

PRICE CONTROL IN NAZI GERMANY.

FOREIGN INFORMATION BRANCH

UNITED STATES.

1943

Foreign Information Branch.

PRICE CONTROL IN NAZI GERMANY

The accompanying document, "Price Control in Nazi Germany" by Dr. Ernest Doblin, now Chief of the Central European Section of this Branch, was prepared at the request of the New School for Social Research to which Dr. Doblin was attached before his appointment to this staff. The report was well on the way to completion before Dr. Doblin undertook his duties with the Office of Price Administration. The New School for Social Research has agreed to reduplication of the memorandum in its present form.

DIVISION OF RESEARCH  
Foreign Information Branch  
May 1943

RESEARCH PROJECT ON SOCIAL AND ECONOMIC CONTROLS IN GERMANY AND RUSSIA

The Graduate Faculty of Political and Social Science  
organized under The New School for Social Research

PRICE CONTROL IN NAZI GERMANY

Analyst:

Dr. Ernest Doblin

TABLE OF CONTENTS

	<u>Page</u>
<b>A. <u>TECHNICAL ASPECTS</u></b>	
I. Background . . . . .	7
II. Criteria for Price Fixing under the Price Stop Decree	
1. Scope of the Measure . . . . .	4
2. The Principle of Individual Price Fixing . . . . .	5
3. Nationwide Price Fixing . . . . .	6
4. Price Fixing for Products without Market Price	
a) Comparable Prices . . . . .	8
b) Products of highly Individual Character . . . . .	9
c) Government Orders . . . . .	10
5. Special Types of Prices . . . . .	12
III. Evasions under Fixed Prices	
1. Black Markets . . . . .	15
2. "Joint" Sales . . . . .	16
3. Change of Product . . . . .	17
4. Change of Customer . . . . .	20
5. Inclusion of Unnecessary Middlemen . . . . .	21
IV. Adjustments through Price Increases . . . . .	22
V. Trend in Price Regulating Policy . . . . .	24
<b>B. <u>BASIC PRINCIPLES OF GERMAN PRICE REGULATING POLICY</u></b>	
I. The General Problem . . . . .	30
II. The Role of Statistics . . . . .	31
III. Social Costs . . . . .	31
IV. Elimination of Minor Market Imperfections . . . . .	32
V. Extension of Production Beyond the Competitive Level . . . . .	35
VI. Imitation of the Competitive Process . . . . .	
a) As General Policy . . . . .	39
b) Voluntary Price Reductions . . . . .	40
c) Enforced Price Cuts . . . . .	41
d) Transfer of Savings . . . . .	42
e) Reduction of Cartel Prices . . . . .	43
f) Provisions to Replace Actual by "Reasonable" Costs . . . . .	47
g) The Risk Factor . . . . .	50
VII. Flexibility	
1. Price Policy as a Means of Influencing Consumer Demand . . . . .	51
2. "Appropriate" Price Relations . . . . .	54
3. Subsidies . . . . .	55

LIST OF ABBREVIATIONS

<u>DV</u>	<u>Der Deutsche Volkswirt</u>
<u>FZ</u>	<u>Frankfurter Zeitung</u>
<u>KR</u>	<u>Kartell Rundschau</u>
<u>NZZ</u>	<u>Neue Zuricher Zeitung</u>
<u>RA</u>	<u>Reichsanzeiger</u>
<u>RGB</u>	<u>Reichsgesetzblatt</u>
<u>VJP</u>	<u>Vierjahresplan</u>
<u>WA</u>	<u>Wirtschaft und Arbeit</u>
<u>WD</u>	<u>Wirtschaftsdienst</u>
<u>WK</u>	<u>Wirtschaftskurve</u>
<u>WT</u>	<u>Wirtschaftstreuhand</u>

## A. TECHNICAL ASPECTS

### I. Background

Comprehensive price control was adopted in Germany at the end of 1936. Even before, however, prices on German markets were by no means "free." There prevailed a combination of free and controlled prices, necessarily reflecting the structure of German economy with its familiar mixture of free elements and elements controlled by private forces, the government, or jointly. In some economic sectors, prices were fixed by adding a traditional percentage to basic costs. In others, they followed "the market." In important industries price accounting was relatively refined and involved principles later to reappear under centralized price control. Cartel prices were outstanding in this respect. The Institut für Konjunkturforschung estimated in 1928 that some 50 percent of all prices in Germany were in the "administered" group.<sup>1/</sup> They included private cartel prices in the narrower sense, the large group of products sold under private resale price maintenance clauses, some cartel prices under government supervision, and a number of prices fixed, controlled or supervised by government agencies. In 1933 and 1934 the agricultural sector was completely separated from general market economy, cartelized by decree and brought under a system of prices fixed by the government. This set-up continued within the framework of the general price stop of 1936.

