PRICES IN THE UNITED STATES

NATIONAL CATHOLIC WELFARE CONFERENCE
REG. U.S. PAT. OFF.

SOCIAL ACTION SERIES NO. 9

By

REV. JOHN S. CRONIN, S.S., Ph.D.

Professor of Economics,
St. Mary's Seminary, Baltimore, Md.

The pamphlets in the *Social Action Series*, of which this is the **ninth** number, are edited by the Social Action Department of the National Catholic Welfare Conference. They represent an effort to present to the general public, and especially to Catholics, a discussion of current economic facts, institutions and proposals in the United States in their relation to Catholic social teaching, particularly as expounded in Pope Pius XI's Encyclical "Forty Years After—Reconstructing the Social Order" (*Quadragesimo Anno*). In the spirit of that Encyclical they are urged upon and recommended to individuals, study clubs, discussion groups and school classes.

PRICES IN THE UNITED STATES

By

REV. JOHN F. CRONIN, S.S., PH.D.,

Professor of Economics,
St. Mary's Seminary, Baltimore, Md.

Social Action Series

No. 9

Published for

THE SOCIAL ACTION DEPARTMENT,
N. C. W. C.

by

THE PAULIST PRESS
401 West 59th Street
New York, N. Y.

Nihil Obstat:

ARTHUR J. SCANLAN, S.T.D.,
Censor Librorum.

Imprimatur:

✠ PATRICK CARDINAL HAYES,
Archbishop of New York.

New York, June 17, 1937.

PRINTED AND PUBLISHED IN THE U. S. A. BY
THE PAULIST PRESS, NEW YORK, N. Y.

FOREWORD

Father Cronin's pamphlet on prices is a pioneering achievement. The importance of prices in social justice is beyond question. So, too, is the social injustice of present prices.

Father Cronin tells us how the system of occupational groups, of guilds, outlined in Pius XI's immortal Encyclical "Reconstructing the Social Order" and restated in his "Atheistic Communism," is the solely safe cure of social injustice in prices.

Social Action Department,
National Catholic Welfare Conference.

PRICES IN THE UNITED STATES

By REV. JOHN F. CRONIN, S.S., PH.D.
Professor of Economics
St. Mary's Seminary, Baltimore, Md.

Importance of Prices

WHEN railroad fares were slashed in June, 1936, the American people received a dramatic lesson on the importance of prices. They learned the startling truth that lower prices do not of necessity mean lower profits. Many saw with surprise the spectacle of a government agency forcing on an unwilling industry a policy which saved it from ruin. To persons who were schooled in the belief that business was always highly efficient and government inevitably weighed down with red tape and bureaucracy, this action conveyed the rudiments of a liberal education in social problems.

Yet when this highly publicized decree is considered against the background of the broad social problem of prices, it seems to be of relatively small moment. Ours is a specialized society. The worker rarely produces directly for his own needs. Rather he fashions one small item in a complex process. Some means must be found to guarantee each producer his share in the social product, and it is this fact which makes the market and the prices charged therein of paramount importance. Prices thus become the great coördinating mechanism of economic society. They determine whether the flow of the wealth fabricated from our rich natural resources to the home of each citizen shall be a torrent or a trickle. By prices the relative dominance of industry or agriculture, of the manufacturer or the consumer, is determined clearly and often finally.

Secondary consequences of even greater moment are related closely to price policy either as its cause or its effect. The ominous growth of sovereign economic power in spite of the efforts of government to achieve free competition is not unrelated to the present problem. The severe recurrent strains of depressions which threaten to rend asunder the fabric of society are in great part consequences of natural tendencies toward a rigidly high price structure. It is becoming increasingly obvious that this problem, apparently technical and unrelated to practical life, really brings imperious demands for high statesmanship and wisdom in its solution. In the entire setting of its manifold implications, this solution will probably determine the future fate of our democratic form of government.

I. ELEMENTS OF PRICE POLICY

Prices Set by Competition

It is commonly assumed that prices are regulated by the law of supply and demand. According to the usual reasoning of professional economists the seller offers his product in a free market for what it will obtain. Where there are many sellers and few buyers, the price will be low. When the buyer is more eager than the seller, the reverse condition will prevail. Thus between a lowest limit set by the minimum cost of producing an article and a topmost limit determined by the point where the buyer would relinquish his prospective satisfaction rather than pay the price, a free competitive price would fluctuate. Eventually this price would reach a "normal" level. Any departures from this level would soon be adjusted. Thus if abnormal demand were to bring about high prices and unusual profits, new capital would flow into the industry and supply would presently equal demand at a price which would pay for costs and profits. Likewise if excess supply brought on a ruinous price condition, bankruptcy would naturally purge the economic organism. In this way the consumer, it is argued, can feel assured of receiving at all times goods priced at a slight margin above their cost of production.

