3 Developments in the doctrine of administered prices

Means worked on his doctrine of administered prices for 50 years. This, combined with the intense controversy over administered prices, meant that many of the non-Means' contributions to the doctrine occurred simultaneously with his own work. One contribution, perverse prices, was developed by John M. Blair. Blair had, since 1938, been interested in Means' doctrine of administered prices. One aspect of the doctrine in which he had particular interest was the movement of prices and production over the cycle of business activity. In 1958 he "discovered" the phenomenon that "in periods of moderate underutilization of capacity, prices in oligopolistic industries will not decline, will not remain inflexible, but will tend to rise" (Blair, 1959, p. 435). Blair initially couched an explanation of these "perverse prices" movements in terms of cost-push inflation, shift from price to non-price competition, and business enterprises increasing their target rate of return; by 1972 he associated them with a short-term variant of target rate of return pricing. He argued that perverse price movements occurred when a business enterprise using target rate of return pricing procedures attempted to attain its target rate of return in the short term instead of over the cycle of business activity by adjusting the standard volume flow rate of output variable. Once the explanation for perverse prices was articulated, Means quickly absorbed it into his doctrine (see p. 60 and n. 10) (Blair, 1959, 1972, 1974).

A second contribution concerned the elaboration and development of the concept of power embedded within the doctrine of administered prices. As noted above, the modern corporate economy in Means' view operated through the visible hand of co-ordination – or, in other words, through the exercise of power which he defined as "the ability of one individual or group to influence the policies in respect to the use of resources which are adopted by another individual or group" (Means, 1939a, p. 153). Although Means largely restricted the concept to the
administering of prices and the organizing and coordinating economic resources, he was quite well aware that the existence of power meant that politics and industry merged together to the extent that economic decisions were political decisions as well, as in the case when the making of industrial policy was done by the management of a business enterprise, the corporate community, economic interest groups, and/or the government. The role of power in affecting market activities was elaborated on and extended by John K. Galbraith through his concepts of “countervailing power” and “technostructure.” Regarding the former, Galbraith argued that the exercise of power in a corporate economy begets its own neutralizer, with the result that the setting of prices and the co-ordination of economic activity was conducted through the medium of power instead of competition.\(^1\) The role of government, laws, and courts in fostering the formation of countervailing power was particularly emphasized. As for the latter, Galbraith argued that the modern corporation was being directed by a technical and managerial technostructure whose chief goals were wealth and power for themselves through the aggrandizement of their enterprises. To achieve the goals, the technostructure attempted to mold consumer buying patterns and use public policy for its own benefit.\(^2\)

Adolf Berle, on the other hand, expounded on corporate power and the politicization of the corporation’s internal and external economic activities. He also noted that the evolution of corporate capitalism over time was played out in terms of changes in the distribution of power between the corporation and the state. Finally, he pointed out that the “free market” in the modern corporate economy where business enterprises compete was a political artifact, maintained by laws, regulations, and state-sponsored sanctions. A third contributor to the theme of power was Walton Hamilton and his analysis of corporations as political entities and private governments, cartels and other such institutional arrangements as systems of private governments, and the coming together of state politics and corporations for the making of industrial policy. The thesis emerging from these contributions was that the

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\(^1\) Galbraith’s arguments outlining the benefits of creating countervailing power for those who face economic coercion from the powerful echoed Means’ own statements regarding economic coercion and economic freedom – see Means (1944, 1949).

\(^2\) In acknowledging his debt to Means, Galbraith has stated:

[THE NEW INDUSTRIAL STATE is built on the notion not of monopoly prices but broadly speaking of administered prices. It is administration which provides the certainty which the modern, very large technocratic organization requires. I have gone on from administration of prices to the management of the other economic parameters including that of consumer demand. (Galbraith, 1970)]
modern corporate economy of the United States was a system of power and that the doctrine of administered prices illuminated one important part of it. Means made no substantial attempt to articulate such a system; however it has become a central concern of Institutional economists (Means, 1939a; Galbraith, 1952, 1967; Berle, 1954, 1959, 1963; Latham, 1957; Burrowes, 1966b; Hamilton, 1957; Dugger, 1992; Klein, 1987).

