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INTRODUCTION

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PROFESSIONAL and political attention in this country, as well as abroad, has been focused since World War II on the problem of maintaining high productive employment against the threat of a general economic collapse. The social advantages of this goal have persuaded some countries to adopt policies sharply limiting the operation of the free market. We have not been equally ready to forswear our allegiance to the private enterprise system. The Employment Act of 1946 made high employment a major objective of national policy but it also reaffirmed that strengthening the private enterprise system is equally our national purpose.

Many students of this subject find a basic contradiction in this double objective of the Employment Act. Empirical exposure of the inconsistency, if it exists, has been deferred by the coincidence of uniquely favorable economic conditions for business expansion in the postwar American environment and our willingness to pay the price of high employment in mounting tax burdens coupled with inflation. Certainly, professional literature is replete with analyses of and recommendations for government action and policy. But too little attention has been given to the impact of such proposals on the functioning, let alone the strengthening, of our private enterprise system. And little has been done to explore what individual firms, in their own interest, might contribute toward the realization of our national high-employment goal. Yet it is plain that the less private business does, or is able to do in view of government policies, to avoid the traditional excesses of the boom-bust period, the more government will be called upon to do to curb inflationary-deflationary pressures in the economy. This threatens encroachment on the free functioning of private enterprise.

The importance of these basic issues to the strengthening of our private enterprise system led the Universities–National Bureau Committee for Economic Research to schedule a conference to broach the subject of what private businessmen can do toward maintaining high levels of productive employment. A topic so broad could hardly be explored effectively in a single conference. But fluctuations in investment are generally recognized as one of the key problems in business cycles. It was therefore decided, without commitment and in a frankly exploratory spirit, to focus discussion on the regularization of business investment. Authors were assigned selected aspects of this subject; the papers that appear in this volume were prepared and distributed to participants; and the Conference was held in New York City on November 23-24, 1951.

The Committee aimed to enlist the talents of a much broader audience than was represented at the Conference. It hoped to stimulate government and business representatives and professional and economic analysts to examine more carefully the kind of action which business firms might take in their own interest to aid in general economic stability, to appraise the feasibility of such action, and to evolve ways and means of forwarding the application of such policies. More immediately, it was hoped that the deliberation of the participants would disclose the more important areas of knowledge and ignorance in this field and help to formulate and evaluate proposals for further research.

Substantial progress was made toward this goal even though the reader will recognize in the papers here presented, and the participants will remember from their discussion, a wide diversity of views as to the purposes that regularization might serve and as to the means by which it might be brought about. Much of this diversity is inherent in the complexities of the subject matter. It is inevitable that opinions, judgment, and experience should vary widely in this area even among equally competent observers. The challenge of such conflicts enlarges our understanding, by stimulating discussion and more pointed research. The Planning Committee of the Conference chose not to impose its own preconceptions on the work of authors through specific assumptions, specific definitions, and specifically circumscribed objectives. Rightly or wrongly, the Planning Committee believed that such definition, while it might have avoided some conflict of opinion, would not have brought out the wide range of ideas which the Conference hoped to assemble.

Differences in view and emphasis were most marked in three broad areas: (1) the nature and purpose of regularization; (2) the relative importance of regularization of business investment compared with regularization of the operations and employment of the individual firm; and (3) the relation of regularization of business investment to the business cycle.

The Meaning of Regularization

The investment regularization policy by which private business firms might contribute to general economic stability is not defined in the literature; and the concept itself is subject to wide differences of interpretation. What content is given to it depends importantly on the purpose considered paramount and the conditions under which the investment process is carried on. Since many different views were taken of this matter at the Conference, it is well to consider the various meanings that might be given to regularization and the limitations of such concepts. Some clarification of what regularization means was not the least of the contributions of the Conference.

1. One might take the negative view that no form of regularization of private investment is either feasible or desirable. The classical view of the investment process, the conviction that "businessmen should act like businessmen," would support a position that any policy smacking of motivation in the public interest rather than the immediate profit interests of the firm is inconsistent with the tenets of private enterprise and the most efficient use of resources under competition.

