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Price Control in the
Postwar Period

By

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The Committee looks forward to an exchange of views and data with all other committees engaged in postwar studies.

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PRICE CONTROL IN THE POSTWAR PERIOD

BY NORMAN S. BUCHANAN

SUMMARY

The length of the war and the situation at its close will largely decide whether we shall face steeply rising prices or will have to combat unemployment and falling prices. The reconversion to civilian production, however, will certainly not keep pace with change in the demand for goods. Consequently, if supply and demand are not controlled, there is a fair presumption that prices will rise. The objection to a rapidly rising price level is that it will be inequitable and will make the change-over more difficult. Price control, if properly managed, can assist reconversion and benefit consumers and business alike. It will have to be combined with suitable tax policies and measures designed to hasten reconversion while maintaining employment at satisfactory levels.

Because not all prices are likely to rise evenly, and because of administrative difficulties, price control need not extend to all prices after the war. The more dangerous price increases are likely to be the spiralling sort—such as wages and the cost of living, those where production facilities are likely to be overexpanded on the basis of current prices—for example, durable consumers' goods, purely speculative increases—some raw materials and foods, and, lastly, those where price increases would hinder international reconstruction and security—machine tools, seed, preventive medicines, etc. A further reason for urging selective, rather than general, price control after the war, is that by leaving many prices uncontrolled, the numerous changes which the war has brought in costs, products, techniques, etc., can be more easily worked into the new price structure. Finally, leaving many prices uncontrolled is likely to stimulate enterprise.

The appropriate methods of price control for the period after the war will be of the flexible kind: mark-up formulas, margin controls, and formulas for fixing prices of manufactured goods. The controls will not need to be as stringent as during the war. In some instances price control will have to be integrated with quantity controls such as priorities and rationing. Fixing scales of urgency will probably become more difficult. Two of the most bothersome problems will be the price fixing of "new" products and capital goods.

The most serious danger is that price control will be used for unsuitable purposes and that it will be too long continued.

PRICE CONTROL IN THE POSTWAR PERIOD¹

I

No one really knows whether inflation or deflation will be the curse of the world immediately after the war. Either is possible. Since no one knows when or how the war will end, no one can discern for sure what the really dominating factor in the American economy will be when that time comes. If the war should end in one year, one type of situation is to be expected. But if it should persist for several more years an entirely different—though largely unforeseeable—set of conditions is likely to prevail. Finally, how the war is organized and financed during whatever time interval it has yet to run will help to determine postwar economic conditions and, hence, the likelihood of inflation or deflation.

In view of these obvious uncertainties about the prospects for inflation or deflation after the war it might be thought that any discussion of price control after the war was premature, ill-advised, or useless. Yet the present writer cannot accept this point of view. While it may be too early to talk about postwar price control now it will certainly be too late if we wait until the war has ended. Action usually benefits from prior thinking.

Barring speculation about how long the war is likely to last, one can perhaps reformulate the likelihood of inflation or deflation after the war into the question of whether money spending is likely to rise more or less rapidly than the output of goods which people want. For it is the uncertainties with respect to money spending in relation to available goods that make the postwar course of price movements so unpre-

¹ The present paper, as its title implies, is concerned with "price control" after the war. It is not a paper on the whole gamut of the problems of the transition from war to peace. It is not, moreover, an essay on the control of inflation after the war in the sense that it considers all the weapons in the armory that might or should be used to that end. Specifically it does not discuss fiscal policy or wage policy except obliquely or parenthetically. These are each large topics and any attempt to treat them adequately would require many more pages than would be appropriate here. The purpose of the present paper is indeed quite a humble one. It endeavors to explore price control—its objective, policies, and problems—as an inflation control device that may be necessary after the war. It should perhaps be stated at once, to avoid any possible misunderstanding, that the phrase "price control" is used in the sense in which it is regularly used in the United States at the present time: the prescribing by government authority of maximum or "ceiling" prices for "commodities."

dictable. For example, insofar as money spending depends upon having cash balances, both individuals and business firms will almost certainly be in a *position* to spend upon a grand scale. But people may not spend if they are worried about losing their jobs. And businessmen may hold off spending for reconversion if they are unable to see the results of their commitments. Buoyancy or pessimism by either wage earners or business firms in their willingness to spend will depend upon many things: how the war ends, the probable peace settlement, the political and social "climate" at home and abroad, and a variety of other considerations. All these, however, are likely to affect aggregate spending through their effect on the confidence and faith that peoples have in the policies adopted to effect the transition from war to peace. If the government is determined not to allow widespread unemployment to develop and has reasonably clear policies for contract liquidation, plant disposal, demobilization from the armed services and other conversion problems, then the problem will be to check the over-expenditure, rather than the over-hoarding, of savings and incomes. In the writer's view, this is the more probable development even if with less than ideal policies to guide reconversion. The advent of peace is likely to provoke money spending on a large scale.²

Large money expenditures bring rising prices, however, only where output does not rise proportionately. The fact that people want to spend and do spend in large volume is not a sufficient cause for rising

² There are obvious reasons for expecting that ultimate consumers will have a sharply increased desire to spend money after the armistice. The feeling of relief from tension will be widespread and of itself will generate a spending mood. Rightly or wrongly, the typical individual is likely to feel that he, personally, has "sacrificed" substantially and is therefore rightfully entitled to buy more goods. But apart from a buying splurge of this kind, which may be temporary, aggregate demand will be swollen because many "necessary" purchases have been postponed during the war years. Demand for many goods has "piled up." The desire to reestablish at least pre-war living standards in the consumption of consumers' durable goods will be strong and insistent. Moreover, the demand for such goods (including housing) will be further swollen by the many new families growing out of those war marriages for which no homes were ever established.

Below the level of ultimate consumers' goods markets, moreover, the inflationary demand pressures will be similarly large. Of course the accumulated demand in consumers' goods markets will be reflected in the demand for goods at earlier stages of production and may even be pyramided. And accumulated need for replacements and repairs, and banked-up maintenance allotments of the war years will further activate a variety of markets below the final consumption level. Added to these will be capital and other expenditures for the conversion of plants from war production. These factors linked with the highly liquid asset position of business enterprises generally will create the basis for inflationary-demand pressures of great magnitude.

prices. Prices rise only when production fails to keep pace. But this is precisely why, given the probability of heavy money spending, prices are likely to rise after the war: the production of desired goods and services will lag behind money spending.

Real output in terms of the goods and services produced cannot shift overnight from war materials and supplies to civilian requirements. While production during the war has been prodigious it has been from facilities that are either unneeded for peace, such as powder plants, shipyards, etc. or that can only be turned to peace-time production after a conversion that inevitably takes time. In other words when the war ends the physical production facilities will not be so constituted or so arranged that they are immediately capable of turning out the goods that will be in demand.

Similar barriers to a prompt rise in non-war goods output will result from the size and distribution of our national labor force. The location of war industries has been determined by a variety of factors other than economical production and peace-time usefulness. The global nature of the war has meant a transport problem of gigantic proportions which has been met by an enormous expansion of the output of ships and aircraft. At present, workers are especially concentrated in these industries in numbers far beyond peace-time requirements. Consequently before they can produce the type of goods that will be in demand in the postwar period plants will have to be converted or the workers shifted to other areas, or both. That is, the distribution of the labor force between industries and, by inference, geographically, is at present notably different from that needed for peacetime production. Moreover these shifts cannot be achieved overnight. Thus while the war has doubtless improved the quality and efficiency of our total labor force its distribution will be far from ideal when the war ends and a different composition of total output is needed. Labor shortages and labor surpluses are likely to co-exist for a time until a redistribution can be effected that is appropriate to peacetime production.

Thus, although the war has probably meant no serious deterioration in either the quantity or productivity of our labor force or capital equipment, it would be wholly misleading to suppose that either the capital equipment or the labor force is likely to be so constituted or distributed at the war's end that an immediate and rapid rise in non-war goods production can be expected. Rather shifts and conversion will have to be effected before the full output potentialities of our real economic resources and new technological knowledge are realized. Since similar

impediments do not hamper money spending the possibility of an inflationary rise in prices is genuinely real if price determination is abandoned wholly to the play of supply and demand.

