In the last two lectures I have sought to show that modern and highly technical processes of production lead, inevitably, to planning by producers. The enemy of the market is not ideology but technology. And so planning extensively replaces the market as the force determining what the economy does. The principal planning instrument is the modern large corporation. Within broad limits, it determines what the consumer shall have and at what price he shall have it. And it foresees the need for, and arranges the necessary supply of, capital, machinery, and materials.

The business-man or entrepreneur has been regarded as subordinate to the market since Adam and as a matter of settled doctrine since Adam Smith. The modern large corporation is the direct descendant of the entrepreneur. This has kept us from seeing it in its new role. Had the corporation been an outgrowth of the state which we associate with planning, we would not be in doubt. I might add that in later lectures I will show that the modern corporation has moved into a much closer association with the state than most of us imagine. And its planning activities are extensively, and indeed systematically, supplemented by those of the state.

But first I must speak of the regulation of prices in the modern economy and the means by which public behaviour is accommodated to plan. For here we encounter some of the more entrenched folk myths of our time, including a certain vested interest in error on the part of both economists and businessmen. If one takes faith in the market away from the economist, he is perilously barren of belief. His situation is much like that of a theologian who is suddenly faced not only with the thought that God is dead but that the world He made does not exist. And the large corporate enterprise needs the concept of the market, in the language of the late James Bond, as a cover for authority. The corporation has great influence over our lives and our beliefs. But market theory holds that in all of its behaviour it is subordinate to market influences. It is merely an automaton responding to these influences. This is most convenient.

Control of prices is an intrinsic feature of all planning. In the modern industrial state it is made necessary by the heavy commitment of capital and time required by advanced technology. It is made urgent by the special vagaries of the market for highly technical products. In the formally planned economies, that of the Soviet Union for example, price control is a forthright function of the state although there has been some tendency, in recent times, to allow some power over prices to devolve on the socialist firm. In the western-type economies comprehensive systems of price control have come about by evolution and adaptation to circumstance. Nobody willed them. But, unlike the Victorian Empire, they are no accidental product of a fit of absentmindedness. They were required by circumstance.
The power to set minimum industrial prices exists whenever a small number of firms share a market. The innocent at the universities have long been taught that small numbers—oligopoly as it is known—accord to sellers the same power in imperfect form that has anciently been associated with monopoly. The principal difference is the imperfect nature of this monopoly power. It does not allow of the exploitation of the consumer in quite such efficient fashion as was possible under the patents of monopoly accorded by Elizabeth to her favourites or by John D. Rockefeller to himself.

But, in fact, oligopoly is combined, in one of the more disconcerting contradictions of economic theory, with efficient production, expansive output, and prices that are generally thought rather favourable to the public. The consequences of oligopoly are greatly condemned in principle and greatly approved in practice. Professor Paul Samuelson, the most distinguished of my generation of economists, warns in his famous textbook that ‘To reduce imperfections of competition [by which he mean markets consisting of small numbers of large firms or oligopoly], a nation must struggle perpetually and must ever maintain vigilance’. Since the American economy, as we have seen, is dominated by a very small number of very large firms the struggle has obviously been a losing one. Indeed, it has been lost. But what is the result? The result, as Professor Samuelson agrees, is that the economy functions well and cannot fail to continue to do so. Man-hour efficiency in the United States, he concludes, ‘can hardly help but grow at the rate of three per cent or more, even if we do not rouse ourselves’. A similar conflict between the inefficiency of oligopoly, and the efficiency of an economy composed thereof, is present in every well-regarded textbook. Professor Samuelson would say—and indeed says—that technology and associated capital use are what improve efficiency. But these, we have seen, are what require that there be planning and associated price control.

Reason for Price Controls
And here is the answer: prices in the modern economy are controlled not for the purposes of monopolistic exploitation of the market; they are controlled for purposes of planning. This comes about as an effortless consequence of the development of that economy. Modern industrial planning’ both requires and rewards great size. This means, in turn, that a comparatively small number of large firms will share in producing the typical product. Each, as a matter of ordinary prudence, will act with full consideration of its own needs and of the common need. Each must have control of its own prices. Each will recognize this to be the common requirement. Each will forswear any action, and notably any sanguinary or competitive price-cutting, which would be prejudicial to the common interest in price control. The control is neither difficult to achieve nor to maintain. Moreover, one firm’s prices are another firm’s costs. Stability in prices means stability in costs. This complex of controlled prices and costs not only makes possible long-term contracts but is generally useful in providing the stable platform that industrial planning requires.