The third contribution to the doctrine, and the focus of this section, made over a period of 40 years by related group of economists, Rufus Tucker, Edwin Nourse, Abraham Kaplan, and Alfred Chandler, is the area of big business, business leadership, and administered prices. After the First World War, economists, business leaders, and directors of philanthropic foundations began to believe that it was possible through the gathering and interpreting of economic data to arrive at technocratic solutions for stabilizing the American economy. Central to this vision was the presumption that once they were given this data, the makers of microeconomic decisions – that is, the businessmen – would appropriately alter their course of action without coercion. Inherent in this presumption, although not often stated, was that big business was a permanent feature of the economy and its existence did not, by itself, undermine the economy's competitive nature or its ability to operate smoothly. That this view was widely accepted by the philanthropic foundations is not unexpected since most of them were dependent on big business for their funds. Thus throughout the 1920s, philanthropic foundations funded many studies whose primary purpose was to generate economic data which could be used for the microeconomic management of an economy in which big business was a permanent feature.

With the coming of the Crash in 1929, American capitalism faced a popular uprising. While the masses, politicians, and academic economists generally complained about the monopolistic tendencies of many business enterprises, a few politicians and economists specifically argued that big business charged monopoly prices and made monopoly profits, was inefficient and less innovative when compared to small business, and was destroying the democratic nature of the economy and replacing it with a financial oligarchy. Some economists also argued that big business weakened the flexibility needed by the economic system to ensure full employment by setting rigid prices, which meant that demand variations played themselves out in output and employment variations rather than in variations of the price level. Thus the picture that emerged from these attacks was that big business per se and its pricing policies were a major cause of the Depression; the solution was to exorcise big business from
the economy, heavily regulate its activities, or engage in some sort of national economic planning.

Such solutions violated some foundations' view that solutions to economic problems should be compatible with the existing social and economic systems. Foundation monies were directed to research institutes and universities or allocated directly to study groups to look at the question of the role of big business in the American economy. In some cases, the purpose of the funding was to produce studies that would mold public and government opinion regarding the efficacy of big business and to alter the critical opinions many economists had towards it. An example of such foundation-sponsored studies were the corporation study funded by The Twentieth Century Fund in the 1930s, The Brookings Institution studies of industrial pricing and big business which were funded by the Maurice and Laura Falk Foundation and the Alfred P. Sloan Foundation from the 1930s to the 1950s, and the rise of big business studies funded by the Sloan Foundation in the 1960s–1970s. These studies were important in shaping economists' and public opinion about big business; however, for the purpose of this book, their importance lies in their unwitting contribution to the development of the doctrine of administered prices (Lee, 1997).

In response to Berle and Means' Modern Corporation and Private Property (1932), Harry Laidler's Concentration of Control in American Industry (1931), and the consequent widespread belief of the enormous degree of concentration of control in American industry, the Twentieth Century Fund in May 1934 approved funding for a study on the domination of industry by large units and its effect upon the nation's life, and appointed Rufus Tucker as its research director. He carried out the study by collecting statistics on the size of individual plants in various industries and statistics showing the differences between corporations of various sizes with reference to the proportion of their capital which took the form of long-term debts. In addition, Tucker directed a statistical investigation on the relative standing of big business in the American economy and on the profitability of big business. The research, which was published in 1937, showed that big business played a large role in the economy, but was unevenly spread, with some sectors completely dominated by large business enterprises while others were completely devoid of them. These results corrected the Berle and Means' impression that big business was pervasive and dominated the economy. The research also indicated that the rates of return for big business were smaller but more stable than those for small business; that there was no determinant relationship between size and profit, size and change in costs, and costs and change in gross income; and that big business paid out more
dividends than small businesses. The conclusion drawn from the research was that it was not possible to say whether big business was, on the whole, good or bad, and conversely, whether small business was better or worse than big business (The Twentieth Century Fund, 1934m, 1934–5m; Tucker, 1934–5m; Bernheim, 1937a, 1937b; Lee, 1997).