The price policies outlined above are followed in some degree in the United States today. Many farmers and laborers, for example, offer their products in a free market. The price of wheat or of unskilled labor is apt to fluctuate violently according to conditions of supply and demand. Yet at the same time other farmers sell their products through cooperative marketing associations. In this way their goods are put on the market only at the most favorable times. Likewise many laborers form unions for the purpose of offering their services only under satisfactory conditions. Often bargaining, as in the case of milk or skilled railway labor, for example, takes place between the single agent of many sellers and a single agent of many distributors or employers. When such a stage is reached, competition in prices has yielded in some degree to administration of prices.

Administered Prices: An Economic Novelty

The concept of the administered price represents an important advance in economic thinking. For many years thoughtful economists have realized that competition in the old sense of the word was becoming less and less important. In some fields it was even sporadic and exceptional. At the same time these thinkers could not rush to the other extreme, with a few liberals and reformers, and discern monopoly at every turn. The concern of business men regarding the behavior of rival firms was too sincere to allow us to caricature our industrial system as one vast interconnected web, manipulated from the center by a repulsive creature labeled "Money Power." Unsupported reflections on the wickedness of big business could not command permanent respect in informed circles. At the same time the general secrecy and the insincere pretense of price competition on the part of some business firms, together with the fresh memory of the malodorous trusts, lent color to extreme views. Clearly a new study, with candor evinced on both sides, was needed.

Pioneers in the New Field

Three important recent studies have furnished material for a fundamental study of prices. Berle and Means, in their masterful analysis, *The Modern Corporation and Private Property*,[1] portrayed the structural basis of modern business policy. A few dominant corporations, with control largely divorced from ownership and centered in several hundred men responsible to no authority but themselves, set the economic tone of the age. As a result there was the dangerous possibility that the large corporation could be used as a tool for financial promotion rather than as an efficient business concern.

[1] New York: Macmillan, 1933.

Gardiner Means, in his brochure *Industrial Prices and Their Relative Inflexibility,*[2] outlined some of the effects of size and concentration. About half of the important industries had price policies which were apparently non-competitive. Even when the economic system was changing in a violent, almost catastrophic manner, these prices varied infrequently and within a narrow range.

Finally A. R. Burns filled in many of the *lacunæ* of previous studies in *The Decline of Competition,*[3] giving detailed reasons for the evolution of administered prices, the various forms which they take and some of the social consequences of their prevalence.

The Nature of an Administered Price

The exact nature and function of an administered price can best be understood when it is compared with the competitive price. The latter is flexible, a product of the free interaction of supply and demand, and in its flexibility lies its force (in theory) as the prime adjusting mechanism of the economic system. On the contrary the administered price is determined to a great degree independently of existing market conditions. It is set after mature reflection upon the probable cost of a product, the long-time results of any given policy and the repercussions of any change upon buyers, investors, or upon other competitors. This price being set, de-

[2] Senate Document 13, Seventy-fourth Congress, First Session. Superintendent of Documents, Washington, D. C., five cents.

[3] New York: McGraw-Hill, 1936. The conclusions reached in the following pages lean heavily on the factual data supplied by these three works.

mand must adjust itself to its level. Supply is carefully checked lest excessive production lead to large inventories and a demoralized market. Thus, for example, the price of an automobile is determined at the beginning of each season. The company is willing to produce any number of cars at this price, but whether the demand is for a few hundred thousand or mounts into the millions, prices are not changed. They are not lowered to entice new buyers or because of the economies of a large output, nor are they raised when demand temporarily outruns supply.

Administration and Monopoly

Since such control over prices can be exercised by the modern large corporation, it would be a natural temptation to label this power as monopolistic. Yet there is an essential difference between administration and monopoly, even though their trends of policy are in the same direction. Where administration obtains, competing firms exist. They may be content, for reasons to be outlined presently, to adopt a passive and uniform price policy for an indefinite period of time. Once the firm which sets prices begins to act as a monopolist, however, and raises prices far above costs, there is a definite pressure upon its rivals to shade and cut this price, thus attracting business from the leading firm. Furthermore sustained high profits offer an incentive for new investment and a consequent sharing of the market. Thus, while an administered price industry tends toward the maximum of profits, it rarely can go the full distance to monopoly profits.