Such a view must shoulder the burden of proof. It seems to deny the patent long-run interest of the firm in the alleviation of cyclical fluctuations; it disregards the evolving knowledge of costs and advantages as new problems are faced and new demands are made on private industrial performance; and it ignores the fact of investment and other expenditures by the firm in weakening markets, not for immediate but for long-run advantage.

2. At the opposite extreme, regularization may be regarded as a plan of investment to be carried out *by an industry*. Such a plan might take the form of uniform annual expenditures or of contracyclical expenditures. It would be administered, presumably, by some form of cooperative arrangement, and, in the latter type, investment would be timed to conform either to predetermined objective criteria or to the signals of a central, probably a governmental, agency.

Such a scheme might attract those who value the reduction of business cycle fluctuations more than they cherish a dynamic private enterprise system. Certainly commitment of the industry as a whole would reduce the competitive risk of deferring capital outlays until markets are weak and the financial risk of investment in depressed markets. But in the process a virtual cartel is established, and central control of investment will not long precede control of products and processes, allocation of markets, and combined opposition to the entry of new firms. It would remain to be demonstrated whether the type of regularization proposed is feasible, but the probable strictures on free enterprise and dynamic development would probably be enough to discount any contribution that such a plan might make toward controlling the business cycle.

It is apparent, of course, that these objections do not apply to cooperative industry policy in investor-owned public utilities in which the conditions of competition are already regulated by public authority. Here the kind of cooperative arrangement proposed and the feasibility of the regularization proposal must be appraised on their merits.

3. Excluding comprehensive schemes of industry-wide cooperative control of investment, regularization must be appraised as a potential aspect of the capital outlay policy of an independent firm. What is feasible for the individual firm and consistent with its long-run profit interests will vary with its particular circumstances and the type of investment under consideration. Investment decisions must reflect dynamic changes in market demand, production technologies, and processes. They must be geared to financial ability and they must conform to the competitive interests of the firm as these are judged by management. Thus the dynamics of the function would seem to preclude any statistical uniformity of aggregate capital outlays by a given firm from year to year, and even more strongly any uniformity of action among firms of different size and strength in the same industry or of similar size in different industries. Furthermore, the unpredictability of cyclical turning points and the importance of investment in competitive market strategy argue against contracyclical investment as a practicable basis of investment planning by a private enterprise.

If this reasoning is valid, the regularization of private investment by the individual firm is reduced to a policy of scheduling and putting into effect capital outlay programs which are incurred for long-run purposes without regard to short-run market prospects, especially after downward turning points in the business cycle have become clear. Such a policy means more than the mere completion of projects under way at the time of a downturn, projects for which cancellation charges would bulk large. It means that orders placed but not in production will not be cancelled, that new orders for authorized projects will continue to be awarded, that projects not specialized to short-term markets will continue to be formulated and processed for investment. And it means even more than this. It means that management will look upon investment—in maintenance and replacement as well as in new capacity—as a positive competitive weapon in long-run market development, to be used or discarded as advantage and strategy dictate, rather than as an accounting hoard to be preserved to the last extremity of corporate policy. This may require a new approach to the analysis of alternative costs and advantages, and probably a new management attitude toward investment and the procedures for processing and recording investment decisions.

But such a concept of investment regularization does not satisfy some who would plan private action to combat cyclical fluctuations. It does not lend itself to aggregate quantification. Even in the individual firm the amount of investment that might be affected will depend more on *purpose* and circumstances than on type of capital outlay. Among firms, results will be conditioned by management attitudes and relative financial strength or foresight, and the competitive impact of the actions of rivals. And no outsider can say over what period of weakening markets such a policy would prove feasible and advantageous for the firm. Furthermore, it lacks the stimulus of mass, cooperative response to the quantitative goals of an agreed plan of action. It is evolutionary, not revolutionary, and many firms have already made progress in this direction. Others may fail to see how greater regularization of that minute fraction of aggregate private investment within their control could contribute enough to the social goal of continuing high employment to warrant the managerial headaches implicit in it.