Tucker took advantage of the study to collect statistics showing the extent to which large corporations controlled the markets of various industries. These statistics, he felt, were relevant to understanding the distinction recently made between administrative and market prices... and... the differences in price fluctuation shown by the products of different industries. In some cases, prices have hardly fallen at all during this depression and in some of those cases it is reasonable to suppose that prices have been controlled by a monopoly or a semi-monopolistic understanding. In other cases there are good reasons to explain why prices have not fallen and why perhaps it was better for the country that they should not fall. (Tucker, 1934–5m)

Consequently, and in conjunction with collecting the statistics on corporate control of markets, Tucker also collected statistics on sensitive and insensitive (or administered) prices. Although not published with the other findings of the study, Tucker used his collected statistics to argue, in a series of papers and an unpublished monograph, that insensitive or administered prices were an historical and permanent feature of the American economy and hence not tied to the existence of big business. More importantly, he articulated a micro explanation for the existence of administered prices which was not yet present in Means' writings.

Using the statistics he had collected, Tucker established that prices which changed frequently and those which changed infrequently had both existed in the American economy since the 1830s. The explanation for the frequency of price change could not therefore be attributed solely to the size of the business enterprise setting the price, since "big business" had not yet emerged in the 1830s. Tucker therefore sought the explanation in the cost, demand, and product characteristics which impinged on the pricing of a product. With regard to farm products, he noted that they were perishable, their demand was non-postponable, and their costs were largely fixed and hence deferrable; on the other hand, industrial products were durable or non-durable but not perishable, their demand could be postponed, and their costs consisted largely of items (such as direct labor and material costs and variable overhead costs) which required regular and timely pay-outs. So, if demand declined for farm

3 Tucker provided statistics which showed that fixed overhead costs constituted a much smaller proportion of their prices for industrial products than for farm products — the
products, it was possible for the farmer to have lower prices and still carry on farming. However, for industrial enterprises, a fall in demand for their products could not be countered with a significant reduction in price because of the high proportion of pay-out cost in the price; moreover, Tucker argued, reductions in price would not increase sales appreciably in any case. Thus, a reduction in the price of an industrial product would not increase sales sufficiently so as to reduce costs and maintain the current mark up for profit. Therefore variations in demand unaccompanied by changes in wage rates and in material input prices would produce frequent changes in farm prices with actual production and employment being affected little, whereas it would produce virtually no changes in industrial prices with industrial production and employment being directly affected.

The importance of the argument to Tucker was that he was able to explain the infrequency of changes in industrial prices without invoking the phases “monopoly,” “semi-monopolistic,” and “concentrated industries.” Rather, industrial enterprises which engaged in an administered price policy of infrequent price changes, he argued, must be viewed as engaged in competitive pricing since each time a decision was reached regarding a change in prices, the reactions of competitors were taken into account. Consequently, in Tucker’s view, price changes were generally based on changes in input costs; if such costs did not change, then prices would not change, but if input costs declined, as many did from 1929 to 1933, then the competitive industrial environment would generate price reductions.

Because labor costs was the principal item in pay-out costs, the rigidity of wage rates, in Tucker’s view, was the chief explanation for the facts.

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4 Tucker explicitly argued that the price elasticity of demand was extremely small if not non-existent for industrial products; rather it was variations in market demand which determined the level of production of industrial products. Moreover, he noted that any attempts to measure the price elasticity of demand by studying prices and sales over a period of time was very problematical given the essentially static nature of the concept (Tucker, 1938am, 1938bn).