The New Era in Industry

Modern price policies follow directly from mass production. Bigness furnishes the ability to pursue such measures. The desire for maximum profits provides the incentives to use this ability. When a few firms dominate a given industry, concerted action is relatively easy to obtain. Even where no formal commitments take place between corporations, they cannot afford to ignore the effect of their decisions upon rival firms. Knowing that their competitors share the same fears, they realize that a philosophy of "live and let live" will be generally accepted. The investments concerned are too large to endanger them by a short-sighted policy of immediate profits through price-cutting. Any such methods could be adopted at once by rivals and the whole industry is permanently worsened. Furthermore even short-time profits may not be forthcoming. Buyers' reactions may be slow. In fact, purchasers often expect further decreases and curtail rather than increase their commitments. If the market for any product is inelastic, *i. e.*, if the market cannot be enlarged by price reductions, all concerns will suffer a reduction of profits. Again, if a few large concerns are attacked by smaller competitors, they have the resources to crush their imprudent rivals.

How High Are Administered Prices?

The toleration which characterizes current business policies allows prices to rise considerably above the competitive level. High cost and obsolescent producers are allowed to remain in business lest they should upset the equilibrium in a desperate effort to survive. They must receive profits and the consumer must pay. Furthermore this very security is a temptation to the corporation promoter. Mergers and deals which bring fortunes in speculative profits to their participants are confidently engineered with the assurance that the public will pay their ultimate cost. Thus it is that large concerns apparently receive only a modest return on their invested capital, whereas if the "water" were removed the real nature of their profits would be more manifest. For this reason also, some great corporations are losing their business to competitors. Controls and promoters have already realized their profits and neglect the running of their firms as a business. It may be noted, finally, that prices are high because business men short-sightedly assume that this policy alone leads to increased profits. NRA code administrators frequently noted this myopic trend so well dramatized in 1936 by the railroads.

How Price Control Is Achieved

Persons not familiar with business practice would be incredulous when informed of the extent of price administration. They believe that the anti-trust laws would prevent the existence of such a situation. Propaganda releases from employers' associations likewise stress the widespread prevalence of pure competition. Yet it has not been difficult to defeat anti-trust laws. The laxity of corporation charters has made highly centralized industrial control quite feasible. Added to this, patent laws have been used by many firms to obtain complete dominance in their field. Investment bankers with their widespread and important connections have been able to give an even higher degree of unity to the industrial picture. Mergers and holding companies have had a considerable influence. More detailed policies are settled by trade associations, by following the leadership of a few dominant companies and by agreements for sharing the market, restricting output, stabilizing prices or other suitable expedients. Within this scope non-price competition, mainly by advertising and sales promotion, has flourished.

II. SOCIAL CONSEQUENCES OF PRICE POLICY

Competition and Society

Apologists for the current industrial order usually assume that the competitive price is a most effective regulatory device. Better than any conceivable method of direction from above, the automatic working of the market is said to insure the lowest possible prices, high quality and the efficient use of the means of production. Such theoretical reasonings are too narrow. In the field of limited and irreplaceable natural resources competition has occasioned capital losses which outweighed the temporary gain in consumers' prices. Likewise the social consequences and even the economic effects of low wages and pitiful farm income must be considered in an adequate theory of prices. Again, if we consider the mass production factory as the most effective producing unit, we cannot ignore the consequences to investors, workers and the local community when a great industry is forced into bankruptcy through relentless competition. Considering the difficulties in allocating costs of production to each of several products, the long-time decisions on durable investments which must be made by large concerns and the overwhelming importance of overhead costs, pure price competition may well be socially undesirable in this field. Even apart from any justification of the policy, however, it seems evident that administration of prices will usually accompany mass production industry. Business men have too much at stake to risk a warfare which may end by hurting all concerned. Society must either force industry to break up into small units or face the fact and the consequences of administration.

Price Administration and Society

Large scale industry is to a great degree self-regulated industry. This may well lead to efficiency, although the savings of very large firms are less than is commonly realized. After a certain size is reached, further growth means simply duplication of similar factories and increase in private administrative bureaucracy. Furthermore great size brings an assurance and a stability which may lead to quasi-monopoly, lethargy and inefficiency. In such cases the temptation to seek fortunes through stock market speculation rather than through business acumen is rarely absent. These problems, however, may be considered as merely incidental: the others which follow are more essential!