Moreover, the Price Commissioner was hardly a novel institution in Germany. The Commissioner created by the decree of November 1936 was the third in a series which began in 1931 when the Brüning deflation policy culminated in an attempt to reduce all administered prices by 10 per cent. The Commissioner, revived in 1934 when, under new pressure, cartel and similar prices were fixed, was abolished after a year of quite successful work. Finally, special price-fixing regulations were in

-----  
<sup>1/</sup> Ernst Wagemann, Konjunkturlehre (Berlin, 1928), p. 176.

troduced for some commodities whose price movements were strongly affected by international factors, chiefly textiles, leather and non-ferrous metals.<sup>1/</sup>

The decree of November 1936, nevertheless, involved a fundamental transformation in the German price system. If it cannot be described as a change from free to controlled prices it was, at least, thoroughgoing in three respects. First of all, it established all-around price control on virtually everything having a price. Secondly, it centralized control, previously exercised by a multitude of private and government agencies, often at cross purposes; if these old forces did not vanish they could now affect prices only roundabout.<sup>2/</sup> Finally, it gave price control the specific aim of stabilizing individual prices on a broad scale at the level of the reference date.

Although the price stop rule is still in force, it has been supplemented by many regulations for particular commodities, as well as by two additional pieces of fundamental legislation. The War Economy Decree,<sup>3/</sup> promulgated on the outbreak of war contained, among other things, a revision of ceiling rules. Prices were to be set according to "the necessities of an economy devoted to war effort." Official interpretation indicates that prices were to be kept at a level which would prevent "war profits," regardless of the original ceiling price.<sup>4/</sup> It was on the basis of

-----  
1/ The main decrees were the Brüning Emergency Decree, RGB (1931), I:699; the secret Price Commissioner Decree, RGB (1934), I:1085; on textile prices, RGB (1934), I:317 with amendments; on leather prices, RGB (1934), I:318; on non-ferrous metal prices, RGB (1934), I:766; on prices of imports, RGB (1934), I:843.

2/ The "groups" - compulsory organizations of economic self-government - had to pass on applications for price increases. During 1942 private industrial bodies (Reichsvereinigungen) won some authority in determining certain prices. Apart from that, there arises a more general question as to the extent to which private interests could force their wishes on the bureaucracy. It appears that the price administration was, in this respect, somewhat more independent than certain import-directing and material-allocating agencies. "Group prices" in the armament industry are fixed without the advice of the "groups" or individual industrialists.

3/ RGB (1939), I:1609.

4/ For the text of the Price Commissioner's circular, see Der Wirtschaftstrouhänder (1939), p. 349.

this decree that the 1941 "profit stop" legislation, a combination of financial and price measures, was established. Excess profits were to be taxed away and price reductions enforced to an extent that would exclude recurrence of excess profits. The tax itself was a mere by-product and the profit limitation did not originate in equalitarian considerations. The objective was clearly a concentrated and all-around attack on prices.<sup>1/</sup>

The result, as measured by price indices, was not too impressive; the financial yield remained far below the expected figure and administrative difficulties proved abundant. Early in 1942 the tax was transformed into an excess profits tax on incomes over 30,000 RM. Price policy was again divorced from financial policy, and price reductions were again enforced by more direct action. New pressure was exercised on prices, on the one hand, by intensified cost-saving rationalization (creation of new types of industrial organization, dominantly under engineers, Hauptausschlüsse and Ringe), and extreme standardization of product. On the other hand, prices were under pressure due to a change in armament pricing policy by which concerns were classified into efficiency groups and prices fixed on the basis of group costs. With reputation at stake and higher efficiency rewarded by tax and allocation advantages, there is an incentive to apply for classification in a low-cost group. During 1942 the system was extended to a large sector of armament production and it has been claimed that resulting savings amounted to 10 per cent of prices previously paid.<sup>2/</sup> Recently first attempts were made to apply the method to the civilian sector of the economy.

The more price increases for individual items became unavoidable the more did the Price Commissioner attempt to neutralize these changes by stipulated price reductions in other products in order to keep the price index down and to convey at least the impression of unchanged cost of living. Part of his activities in 1942

-----  
1/ For a fuller discussion of this matter, see E. Doblin, "The German Profit Stop of 1941" in Social Research (September, 1942), IX:3, pp. 371-378.