Hence while nobody *knows* that circumstances will so shape themselves at the end of the war that inflation will be an acute danger, there appear to be convincing reasons for such a belief. The great likelihood that powerful real and monetary factors from the side of demand will be impinging upon prices in the immediate postwar period at a time when the structural changes resulting from the war will hold supply considerably short of the quantity and variety it will subsequently achieve are the grounds for fearing an inflationary price rise if matters are allowed to drift. This is the crux of the problem. And it is on these probabilities that the usefulness of price control is worth examining.

II

INFLATION AND PRICE CONTROL

If the factors making for an inflationary rise in prices in the postwar period should outweigh those tending in the opposite direction several ancillary questions rather logically present themselves. The first and most obvious is, why is a rise in prices to be avoided in the postwar period? Secondly, if an inflationary rise in prices is undesirable, is price control a useful instrumentality with which to check the price rise? Lastly, assuming an affirmative answer to the two previous questions, there is the question as to what form price control should take in view of the probable character of postwar inflationary tendencies. Let us consider these in sequence.³

1. The broad general objection to an inflationary rise of prices is that such a rise either moves on to an ultimate collapse of the monetary and financial system or it is succeeded by a substantial fall in prices. Hyperinflation, culminating in a real "flight from the currency" in which everyone endeavors to hold goods and real property rather than money and bank balances, can only result in a collapse of economic activity through the complete unwillingness of people to engage in production or distribution of commodities for sale on the market. It seems safe to assume that the likelihood of this happening in the United States or the British Empire is remote. Unless the United Nations should be defeated there seems little reason to suppose that hyperinflation on the

³ The last question is the topic of section III.

Central European model after the last war is even a remote possibility.

The objections to an inflationary rise in prices on a more moderate scale—say something of the order of magnitude of from 40 to 60 per cent on an average above present levels, that is, in the summer of 1944—are not difficult to discern. Such a rise would almost certainly not be of the same amplitude nor at the same rate for each individual price. Some prices would not rise at all since they are fixed by long-term contract. Others might rise perhaps two or three hundred per cent. The pattern of price movements after the last war gives at least a rough indication of the dispersion of the rise that might be expected. A rise in the price level of this magnitude, moreover, would be likely to be succeeded by a substantial, if not equivalent, fall in prices. And the fall like the rise would be uneven. Yet the decline in prices would not be achieved smoothly and easily. In a variety of ways, the economy is notably less flexible in a downward than in an upward direction. It is extraordinarily difficult under modern conditions to effect even a moderate deflation without creating unemployment. That unemployment can easily become self-cumulative, the experience of the early 'thirties has indicated. It is unlikely in such conditions that the State can stand by and do nothing. For better or worse it must "do something" to combat unemployment and stem the deflation. Those who abhor State action in economic affairs would do well not to overlook this consideration.

The unevenness of both the rise and the fall in prices, combined with the uncertainty at any point in each as to just how far and how fast the price movement will proceed, are not conditions likely to ease the transition from war to peace. For, during either a rise or a fall in prices, one never knows just what point in the cycle has been reached until that point is already past. The planning of economic adjustments within the business enterprise is fraught with many uncertainties at best; markets have to be estimated, probable costs computed, operating output calculated, and a variety of other uncertainties reduced to guesses. But if prices, both individually and collectively, are moving upwards (or downwards) at uncertain rates, those in charge of business enterprises cannot regard their calculations with any confidence. Real management problems are submerged and neglected in the avid concern over how, and by how much, prices are likely to change. Inventory speculation, the race between selling prices and costs, between the cost of living and wages are the components of the familiar story whose details do not need to be recounted here.

It is now often argued with considerable cogency, however, that a sharp fall in prices is not the inevitable second act in the tragedy of inflation. It may now be possible through appropriate fiscal and monetary measures to bend the rise in prices into a plateau of stable prices at the higher level. If one holds firmly to this belief the consequences of the rise in prices are less serious. But they do not disappear entirely. For, since the upward sweep of particular prices will necessarily be uneven, wealth and income will be redistributed among individuals on a large scale and in an undesirable manner. The millions of small government bond-holders, for example, would be partially expropriated. Insurance policies would have smaller real coverage because of the higher prices. And there are always the widows and orphans.

An inflationary rise in prices would thus be without immediate or long-run benefit after the war. The conversion of the war economy to peacetime production is likely to be at best a complex and trying process. Yet the unavoidable complexities of conversion will be greatly enhanced if the task has to be carried through within a price system that is itself disorganized and chaotic. If prices should move as far in the same direction as they did after the Armistice of 1918 the reconversion problem after the present war may be almost unmanageable.

2. The efficacy of price control in preventing an inflationary rise in prices has been one of the surprising lessons from experience during the war. Few thoughtful persons, I think, would have predicted before the war that price controls—combined with quantity controls—would have been able to check price increases as effectively as they have during the war. The experience has been all the more surprising in view of the enormous money expenditures and recomposition of real output of goods and services that mechanized total war requires. One would have supposed that the combination of greatly inflated money incomes and a weak tax policy—at least in the United States—would have shattered any maximum price stipulations imposed by law. Yet the facts are otherwise. Prices, while they have not held at prewar levels, have risen far less than was to be expected.⁴ Almost equally sur-

⁴ Wartime experience with price control seems to suggest that it will only be effective in countries having a reasonably well developed economy in which illiteracy is negligible and in which industry and commerce are conducted by business firms which keep records. In the absence of statistical records of output, sources of supply, channels of trade, and the cost components of goods and services the government cannot impose appropriate price regulations or enforce effectively the maximum prices it does prescribe. The firm that does business *via* the owner's intuition and such information as he keeps in his head is a type of firm which a price control authority cannot operate with or control.

prising, perhaps, is that this experience has been repeated in a number of countries.

The degree to which the effectiveness of wartime price control is attributable to the patriotism generated by war rather than to the nature of the controls themselves is admittedly not open to rigid proof. Yet observation and reflection strongly suggest that the success of wartime price control is not wholly attributable to a sense of patriotism on the part of the people at large.⁵ The connection between a deep love for one's country and the fixation of particular prices in the course of trade or business is likely to be quite tenuous. And this applies to buyers as well as sellers. People in general desire to prevent inflation in general. But if there are shortages of meat or Scotch whiskey, the violations of the applicable price regulations become numerous, and many people will speak almost in the same breath of the horrors of inflation and of the immutability of "supply and demand." These considerations, which seem to accord with observation and common sense, suggest that the effectiveness of wartime price control partly rests upon more tangible factors than a vague desire to prevent inflation in the cause of patriotism. Consequently, one can argue that the effectiveness of price controls in conjunction with quantity controls in checking inflationary price increases is not likely to disappear altogether once hostilities cease. Indeed their effectiveness as an instrumentality of inflation control in the postwar period should not differ much from what it was during the war itself, *provided* people are convinced that inflation is a danger and that it ought to be controlled.

The comments just made concerning the usefulness of price control as an instrument for controlling inflation in the postwar period must not be taken to imply that we regard price control alone as a sufficient attack on the inflation problem. Price control should be combined with suitable tax policies and other means for mopping up excess purchasing power. Other economic policies aimed at raising the output of desired goods and services should be developed and put into operation

⁵ The acceptance of the price-control program by the business community *as a program* would probably have been quite impossible without a national emergency. Furthermore, one would have to admit that compliance with price regulations has been aided greatly by patriotic motives. Yet the *workability* of a price-control program, as a program, is not perhaps principally contingent upon a war emergency. It is rather a consequence of having workable regulations. Poor regulations have not been accepted during the war, though there was probably little difference between industries in the degree of patriotism present among their members. *Cf. also infra*. p. 20.

simultaneously. We cannot do more than mention these other policies since a proper analysis would carry us far afield. Yet in conjunction with these a program of price and related quantity controls is almost an indispensable part of any effective attack upon the problem of post-war inflation.⁶ Price control as an inflation control device has limits. It cannot do the whole job. But in an integrated inflation control program it performs an indispensable function.