Price administration has the unfortunate and fundamental effect of freezing industrial production at a low level. While increases in output are not impossible or even infrequent, they are definitely inhibited by stable prices. Stable prices are usually high prices. They are kept high to satisfy high-cost producers, because of past financial deals, an innate conservatism on the part of business men when fixing prices and the desire to get maximum profits. High prices mean that the consumer, industrial and individual, must accept less. Industry remains static rather than dynamic. Where a concern could have expanded production, it remains half idle, and where it had an inelastic market but could have absorbed less of the consumer's dollar and thus helped other firms, it retains its undue share. Business men in some industries assume far too quickly that they cannot expand. Even though our national income, measured in terms of physical output, is considered inadequate, industrialists seek eagerly to curtail output and raise prices. If provisions to this effect—which were frequently sought in applications for NRA codes—had been sanctioned by the law, we would have witnessed a concerted raising of prices and restriction of output in most industrial fields. Truly a tragic commentary on the confusion of money with wealth!

An Incentive to Speculation and Discrimination

Price rigidity leaves great openings for financial trickery. Mergers and stock sales based on capitalized future earnings from a high price structure rather than on actual value become possible and even probable in these circumstances. Betrayal of corporate trust and the utilization of confidential information for stock-market operations are more easily covered up when ample earnings are flowing into stockholders' purses. While conditions other than price structure enter largely into such activities, it is doubtful whether they would be possible in a purely competitive régime.

High prices lead to discrimination between various types of producers. Thus, for example, a farmer selling on a free market and buying in a controlled market is the victim of a real injustice. Again, in times of depression and contracting markets the policies of large industries tend to ruin those whose prices are competitive. Firms with control over prices tend to maintain their position and to retrench on production. This has the double effect of taking a disproportionate share of the consumers' reduced income and of further reducing that income through curtailment of employment. In this manner the severity of the downswing is increased to a dangerous degree.

Control Leads to Depressions

Finally, administration of prices has as a direct consequence the business depression which constitutes a grave menace to modern society. It leads to this in the first place when it concentrates income into the hands of the relatively few. Concentration is accomplished directly by dividend disbursements, salaries, bonuses and incentives to speculation. It is achieved indirectly by low wages and by the high prices which reduce the real income of the consumer. The centralizing of the national income tends to increase saving and to decrease consumption. These savings, unfortunately, cannot easily flow into the capital market, as investment is dependent upon consumption. Furthermore direct efforts are made to discourage new investments in most industries. Accordingly, such savings are either sterile or diverted into consumers' loans. Either of these alternatives will cause a depression. The sterile savings form one of the items of cost in the goods selling in the current market, and if they are not spent, an equivalent portion of goods must remain unsold. This causes swollen inventories, price and wage cutting, underproduction and consequent deflation. Nor are consumers' loans a solution. They can be repaid only when the borrower subsequently abstains from current consumption and the same consequences ensue.[4]

III. CATHOLIC SOCIAL TEACHING AND PRICES

Rejection of Competition and Uncontrolled Administration

Catholic social theory cannot accept either pure competition or administration by business sources only. The former is rejected among other reasons because of its consequences for labor, the reliance it places upon, and the premium it gives to greed and unscrupulousness. The latter is deficient in as much as it concentrates economic power into the hands of

[4] This necessarily brief statement of the problem is expanded by the present writer in an economics textbook which at present (1937) has been released only in mimeographed form. The theory involved is not precisely the oversavings theory of Hobson, and Foster and Catchings, which is attacked by Moulton in an appendix to *The Formation of Capital.* For a detailed explanation and application, see Cronin, *Economics and Society* (Seminary Bookstore, Paca Street, Baltimore, $1.00), chapters 5, 10, 12 and 13. Lawrence Dennis uses a similar idea to show the futility of foreign loans in his work, *Is Capitalism Doomed?* (New York: Harpers, 1931).

men who are committed to their own self-interest rather than to the common good. Rather prices should be continually at points that will provide a good living to all, together with steady employment and full production. Under neither competition nor business men's administration of prices are these possible. Pope Pius XI, in his Encyclical *On Reconstructing the Social Order,* feels that a régime of administered prices, with policies determined by *all* the parties concerned, is the only equitable solution. Translated into concrete terms, this would mean that labor and the State (in the interests of the consumers and of other producers) should regulate this system and help it function by participating in decisions concerning prices and other policies. The exact words of the Pope should be noted.