2/ NZZ, July 14, 1942.

can be explained in terms of this "compensatory" price policy.

## II. Criteria for Price Fixing under the Price Stop Decree

### 1. Scope of the Measure

The price stop legislation establishes a ceiling over prices by freezing market prices of October 17, 1936. It consists of two basic decrees,<sup>1/</sup> an extremely large number of supplementary regulations, administrative orders and administrative field circulars to cover individual products or special aspects of control. It creates a machinery of price control, with the Price Commissioner at the top and subordinate local and regional agencies. It makes price increases not impossible, but always dependent on the approval of the Price Commissioner, which is granted only when a firm's existence is in danger. It does not prevent price reductions. In fact, the Price Commissioner is empowered to and charged with compelling them wherever possible. The measure was originally envisaged as provisional, to give the supervising agency time to establish a system of "economically justified prices" which, naturally, had to start with existing prices. In practice it has proved a stabilization device, which, while rigid in general, permits of necessary modifications. Unlike former German price control laws, it is comprehensive. It covers goods and services including professional remuneration, rent,<sup>2/</sup> real estate and trade margins. It overrides special government price-fixing laws of long standing and decisions of official price-regulating bodies. It covers public fees.<sup>3/</sup> It covers civilian as well as military goods.<sup>4/</sup> It does not cover wages subject to the control of other agencies.

1/ RGB (1936), I, 927; RGB (1936), p. 955.

2/ Insurance premiums are subject to control although their character as "prices" is legally debatable; cf. Von Helten, "Preisstop und Privatversicherung" in DV (1937), Insurance Supplement, p. 9. Insofar as social insurance is concerned, changes in premiums and insurance payments must be approved by the Price Commissioner. (Insurance Supplement, p. 8). Increase in risk justifies a commensurate rise in premiums. Cf. L. 224, "Vom Preisstop zur Kostenkontrolle," WK (1939), p. 254.

The Price Commissioner also claims authority to fix contributions of members to Nazi Party; see W. Rontrop, "Preisbildung und Preisüberwachung," (1937), p. 15.

Thus the jurisdiction of the Commissioner is almost universal, and his activities reach almost as far as his formal rights. For some products, control is obviously impractical. Such as lie outside the field of normal consumption, have little effect on the economy as a whole and are highly individualized, are disregarded. Rare postage stamps which defy all regulatory efforts are the most obvious example.<sup>1/</sup> Products of the fine arts are in the same category.<sup>2/</sup> The whole group has experienced substantial price increases in a period when all other prices have been fixed and all ordinary sales rationed; aside from government bonds they were the only remaining outlet for otherwise unspendable funds. Temporarily, the highest grade wines<sup>3/</sup> and, at certain times, selected foods have been exempted from price control.<sup>4/</sup> The only exemption of economic importance is business good will. In the sale of entire concerns, prices sometimes were high and erratic, changing as much as 50 per cent within a week.<sup>5/</sup> The Price Commissioner did not interfere. Since prices of such firms' products were controlled, and profits increasingly regulated there was, in any case, a barrier against excessive rise in the price of good will.<sup>6/</sup>

The price stop rule applies only to transactions on the home market. Export prices are exempt, as are sea freight rates where international competition is stronger than the authority of the Price Commissioner.<sup>7/</sup>

## 2. The Principle of Individual Price Fixing

The price stop rule refers basically neither to industries nor to commodities on a nationwide basis. It is - with important exemptions - a price stop for an individual product of an individual producer. Two producers who sold an identical product at different prices on the basic date must continue to do so. The text of the decree and subsequent administrative orders leave no doubt that the principle of individual price-fixing goes one step further: a seller who quoted different

1/ DV (1938), p. 2447.

2/ Ritterhausen, "Die Staatliche Preispolitik" in WA (1940), p. 427.

3/ DV (1938), p. 73.

4/ DV (1938), p. 2424.

5/ DV (1939), p. 965.

6/ For stock market securities, see p. 6, below.

prices to two customers for one product must sell to them at the prices established by the respective transactions as of October 17, 1936. For retail sales in open shops, the shop price current on the basic date is taken as the shop's ceiling price. The technique of control machinery is fully in accord with this principle; the bulk of retail prices and a considerable part of all other prices are under the supervision of regional and local price control agencies.<sup>1/</sup>

Under the price stop decree, changes in conditions of sale (terms of payment or delivery) or in quality are defined as price changes.<sup>2/</sup> The administration of the price ceiling was guided by the concept of "equivalent transactions" and "partners of equal standing," whose application of course, did not fully prevent attempts at evasion.<sup>3/</sup>

### 3. Nationwide Price Fixing.

The principle of individual price fixing was abandoned from the very beginning for prices already fixed on a regional basis. The latter continued to be so fixed. This applies mainly to prices regulated by the Agricultural Estate and

-----  
1/ The set-up of the organization is similar to that established during the first World War. The figure of 1,600 staff members (FZ, March 22, 1941) is misleading and is no criterion of the scope of the organization, which has at its disposal the entire police force and several regular administrative agencies.