5 Tucker also attributed the infrequency with which industrial prices changed to the fact that manufacturing and retailing enterprises were compelled to announce prices in advance, which sales people used to drum up business and retailers used to plan purchases. Such price announcements were accompanied by price lists and advertisements which usually stayed in effect for three months or longer. Because administered prices were calculated to cover costs and make a profit and were maintained for long periods of time. Tucker argued that “they probably conform more closely at any given time to what classical economists called ‘natural prices’ than do the prices of farm products” (Tucker, 1938am, pp. 101–2).
that industrial prices changed infrequently and fell relatively little compared to output from 1929 to 1933. In arguing that administered prices were compatible with competitive conditions, Tucker rejected the concept of perfect competition and adopted the view that active competition existed when two or more industrial enterprises were trying to make sales to the same group of buyers. Thus the degree of competition was not measured by numbers or size of competitors, but primarily by the variability of market shares and profit rates among the competing enterprises over time. Since statistics were readily available showing variability of market shares and profit rates among big enterprises in the same industry, Tucker concluded that big businesses were extremely competitive even though they were members of concentrated industries and administered their prices to the market (Tucker, 1938a, 1938b, 1938am, 1938bm, and 1940).

In the 1930s, The Brookings Institution undertook a project on the distribution of wealth and income in relation to economic progress which was financed by the Falk Foundation. The conclusion of the project was that the fundamental reason for the lack of economic progress in the American economy was the inadequate purchasing power among the masses of people and the greatest problem at hand was to determine how the flow of the income stream to the various groups in society can be modified as to expand progressively the effective demand for goods and thus evoke an ever greater volume of production – which would mean a steadily augmenting aggregate income to be divided. (Moulton, 1935, p. 87)

After dismissing several possible remedies for this problem, such as wage increases and taxation, it was concluded that the low-price policy was the only method that could distribute income so as to increase consumer purchasing power and maximize economic progress. However, it was also noted by the Brookings economists that for the low-price policy to work, the economy had to be freely or classically competitive; whereas in the current economic situation the existence of industrial combinations, cartels, and trade associations ensured that the economy was much less than freely competitive. Moreover, industrial combinations, cartels, and trade associations quite frequently adopted price stabilization policies, thus destroying any chance that economic progress based on expanding

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6 Tucker produced statistics which showed a close correlation between the reduction in industrial prices of goods from 1929 to 1933 and the reduction in hourly wage rates in the industry producing those goods (Tucker, 1938am, 1938bm).

7 Tucker viewed the economists' concepts of perfect competition and monopoly as virtual nonsense and "the product of the itching imaginations of uninformed and inexperienced arm-chair theorizers" (Tucker, 1938bm, p. 3; see also Tucker, 1940).
consumer purchasing power through price reductions would occur (Critchlow, 1983; Knapp, 1979; Moulton, 1935; Lee, 1997).

This striking but ambiguous conclusion was not lost on the economists at The Brookings Institution. Moreover, some businessmen claimed that a low-price policy for economic prosperity was impossible to carry out, while others claimed that it was in fact being actively carried on. Therefore the Brookings economists decided that a follow-up study was needed. The study, funded by the Falk Foundation and carried out by Edwin Nourse (and Horace Drury), focused on the practicability of price administrators in carrying out a low-price policy. As a result, Nourse became quite interested in the concept of price policy vis-à-vis the business enterprise and in the role of business leadership in devising price policies. The outcome of this research were two books on price policy, Industrial Price Policies and Economic Progress (Nourse and Drury, 1938) and a follow-up, also funded by the Falk Foundation, Price Making in a Democracy (Nourse, 1944). In addition, Nourse had become aware of Robert Gordon's research on business leadership in the large corporation. Finding it an empirical complement to his own work on price policies, he brought Gordon to Brookings where he completed the manuscript which was then published by the Institution as Business Leadership in the Large Corporation (1945). The importance of Nourse's work, as supplemented by Gordon's, to the administered price doctrine was his discussion of the business enterprise, business leadership, and the business leadership's administration of price policies and prices within the context of a competitive corporative economy (Lee, 1997; Nourse, 1945).8

Nourse's objective in his two books was to put forth Brookings' low-price policy as a practical economic policy that would, if adopted by business enterprises, restore the economic health of the American economy. This required him to realistically delineate the large business enterprise and its price policy, since it was the business leadership of such enterprises that he hoped would spearhead the adoption of the low-price policy. Adopting the same assumption as Means, Nourse divided the economy into a market sector where prices were determined in the process of the sale and an administered sector where prices were determined in the office of the business executive and then administered to the market. Ignoring the market sector, he concentrated on delineating