These are important, but not necessarily insurmountable, weaknesses of regularization of private investment by the individual firm. They are inherent in the free functioning of a dynamic private enterprise system. The apparent conflict between necessary fluctuations in the fortunes of individual firms in a dynamic private enterprise system and the social advantages of avoiding excesses of inflation and of deflation pose serious policy issues. The problem is how to steer clear of subsidizing inefficiency by protecting established firms from the competitive pressures of adaptation to market demand, and at the same time enlist private policies that can help maintain high-employment opportunities in the economy as a whole. It may be necessary to rely, outside the fields of public regulation, on the leadership of a relatively few firms and the competitive leverage that such action may generate.

It was left to the authors and to the Conference to choose the concept of regularization to be analyzed and to suggest the kinds of business investment that may be subject to discretionary timing by management, the kinds of firms for which greater regularization might be feasible, and the conditions under which a shift in timing might prove desirable from the viewpoint of the firm. It was the objective of the Conference to explore the considerations that would make such a policy more attractive to the firm, the methods of analysis and techniques of control that would make it more feasible, and the actions by government or by rivals that might induce, facilitate, or force such a policy.

It should be observed that the Conference was not concerned with forecasting or appraising the impact of mobilization on the prospects for greater regularization of private investment. To ignore this current problem undoubtedly robbed the Conference of some potential appeal; but not to have done so would have plunged it into speculation about a complex of uncertainties and overriding forces that dwarf and distort the more usual processes of decision. It is a moot point whether any given period can be regarded as "normal"; but there is still room for hope that the exigencies of mobilization and its attendant controls may one day become a memory. If this is not so, there is little point indeed in a study of the subject matter of this conference.

Regularization of Investment versus Regularization of Business Operations

A major difference of opinion developed over the stress that should be placed on regularization of business investment as compared with the many ways in which business management has found it practicable and profitable to even out the production and the employment offered by the firm. Some believed that the outstanding achievements and important potentialities of the latter policies merited much greater prominence than the Committee's decision as to subject matter implied.

The governing consideration in the Committee's decision has been indicated—a determination to focus on investment as a key component of cyclical fluctuations. It is possible, of course, that actions taken to reduce employment or operational fluctuations will be reflected, and may require changes, in investment policy. But it is also possible that the method and timing of capital outlays—irrespective of the purpose they may serve—can be planned to contribute a positive increment to general economic stability. Thus if the society is to remain dynamic, general economic stability cannot be gained by eliminating fluctuations in its component parts. Some products, processes, regions, firms, and industries must wax while others wane as demand and technology change. The new must be allowed to displace the old in the interests of productivity and standards of living. For individual firms to maintain their own employment or their own production levels may or may not aid in the ultimate social purpose. But to the extent that they avoid the traditional bunching of their investments during boom periods, they will contribute something toward general economic stability.

This is not to belittle the achievements of management in regularizing the operations of the firm. The general interdependence of investment, marketing, and production decisions is fully recognized. The development of steadier markets or market prospects will have a regularizing impact on investment. The smoothing out of annual production schedules against seasonal fluctuations can be expected to moderate the amplitude of economic change around cyclical turning points. The longer time perspective of operational planning cannot help but modify the basis of managerial investment decisions. Particularly in an expanding economy, these operational considerations could effect some reduction in the violence of cyclical fluctuations.

On the other hand, the firm may reduce fluctuations in its own operations at the expense of its suppliers, its distributors, or its competitors. Inventory risk may be shifted to suppliers or distributors. Internal employment may be steadied by full use of owned capacity and reliance on outside firms for peak requirements. These and similar arrangements might even intensify the instability of the economy. The drive for more profitable use of a firm's more valuable assets—whether its executive ability, technical know-how, consumer acceptance, or financial, promotional, or distributional advantages—will often lead to multiple products and multi-market penetration. But this may have little or no regularizing effect either for aggregate employment opportunities or for investment. Production and, more especially, supervisory efficiency may dictate specialization of production, staff, and facilities with little more stability than is provided by single-product firms in similar industries.

The really important fact that emerges from a study of managerial efforts to plan more constant production operations is the extent to which management has discovered compensating and more-than-compensating advantages for the firm in policies which would have been considered ruinous only a few years ago. The pressure of organized labor, of government, of public opinion, of its own growing sense of responsibility has forced management to recognize costs in traditional operating policies which can be avoided or substantially reduced by more effective planning, scheduling, pricing, and promotion. In this widely recognized sphere of management responsibility, the forces of self-interest modified by these broader public pressures can be expected to bring cumulative improvement.