2/ This rule served to justify abstention from interference with the stock market; changing stock prices were supposed to reflect changing "qualities" in the "commodity." See T. Becker, "Zwei Jahre Preisstop" in WT (1938), p. 456, and L. Miksch, "Vom Preisstop zur Kostenkontrolle," WK (1939), p. 253. For a short time a price ceiling was applied to the Vienna stock market, but with little success. Stock market prices were indirectly controlled by limitation of dividend disbursements, a prohibitive tax on "excess" dividends, registration of all "speculative transactions" after the outbreak of war (Decree of September 1941 in FZ, September 26 and 27, 1941) and, since June 1942, the compulsory exchange of certain "speculative" stock for treasury bonds, with some discount (reported with gross exaggerations in the New York Times, June 16, 1942).

3/ Later the Price Commissioner took explicit action against some disallowed practices; see pp. 25 to 23, below, on evasions, and the Price Commissioner's field letters, No. 37-40 (April 3, 1940) in VJP (1940), p. 380, on unlawful practices (discontinuing delivery at doorstep without price adjustments, attempts to reclaim packing material customarily left in possession of the customers, and similar techniques). For reduction of rent accompanying reduction of hot water supply, see DV (1940), p. 686. Coffee prices had to be reduced at least 12 per cent below the level of September 1939 when a mixture contained more than 30 per cent substitute material; LV (1939), p. 123.

to all cartel prices. In fact, the price regulating machinery established by cartels has proven a tremendous help to the government price control. The tools were already prepared and could be utilized as easily for official price stabilization policy as for private market control. More than once, the office of the Price Commissioner acknowledged the value to it of this efficient instrument.<sup>1/</sup>

Unpopular as they were, the cartels have thus been strengthened of necessity - which does not necessarily mean strengthened in the interest of their members which, in a period of business upswing would have desired significant price increases. In any event, the common devices of cartel policy were perpetuated for the duration of price control. Price discrimination was not discontinued. The Rhenish-Westphalian coal syndicate's monthly reports differentiated as before between sales to "protected" and "unprotected" districts, indicating differences in prices from region to region.<sup>2/</sup> The Rhenish lignite syndicate continued exports with "price sacrifices."<sup>3/</sup> Steel dumping proceeded.<sup>4/</sup> The basing-point system was unaffected by the price stop. With appropriate modifications, it was even extended to cover a number of agricultural products. The objective of cartel technique, nevertheless, definitely changed to the prevention of price increases and, when possible, to price reduction.

Within the scheme of regional price fixing, the principle of individual price fixing again found a place. Cartel "outsider prices" have not<sup>been</sup> automatically brought into line. No concern gets the benefits of higher cartel prices simply by joining the cartel, even if his underselling constitutes a breach of the cartel contract. Nor can a decision of the Cartel Court (or its legal successor) ordering a return to the higher official cartel price, change the situation. Price decisions of the Price Commissioner are stronger than Court rules.<sup>5/</sup>

-----  
1/ Rontrop, "Gebundene und Freie Preise", VJP (1937), p. 89.

2/ KR (1938), p. 508.

3/ FZ (July 15, 1939).

4/ FZ (September 20 and 28, 1940).

5/ Field letter, February 23, 1937, in Engelsing-Glissmann, Preisbildung und Preisüberwachung, p. II A 8 h.

1. Price Fixing for Products without Market Price

a) Comparable Prices.