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8 Nourse rejected perfect competition and "automatic price-setting" because the former had no basis in the real world and the latter was not consistent with active business leadership, especially with regard to price policy. Rather, he believed that the only real expression of business enterprise was imperfect competition and price administration (Nourse, 1944).
Developments in the doctrine of administered prices

the business enterprise and the factors which affected business leaders when formulating price policy and setting prices in the administered sector.\(^9\)

All the prices that we are considering are "administered" prices. That is, they are prices established by the decision of executives who have power to decide in advance the price at which goods shall be sold and to back up that decision by expanding or contracting operations in volume large enough to have a significant effect on the market . . . But "administered price" is not a term of reproach. It is merely a convenient way of describing the facts of economic life as lived in the modern industrial world. (Nourse and Drury, 1938, p. 9)

The large business enterprise, in Nourse's view, was a multi-product and a large-scale producer. These attributes, he argued, were based on technological advantages and economies of scale, on management and managerial resources such as management, science, and engineering personnel, and on vertical integration. Of the three factors, Nourse considered the contribution of management the most important, and therefore concentrated on it. For Nourse, management in the large business enterprise was an administrative network through which the business leaders (i.e. the senior managers) ran the enterprise.\(^10\) The administrative network was organized in a hierarchical form – senior managers and middle and lower managers. The senior managers, through various committees, initiated, approved, and co-ordinated policy decisions with regard to prices, marketing, output, research and development, labor, capital investment and research and development, dividends and reinvestment policy, and external finance with little interference from other interest groups, such as directors, stockholders, and bankers; the actual implementation and continuation of the policies

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\(^9\) Nourse held the view that the American economy went through three stages of development – mercantile capitalism, factory system, and corporate economy. He associated administered prices (including administered wage rates) with the last two stages, and in the corporate stage they dominated the economy. Areas of the economy where administered prices dominated included, Nourse argued, the manufacturing of locomotives, rails, trucks, pipe, machine tools, boilers, generators, and other industrial sectors. Market prices, on the other hand, were found in exchange markets for highly standardized agricultural and raw material commodities and in auction and small haggling markets for perishable or personalized goods (Nourse and Drury, 1938; Nourse, 1944).

\(^10\) Although Nourse defined control as the power to select or change senior managers, he did not equate the controllers with the active business leaders of the business enterprise. In his view, such leaders did not have to own or control the enterprise to have the power to direct its economic activities and apportion its revenues among its demanding constituencies. Thus, for Nourse, active business leadership in the modern large business enterprise could be summarized as power without property (see Gordon, 1945; Berle, 1959).
was carried out by the middle and lower managers. Senior managers, for example, established the policies for setting and changing prices, although they rarely actually set or change a specific price. This more concrete aspect of pricing and changing prices was carried out by lower level managers, either through committees or by individuals. Thus, the establishment of a price policy and the setting and changing of prices was an administrative activity which was conducted through the administrative network of the enterprise (Nourse and Drury, 1938; Nourse, 1941, 1944; Gordon, 1945).

The business leaders of the large business enterprise, Nourse argued, viewed their enterprise as a going concern – i.e. an enterprise without a finite lifespan. Thus the goals which they had for it and for themselves extended over a long period of time and changing complex situations. Hence, he felt that the view that business leaders adopted the goal of simply maximizing their enterprise's short-period or long-period profits could not be sustained. Rather, while the business leaders did pursue a profit-making goal for the enterprise, the goal, Nourse argued, was not solely an end in itself; instead it was in part an intermediate goal which permitted the achievement of other desired goals, such as growth, expanding market share, increasing current volume of market sales, and entering or creating new markets. The profit goal that the business leaders had for their enterprise was thus a complex mixture of various specific goals which together ensured that the enterprise remained a profitable going concern (Nourse, 1941, 1944; Gordon, 1945).