"Free competition is dead; economic dictatorship has taken its place." [5]

"Free competition, however, though within certain limits just and productive of good results, cannot be the ruling principle of the economic world. . . . Still less can this function be exercised by the economic supremacy which within recent times has taken the place of free competition; for this is a headstrong and vehement power, which, if it is to prove beneficial to mankind, needs to be curbed strongly and ruled with prudence. It cannot, however, be curbed and governed by itself." [6]

"Free competition and still more economic domination must be kept within just and definite limits, and must be brought under the effective control of

[5] *On Reconstructing the Social Order,* N. C. W. C., p. 33.
[6] *Idem,* p. 29.

the public authority, in matters appertaining to this latter's competence. The public institutions of the nations must be such as to make the whole of human society conform to the common good, *i. e.*, to the standard of social justice." [7]

[Social justice requires] "a reasonable relationship between the prices obtained for the products of the various economic groups, agrarian, industrial, etc." [8]

"The aim of social legislation must, therefore, be the reëstablishment of occupational groups. . . . In these associations [*i. e.*, guilds] the common interests of the whole group [*i. e.*, industry or profession] must predominate; and among these interests the most important is the directing of the activities of the group [occupation] to the common good . . . the State directing, watching, stimulating and restraining as circumstances suggest and necessity demands." [9]

The full import of these basic ethical principles can be understood only in the light of a detailed discussion of their implications.

The Middle Ground

With admirable prudence and restraint, the Holy Father proposes a remedy which, while avoiding all compromise with injustice, nevertheless does not

[7] *Idem*, p. 34.

[8] *Idem*, p. 25.

[9] *Idem*, pp. 27, 28, 26. For a detailed analysis of what is implied in the above quotation, see, in addition to other pamphlets of this series: Ryan, *A Better Economic Order* (New York: Harpers, 1935), *passim*, especially 175 ff; McGowan, *Towards Social Justice*, 59 ff; *Organized Social Justice* (N. C. W. C.), pp. 10-20; and Burns, *op. cit.*, 522-590.

endanger greater liberties by an unwise pursuit of economic freedom. He would not have pure competition as the ruling force in the economic order. Still less would he trust this function to an industrial or financial autarchy. At the same time he avoids the other extreme of a totalitarian or collectivist State. Mussolini, for example, seeks many of the objectives of social justice. Business men and prices are anything but unregulated in a Fascist nation. But these regulations result only from the intervention of an all-supreme State. The power which strikes down monopoly could conceivably be abused to deny basic human rights. If such an abuse were to occur, the average citizen would have no recourse against a nation which controls the police and military, the courts and the press. Nor is there any greater security in a collectivist State. Liberals who calmly (in their writings) entrust to government the righting of every wrong do not follow out the practical implications of their policy. The program which they advocate would demand administrative genius and personal integrity far above the standards thus far achieved either in industry or government. In fact, many question today the value of the super-corporation. They feel that it has passed the maximum size needed for efficient operation and wandered into the dark regions of bureaucracy and red tape. Surely if some corporations today are too large to be governed efficiently, it would be dangerous to enlarge indefinitely the functions of the State without giving practical assurance that they can be discharged. The complex problems to be discussed in the succeeding section are not well handled from above. A State which would be required to solve all the difficulties of industry would need the power of a Stalin. Such power, however, is too much for any man. We do not live by bread alone. Great as are the problems of economics, men do not wish to endanger higher values in attempting their solution.

Occupational Groups

Because of the dangers of extreme action, the Pope seeks the middle ground of self-organization. Each industry would be permitted to settle its own problems, provided it gives due consideration to the demands of the common welfare. To insure proper regard for the rights of all concerned, policies which concern the industry alone would be settled by a joint council of employers and employees. Questions which have broader implications, such as those connected with price policy, would be passed upon by a higher council. This group would include representatives of the industry directly concerned and its labor, of related industries which furnish materials or buy the finished product. Finally government officials could harmonize the conflicting demands of the several parties with the requirements of public policy. The elements entering into price—standards of wages and profits, long-time policies on new investment and obsolescence—would be determined in an equitable manner. Fair trade practices and labor policies would likewise be considered. Such a system, while resembling the Italian corporative State in certain external characteristics, would be essentially democratic. The State would direct, watch, stimulate and restrain "as circumstances suggest and necessity demands," but it would leave the interested parties substantial jurisdiction over their own problems.

Competition Within Limits

In applying this ideal of social justice to American conditions, many complex problems must be solved. Not the least is the question of the wisdom of widespread price-fixing by the occupational groups. If all prices were fixed, an important element of flexibility would be lost from our economic system. The evils attendant upon administered prices might be aggravated. Difficulties of coördination would be multiplied. Accordingly, it may well be that in some fields the group councils should not fix prices but rather allow a considerable measure of competition.