Finally, it scarcely seems necessary to point out that price control is not a proper instrument by which to arrive at a proper *level* of prices within the domestic economy. The internal price levels in various countries have been largely insulated from one another during the war emergency. When the war ends adjustments between them will be unavoidable if economic intercourse between the nations is to augment their individual and collective welfare as it is capable of doing. But to suppose that price control in the sense in which it is used throughout the present paper is capable of handling problems of this magnitude is grossly to overestimate its potentialities and effectiveness.

Let us now consider the form or type of price control that appears to be appropriate for the after-war period.

III

THE CHOICE BETWEEN SELECTIVE AND GENERAL PRICE CONTROL

1. We have already remarked that inflation is not typically a creeping advance in all prices at a uniform rate. It is a familiar fact that the rise in particular prices during the war has been quite uneven. In part this unevenness is because war needs and expenditures were initially concentrated, directly and indirectly, upon a few sectors of the economy. The prices of machine tools, base metals, and industrial raw materials were the first to reflect the shift to war production. On the other hand, the uneven rise in prices in the United States during the war was also a consequence of price controls having been imposed upon different commodities at different points in time. The reasons were mainly two. First, there were the statutory requirements which allowed price ceilings to be imposed on certain commodities—notably

⁶ We mention quantity controls in combination with price controls because, as will appear in a later section, the former are often a prerequisite to the effective operation of the latter. See *infra*, fn. 19, pp. 22-23.

farm products—only when specific conditions had been fulfilled.⁷ Second, price ceilings were not imposed on all commodities at once because there was a strong conviction that not all prices were in fact approaching the “inflationary” stage at the same rate. Some rise in price was often necessary to increase output. Only gradually did the increased money expenditures spread themselves throughout different markets; only gradually did output reach capacity levels in different industries; and only gradually did the barrier to increased output in almost all industries arise in the form of a genuine and all-pervasive labor shortage. As already said, these conditions were not characteristic of the early phases of the war program. Price control policy was based on the realities of the situation. As a consequence selective rather than blanket price controls were in order during the earlier stages of the war program. It was only early in 1942 that inflationary price increases were obviously becoming so general as to call for over-all price control. On April 28, 1942, the General Maximum Price Regulation was announced and thereby a host of prices not previously controlled were fixed at their previous March levels.

A crucial question in any discussion of price control in the postwar period is whether the inflationary pressures are likely to center on certain prices or to pervade the price system as a whole. Alternatively stated, are conditions with respect to prices likely to be more nearly approximating those of early 1941 or those of early 1942? For the answer to this question is likely to determine whether selective price control or general price control is the more appropriate policy to follow when the war ends.

There is at least a strong presumption that the upward pressure upon prices in the postwar period will be fairly specific rather than distributed more or less evenly over all prices. For this to be the fact either or both of two conditions must prevail. The tendency for some prices to push rapidly ahead of the rise in prices as a whole could occur provided money expenditure were heavily concentrated on the purchase of certain commodities. Their prices would then tend to be the first to rise and their rise would be more rapid. On the other hand, even if there were no notable concentration of money spending upon some commodities rather than others, some prices would rise more than others because of technical factors pertaining to the current capacity for expansion of their production and supply. A uniform increase in

⁷ The Office of Price Administration operated first under presidential executive order, but subsequently, after January, 1942, under statute. The first price regulation, relating to second-hand machine tools, was issued in February, 1941.

the money demand for various commodities will occasion an unequal rise in their particular prices if their "time elasticity of supply" is different. Logically, an uneven rise in prices can only be explained in terms of either or both of these possibilities. The rise in any particular price, of course, may often lie more exclusively in the one than in the other. These factors are likely to combine after the war to produce a strong tendency for certain prices to move upwards at a rapid rate.

In the early postwar period the flows of money expenditure are likely to be heavily concentrated in certain directions rather than disbursed according to the pattern they had followed before the war and may well assume again. As suggested above, there will be an accumulated demand for consumers' durable goods and for those commodities and services requisite to restore accumulated depreciation, depletion and obsolescence, and to convert industrial facilities from war to peacetime production. Moreover, luxuries as a class are likely to be in heavy demand. While demand will be more heavily concentrated on some than on others of these commodities and services, one can say relatively little in general terms about its specific impact.

The very commodities likely to be in most urgent demand after the war will probably be those whose supply cannot increase rapidly enough to prevent their prices from rising if no controls are imposed. Consumers' durable goods and the heavy industries are precisely the industries which have engaged most directly and completely in war production. Their facilities will have to be converted before they can turn out the goods which buyers will rush to purchase. Below the level of ultimate consumers' goods, moreover, the urge to convert rapidly by refurbishing equipment and to make good accumulated repairs and obsolescence will be exceedingly strong. A long-term competitive advantage may accrue to firms that are the first to convert. But the physical inability of the concerns which furnish the materials, parts, and supplies needed for conversion to fill all orders at once, could easily produce sharp and violent price increases. A rationing of supplies through competitive price bidding would be the probable result. Given time and a few effective controls, however, reconversion can proceed smoothly and without the necessity for drastic price changes.

Thus there is a strong presumption that selective price control is more nearly the appropriate policy for the conditions likely to prevail when the war ends. Certain other considerations point to the same conclusion. But before considering these it seems convenient to digress slightly.

2. If both logic and experience demonstrate that in a general inflationary movement all prices do not advance at a uniform rate they similarly suggest that not all price increases are equally significant from the point of view of the problems of postwar readjustment. Consequently we may appropriately inquire what criteria differentiate price increases likely to produce genuinely serious consequences from those which are comparatively harmless.

Viewed in terms of their consequences price increases of major significance would appear to include the following types:

(a) *Where the increase in a price or a group of closely related prices creates a strong pressure for certain other prices to be similarly increased.*

The most important instance of this type, perhaps, is the price of basic cost-of-living items and wages. Especially among highly organized labor groups a rise in the cost of living will call forth an insistent demand for higher wages. Conversely, a substantial general wage increase may raise the prices of basic cost-of-living items. But the wage-cost-of-living spiral of price increases is not the sole instance of the phenomenon in question. A sharp rise in house rents might sharply increase building activity, and thereby exert a strong upward pressure on building costs. And there are doubtless others.

(b) *A price increase which is likely to bring about an undesired and irreversible redistribution of real resources.*

It is characteristic of capital investment in heavy production facilities, and to a lesser degree of shifts in the occupation of persons, that they are not easily withdrawn once commitments have been made. Sharply rising prices in particular sectors of the economy may have a deceptive air of permanence and thereby induce real resources to shift into the production of particular commodities in excess of any reasonable long-time requirements. The slow process of thereafter withdrawing the labor and capital resources which have mistakenly been committed is likely to be painful and costly. The long-term overexpansion of wheat acreage in response to high prices during the first World War was never satisfactorily corrected in any fundamental sense after the war. There is perhaps a genuine danger that similar over-commitments might occur after the present war with respect to facilities for producing certain types of durable consumers' goods, whose demand will be temporarily swollen beyond their long-term level. This danger is especially acute where the lag between investment and increases in output is substantial, because, in the absence of controls, the high prices will persist long after sufficient new investment has been made to care

for long-time consumption requirements. The sudden coming into fruition of an excessive number of similar investments will cause overproduction, low prices and losses for the producers.⁸ It is conceivable, for example, that the postwar demand for dairy products of all kinds—milk, cream, butter, cheeses, etc.—will be at a very high level temporarily. But to bring new dairy herds into production requires two to three years so that by the time their output is available prices may well be unprofitable. A similar danger is present in the case of numerous other products which have been in short supply during the war, and which have a high income elasticity of demand.

(c) *Prices which are "key" prices in the sense that a number of other prices are closely tied to them in a "vertical" direction.*⁹

This familiar pattern of price relationships may well be peculiarly important in the immediate postwar period. An increased demand for numerous final and intermediate products often tends to pyramid upon a particular raw material and thereby sharply to increase its price. During the early stages of the war production program this phenomenon of "bottlenecks" was a common occurrence. For a while, for example, everything seemed to resolve itself into a demand for more steel. The combination of priorities allocation and price controls succeeded in preventing an otherwise dangerous inflationary price movement. In the postwar period a similar danger will doubtless be present. Possibly in hides, tin, certain building materials, etc., the cumulative inflationary pressures of this sort may be so severe that price control at the raw material level may be indispensable. The situation will doubtless vary greatly as between one raw material and another; and without the available, but now confidential, information as to stockpiling, accurate prediction of the more likely shortages is impossible. The shortage of raw materials will doubtless also vary greatly as between countries. Wool is in abundant supply in the United States; but after the war almost the whole continent of Europe will be exceedingly short, especially if costly synthetics are no longer used. Relief and rehabilitation, depending on the scale they assume, may make for temporary shortages of many raw materials, basic foods, and certain fertilizers. Here international controls or close cooperation between the

⁸ It may be that much of the investment which is now represented by the increase in beef cattle will also not come into fruition until after the war. From a calf on the range to good roast beef on the dinner table takes more than a few months.