To achieve these goals, Nourse noted that the senior managers of the enterprise established a price policy covering the methods to be used for pricing and the objectives of the prices set. The pricing methods used were derived from the cost accounting procedures utilized by the enterprise and involved using a normal capacity utilization figure to determine the normal average total costs which were then marked up to set the price. Nourse then noted that the senior managers had many

11 Nourse also noted that unions conducted a scheme of administered prices, that is wage rates, and thus were price administrators as well (Nourse, 1944).
12 Since business leaders were not owners of the enterprise, they did not receive the profits they created; thus the question emerges as to why they should strive to generate what they could not receive. Nourse and Gordon had various answers for this: business leaders were becoming more professional and thus carried out their activities efficiently; business leaders were imbued with the instinct of workmanship; performance-based salaries; and the urge for power and prestige (Nourse, 1944; Gordon, 1945).
13 Nourse noted that to achieve the goals, business leaders would also have to make resource allocation decisions and decisions regarding wage rates and the allocation of profits to dividends (Nourse and Drury, 1938).
14 Nourse noted that management, in conjunction with their cost accounting procedures,
objectives for their prices, such as opening a new market, exploiting new products and processes, and generating greater sales and market share, and that these objectives were "embodied" in the profit mark up selected for setting the price. 15 While the managers had the freedom to set and administer their prices to the market, they did face various constraints in carrying out their administrative activity. Two significant constraints, Nourse noted, were the unresponsiveness of market sales of industrial and consumer goods to different prices and the possible reaction of competitors to the prices set. 16 Business leaders reacted to the latter constraint and its possibilities of destructive price wars by building market institutions such as trade associations and basing-point pricing systems, to facilitate co-operative and co-ordinated fixing of the market price, and establishing acceptable customs and codes of competitive behavior, such as codes of fair competition. In this context, competition between enterprises took on, in Nourse's view, an administrative nature, in that, within an administratively maintained market context, business leaders utilized their administrative networks to set and administer competitive prices and engage in other competitive activities in order to achieve specific objectives. 17 Nourse concluded his analysis of business leadership with the argument that it was the visible hand of the business leaders and their administrative networks which set and administered the prices in the market and determined the direction of the business enterprise and with it the economy at large (Nourse and Drury, 1938; Nourse, 1941, 1944). 18

determined the allocation of overhead costs among their product lines and that the use of normal capacity utilization ensured that variations in actual utilization, and hence costs, would not affect prices (Nourse and Drury, 1938).

15 In some cases where financial institutions controlled the enterprise, Nourse noted that the financial controllers selected high profit mark ups to set high prices simply to generate high profits for the benefit of their institutions as opposed to engendering the dynamic expansion of the enterprise (Nourse and Drury, 1938; Nourse, 1941).

16 Nourse did not employ the concept of price elasticity of demand in his work because he found it of little use owing to its ceteris paribus assumption. Moreover, he found that market sales were not continuous with price, but had significant breaks, thus rendering the concept nugatory (Nourse, 1944).

17 Nourse argued that the large business enterprise did not have unlimited market power, in that there was always potential competition, government intervention, and continual technical change which limited their market power (Nourse and Drury, 1938).

18 As Nourse stated:

[It is in the office of the industrial executive that we find the birthplace of prices for an increasing number of industrial products ... An essential feature of industrial price-making lies in the fact that, instead of passively accepting the market's pricing of a supply subject to no central control, it sets a price objective and directs a controlled productive mechanism toward attainment of that price level. With this charge the price-
Although Nourse and Gordon based their arguments on interviews and discussions with senior management and staff specialists of many business enterprises, supplemented by published material, the manner in which they were presented did not highlight these sources of support sufficiently, with the result that their arguments did not appear well grounded empirically or historically. However, this was rectified by the empirical and historical works of Abraham Kaplan and Alfred Chandler on pricing and the visible hand of management. The post-1945 political environment was not, to some business leaders, supportive of big business. Thus, in March 1947, some General Motors employees thought that it would be desirable to have an authentic unbiased study made of the effect of big business on the economy, not only its economic implications but also from the social and political side. The senior managers liked the idea and approached Harold Moulton about whether Brookings would like to undertake the study. After consulting with Kaplan, who had just come on the Brookings staff and wished to follow up his earlier study on small business with an excursion into the behavior of big business, Moulton agreed to undertake the study if big businesses co-operated through revealing their records and accounts of actual business practices. Funding for the study was obtained from the Alfred P. Sloan Foundation and the Falk Foundation. Kaplan headed the research team which interviewed the senior managers of 28 corporations on a number of topics, including pricing, pricing policies, and the administering of prices. The price information derived from the interviews was published in *Pricing in Big Business* (Kaplan et al., 1958; Lee, 1997).

