Nor does the war bring any comforting assurance that there will not be a sharp resurgence of these same problems a year or a few years hence, after the guns cease firing.

In fact, in the minds of many, the war actually heightens the tension of our thinking as to the long-run future of economic life. It is easy to detect an almost desperate sense that this war is a sort of "last chance" for economic civilization. As to its military aspect, there is a widespread feeling that the war must eventuate in some form of world-embracing delegation of police power adequate to keep the peace. With that assured,

economic men might in future devote their efforts consistently to the tasks of producing material well-being, their lives no longer mortgaged to the dirty business of destruction. On its economic side, we hope peace will forward or at least not impede institutions and practices of economic life in which strong incentives, skillful technical direction, provident handling of property, and efficient organization may be effectively combined. Only so can the mass of citizens find the dark days of "sweat and blood and tears" ushering in a new day of work and abundance and harmony.

During the depression of the 1930's, and particularly after the advent of "the New Deal," our minds were directed with new energy to re-examining—and often challenging—the economic system under which we lived. Fresh attention was given to the age-old problem of how men can most effectively organize themselves for making a livelihood. And, as generally happens in such cases, opinion divided. There were conservatives who emphasized, and perhaps exaggerated, the virtues of ancient business forms and practices. There were radicals who were excited, and perhaps intoxicated, at the prospect of revolutionary changes—Communist or Fascist—which were being experimented with in other countries. And there were moderates of many varieties who thought that peaceful progress could best be found in some eclectic combination of old-fashioned individualism, newly awakened government responsibility, and large-scale voluntary co-operation—perhaps after the manner of Sweden's "middle way."

Whatever the division of thought, such objectives of mass well-being were, as a practical matter, coming to be approached through more vigorous measures of political leadership and through the more active intrusion

of government into the economic sphere. This very fact has led to no little apprehension among businessmen. Many of them fear that further centralization of effort under government agencies, inevitable in the war period, may furnish both the occasion and the means for putting government permanently in charge of economic life. They fear that "the American way" of business is seriously threatened, that possibly an economic system which we had been wont to consider an integral and essential part of our democratic heritage may now be doomed. They foresee the end of free business enterprise under private capitalism, coming either in a single swift stroke at the end of the war or in a few long strides rapidly timed. Even in the latter case, they see but a few more years left for the system in which they have been reared and to which they are still devoted.

The quotations presented on pages 6 and 8 give a representative sample of the views which prominent American business executives entertain both as to the virtues of our traditional system and as to the dangers by which it is now beset. Though obviously these men have vested interests, it would be cynical to doubt the sincerity of their belief that what they refer to as "the American way" of private capitalism, with free enterprise and the profit motive, is a sound and productive system for the conduct of our joint economic effort. But neither these quotations nor the general run of similar discussions make very clear the precise nature of these institutions as conceived by their proponents or the exact process by which national well-being is to be achieved. Different spokesmen use the terms in different senses, but they give a broad impression that these are simple, absolute, and permanent facts of economic life. In fact, however, they are complex and changing.

IN THAT DAY when our Constitution was written and the principles and concepts of our young nation established, business leadership was sought as a matter of course. Today business leadership should again be looked to for guidance when those principles and concepts are under fire. The Constitutional Convention of 1787 dedicated our nation to individual freedom, to free enterprise and to democracy. This Congress should resolve itself into a rededication of those principles. . . . Conflicts abroad emphasize to Americans the priceless value of our way of life. To understand . . . and protect [it] against today's onslaughts of alien philosophies, demands a thorough understanding of our basic political and economic concepts. . . .

Our convention program will discuss the accomplishments and opportunities of private enterprise with emphasis on that system as a force for social progress, the creator of high living standards, the stimulant to cultural advancement, the mainstay of national defense and the path to, and through, new frontiers. . . . What were the specific advantages and benefits strikingly apparent in countries where democracy and private enterprise flourished? Economically, standards of living were raised. More of the world's goods were made available to more people. The invention and creation of new commodities, new processes, new services enriched the lives of many instead of only the few. . . .

The doubts of our generation concerning the capacity and function of private enterprise . . . today root in the departures we have made from our true course. It is the fundamental necessity of a return to our original concepts of the democratic way of life.

Howard Coonley, Chairman, Walworth Co.
Congress of American Industry, Dec. 1939.

Economic life is a social process in a continuous state of evolution. Exploration, science, the technological processes of production, corporate structures, commercial procedures, the legal mandates and prohibitions, even the intellectual atmosphere within which men conduct business affairs—all these have greatly changed during the last fifty, twenty, even ten years. Under a system still eligible in 1941 to be called private capitalism, the private capitalist is a quite different functionary than he was in 1787. The free enterprise that campaign orators defended in the autumn of 1940 was not conceived in the same terms nor buttressed by the same property rights and codes of practice as those established by the Founding Fathers.

It is important, therefore, that, well in advance of the return to peace and its opportunities, we re-examine the character of our economic institutions and our past business practices. We must analyze the changes which have been taking place—or the lack of change—to discover whether steps have been taken, adjustments made, which would keep the process of economic life active and healthy under private management.

If capitalism and private enterprise are to be maintained or in some sense restored after the war, the general public will have to be satisfied that this system furnishes them as high a measure of material well-being as can reasonably be expected under any practicably attainable alternative. Both the businessman and the citizen should consider with open mind the principles upon which a system of free enterprise operates and the conditions which must be met by those who seek to live under it if it is in fact to bring about for all parts of our economy the largest degree of success and satisfaction of which it is inherently capable.