⁹ The relationship here differs from that in (a) above, e.g., cost-of-living goods and wages, which could be designated a "horizontal" as opposed to the "vertical" relationship now under discussion.

raw material producing countries and the large consuming countries may be indispensable. The fact that international raw-material boards now exist and that national governments own such large supplies may prevent the prices of scarce raw materials from rising drastically.¹⁰

There is no reason to suppose, however, that such raw material price controls will need to be general. They should be confined to those instances where the inflationary dangers are acute. In steel, copper, aluminum, magnesium, etc., the present productive capacity should allow output to expand sufficiently at constant prices. But the demobilization of the armed services and relief needs will cause a temporary upsurge in the demand for apparel items of all sorts so that the prices of hides, rayon, etc. may rise sharply if they are left to the play of competitive forces. (A countervailing factor here of course is that military apparel demands will fall off sharply.) And a price spiral of this sort might induce reactions of the type already discussed under (b) above.

(d) *Cases probably requiring checks on purely speculative price increases.*

A rapidly mounting price for a commodity whose supply is temporarily short and fixed often induces sellers to withhold the goods from the market while at the same time speculative buyers enter, whose only interest is to profit from the advancing price.¹¹ The not unusual result

¹⁰ A statement made on February 28, 1943, by the American member of the Combined Raw Materials Board, Mr. William L. Batt, is interesting in this regard. He said:

"There will be greater confusion of demand when the war is over.

"At the present time, we are confronted with only a limited number of purchasers of raw materials and there is limited shipping capacity to carry what is available. When the war ends, there will be a scramble by all nations for available supplies in order to restore their economies to a peacetime basis as speedily as possible.

"Experience after the first World War has shown that such a scramble can result in complete demoralization of supply, price, and other factors in a peacetime economy. It is impossible to see how such a situation can be met unless through some form of combined machinery. Existence of the Combined Raw Materials Board might contribute substantially to the solution of this important postwar problem." As quoted by Eugene Staley, "Taussig on 'International Allotment of Important Commodities'," *American Economic Review*, December 1943, p. 881. See also on the same topic League of Nations, *The Transition from War to Peace Economy*, II. Economic and Financial 1943. II. A. 3, pp. 78-81 and *passim*.

¹¹ There is perhaps a very real danger that an inventory boom with sharply rising prices could easily develop in the apparel, household wares, and luxury trades immediately after the war. Something of the sort produced disastrous consequences after the first World War. Whether it would be better to control such an incipient inventory boom by maintaining wartime inventory controls or price controls, or both, can scarcely be decided now. The writer's preference, however, would be for inventory controls only if they can be made to do the job, as appears possible. It must not be forgotten that some inventory accumulation after the war will be "normal" rather than speculative.

is that the flow of the goods into regular consumption channels falls to a mere trickle. A temporary price ceiling often has the dual effect of loosening up the supply and driving speculative buyers from the market. During the war period this was the fact in the case of certain animal and poultry feeds—hay, concentrates, etc.—and a price ceiling markedly improved the situation without at the same time making rationing necessary.¹² Occasional instances of the same phenomenon might arise in the postwar period of transition.

(e) *Price increases possibly undesirable on grounds other than their effect upon the domestic inflationary potential.*

As a contribution to international rehabilitation the United States might desire to prevent price increases in commodities (in addition to raw materials) which will be in heavy demand abroad. Medical supplies and disease-resisting foods are clearly cases in point. But the same might apply to simple tools and machine parts for which the foreign demand will doubtless be unusually heavy in the immediate postwar period. In such cases, however, perhaps the Price Control Authority would wish to act only on the recommendation of the Relief and Rehabilitation Authority, not on its own initiative. For presumably the latter will be better informed both as to prices here and abroad and the relative desirability of reducing available account balances in particular financial centers.

3. The foregoing analysis suggests that in the immediate postwar period price control should be selective and specific rather than applied generally to a wide range of commodities as it was during the war. Since certain other considerations seem to reinforce this view, they may be briefly mentioned.

The extension of wartime price controls to virtually all commodities and services—other than direct military goods and certain agricultural commodities accorded a *de facto* statutory exemption—was largely dictated by considerations not likely to be present in the postwar period. As a matter of policy the Office of Price Administration found it necessary to extend its price controls widely for several reasons. In the first place, there was always the danger, frequently quite acute, that economic resources would shift from the price controlled sector to the uncontrolled sector, to the detriment of the war program.¹³ Almost

¹² As in many other situations of course there was an informal rationing imposed by established dealers.

¹³ This was the prime reason, for example, for the extension of price control to many luxury trades, e.g., certain branches of the apparel field. It can be argued of

equally important, however, was the fact that effective price control almost inescapably had the incidental effect of holding down profits and wages. Yet many persons felt that to impose ceiling prices on some commodities, and hence check wages and profits therein, and not impose similar controls on others was an indefensible injustice. Moreover to endeavor in wartime to hold down wages in general without at the same time endeavoring to hold down profits in general was doubtless inexpedient on practical grounds. This meant, essentially, imposing price controls very broadly. These considerations, coupled with general inflationary price movements on a wide front early in 1942, led to the issuance of the General Maximum Price Regulation¹⁴ by which price control came to encompass most of the American economy.

It is doubtful, however, if the same considerations will warrant the retention of over-all price controls in the postwar period. The same factors which caused the introduction of general price control during the war will either not exist at all or they will be present in a less aggravated form.¹⁵ Apart from such negative reasoning there are positive considerations which also suggest that postwar price control should be selective rather than general. Let us examine these briefly.

The essence of the conversion problem is a transfer of resources from war production to peace production, *i.e.*, a reversal of the shift to war production. It is far from obvious just which specific resources should shift and into what industries and geographical areas they should move. It would appear not at all unreasonable that much of this shift can be most effectively accomplished through the medium of the price system. That is, by means of the re-establishment of a system of relative prices we are likely to get those commodities produced, by those methods, in those localities, and in those amounts which are economically justifiable. The economic transition from peace to war was achieved partly by the price system and partly by direct controls such as priorities, prohibitions, etc. For the reverse shift from war to peace we will have to rely much more on the price system for the reason that there will be no singleness of purpose comparable with that during the

course that such problems could have been handled more effectively by direct restrictions on the materials used. *In abstracto* this is perhaps correct. But in the circumstances that in fact prevailed such a procedure was not feasible.

¹⁴ It may be observed in passing that the prestige and influence of Mr. Bernard M. Baruch, who had long advocated a general price freeze upon the outbreak of war, was not without importance in the ultimate decision to issue the General Maximum Price Regulation.

¹⁵ It is worth noting in passing that not all nations have employed general price control during the war.

war by which an optimum—or even acceptable—distribution of real resources can be defined. Consequently we shall have to rely upon the interplay of commodity and factor prices, profits and losses, incomes and expenditures, in short, upon the price system, to guide real resources into those uses where they promise to be most productive.