Clearly if this were to be done, provisions would have to be made to exempt standards of wages and quality from competitive attrition, and also to keep competition within the just and equitable limits demanded by social justice. Such safeguards would be established in part by legislation concerning minimum wages, consumer standards, and by some requirements concerning price cutting below the cost of production. Thus the laborer and the consumer would be protected from exploitation and the small business man from unjust temporary competition designed to foster ultimate monopoly. At the same time the legislative removal of the advantages of unscrupulous dealing might prove a powerful incentive to the organization of guilds. At present, however, all of this legislation cannot be obtained save by an amendment to the Constitution or by a broader interpretation of that document. Some of these effects might be secured by widespread unionization, but the remainder demand an exercise of government power which is not always permitted to the legislature by the judiciary.

Once these standards are achieved, it may happen that in some industries price competition will solve the problems of adjusting supply and demand while promoting at the same time initiative and efficiency. Such a policy could be applied to concerns whose scope is purely local or whose capitalization allows them to be considered among the small industries, even though in other respects they follow the Encyclical's plan of organization. (Local governmental units would serve to stimulate such guilds and help regulate them afterwards.) Yet some service industries, particularly retail and wholesale distribution, are susceptible, it seems, to a large measure of ownership and control by consumers' coöperatives. These, however, have not yet shown firm evidence of an enduring vitality on American soil, even though they are now expanding greatly. It would also be possible to regulate certain services directly, without the aid of a guild. On the other hand, farm products and irreplaceable natural resources would demand separate treatment, even though otherwise they fall within the categories outlined above.

The Scope of Administered Prices

With the federal government freed from the obligation of coördinating and regulating every tailor shop and grocery, it might be able to concentrate upon the successful regulation, both directly and through the intermediary of democratic, self-governed industries and professions, of the administered price industries. In this field would be included public utilities, large scale industries and companies dealing in natural resources whose conservation is desired. In the case of farm products, after all possible efforts had been made to build up consumer demand through the lessening of the spread between farm price and market price as well as through raising the standards of living for the lower income groups, it might be desirable to permit the curtailment of output so as to achieve price parity with industry. Again, however, the farmers' own organizations should serve as the first agent in such a program. At the same time safeguards must be devised to prevent the capitalization of any policy of control in the form of land value speculation. Such speculation has already saddled the farmer with an impossible debt. But with these important precautions established, the farmer may be considered on the same terms as large scale industry.

Objectives of Control

In guiding industrial policy, the government and the organized industries and professions have as their main purpose the achieving of a full and economical use of our resources both industrial and human. To insure this result they must surmount difficult problems. Questions concerning over-investment in an industry, shift in demand from one commodity to another, over-expansion and the allocation of long-term investments are most complex. If we assume, for example, a shift in demand in the steel industry or a technical advance which would render obsolete a number of plants, the burden of the change must be imposed upon some of the parties concerned.

In the past, when prices were administered by business alone, the cost of such adjustments was assessed upon the purchaser by the devices of higher prices and a shared market. The grave evils attendant upon such a condition have been noted above. Impressed by such an imposing array of arguments against the present system, liberals have often called for government ownership or regulation of basic industry. Careful examination of the implications of such a policy, however, leaves the economist less sanguine than the reformer over its prospects for success.

Without the help of organized groups, government regulation of industry, in a democratic state, is not always successful. A democracy is subject to minority pressures and organized propaganda. Groups using such methods frequently attain their objectives, detrimental as these may be to the interests of the unorganized and indifferent majority. As a result democratic governments find it easier to remain passive than to take positive action opposed by strong interested parties. It is most unlikely that they could solve the thorny problems which industry evades by a "live and let live" policy. In the past where conflicting interests have existed in these matters, the uniform result has been at least friction, and frequently bribery, corruption, legalistic evasion and the eventual breakdown of regulation.

The difficulties faced by government in regulating industry without the aid of democratically organized guilds are still greater when we face the problem of conserving natural resources. In many cases, as in the soft-coal industry, tremendous sums of unwisely invested capital must be written off the books. Such sacrifices would be charged to government intervention rather than to the forces of competition. There would be strong pressure to make bad private debts public debts. The realization of these facts drove the Federal Government, in the Guffey Bill signed in 1937, in the direction of business men's administration, with labor representatives in the council and a consumer counsel with power to protest. While this is but a step toward the ideal of the Encyclical, it is a recognition of the impracticality of any other alternative.

Nor is the problem solved by government ownership and administration of such industries. Many liberals have called for the nationalizing of industries too important to be left "in private hands without injury to the community at large." [10] Here, however, must be faced the two basic questions of the valuation of the industry which has become a supergovernment and, if the government administers the industry, of the standards of civil service and political integrity demanded by the assumption of such a burden. The answers we must give to these questions are not reassuring. Government could take over a public utility only at a valuation which would represent little saving to the body politic. Likewise our standards of government service, as a

[10] *Reconstructing the Social Order*, pp. 35, 36.

whole, would not permit the great enlargement of its functions. However, the other method of non-political, guild direction under government supervision or with the government represented in the guild, could be applied.