The regularization of business investment, on the other hand, has received neither the public recognition nor the private consideration which has been given to operational and employment matters. Professional economists, inside or outside of government, have given little thought and less research effort to the possibilities of such a policy. Businessmen generally have not questioned the merits of traditional investment policy nor explored the relative advantages and disadvantages of an alternative approach. This is hardly surprising. The attack on the excesses of cyclical fluctuations, as an organized continuing effort, is largely a postwar phenomenon. The cyclical impotence of the individual firm, unquestioned in traditional thinking, is a psychological barrier to change even where conditions have undermined the premises of established conviction. An objective approach to the problem of regularizing private investment calls for an innovation in managerial thinking, and innovations require both time and effort before their fruits are realized.

Considerations of this kind guided the Planning Committee in its selection of topics for analysis and discussion by the Conference. The intent was to explore the hinterland of management responsibility and authority rather than to parade accomplishment in its recognized spheres of action. Industry studies were purposely focused on areas in which regularization of investment was considered important even though difficult, rather than those in which market behavior might promise easier solutions.

Regularization and the Business Cycle

The likelihood that greater regularization of business investment would contribute to the maintenance of high productive employment within the economy motivated the plans for the Conference. It was not the intention to appraise the goal itself. It is enough to recognize that this objective weighs heavily in the policies of government and in the attitudes of individuals and organized groups. Even less was it implied that private business policy of any conceivable sort could become a substitute for government policy. Rather it was the intent to probe the extent to which business policy might be responsive to greater regularization and the ways in which government policy might be more helpful in attaining this objective.

Emphasis on greater regularization of business investment did not commit the Conference to any specific theory of the business cycle. Policy in this area rests more firmly on recognition of cumulative forces working toward inflation or deflation than on any unanimity of view with regard to causes of the cycle as a whole. These cumulative forces may be cushioned, checked, or reversed by appropriate action. From this viewpoint, business policies calculated to reduce the aggregate cyclical swing in business investment can be expected to help avoid the excesses of boom and bust even though they alone are insufficient to eliminate the cycle and even though, with the support of government policies, they cannot hope to prevent business fluctuations.

The Results of the Conference

No record was kept of actual discussion during the two-day session of the Conference. And since the purpose was exploratory and provocative in areas in which there is no general agreement or conclusive body of factual knowledge, no attempt was made to derive a consensus by resolution or other formal action. The reader will glimpse something of the debate in the discussants' papers and in the few written comments subsequently received and included in this volume. He will get more from Ruth Mack's penetrating observations and from Donald B. Woodward's excellent summary and appraisal, largely composed while the Conference was in session and reflecting the discussion as well as the formal papers. But for the most part the papers must speak for themselves. No single view, can hope to capture the variety and richness of approaches, analyses, and suggestions that the subject elicited.

It is a temptation for an editor to impose the stamp of his own convictions on the work he is editing, a temptation perhaps already overindulged in the foregoing. Nevertheless, there are a few general observations growing out of this conference that need emphasis and will bear repetition.

1. Most prominent was the keen interest shown by all participants in the subject matter itself. If this volume can feed and stimulate a comparable concern among businessmen, government officials, educators, and students, it will have served its purpose.

2. Many of the papers and much of the discussion revealed formidable obstacles to regularization of business investment as a policy of management or even as a desirable approach to general economic stability. The problem has already been noted. If regularization is to make a significant contribution, some believe that it *must* be applied on an industry basis. But this might violate the basic principles of competitive investment for profit. Even if the "industry" could be defined this kind of regularization would be likely to undermine both dynamic change and high living standards—far more important aspects of private enterprise. Alternatively, if regularization is primarily an extension of the time-perspective of management planning and decision, it has no necessary relation to a smoothing out of cyclical fluctuations and may indeed be misnamed, since it is not the timing of capital outlays per se that can be the primary intent of individual management but the achievement of other objectives of the firm for which investment is merely instrumental.