Such a reliance upon the price system will be all the more necessary because during the war the structure of relative prices has been becoming progressively “devitalized” through allocations, priorities, price controls, subsidies and government purchases and resales. Prices still perform many functions, but the structure of relative prices at the war’s end will not mean the same thing as economic analysis has customarily interpreted it to mean. The technological changes, the new methods of production, the new products, and the new uses of older products which we will inherit from the war will be enormous. Moreover, the wartime controls have themselves “devitalized” many prices. Consider the prices of certain food products, for example. Their output is subsidized by a “support price.” Their price to the consumer is subsidized to “hold the line” on the cost of living. And consumers cannot buy all they wish because the product is rationed. What does the “price” of such a product mean in any economic sense? Does anyone know what the price would or “should” be in the absence of these influences? But the important point in the present connection is that no one knows what these developments, in the aggregate, are likely to mean in terms of the structure of relative prices. They will act and react upon one another in ways that it is impossible to delineate *a priori*. The only possibility is to allow them to work themselves out through the price system without substantial interference.¹⁶ Few, if any, guideposts exist by which public authority might decide what constitutes an optimum distribution of real resources, since the accumulated changes bearing upon cost-price relationships are numerous, and scattered widely throughout the economy.

An ancillary point is worth mentioning in this connection. If general

¹⁶ According to the scanty information available a somewhat similar problem arose in certain of the “Liberated” areas during the period of military government. There was a structure of legal maximum prices inherited from the pre-occupation period. But with black markets rampant, new supplies coming in from abroad, and older sources of supply again becoming active, the legal structure of relative prices was well nigh meaningless. Moreover there was no basis on which to establish a new “system” of relative prices because the interaction between all the various factors could not be appraised. The solution found was to “free” prices for a time and then subsequently to impose such new maximum price regulations as appeared to be indispensable.

price control is extended more than very briefly into the postwar period the effect upon initiative and enterprise is likely to be seriously adverse. Many of the technological developments of the war have yet to be translated into concrete realities in terms of non-war production. They will not all work in the same direction. They frequently will be competitive with one another. Unregulated prices over much of the economy may be a prerequisite to sufficiently favorable profit expectations to guarantee the full exploration and development of the technical advances occasioned by the war. Thus, not only have the inventions and new knowledge gained from the war a direct relevance for the problem of establishing an appropriate system of relative prices, but many of them may not be adequately explored at all if price controls pervade most of the economy.

4. The considerations advanced in the foregoing paragraphs suggest that the case for selective price control is fairly convincing. The probable concentration of money expenditures, the rather specific nature of the output deficiencies, the nature of the price increases that are genuinely dangerous, and the virtual impossibility of prescribing either a new system of relative prices or a distribution of real resources appropriate to non-war conditions, all these seem to suggest the wisdom of selective price control for the postwar period. The case is admittedly not wholly one-sided. But the preponderance of the evidence seems to point to this conclusion as the wisest decision.

One objection remains to be considered before passing on to other matters. Cannot one argue that selective price control will suffer the same weakness as during the war that real resources will escape from the price-controlled sector to the uncontrolled sector of the economy? It must be admitted that there is a potential danger here, especially if the price controls are rigid and squeeze profits hard. But the price controls need not be of this strict sort in the postwar period. More important, however, are three other comments which appear to be in order. First, in those cases where price control appears to be necessary, its purpose will be largely to prevent a heavy *inflow* of resources into industries where demand is temporarily sharply augmented. In the absence of price control resources would shift *into* these industries; from the long-term point of view they should be kept *out*. Thus the problem is really the reverse of the wartime problem. Secondly, unless the price regulations bear heavily on profits there is little danger that productive resources already committed will actually *shift out* of the production of the price-controlled commodities. Finally, technological reasons, in

fact, preclude any substantial shift out of those industries in the short period for which price control would be required. Hence the objection that resources would shift out of the price-controlled industries in such a fashion as to cause real harm does not appear to possess great substance when applied to the postwar period.

IV

TACTICS AND TECHNIQUES OF PRICE CONTROL

1. Although obviously anything one might say now on the tactics of postwar price control must necessarily be tentative, a few comments may not be so speculative as to be wholly useless.

Throughout the present paper we have viewed postwar price control as a temporary device rather than a permanent instrument of economic policy. Immediately after the war ends, however, the pressure to cast off price and quantity controls altogether will be strong indeed. Such pressure will arise not only from special interest groups for clearly selfish reasons but also from a general weariness of controls and restrictions upon business firms, income recipients, and consumers. Moreover since price control was accepted as a war measure the community at large will not view its retention beyond the war as self-evident in its economic justification. Indeed if the issue of postwar price control is raised in the form of a continuance of essentially the wartime controls *versus* a return to the "free market" of 1939, Congress probably will decide to abolish it and the voters will in general agree.

If the judgment just stated is not entirely in error certain deductions concerning the tactics of postwar price control would seem to follow. First the whole presentation of postwar price control should be formulated in terms of the *positive* reasons why certain *specific* price controls are temporarily indispensable. Publicly and privately the operating presumption of the price control authority should be that unless strong reasons exist for maintaining particular price controls and coordinate quantity controls they should be removed. Wherever it is clear that prices are no longer pushing hard against the price ceiling or where no very serious consequences are likely to follow if the price in question were to rise, the authority should remove its price control. Indeed some price controls might well be removed even before the war ends where these qualifications are satisfied. And, in any case, it should be possible to suspend the price controls on numerous commodities within from sixty to ninety days after the war ceases. In removing controls, more-

over, the price control authority should follow a more liberal policy than has been customary during the war; the threat that a price might rise from 5 to 10 per cent should not alone warrant retaining control over it.¹⁷ The demonstrated willingness of the price control authority to remove controls wherever possible will do much to muster support for its retaining such of its activities as it is desirable to retain. A cautious, hesitating and slow removal of unnecessary price controls may cause so much organized resentment that the whole price control program will be swept into the discard.

The second reason for following a procedure such as we have just sketched is that the price control authority, by confining its activity, is likely to do a more effective job of controlling the prices that genuinely need curbing. If a large part of the price system is unregulated, a familiar avenue exists through which economic adjustments can work themselves out by acting and reacting upon one another to establish a new system of relative prices and a new allocation of real resources. On the basis of the new price pattern the price authority has some guideposts for groping its way toward proper prices for the commodities it must continue to control. If it endeavors to retain control over virtually all prices, as during the war, basic postwar readjustments will be hampered and delayed because it will be administratively impossible for the authority to move as rapidly and intelligently on all prices as the realities will require. By endeavoring to do too much with too little real knowledge it may do badly those very things which it could and should do well.

2. The price control techniques most appropriate when almost all prices are under regulation are not of necessity equally suitable when most of the system is free. During the war the looser control techniques were adopted only when firmer procedures were for one reason or another inapplicable. Generally speaking, at least in the United States, *all* price increases were regarded as a regrettable retreat in the face of superior forces. Firm controls, tenaciously held, were the ideal which the price control authority endeavored to attain in each commodity. The postwar interval presumably calls for a different approach and a more frequent use of less rigid techniques.

¹⁷ This may not have to be a deliberate choice. If, when the war ends, some considerable number of prices drop below their ceilings they will have been freed from price control *de facto*. It is not inconceivable that such a development might occur. It might be better to suspend, rather than revoke, price regulations where prices have fallen below the ceiling.

Formula pricing and margin control may be better suited to the objectives of postwar control than "freeze" techniques and specific dollars and cents pricing.¹⁸ Since we have argued that it is desirable not to control *all* prices as during the war, the controlled prices cannot move entirely in their own orbit. For clearly interrelationships between uncontrolled and controlled prices will often be significant and intimate. The requirement will not be so much to hold controlled prices absolutely rigid as to prevent the *real factors* which make for price change such as costs, supplies, export needs, etc., from generating *price increases* quite beyond what the magnitude of the change warrants. Insofar as this end can be achieved by price control techniques which relieve the price control authority of the necessity for taking formal action in response to each important change in the uncontrolled sector of the price system, there is a net gain to all parties concerned. Much could be accomplished by carefully devised margin controls and formula pricing techniques without at the same time surrendering all effective price control over the commodities concerned.¹⁹

¹⁸ The essential characteristics of these four price techniques may be briefly indicated:

A "freeze" type of price regulation specifies the legal maximum price in terms of the price or prices charged on a particular date or (commonly) the highest price charged to a purchaser (of the same class) during a specified period. The German price-stop law of 1936, the Canadian retail-price ceiling, and the General Maximum Price Regulation in the United States using a March, 1942, base period are familiar examples. It is at once obvious that such a technique is only useful where the price to be controlled has been previously free. Since most prices have been regulated during the war there will be little scope for the "freeze" technique after the war except where prices have been removed from price control and subsequently are again "frozen." In general one may remark that the "freeze" type of regulation becomes progressively more unsatisfactory as the base period becomes more distant.