In any case the political implications of these problems are grave. Large scale industry tends by its very nature to a régime of administered prices. Yet the complexity of its problems makes the question of its regulation, in a democratic state, most perplexing. The past history of such attempts confirms our doubts. Continuance of the present régime involves dangerous consequences and the alternative of government ownership under government administration is not less dangerous. Breaking up these large industries involves tremendous capital losses and would be politically impossible to achieve even if economically desirable. Nor could foreign competition be invoked through a revision of the tariff laws. Political obstacles would be great. The cartelization of great industries abroad might lead ultimately to internationally instead of nationally administered prices. The only way out seems to be through the proposal of the Encyclical.

The Search for a Simple Solution

Confronted with these complexities, it is natural to seek a simple solution before probing the ultimate implications of the first policy. Unfortunately the candid investigator will discover no all-embracing panacea which can withstand critical scrutiny. The effort to achieve higher money wages, for example, is laudable, but it may result in questionable gains when an administered price policy can adjust prices to increases in costs. The real sufferers in this case would be salaried workers and unorganized consumers.

Nor would taxes on corporation profits or even on monopolized natural resources prove a sure solution. Many industries are not making undue profits on their present capitalization (at least, as computed in their reports). Often their price policies, while bearing hard on the consuming public, are not yielding unusual returns. A miscalculated price is a misfortune to all concerned, bringing lower consumption and lower profits, but such policies cannot be taxed out of existence.

Nor is there any relief, finally, in monetary manipulation. Corporations which control real wealth are able to adjust their prices so as to counteract any attempts at inflation. Goods exchange for goods with money as a medium, and sellers who can restrict output and raise prices will always possess an advantage over those who must sell in a free market. Creditors and persons with fixed incomes will suffer from unsound money, but it is hard to predict who except speculators, will benefit.

Muddling Through

The difficulty of finding a solution within the limits of democracy has inclined some even to seek for a totalitarian State. Decisions must be made, so they desire a government strong enough to act. Among some European Catholics, possibly as a result of the failure of democracy after the War, there is a growing sympathy toward the Fascist State. In

America, Lawrence Dennis stands almost solitary as an advocate of this form of government. Yet it is the able exposé in *The Coming American Fascism*[11] of problems similar to those discussed in the present pamphlet which serve as a support of his thesis. He advocates the cutting of the Gordian knot, and feels that America will be forced to such a solution.

Whatever way we turn, unless we accept the proposals of the Pope, we are at an impasse. Democratic government alone can neither regulate nor own industry. The authoritarian state can act, but in accepting it we run the risk of greater evils. A simple solution cannot be found. The one and only answer is to strengthen the forces of *self-government.* Groups must be organized to represent all the parties concerned with our industrial problems. These groups could settle in council the majority of the problems which affect their welfare. In the midst of these groups the sovereign State would exercise its high coördinating function. It could make and enforce decisions when necessary because it has fostered groups which could represent the people in every way. Selfish pressures would be defeated and open decisions for the common welfare would be made.

It may be that the ultimate answer in America will be the typical expedient of compromise. A palliative for the greatest evil result of administered prices, depressions, would eventually be applied. This would call for revision of the tax system so as

[11] New York: Harpers, 1936. Morgan in *The Long Road* (Washington: National Home Library Foundation, 25 cents), discusses the implications involved in expanding the functions of democracy.

to prevent the accumulation of sterile savings and to release funds for consumption. The basic problems of raising the standards of government service, reform of corporation law and practice, control of speculation, organization of labor and protection of the consumer would then be attacked in relative security. With these safeguards ensured, cautious attempts could be made in the direction of social justice in price policy. In such a manner democracy could once again survive its "last" crisis.

But it is the program advocated by Pope Pius XI which expresses the full ideal of social justice and the correct method of achieving it. It is a sad commentary on the divorce of ethics and economics and on the breakdown, so deplored by His Holiness, of an organic society of interdependent groups, that such an ideal should be so difficult to attain in America. Since we sincerely desire the end of social justice, we must accept the necessary means. We must confidently enter upon the task of the social and religious education needed to build our democracy into a strong government. We must support the intermediate economic organizations which will lead toward an organic society. Then with enlightenment and strength, our nation could embark upon the task of making Christian ideals of society the guiding beacon of its policy.