The fact of control is far more important than the precise price level at which it exists. In 1964 in the United States the big automobile companies had profits on sales ranging from five per cent. to over ten per cent. There was security against collapse of prices and earnings for firms with profits at either level. Planning was possible at either level of return. All firms could function. But none could have functioned had
the price of a standard model automobile fluctuated, depending on whim and reaction to the current novelties, from $1,750 (600) to $3,500 (fl,200) with steel, glass, plastics, paint, tyres, sub-assemblies, and labour moving over a similar range. However, the level of prices is not unimportant. And, from time to time, in response to major changes in cost—often when the renegotiation of a wage contract provides a common signal to all firms in the industry—prices must be changed. The prices so established will reflect generally the goals of those who guide the enterprise—the decision-making organization. Security of earnings will be a prime objective. This is necessary, we have seen, for autonomy—for freedom from interference by shareholders and creditors.

A further important goal will be the growth of the firm. As I will later urge, this is almost certainly more important than maximum profits. The professional managers and technicians who direct and guide the modern firm do not themselves get the profits. These accrue mainly to shareholders. But the managers and technicians do get the benefits of the expansion. This brings the prestige that is associated with a larger firm and which is associated with growth as such. And, as a very practical matter, it opens up new executive jobs, new opportunities for promotion, and better excuses for higher pay. Prices, accordingly, will be set with a view to attracting customers and expanding sales. In contrast with prices that are set to maximize profits, these offer no grounds, in the short run or long, for complaint by the consumer. When price control is put in the context of planning, the contradiction between monopolistic exploitation and the efficiency of the modern economy is resolved. That is a remarkable advantage of reality, it has, by its nature, this internal consistency.

I cannot refrain from mentioning one practical consequence of this argument. It concerns punitive action against monopoly—that of the Monopolies Commission in Britain and of the anti-trust laws in the United States. It must already have occurred to many that there is a remarkable discrimination in the way such legislation is now applied. A great corporation wielding vast power over its markets is substantially immune, It does not appear to misuse the power; accordingly it is left alone. And in any case to declare the big corporations illegal is, in effect, to declare the modern economy illegal. But if two small firms seek to unite, this corporate matrimony will be meticulously scrutinized. And, very possibly, it will be forbidden. This may be so even though the merged firm is miniscule in size or market power as compared with the giant that is already a giant.

**Antimonopoly Laws as a Charade**

The explanation is that the modern anti-monopoly and anti-trust laws are a charade. Their function is not to prevent exploitation of the public. If great size and market power led to that our case would already be hopeless. The function is to persuade people in general and British socialists and American liberals in particular, that the market is still extant. And it persuades them that the state is still vigilant in protecting the market. This is accomplished by bringing the force of law to bear on the ambitions of firms that seek to become larger (and possibly more effective as planning units) while exempting those that already are large.

The French, German, and Japanese either do not have or do not enforce such laws. That is because they are not impelled similarly to worship at the altar of the market.
They quietly accept the logic of planning and its requirements in size, and there is no indication that they suffer in consequence.

When prices for a particular product are set by a few large firms, along the lines and for the purposes I have indicated, there is little danger of price-cutting. This part of the control is secure. There does remain a danger of uncontrolled price increases.

In particular, when a few large firms bargain with a strong union, conflict can be avoided by acceding to union demands. And there is not much incentive to resist: There is a common understanding among the firms that all will raise their prices to compensate for such a settlement. If demand is strong enough to keep the economy near full employment, it will be strong enough to make such price increases feasible. It will be comparatively unelastic. The price increases, in turn, set in motion demands for further wage increases. Thus, the familiar upward spiral of wages and prices increases. This too is prejudicial to planning. The individual firm cannot prevent such price increases; they are beyond the control of the planning unit.

So here, increasingly, we follow the practice of the formally planned economies. We rely on the state to set maximum wages and prices. In the United States, as in Britain, the government does this with great caution, circumspection, and diffidence, somewhat in the manner of a Victorian spinster viewing an erotic statue. Such action is held to be unnatural and exceptional. Economists accord it—the guideposts in the United States, the wage and price freezes here in Britain—little or no acceptance as established economic policy. Unions say it interferes with free collective bargaining. Business-men say it interferes with their natural freedom of decision on prices. Economists say that it interferes with the market. What everyone opposes in principle, all advanced industrial countries end up by doing in practice. The answer once more is clear. In a market economy, such wage and price ceilings would be unnecessary. But they are an indispensable counterpart of economic planning and of the minimum price control that already exists.