What emerged from the material collected was that normal cost and target rate of return pricing procedures were used by nearly all of the enterprises interviewed; in addition, the procedures were shown to be based on costing procedures used by cost accountants; and, finally, the interviews revealed that profit mark ups and target rates of return varied among the several product lines of an enterprise and were partially based on generating internal funds for investment and research and development, on custom, on market strategies, and on competition. The material collected also revealed that large business enterprises employed at any

making executive takes over from the 'Unseen Hand' as guide and regulator of the economic process in a considerable part of our business world. He takes upon himself the responsibility for the standard of living for an ever larger proportion of our people. Much as he generally hates the phrase, he becomes in fact the economic planner of our society rather than merely the adapter of his personal affairs as best he can to a largely automatic price mechanism. (Nourse and Drury, 1938, pp. 253–4; see also Nourse, 1944, pp. 17–21, 449)
point in time a range of pricing policies, including pricing to achieve a
target rate of return on investment, pricing to maintain or improve
market position, pricing to meet or follow competition, pricing subordi-
nated to product differentiation, and stabilization of price and profit
margins, although one would be considered dominant. However, over
time the dominant pricing policy could change due to court antitrust
rulings and changes in the competitive market environment. Thus, the
enterprises interviewed could not be characterized by a single all-encom-
passing behavioral motive. Finally, the material collected showed that in
all the enterprises pricing was an administrative activity carried out by a
group or committee of managers drawn from different departments and
levels of management, and that the price administrators used their
pricing procedures as a way to administer the prices they determined to
the market. The interview evidence collected by Kaplan supported rather
conclusively many of Nourse's and Gordon's statements on pricing, price
administration, price policy, and goals of the business enterprise; in
doing so, it contributed to the empirical grounding of the doctrine of
administered prices. Moreover, the evidence directly influenced Means
(see pp. 53-4, n. 3), with target rate of return pricing becoming a
permanent feature in his post-1958 work (Kaplan et al., 1958; Lanzillotti,
1958, 1960m).

Following the completion of Kaplan's study of big business, the Sloan
Foundation decided to sponsor a study on the historical evolution of big
business in the United States under the direction of Alfred Chandler. The
purpose of study was to strengthen many of Kaplan's results by
providing them an historical grounding; and the end result was Chan-
der's well known volume The Visible Hand: The Managerial Revolution
in American Business (Chandler, 1977). In the book, Chandler focused on
the historical context of when, why, where, and how big business began
to grow, and of where, how, and why it continued to grow and maintain
its position of dominance. He felt that answers to these questions would
emerge only if approached via policy-making by the business enterprise
and the administrative networks necessary for its effectiveness. Thus The
Visible Hand charted the rise of big business, based on the evolution of
the necessary administrative networks from the railroads in the 1850s to
the manufacturing and commercial enterprises of the 1920s. In carrying
out the comparative historical survey of the rise of big business, Chandler
provided abundant historical documentation for the role of cost account-
ing conventions in pricing decisions, of the emergence of administrative
price determination and the existence of administered prices, that
business enterprises utilized a range of pricing policies to achieve a
mixture of goals, and that inter-enterprise price fixing was widespread.
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He also made it quite clear through the marshalling of the historical evidence that the “visible hand” of management had replaced the “invisible hand” of market forces, although its actions were continually subject to the competitive forces that abound in the market place. Chandler thus provided historical grounding both for Kaplan’s results and for many of Nourse’s and Gordon’s statements on pricing, price administration, price policy, goals of the business enterprise, and the visible hand. In doing so, he contributed to the historical grounding of the doctrine of administered prices (Lee, 1997).