N. C. W. C. STUDY CLUB OUTLINE

I. ELEMENTS OF PRICE POLICY

A. Competitive and Administered Prices (pp. 6-11)

1. Describe the theory that prices are regulated by supply and demand.
2. In what way is this policy followed today in the United States? What is the trend toward administered prices?
3. Discuss the growth toward the idea of administered prices, noting important recent books.
4. Compare the nature and functions of the administered and competitive price.
5. What is the essential difference between administered prices and monopoly?

B. Prices in Modern Industry (pp. 11-13)

1. What is the effect of mass production coupled with the desire for maximum profits on present price policies?
2. Show how this policy raises prices and what effect it has on the corporation promoter.
3. What effect in achieving administered prices have: (a) Anti-trust laws; (b) Laxity of corporation charters; (c) Patent laws; (d) Investment bankers and holding companies, etc.

II. SOCIAL CONSEQUENCES OF PRICE POLICY (pp. 13-18)

1. What bad effects result from the competitive price policy with regard to: (a) Limited natural resources; (b) Low wages and farm income; (c) Bankruptcy of large concerns.
2. What is the alternative under mass production to administered prices?
3. Discuss some disadvantages for concerns which are too big.
4. Why are fixed prices usually high? Discuss resulting evils: (a) Encouragement of speculation; (b) Discrimination between various types of producers; (c) Deepening effect of depressions.
5. Show how price control leads to depression through concentration.

III. CATHOLIC SOCIAL TEACHING

A. The Theory (pp. 18-23)

1. In the light of its criterion of prices that will provide good living for all, steady employment and full production, discuss Catholic social teaching's rejection of both competition and administration by business sources alone.
2. In what passages does Pius XI advocate joint administration of prices, by the employer, labor and the State for the common good?
3. What dangers to greater liberties are involved in the economic policies of (a) The Totalitarian State; (b) The Collectivist State?
4. Describe the occupational groups proposed by Pope Pius with regard to: (a) Self-organization; (b) Joint council of an industry; (c) Council of industries plus government; (d) The Italian Corporative State.

B. An application (pp. 23-26)

1. Discuss under this system: (a) The desirability of some competition for certain industries; (b) The necessity of legal safeguards to keep competition within just limits and protect wage and quality standards; (c) Consumers' coöperatives; (d) The function of government in regulating administered price industries; (e) Achievement of price parity for farm products.
2. What is the chief purpose of the guidance by organized industries and government of industrial policies under the Pope's plan?

C. Difficulties of Other Methods (pp. 26-32)

1. Discuss difficulties of government's sole regulation of industry under a democracy, as to: (a) Minority pressure; (b) Organized propaganda; (c) Conservation of natural resources; (d) Government ownership.
2. How is the Guffey Act an approach to the Encyclical plan?
3. What dangers lie in seeking a complete solution along the lines only of: (a) Higher money wages; (b) Taxes on corporation profit; (c) Monetary manipulation; (d) Totalitarian State; (e) Compromise.
4. How must we approach the task of building the order advocated by the Pope?

51208

SUGGESTIONS FOR STUDY CLUBS OR COMMITTEES ON INDUSTRIAL QUESTIONS

1. The study club is not a group to listen to lectures. It is for joint discussion. It is small—ten or twelve to twenty or so—so as to permit general discussion.
2. There is a discussion leader.
3. The group may consist of persons of various occupations and interests or of special groups, such as organization leaders, employers, professional persons, clerical workers, manual workers, etc. A number of small study groups established within each organization is desirable.
4. Meetings are once a week or once every two weeks or once a month.
5. Every member should have at least the text and the outline.
6. The discussion, as a rule, follows the outline point by point. The section of the text to be discussed should be read before the meeting by each member.
7. Use questions at the end of the meeting to recapitulate.
8. Reports or papers called for by any outline should be brief.
9. The purposes are:
   (a) So its members will know the teaching of the Church on economic life.
   (b) So they can speak at Catholic meetings.
   (c) So they can be leaders in the activity of Catholic organizations.
   (d) So they can apply the teachings in their work and civic life.
   (e) So they can guide the economic organization to which they belong.
   (f) So that they will be better Catholics.
10. If the group is an offshoot or a part of another organization they should report their conclusions to the parent organization, because one of the chief purposes of the club or committee is to pass on their information, point of view and enthusiasm to the Catholics of their community and to make the club's work definitely a part of the parent organization's work.

For further information and assistance, write:

National Catholic Welfare Conference,
Social Action Department
1312 Massachusetts Avenue NW., Washington, D. C.