

NOURSE EDWIN G.

PRICE MAKING IN A DEMOCRACY

through enlarging purchasing power of the general public. If unit costs are lowered by the introduction of labor-saving machinery, the displaced workers must be re-employed (though often with general shortening of hours), else labor saving becomes labor wasting, and we have merely changed our techniques without increasing total production. This re-employment is most readily effected through passing the net gain of the labor-saving technical or organizational changes on to the consumer as lower prices of products. "Probably the greatest danger in current practices of capitalistic management and organized labor is that they have depended too much on the exercise of power rather than on informed and trained judgment. . . . Collective bargaining must not be an attempt to win a point by the mere weight of numbers or strategic position. It must become an attempt to co-ordinate the resources within the administration of local executives so as to promote the maximum productivity of industry as a whole."

Chapter X began with an examination of the general idea of "price flexibility" and of price cutting as a depression cure. It arrived at the conclusion that "reductions undertaken by a producer in time of depression as a desperate expedient to induce recovery constitute bad timing and are not an exemplification of low-price policy in the sense used in this book and its predecessor." On the other hand, "Prices should not move up to exploit all the traffic will bear in the short run of boom times. The ideal time for applying low-price policy is during prosperity. It should start early and be pursued aggressively. If efficiency gains are passed on to the consumer market as fast as they can be developed, they nurture and expand consumer demand instead of blighting it; they hold the profit rate to a conservative level that rewards capital but does not encourage over-

capitalization of assets, speculative operations, boom, and collapse.”

Turning to some concrete problems of price making, we found prices after the First World War pushed up rapidly on the wave of a postwar boom that soon ended in the collapse of 1921. Likewise the course of prices in 1936-37 suggested that the failure to nurse a budding recovery along to high production volume on low prices was a contributing factor in the “disappointing recovery” from the depression of the thirties.

Coming down to the present and near future, we foresaw a situation of ready consumer demand and purchasing power after the war, but also production conditions which would permit a notable lowering of unit costs. It was argued that producers must realize these favorable conditions in the form of low prices for maximum volume of goods if we are to avoid a speculative boom and effect a satisfactory conversion from war activity to settled peacetime prosperity.

In the present chapter we shall consider several criteria of policy and action which have been used by corporation executives, to see what are the consequences to which they lead, their natural limitations, and their mutual compatibility or antagonism. We believe that such an examination reveals the need of a restatement of the traditional criteria of policy if private business management is to avoid the danger of return to such stagnation as overtook us in the thirties.

Since this chapter is the last to be presented in pamphlet form, readers are invited particularly to favor the writer with suggestions and criticisms not only of this chapter but also of any of its predecessors.

EDWIN G. NOURSE

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Contents

PART I. PRINCIPLES

- I. BETWEEN AUTOMATIC AND AUTHORITARIAN PRICE MAKING
- II. FREE ENTERPRISE AND *Laissez Faire*
- III. COMPETITION AS METHOD AND AS GOAL
- IV. THE PROFIT MOTIVE AND "MAXIMUM" PROFITS
- V. FREE ENTERPRISE, PRICE POLICY, AND DEMOCRACY

PART II. PROBLEMS

INTRODUCTION TO PART II

- VI. AREAS OF APPLICABILITY OF LOW-PRICE POLICY
- VII. APPRAISING THE RESPONSIVENESS OF MARKET DEMAND
- VIII. DISTRIBUTION COSTS—WASTING AT THE BUNGHOLE
- IX. WAGES AS COST AND AS MARKET
- X. THE TIMING OF PRICE CHANGES
- XI. BASIC CRITERIA OF PRICE POLICY

	PAGE
Business Centered on "Making Money"	1
Maximum Profits "for the Owners"	4
Maintaining and Enlarging Asset Values	10
From <i>Pater Familias</i> to the Professional Manager	17
Full Employment as Management's Criterion	23
Reliance on Government <i>versus</i> Self-Sustaining Business Administration	30
Full Employment Through Low-price Policy	40
Conclusions	46

PART III. PROSPECTS

- XII. SCIENTIFIC AIDS TO POLICY MAKING
 - XIII. PRIVATE PRICE POLICY AND THE ROLE OF GOVERNMENT
 - XIV. COMPANY MANAGEMENT AND ECONOMIC SOLIDARITY
- APPENDIXES A, B, C, D, E, AND F

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