Our Oldest Economic Institution

By MARSHALL CRANE

AN IDEAL economy would surely be one in which every individual, in furthering his own interests, also served those of the community. Few of us expect ever to see such a utopian state of affairs, but we all recognize it as a sort of goal. We regard any economic reform as progressive only if it is in the direction of this ideal, and judge existing institutions by the degree to which they conform to it.

There is probably no economic institution which exemplifies the working of this principle better than our oldest one, the market. Here as nowhere else the individual is concerned with his own interest, yet insofar as the market is free from artificial restrictions, the operations of each one advance the interests of all.

In all markets — the Fulton Fish Market, a sugar, cotton, tobacco, or wool exchange, or any of the many "markets" which advertise themselves so insistently to us in print, picture, neon, and on the air-waves—the principle is the same. Prices rise and fall in response to the demand for, and the supply of the product for sale. They may go up or down just a cent or two in the course of a day's trading, and it is sometimes hard to see the significance of such a small variation, to see how any difference in supply or demand can, without the deliberate act of some authority, be represented by such an infinitesimal change in price.

But these quotations, which seem so arbitrary and impersonal when we read them in the paper, are really the summation of all the items of information, misinformation and rumor, and all the judgment, good and bad, in the minds of all who trade. They represent the composite opinion of the market, just as truly as the odds paid by a racetrack pari-mutual.

Even as You and I

Richard Roe may have figured that a certain price is not too much to pay for something he wishes to buy, but if he finds that other men in the same line of business are hesitating to pay quite so much, he may decide to wait a little while. Possibly they have gotten hold of some information which hasn't reached him yet. And if so, their reluctance, or the more general knowledge of whatever has caused it, is bound to make prices drop. On the other hand, he may find that the bids are higher than he expected to pay. This may force him out of the market or it may have just the opposite effect. Richard may decide that a generad price rise is in the offing, and buy more of the commodity than he had originally intended, either for a speculative profit, or in the case of a raw material, in order to take advantage of higher prices for the finished product made from it. He does some quick figuring on the back of an envelope and gives his broker a new maximum. But whatever his decision is, it will certainly contribute to the general "tone" of the market and, even if only to a minute degree, influence the trading of others and the prices they will pay. His two cents worth of knowledge and opinion has been added to the general fund which determines the "right" price.

There is an essential difference between prices in the open market, which are the result of competitive buying and selling, and those which are controlled by trusts and cartels or by government agencies. The trust and the cartel are outlawed in this country for the reason that their operations, which prevent markets from functioning freely, are "in restraint of trade." It is strange that price controls, which surely restrain it even more, should ever have been imposed on the same markets which the Sherman Act is supposed to protect.

As for government price fixing agencies, their basic difference from the open market is perhaps one of point of view. The price fixer always tends to ignore the future ,and frequently even the present. The statistics which are the basis of his conclusions must be records of conditions in the past, rather than the present and future in which his prices will apply. And even if they are relatively fresh, as statistics go, the official machinery involved in writing a schedule of prices and publishing it takes much more than enough time to make it out of date. Conditions are constantly changing. A declaration of war, perhaps halfway around the world, the passage of a new law, in this country or abroad, a technological development, creating a new supply or a new demand, a flood or a drought, even a mere change of fashion, may affect prices as soon as the news reaches the public.

Then there is always the suspicion—unfortunately not always mistaken — that "politics," the great bogey of business, may have a hand in any government regulation of prices. But this is not the principal reason why businessmen in general prefer to take their chances in the ebb and flow of the natural market to living in the false security of an artificially stabilized one.

The market price of any commodity is its "value in exchange." If for any reason it is quoted at more than this value, many potential purchasers refuse to buy it, buy less of it, or postpone buying. On the other hand, if a price ceiling prevents its being sold at its value in exchange, production of it ceases to be profitable. In other words, the natural market price of any article is the level at which it has the best chance of being bought and sold. It is the only price which does not discourage either supply or demand.