Specifically named dollars and cents prices (sometimes called "flat" pricing techniques) by regulation are particularly suitable for homogeneous products which are widely purchased by ultimate consumers. The compliance problem is less serious because purchasers come to know what prices they should pay. They are often administratively difficult to prepare.

Formula prices are those which specify the maximum price by naming the allowable components and how they shall be compounded. They are especially suitable for non-homogeneous goods, for goods that are customarily bought infrequently, or for goods that vary widely in their production methods. It should be pointed out, however, that there is no logical reason why a formula price regulation could not be used rather widely.

A special type of formula price regulation is "margin control" as used in wholesale and retail trade. It can take a variety of forms consisting of specific money mark-ups or percentage mark-ups.

¹⁹ One reason for the low repute that margin controls acquired in the Office of Price Administration during the war is that they were characteristically employed

V

SPECIAL PROBLEMS OF PRICE CONTROLS

No one can possibly foresee the range of special problems that will arise to plague the postwar price control authority. Like any new undertaking the agency will be forced to deal with difficulties that are quite unexpected and for which no tried solution is at hand. Yet a few general issues appear so certain to arise that some comments concerning them seem appropriate.

1. *Price controls and quantity controls.* At various points in the previous pages we have referred to "price and quantity controls" with the implication that they were part and parcel of a single device. In large measure this is a fact. The circumstance that in the United States during the war quantity controls have not been directly vested in the price control authority does not negate their close theoretical and practical connection.²⁰

Even the most casual observation suggests that wartime price control operates as effectively as it does only because it is bolstered up by a system of quantity controls, priorities, allocations, and rationing. For by so restricting total demand for certain key goods to the quantities available from stock and current output the pressure upon the legally established maximum prices is substantially diminished. Some similar system probably will be an indispensable counterpart to price control in the immediate postwar period. Moreover, a skilful and intelligent system of "quantity" controls could shoulder much of the task of achieving an orderly and non-inflationary conversion of industry and commerce from war to peace.

The domestic quantity controls during the war have been principally priorities and rationing. They are essentially similar in that the buyer must surrender something more than the money price before a purchase can be consummated legally. Their essential point of view and objec-

to regulate the prices of commodities which almost defied effective price controls by any means. It is the writer's impression that when used with food products and standardized merchandise they were quite effective and on the whole satisfactory. In other words margin control and formula pricing were often regarded as poor techniques of their very nature when in reality the real difficulty lay in the nature of the product being controlled, or in the peculiar organization of the industry. In part, however, they did tend to produce higher prices than freeze techniques and were for that reason objectionable.

²⁰ The Office of Price Administration administers the rationing program but has not the authority to determine what should be rationed and when. Priorities are of course in the hands of the War Production Board.

tives differ, however, insofar as priorities establish some uses of scarce materials as being of more importance than others, while rationing primarily aims to achieve equality between persons in the consumption of scarce goods. Hence the former is deliberately "unfair" in that it does not regard all industries or firms as equally important.²¹ The latter has had equity and fairness as its *raison d'être*.²² Reflection suggests that consumer goods rationing will, with certain qualification, be a less likely necessity in the postwar period than a system of priorities. Let us first consider the latter.

(a) The really difficult problem of priorities in the postwar period is to determine the scale of urgency of the different needs for basic commodities or materials. With price control, but no system of priorities, producers will presumably supply their customers on the principle of "first come, first served," or, perhaps more probably, on the basis of the relative (short and long-term) profit possibilities for the producer when supplying one buyer rather than another. The presupposition of a priorities system is that "the general welfare" or "the national interest" is not likely to be served as effectively by such a sequence of deliveries from producers as by some more "rational" scheme under State direction. During a war, and given the basic military plan of needs, such a scheme of priorities is, of course, not logically difficult to establish. But what criteria are available for a period of peace? Here there is no comparable singleness of purpose except in terms so broad as to be exceedingly confusing in administrative execution. That is, while it might be agreed by all concerned that stabilizing national income at a high level was the basic objective of postwar economic policy, it is at least not self-evident how one can translate such an aim into the relative importance of steel for railroad equipment as against steel for new building construction, and so formulate a defensible system of priorities for the allocation of scarce steel to different uses. Yet a priorities-allocation scheme must have some unifying principle of this sort.

²¹ Logically unfair, that is, because accident rather than design determined the technological-conversion possibilities of any given firm from its customary activities to war production. In practice, however, there seems to have been relatively little complaint over such accidental inequalities.

²² This is not strictly correct since certain types of consumer goods rationing, e.g., the rationing of protective clothing, typewriters, automobiles, etc., distinguish between persons not on the grounds of "fairness" of distribution but on grounds of the nature of the individual's occupation and its relation to the war program. Cf. Gettell, H. G., "Rationing: A Pragmatic Problem for Economists," *American Economic Review*, Supplement, Vol. XXXIII, pp. 260-271.

Without more knowledge than now exists one cannot confidently set forth the relevant criteria for a priorities-allocation scheme in the postwar period.²³ Nevertheless a few suggestions may, again, not be entirely worthless.

One criterion might be the consequences, in terms of the rate of conversion of the economy as a whole, of allowing a scarce material to go for one use rather than another. It appears probable that in the conversion period, as in the shift to war production, a series of "bottlenecks" will develop at certain key junctures. Just what these will be there is now no way of knowing. If bottlenecks do appear, certainly they are more likely to be "broken" by allocating materials in one way rather than another. Consequently a partial basis exists for differentiating less essential from more essential needs.

Another criterion that could be applied in determining a scale of priorities would be to distinguish between different uses of a scarce material on the basis of the consequences, in terms of the general welfare, of delaying the fulfilment of a demonstrated need. If building materials are needed both for private housing and for public buildings the likelihood is that the postponement of the former will entail a greater real sacrifice to the population than the postponement of the latter. Similarly basic necessities should presumably have a priority over "luxuries" among consumers' goods.

Again, some differentiation might be made in favor of the use of scarce commodities which have a general usefulness in production rather than a highly specific applicability. Improvement in transportation facilities, for example, ought perhaps to be given prior claim to slum clearance projects, essentially desirable as the latter may be. For, by comparison, the latter have little, if any, immediate effect upon speeding the output and distribution of commodities in general. Since one objective is to attain the removal of price and quantity controls as soon as it is reasonably safe to do so, projects contributing to a general increase in output have a logically superior claim.²⁴

Finally, if the focus of general economic policy is to reestablish an economy based on principles of free private enterprise then a case

²³ It might well be true that one could not determine where a priorities system would be necessary until after some progress towards full conversion from war to peace had been made.

²⁴ It might appear that this criterion is in direct conflict with the one first mentioned in the matter of removing bottlenecks. This is not necessarily the fact. In not all cases where priorities allocation is needed will bottlenecks arise; the choice will be rather between this use and that where no bottlenecks in the usual sense exist.

might be made for giving private ventures a priority over public undertakings, assuming, of course, that they are equally satisfactory on other grounds. Such a procedure, which is the reverse of that employed during the war, might be salutary in its long-term effects. In certain cases such a criterion would be clearly inappropriate, but it might well have considerable applicability if a determined effort is to be made to give private enterprise support and encouragement as a matter of public policy.

Obviously the foregoing constitutes less than a fully satisfactory basis for organizing a system of priorities allocation. Yet in view of the current manifold uncertainties one can do little more than discuss general principles as we have done here. Until the specific areas in which a priorities scheme is likely to be needed become somewhat clearer, specific formulations are impossible.

(b) It is entirely probable that the derationing of consumption goods to ultimate users can only proceed gradually at the conclusion of the war. In the United States, of course, food rationing has been much the most important rationing program. Yet the likelihood is that we will have to retain it for at least a time. Food exports for relief and rehabilitation activities abroad are likely to constitute a sufficiently heavy drain on total food output to preclude the immediate removal of all restrictions on domestic food consumption. Yet with the point-rationing arrangement already in operation the gradual shift to unrestricted consumption should not prove a difficult task.²⁵ The problem in the United States promises to be neither novel nor particularly complex. The problem of derationing in other countries where the number of commodities rationed has been substantially greater will be less simple.²⁶

Certificate rationing of certain durable consumers' goods is also likely to continue in the immediate postwar period. The crucial job here is to settle upon new eligibility lists based upon peace rather than wartime considerations.