This conflict of views was not resolved by the Conference and it points the need for much more penetrating analysis of the relation of regularization to cyclical fluctuations, and to the dynamics of the firm and of industry under private enterprise, than it has yet received. If the most that can be hoped for in such a society is greater randomness of individual investment decisions relative to traditional cyclical behavior, management's receptivity should not be prejudiced by semantics which seem to violate intelligent consideration of investment as a competitive force. In this whole area, there is need for more comprehensive and more detailed study.

3. While there were wide differences of concept and emphasis regarding the investment process itself, these variances were no greater than actual differences in types of investment decisions and the complex of circumstances within which individual decisions must be made. There is need here for continuing case studies carefully oriented by type of investment, industry class, size and strength of firm, and political, economic, and competitive circumstances affecting decision. Neither uniformity nor formula but greater under-

standing of the requirements of investment planning and execution in a private enterprise system is the likely and the desired result of such research. This understanding is a necessary condition of greater regularization by the individual firm.

a. For those concerned with the formulation or revision of government policies, taxes, and regulations, such understanding should inspire action to encourage the type of investment planning and execution that is both compatible with good business practice and contributory to greater regularization.

b. For those concerned with public utility regulation, it should temper legalistic attitudes through which regulatory principles are often used to create hazards for investment regularization.

c. For those concerned with business investment decisions, it is needed to insure attention to the long-term aspects of their actions and to appraisal of the alternative costs and advantages of non-cyclical behavior. This applies as much to financial institutions, instrumental in the provision of funds, as it does to business firms seeking investment funds.

4. Although greater regularization of business investment will be and should be achieved under private enterprise only as businessmen come to recognize the advantage to their firms of such a non-traditional policy, this recognition will be hastened by confidence in the ability of the economy to avoid the strains of deep and prolonged depression. It is crucial, therefore, that businessmen be apprised of the powerful defenses developed since the thirties to combat such economic collapse. Greater regularization should be appraised both as a factor in their interest and as a support for other defenses in the light of these safeguards.

5. Finally, there is need to develop for regularization of business investment a check list of actual practices, devices, and comparative results obtained like those made for employment and production stabilization in response to pressures for the guaranteed annual wage. As noted, regularization calls for a new managerial attitude on investment policy. Such an attitude is more likely to develop on the basis of example and experience than on that of exhortation.

Organization of this Volume

The subject of regularization of business investment cannot be adequately posed in mutually exclusive categories. An investment decision or policy is necessarily a response to the whole complex of considerations, some internal and some external, facing the firm.

To separate these in analysis or presentation is necessary for emphasis but it does violence to the realities of investment-policy determination.

This essential unity of the subject matter was necessarily violated in the assignment of topics for individual papers and it is transgressed again in the more or less arbitrary division of this volume into three parts. Part 1 includes papers and comments in which the emphasis is primarily on regularization of investment from the viewpoint of the firm. In Part 2, investment policy per se is subordinate to other objectives of management and modified by conditions in the external environment—created by financial institutions and government policy—which importantly affect both feasibility and desirability. Part 3 includes papers assigned, and written comments subsequently received, dealing with a general summary and appraisal of the Conference papers and discussion.

Each of the authors has been given an opportunity to revise his paper in the light of the Conference discussion and of the critical comments submitted afterward. The same privilege was not extended to discussants and their commentaries may or may not have been dealt with in the papers as revised. Unfortunately, all of the discussants' papers cannot be included since several were delivered orally from notes and their authors were unable or unwilling to recapture the gist of their remarks for publication; but all written commentaries received have been included.

The members of the Planning Committee, who worked with me in arranging the Conference, and whose conscientious efforts contributed much to its success, were Adolph G. Abramson, Edgar M. Hoover, George W. Terborgh, Donald H. Wallace, and Geoffrey H. Moore, Secretary. Moses Abramovitz, Daniel Holland, and Thor Hultgren, of the staff of the National Bureau, reviewed the collected papers and contributed comments helpful to the authors in making revisions. Louise Cooper's editorial work on the volume and H. Irving Forman's work on the charts aided greatly its preparation for publication.