This price and wage setting by the state could be dispensed with by having such a shortage of demand that it would be impossible for firms to raise prices and unions to raise wages. That is to say, we could have it by rehabilitating the market for labour and industrial products. This would require a shortage of jobs, a scarcity of demand. It would not then be possible to raise wages in response to prices or prices in response to wages. But that would mean unemployment or greater uncertainty of employment and, an important but much neglected factor, uncertainty in planning of production by producers. Despite everyone’s affection for the market, not many want these results. So we have the maximum price and wage controls, and seek only to avert our eyes from it so far as possible. It would be simpler were we to recognize that we have planning and that this control is an indispensable aspect. The graves of Smith, Mill, Jevons, and Marshall would convulse slightly but soon subside. Their undeviating apostles and disciples who, biologically speaking, are still alive would suffer more. But many of them, one trusts, have already learned to live with their own irrelevance.

**Key to the Management of Demand**

Let me now say a word about the management of what people buy at the controlled prices. The key to the management of demand is effective control of, or sufficient influence on, the purchases of final consumers. The latter includes both private
individuals and the state. If these purchases are under effective control, there will then be a comparatively reliable demand throughout the system for raw materials, parts, machinery, and other items going into the ultimate product. If the demand for its automobiles is reliable, an automobile firm can accord its suppliers the security of long-term contracts for their planning. And, even in the absence of such contracts, there will still be a reliable and predictable flow of orders which allows of planning. Although the techniques for management of government purchases are very different from those for management of the consumer, it makes the same contribution to planning by prime and sub-contractors. How are individual consumers managed? As so often, change in modern industrial society has made possible what change requires. The need to control consumer behaviour arises from the exigencies of planning. Planning, in turn, is made necessary by extensive use of advanced technology, the capital this requires, and the related sophistication of organization. This is an efficient way of producing goods; the result is a very large volume of production.

As a further consequence, in the economically advanced countries goods that serve elementary physical sensation—that prevent hunger, protect against cold, provide shelter, suppress pain—come to comprise a small and diminishing part of what people consume. Only a few goods serve needs that are made known to the individual by the palpable discomfort or pain that is experienced in their absence. Most are enjoyed because of some mental or aesthetic response to their possession or use. They give the individual a sense of personal achievement; they accord him a feeling of equality with his neighbour they divert his mind from thought or its absence; they promote or satisfy sexual aspiration; or they promise social acceptability; or they enhance his subjective feeling of health, well-being, and orderly peristalsis; or they are thought to contribute to personal beauty; or they are otherwise psychologically rewarding.

Thus it comes about that, as the industrial system develops to where it has need for planning and the management of the consumer that this requires, we find it serving wants which are psychological in origin. These are admirably subject to appeal to the psyche. Hence they can be managed. A man whose stomach is totally empty cannot be persuaded that his need is for entertainment. Physical discomfort will tell him he needs food more. A man who is very cold will have a nearly absolute preference for what makes him warm. But psychic reactions have no such internal anchor; since they exist in the mind, they are subject to what influences the mind. Though a hungry man cannot be persuaded as between bread and a circus, a well-nourished man can. And he can be persuaded as between different circuses and different foods.

By giving a man a ration card or distributing to him the specific commodities he is to consume, the individual can be required to consume in accordance with plan. But this is an onerous form of control and it is ill-adapted to differences in personality. In advanced industrial societies, it is considered acceptable only in times of great stress or for the very poor. Even the formally planned economies—the Soviet Union and the eastern-European states—regard the ration card as a manifestation of failure. It is easier and, if less precise, still sufficient to manage by persuasion rather than by flat.

Although advertising will be thought of as the central feature of this persuasion, and is certainly important, it is but a part of a much larger apparatus for the management of demand. Nor does this consist, alone, in devising a sales strategy for a particular product It often means devising a product, or features of a product, around which a
sales strategy can be built. Product design, model change, packaging, and even performance reflect the need to provide what are called strong selling points. They are as much a part of the process of demand management as the advertising campaign. The first step in this process, generally speaking, is to recruit a loyal or automatic corps of customers. This is known in the trade as building customer loyalty and brand recognition. To the extent that it is successful, it means that the firm has a stable body of custom which is secure against any large-scale defection. To say that consumers are loyal is to say that they do not exercise choice. And being made thus more reliable and predictable, they are successfully incorporated in the planning of the firm.