This task chiefly resolves itself into (1) distinguishing need from mere want or desire in some manner that would be generally accepted as "fair," and (2) translating the distinction into an administratively

²⁵ As is well known the point rationing scheme is highly flexible in the meeting of changing supply and demand conditions. By gradually excluding certain items from the point system or by reducing the points required for specific commodities it ought to be possible to deration good commodities in an orderly manner.

²⁶ Cf., on this problem League of Nations, *The Transition from War to Peace Economy*. Geneva, 1943, pp. 53-58.

simple procedure in operation. As usual fairness and expediency are conflicting objectives. Yet the problem appears to be far from insoluble.

Koopmans, for example, has suggested in a recent article that persons having a real need for consumers' durable goods be given non-negotiable certificates for their necessary purchase.²⁷ The balance of the demand, for which goods are available only in part, would be a "luxury" or "non-essential" demand. To allocate this limited supply where the demand is much larger he suggests that the rationing authority should offer these certificates for public sale to the highest bidder in various places throughout the country. These certificates would then be freely negotiable and the highest bidders would be able to get the scarce goods first.²⁸ Ability to pay would determine allocation. The manufacturer would get the same price for his product regardless of whether it was a luxury or necessity, but the government would garner additional revenue. As goods became more plentiful of course the certificates would command lower and lower prices until their rationing was no longer necessary.

Koopmans' scheme is ingenious and has a number of incidental advantages which space does not admit of discussing here. Something of the sort may answer the problem of combining administrative simplicity with a scale of eligibility which is generally accepted as "fair."

2. *New Goods Pricing.* Even during this war period the Office of Price Administration has not succeeded in developing a suitable technique for assigning maximum prices to new goods. Products not in existence when price control was imposed have presented serious pricing problems at both the manufacturing and distribution levels. Various methods have been tried—"in-line" pricing, formula pricing, pricing by reference to "similar" products for which maximum prices have already been established, etc.—but without acceptable results. The real

²⁷ Koopmans', Tjalling, "Durable Consumers' Goods and the Prevention of Post War Inflation," *American Economic Review*, December, 1943, pp. 882-888. On the recognition of need he writes (p. 884), "The definition of demand arising from a real need would, of course, be given by the administrative practice followed in recognizing such need. Obvious cases are returning soldiers who need homes or who require passenger cars for business purposes; persons having valid reasons for seeking living accommodations in a congested area; doctors and hospitals in need of cars or refrigerators. These are primarily cases where the goods technically classed as durable consumers' goods are actually used to perform an essential part in a productive process. Further categories of recognized needs could be established with respect to large families, war veterans, sick persons (radio sets), etc."

²⁸ If Koopmans' plan were followed the buyers of the certificates might well turn out to be the instalment-finance companies.

difficulty has been that, as a matter of policy, the price control authority has sometimes wished to encourage and sometimes to discourage the development and sale of "new" products. Some "new" products have merely represented attempts by sellers to escape a specific price control by presenting allegedly different articles for which more profitable prices could be secured. In alcoholic beverages "new" commodities have constantly been appearing in the shape of changed brand labels. Similar conditions have also arisen in the apparel and novelty trades. These of course have had to be discouraged. On the other hand, genuinely new products which have utilized non-critical materials, have been less costly, or have been, in fact, new products in some fundamental sense, have properly been encouraged. Yet no satisfactory criteria were ever developed for distinguishing between them easily and quickly, and specific approval in each instance has been found to be administratively impossible.

It is likely that similar problems in new-goods pricing will arise in the postwar interval. Experimentation with new products and with using known materials in new ways is likely to be common. Moreover, such innovations and developments should be encouraged. One alternative of course would be to exempt them from price control altogether. Exemption obviously gives the maximum incentive, initiative and enterprise. Yet complete exemption of new products in any sense that is formally definable and administratively workable would create certain dangers. It is doubtful, in other words, if one can frame a definition of a new product which will exempt those items which there is no need to control and yet embrace those which may need price regulation. In practice the exemption of "new" products would mean that business firms would strive to differentiate their products merely to free them from price control. The price control authority might find that, merely by repackaging and relabeling, sellers were able to sidestep any price regulation that it might impose.

In the second place, sellers of genuinely new products perhaps have a tendency to take excessively pessimistic views as to the probable price elasticity of demand and to fix, accordingly, an unwarrantedly high price. While such high prices are not "inflationary" in the ordinary sense of the term their adverse effects on the volume of investment and employment might be substantial, and for that reason an argument might be made for insisting upon lower prices. In periods when the buying power in the hands of consumers is less than it is likely to be in the postwar period one would be inclined to leave the pricing of new

products entirely to the buyers and sellers directly concerned. But where, as in the postwar period, expendable balances and incomes are likely to be exceedingly large and the number of new products many there is less reason to be convinced of the desirability of leaving their pricing entirely to the sellers. There is a danger that many of the new products will be priced too high, with undesirable consequences with respect to investment and employment.²⁹

It is freely admitted that the problem of new goods pricing is one for which no simple and obvious solution exists, and, on balance, one might conclude to exempt them. Yet the problem is likely to be of more than incidental importance. It has not been satisfactorily solved for war-time price control, but in the postwar interval its significance is unlikely to be much diminished. Perhaps "formula pricing" in which authority is delegated beyond the Washington office may encourage innovation and new investment and yet not provide an avenue of circumvention whenever price regulation proves unpalatable to the seller.

3. *The pricing of capital goods.* Problems analagous to those of pricing new goods are likely to arise in an acute form in the case of the pricing of certain capital goods. It must not be forgotten that it has been the capital goods industries which have been working most directly upon war goods production. The larger firms have been prime contractors and they have sub-contracted to smaller enterprises in large numbers. From the point of view of postwar price control, however, the important fact is that the direct war goods produced under such war contracts have been exempt from price control in the usual sense.³⁰ Moreover it is these firms which have most drastically altered the nature and volume of their output. The goods they have been producing during the

²⁹ The writer would like it clearly understood that if the control of *genuinely* new goods prices is undertaken the greatest care should be taken to allow liberal depreciation charges on the new investment necessary to permit their production. Really new products are likely to be highly risky; and business firms are not likely to invest for their production if the control authority insists upon holding depreciation rates down to so-called "normal" rates. These are based upon historical experience of physical durability and have almost nothing to do with appropriate rates when the problem at issue is whether to invest or not invest for the production of a new product whose market both in extent and time duration is highly uncertain. I have dealt with this problem at some length in another connection. See "Anticipations and Industrial Investment Decisions," *American Economic Review*, Supplement, Vol. XXXII, pp. 141-155.

³⁰ They have been subject to contract re-negotiation as a means of keeping down the purchase cost to the armed forces. But this is not price control in the customary sense. Quartermaster's supplies—food, clothing, etc.—are not exempt from price control.

war are not the goods they will be producing after the war. The sales they have continued to make out of inventories at controlled prices, *e.g.*, automobiles, radios, household appliances, air-conditioning equipment, etc., are not necessarily related at all closely to what present production costs would be if they were currently being produced. And the divergence between these prices and current production costs becomes the greater the longer the war persists. In the case of many producers' goods proper, such as some types of machinery, building equipment, railroad transportation equipment, etc., we have a schedule of legal maximum prices for items that are not in inventory stock, are not now being produced at all, and which, in the main, will not be produced until the end of the war.³¹ The consequence is that a whole host of items of these types will have to be repriced when, or even before, their production is again undertaken. While not new goods pricing in the usual sense the problems presented are essentially the same. While nominally under price control during the war such goods are not under price control for postwar purposes since the legal maximum prices now prevailing are almost meaningless if the question at issue is a revival of output. The prices will have to be recalculated or the price regulations rescinded. Even now as some reconversion is occurring these problems are appearing.

