

(6.) In fixing prices of a given commodity careful examination should be made of the relation of the market for the given commodity to the market for its substitutes, and of the possibility that it may be necessary to fix the price of substitutes in order to maintain the most advantageous relation between consumption of a given commodity and the consumption of its substitute.

Monopoly Prices.

The Board desires to emphasize that what it has urged in the preceding section relates solely to permanent price-control over commodities which are produced under competitive conditions, and in which, therefore, artificial limitation of price would cause the demand at the fixed price to be in excess of the supply. In industries subject to monopoly control there is no tendency for prices to be brought down to a level that yields only a normal profit. On the contrary, unless the State intervenes, the monopolist, if he chooses, has the power to fix prices at a level which yields him abnormal profits. Hence monopoly prices can be regulated by State action without creating a situation in which the demand at the regulated price will exceed the supply, and consequently if prices are fixed by regulation for goods under monopoly control the difficult problem of rationing need not be considered. Consequently, where a monopoly exists there is a strong case for State regulation of price, and, as the tendency to combination and monopoly has been stimulated by the experience of the war, monopolistic control is likely to extend more widely over industry in future than it extended in the past, and the field open for Government intervention will be correspondingly increased. The general conclusion is therefore warranted that, while in competitive industries a policy of price-control ought not in any circumstances to be continued as a permanent policy, in monopolistic industries price-control is essential in the public interests. In this case, or in case the production, distribution, or sale of any commodity is so concentrated in private hands as to give a substantial control over prices, the Government should fix prices, due regard being paid to the cost of production, maintenance of an adequate supply, and the prevention of unnecessary waste.

SECTION III.—ENDS TO BE ACHIEVED.

The ends to be achieved by Government control of industry are twofold: (a) To keep alive competitive industry; (b) to control monopoly. The policies that will accomplish one object will automatically accomplish the other. Owing to the complexity of economic phenomena no one simple remedy can be applied. The remedies that will be suggested by the Board will also accomplish the solution of the cost-of-living problem, so far as such a problem can be solved by a country by legislative action independent of the action taken by the rest of the countries of the civilized world to control monetary standards. This feature of the problem is discussed later in the report.

But it may be urged that it is neither desirable nor practicable to keep alive competitive industry, as the trend of economic development is towards a state of society where capital is concentrated in some form of trust organization and competition eliminated.

Competition in all forms is sometimes condemned on account of the waste that results from excessive or unfair competition, but the waste can be diminished by co-operation in production and distribution, such co-operation resulting in more effective competition. Moreover, as pointed out earlier, competition is the best regulator of prices and profits. In general it results in increased production, as it evokes effort, initiative, and efficiency; but this is not free competition as preached by the old school of individualists. The State, we take it, is entitled to regulate conditions under which competition should be carried on, and then, having prescribed the conditions, should act as referee and see fair play, so that the winning of the game should result from increased efficiency and not by the use of the club.

While it may be true that in most industries increase in transport facilities and rapid communication tends to an increase in the size of business units, it does not necessarily follow that the trust form of business organization is inevitable, as history proves conclusively that most of the trusts have come into existence not as the result of increased efficiency in production or distribution, but as the result of the abuse of power and privilege. Independent concerns have been clubbed out of existence by unfair methods of competition, and when competitors have been eliminated the trust has exploited the producer by forcing down prices, and the consumer by raising prices. The trust has thus made its profits by the imposition of a double levy on the community. Moreover, a trust has certain inherent disadvantages. Its control is highly centralized; there is often a lack of individual initiative in subordinate positions; there are usually expensive overhead charges, and frequently the higher positions are awarded not as the result of merit but as the result of nepotism. These disadvantages will be made manifest just in proportion as the State succeeds in preventing monopoly-power from being acquired or maintained save on the basis of increased efficiency.

For these reasons the Board is of opinion that there is an economic limit, different in various industries, to the effective size of the business unit, and that if regulation of competition is boldly faced by the State the greater number of industries will continue to be carried on by independent concerns, and that wise statesmanship should aim at preventing the growth of monopolies, and not wait to find a remedy when the evil has grown to a gigantic size. Sound economic policy, therefore, should have as its objective true freedom of trade, but this must not necessarily be taken to mean free trade as that term is usually applied.