A purely defensive strategy will not, however, suffice. In line with the goals of its directing organization, the firm will want to expand sales. And such effort is necessary to hold a given position. Out of this effort, from firms that are fully able to play the game, comes a crude equilibrating process which accords to each participant a reasonably reliable share of the market. It works, very roughly, as follows.

When a firm is enjoying steady patronage by its existing customers and recruiting new ones at what seems a satisfactory rate, the existing strategy for consumer management—advertising, selling methods, product design—will be considered satisfactory. The firm will not quarrel with success. If sales are stationary or slipping, this calls for a change in selling methods—in advertising, product design, or even in the product itself. Testing and experiment are possible. And, sooner or later, a formula providing a suitable response is obtained. This will lead, in turn, to countering action by firms that are then failing to make gains.

This process of action and response belongs to the field of knowledge which has come in modern times to be called game theory. It leads to a rough but controlled equilibrium between the firms that have the resources to play it. Each may win for a time or lose for a time but the game will be played out within a narrow range of gain or loss. Market shares will remain comparatively constant over a long period of time. Firms that do not have the resources to play—particularly to stand the very large cost of advertising, sales force, product design and redesign, as in the case of the smaller motor manufacturers—will disappear. And the firms that can play the game will, on occasion, find customers adamant in their resistance to a particular product. As in the case of the Ford Motor Company’s Edsel a few years ago no response can be obtained at tolerable cost by any strategy that can be devised. But the size and product diversification of the mature corporation allow the firm to accept an occasional such failure without hazard.

Nevertheless, it is the everyday assumption of those who engage in this management that if sales of a product are slipping, a new selling formula can be found that will correct the situation. By and large, this assumption is justified. Means can almost always be found to keep exercise of consumer discretion within safe limits.

Management of the consumer on the scale just outlined requires that there be some means for comprehensive, repetitive, and compelling communications between the managers of demand and those who are managed. It must be possible to win the attention of those who are being managed for considerable periods of time without great effort on their part. It should reach people in all spectrums of intelligence; no one should be barred by illiteracy or unwillingness to read, or a negative score in an
intelligence test. Such a means of mass communication was not needed when the wants of the masses were anchored primarily in physical need. The masses could not then be persuaded. Most of their income went for basic foods and shelter. The wants of a well-to-do minority could then be managed. But since this minority was generally literate, or sought to seem so, they could be reached selectively by newspapers and magazines. With mass affluence, and therewith the need to manage people at levels of literacy, education, and intelligence, these no longer served.

Technology, once again, solved the problems that it created. Coincidentally with rising mass incomes came; first radio, and then television. These, in their capacity to hold effortless interest and their accessibility over the entire cultural spectrum, their independence of any educational qualification, were admirably suited to mass persuasion. Television was especially serviceable. Not since the invention of speech itself has any medium of communication shown such adaptability in accommodating itself to the entire spectrum of intellectual capacity. There is an insistent tendency among social scientists to think of any institution which, as in the United States, features singing commercials, shows the human intestinal tract in full or impaired operation, equates effortless elimination of human whiskers with the greatest happiness of man, and implies that exceptional but antiseptic and wholesome seduction is associated with a particular make of automobile, as inherently trivial. This is a great mistake. The modern industrial system is profoundly dependent on such art. What is called progress makes it increasingly so.

The management of demand, as here to be seen, is in all respects an admirably subtle arrangement in social design. It works not on the individual but on the mass. An individual of will and determination can, in principle, contract out from under its influence. This being so, no case for individual compulsion in the purchase of any product can be established. To all who object there is a natural answer: you are at liberty to leave! Yet there is no danger that enough people will ever assert this choice to impair the management of mass behaviour.

I have not completed this aspect of planning. It embraces the problem of managing not only the purchases of the individual but also those of the state. And I have been talking so far of the demand for individual products. There is also the matter of aggregate demand. It does not greatly profit an automobile company or a soap manufacturer to have a loyal and reliable corps of customers if they lack the purchasing power with which to buy. This purchasing power must be regulated, and thus insured, if planning is to be secure. And no single firm, however powerful, can insure stability in this total flow of purchasing power.

We saw earlier in this lecture that where price and wage control are beyond the planning powers of the firm, the state steps in. This is a pattern. The state similarly steps in to stabilize aggregate purchasing power. And it supplements the planning of the corporation in other important ways. This I will take on next time.