A much broader issue in capital goods pricing in the postwar period is the general relationship between the prices of capital goods and the prices of consumers' goods. If one assumes that the demand for certain final consumption goods will be at record levels, at least in the early postwar period, there is an acute danger that without effective price controls on capital goods their prices will rise substantially. Their rise might be so substantial as to cause real difficulty.

The problem of controlling the prices of capital goods is fraught with complications. All we can hope to do here is mention a few of them. A careful analysis will have to await the appearance of the problems when the war ends. It is obvious, however, that a whole series of difficulties arises from the fact that the same producers will be providing capital goods both for the production of final goods which are exempt from price control and for those which are price controlled. This may be the "luxury" and "necessity" demand problem of consumers'

³¹ By reference to price lists and other means, the Office of Price Administration has established maximum prices for almost all such goods, in some cases when in a used form as well. But for many of the items priced no sales have taken place for some time.

lasting goods all over again. Something like Koopmans' suggestion may be applicable here. Certainly on equitable grounds one cannot make a case for restricting the price of capital goods to buyers whose salable products are free from price control, unless it is certain that the prices of their goods are only reasonably profitable. An even broader issue in capital goods pricing is the relationship between the prices of capital goods and the prices of consumption goods, and the maintenance of real investment at high levels. If capital goods prices rise, will that rise choke off their purchase prematurely so that re-conversion is left unfinished? On the other hand, if their prices are kept "reasonable," but not highly restrictive on profits, what criteria should be employed in allocating them?

These are large questions whose importance is fundamental. Yet perhaps no answer to them is possible until the postwar period arrives and the conditioning circumstances that envelop them can be seen with greater clarity.

VI

SOME DANGERS IN POSTWAR PRICE CONTROL

1. The most serious danger in postwar price control is that it may be continued beyond its usefulness. Unfortunately administrative agencies acquire a certain momentum of their own as time goes on, with the result that often their extinction is delayed beyond their period of useful service. But apart from such usual prolongations of existence there are often special reasons why the price control agency may exist after its proper termination.

If price control is continued as long as there is any tendency for prices to rise, it will have passed the ideal period for its disappearance. For as long as there is only a slight upward pressure upon prices the control authority can slip quietly from the scene without regret in any quarter. Buyers and sellers alike will be happy to be free of its ministrations. But if price controls are continued until the prices under its regulation have clearly leveled off there is the acute danger that then they may soon decline; and if the price control agency is still in existence insistent pressures will arise to demand that it "do something" to prevent a fall in prices.³² Although the writer may be badly mistaken, he fears that there is a real danger of the price control agency being

³² For example, it was argued when the price of wool fell below its ceiling that the ceiling should be raised so as to lift the market price. Poor reasoning but not surprising tactics.

converted from an instrumentality to prevent a *rise* in prices into an agency struggling to prevent a fall. Already within certain groups talk is rife about the probable necessity for price floors in the postwar period. Without debating the question of the occasional usefulness of price floors as an economic device, it can be convincingly argued that the objections to inverting the price control agency in this fashion are almost overwhelming.³³ Yet if the agency keeps prices under control until they no longer show any tendency to rise, many would argue effectively that the agency was under a strong moral obligation to prevent prices from falling when the tendency was reversed. It would be said, with a great show of moral fervor, that having limited profits by checking price increases the government had patently obligated itself to forestall losses by preventing decreases. Yet simultaneously some prices might be pushing hard against their ceilings while others were already softening, with the consequence that the agency would be trying to ride two quite different horses in opposite directions at the same time.³⁴ It is for these reasons that the specific price controls should be removed, in the writer's judgment, while the upward pressure is still noticeable but no longer dangerous. By so doing there is a strong likelihood that the agency can escape having to insist upon the fixing of price minima.

The second danger in postwar price control is that the agency, especially if its existence is long maintained, might be transformed into an instrumentality for establishing and enforcing codes of "fair business practice." At the present writing there is almost no resemblance between the point of view of the Office of Price Administration and the

³³ As an incentive to output price minima may have certain virtues. But as a means of augmenting returns to hard-pressed groups, or more accurately, hard-pressed members of a certain group, price floors have little to commend them. During the war support prices have been used with good effect to get needed output. But the use of price floors to make farmers better off in times of peace has done more harm than good. If some farmers are badly off, as is undoubtedly the fact at times, then they should be treated as cases for social assistance by some other route than through establishing minimum prices for the products they sell. Introducing a price floor whereby the government is forced to absorb some of the output both makes the price system more rigid and grants windfalls to persons who have no rightful claim to them. At the same time, it does nothing to correct the source of the trouble, *i.e.*, an excess of resources in the production of the particular commodity. Combined with a subsidy to low income consumers *e.g.*, the food-stamp device, they may be less objectionable.

³⁴ There is no reason to suppose that the supply reaction time of different commodities will be precisely the same so that presumably some prices would be relieved of their inflationary pressures before others.

almost forgotten NRA.³⁵ Yet among many business groups the NRA philosophy is by no means dead. Moreover, state legislatures have shown a frightening fondness for "fair trade" legislation. Hence the possibility that the price control authority might undergo a transformation along these lines is not entirely unlikely.

The consequence is that, from the beginning of the postwar period, every effort should be made to emphasize the point that the price control authority has limited but specific functions whose exercise should not long be necessary. And, as we endeavored to suggest in an earlier section, it must conduct itself accordingly.

VII

The reader whose patience has carried him thus far is entitled to a recapitulation.

Although the real productive resources of the nation are unlikely to be seriously diminished by the war they are not likely to be so constituted or distributed when hostilities cease that an immediate rise in civilian goods production can occur. The reconversion of capital and labor to non-war production will necessarily be less rapid than the redirection of money outlay. The tendency for prices to rise, however, is likely to be concentrated initially in a few important areas; an examination of both demand factors and supply factors points to this conclusion. Consequently the case for selective price control is persuasive. This judgment is reinforced by the manifold difficulties, perhaps even impossibility, of prescribing either a new system of relative prices or a distribution of real resources appropriate to the after-war period. For the most part the price system, not price control, should be allowed to serve as the mechanism through which the accumulated changes inherited from the war work themselves out in terms of output and costs, consumption and demand, and an allocation of real resources in conformity with consumers' tastes and preferences. Yet certain prices whose inordinate rise could occasion genuine harm will have to be checked by a combination of price and quantity controls. If much of the price system is uncontrolled those prices that are controlled will have to be regulated, in the main, by flexible techniques. The quantity controls coordinate with the price controls should occasion no special difficulties provided suitable criteria can be propounded for distinguish-

³⁵ The OPA has been requested to do such things as prescribe fair practice and eliminate "the wastes of competition" by sanctioning price agreements.

ing between more important and less urgent uses of scarce supplies. Throughout its operations, however, the price control authority should be dominated by the conviction that no price should be controlled unless strong positive reasons for doing so exist. The general presumption should be against, not for, controlling any particular price. Publicly and privately the agency should look towards its early demise. In particular it should withdraw from the scene before accumulating pressures divert it towards new objectives.

Such, then, appear to be the more important considerations pertinent to the question of the scope and place of price control in the postwar period.

If price control founders in the after-war period it is most likely to do so through the over-zealous efforts of its proponents to drive it hard and beyond its real capacities. Numerous problems will arise which, on a superficial examination, will appear to be easily curable by some specific price action. Yet to attack the problem by price tinkering will often be extreme folly. The real difficulty will not lie on the price surface but much deeper. If price control is to be a useful instrument of postwar economic policy, there must be an appreciation of its limitations as well as of its capacities.

It goes almost without saying, of course, that price control policy must be properly integrated with postwar economic policies having a broader focus. At the present writing these seem to be chiefly directed towards achieving and maintaining high levels of real income and employment at home while establishing some firmer international basis upon which a large volume of world trade is not only possible but clearly beneficial to all concerned. The attainment of these objectives calls for a coordination, domestically, of fiscal policy, employment policy and monetary policy, to mention only the more important. Similarly, no great stability in employment or income can be maintained in the postwar world unless the economic policies of the different countries are harmonized and coordinated towards common objectives. It is in some such broad framework that postwar policy will be developed and carried through. And while in some respects postwar price control will play but a small role in the larger achievement, it is exceedingly important that that role be played skilfully and effectively. A badly played minor part can mar a performance.

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