For new products and projects of individual character, direct reference to October 17, 1936 prices has no meaning. The principle of "comparable" prices has been introduced for new products.<sup>1/</sup> Some technical difficulties arose with respect to the borderline between a new and an altered product for which, with qualifications, the price of the critical basic date remains valid as the ceiling. Prices of genuinely new products should correspond to the ceiling prices of comparable goods or, in the absence thereof, to the cost of production on the basis of the October 1936 situation.<sup>2/</sup>

If no comparable price exists, it is replaced by a price derived from an "as if"-price-computation. Originally it was vaguely defined as based on costs as they would have been on the reference date. Later computation procedure was more closely defined.<sup>3/</sup> Where the concern in question had had a price calculation scheme for the same type of product on the reference date, or where one could, without undue difficulties, be made available by other concerns in the industry, it would serve as the formal basis. Individual cost elements generally enter into calculation at values not higher than those of the reference date. Raw material prices must not exceed those paid on the basic date or on the occasion of the last order preceding that date. Price increases are disregarded<sup>4/</sup> while cost decreases following use of cheaper material must be expressed in lower prices. Wages enter into the calculation at a level no higher than the "wage stop" level of October 12, 1939. Items of overhead must correspond to those of October 1936; the percentage rate must be adjusted downward, however, if wage rates or raw material prices are reckoned at higher levels than at the reference date. If the concern had introduced new items in its production pro-

-----  
1/ Rentrop, "Gebundene und freie Preise in der gewerbliche Wirtschaft," in VJP (1937), p. 90; Richter-Brohm, "Ermittlung des Vergleichspreises," in DV (1937), pp. 1167-68.

2/ Field letter of the Price Commissioner, January 30, 1937, published in Engolsing-Glismann, Preisbildung und Preisüberwachung, p. II A 8 b.

3/ Field letter of November 8, 1940, in DV (1940), p. 368.

4/ Or a special permit for price increases must be granted. The situation is, of course, different where special decrees provide for automatic price changes.

gram, total, overhead must be fairly distributed between new and old products. The treatment of profit margin corresponds to that of overhead costs. "Unjustified" profits must be reduced; if losses occurred in October 1936, production of the new item must be continued on a loss basis until a revision of the margin is granted. Such changes in accounting methods are permitted as do not tend to inflate price.<sup>1/</sup>

If no such price calculating schemes are available the new price must conform with "the necessities of an economy devoted to war effort." All such factors as cost of production, market situation, peculiarities of product and concern, and the duties of the latter to the common good, shall be taken into consideration, provided that costs be interpreted as those under "economical management." Concerns of less than average efficiency must be satisfied with a relatively low price. The technique of price computation<sup>2/</sup> is similar to that inaugurated in 1938 for some types of government orders (LSO).

b) Products of Highly Individual Character

The treatment of products of fine art, rare postage stamps and similar items has already been mentioned. They were left uncontrolled without major damage to the general price ceiling. Peculiarities of prices in real estate markets made specific regulation necessary. Since only a minute fraction of all real estate changed hands on or about October 17, 1936, there was a lack of immediate reference prices. It was ruled that real estate prices among other things be kept in line with taxable value as determined by the Bureau of Internal Revenue. The two values need not necessarily coincide, but any major discrepancy not approved by the regional office of price administration, shall prevent legal transfer of ownership through the courts.<sup>3/</sup>

-----  
1/ Mitteilungsblatt der Reichskommissars (1940), p. 806.

2/ See Engolsing-Glissmann, op.cit., p. II A 7 C.

3/ See L. Lutge, "Die neuen preispolitischen Eingriffe auf dem Wohnungsmarkt" in Conrads Jahrbucher (1938), DV (1937), p. 1801; RGB I (1938), p. 850, Engelsing-Glissmann, op.cit., p. II A 22 d and p. II A 30. A later field letter (Mitteilungsblatt 1941, p. 350) clarifies the situation further. It also establishes a set of standard prices for building lots as a guide for the price fixing authorities.

c) Government Orders

The Army and Navy buy about 30,000 commodities.<sup>1/</sup> These are, first of all, subject to general ceiling rules. Since, however, the technique of government purchases differs from the usual private form, and since some of the products have no market price, special rules have been introduced in this sector. The essence of the "R.P.O." rules<sup>2/</sup> consists of provisions as to when ceiling prices may be replaced in governmental order by other prices; if the stop price appears "economically unjustified"; if by nature of the order a ceiling price does not exist; especially if administered prices appear too high or if the size of the order seems to call for a price reduction. The R.P.O. furthermore provides that in certain instances the proper prices could be derived from the cost of production as defined by another decree (LSO), and that, if several orders are forthcoming, the final price is to be decided by the process of averaging the individual prices in question.

This second decree (LSO)<sup>3/</sup> contains rules on cash price determination for government orders. It has been repeatedly and emphatically stated that these rules are a mere substitute for market prices, to be used only if such prices are completely unavailable.

The final "cost price" is the sum of six major cost items: materials, factory wages, factory overhead, administration and sales costs, special costs, profits. Subdivisions distinguish some sixty cost items, a number of which are further subclassified. The most important provisions of the decree follow:

-----  
1/ The Economist, March 28, 1942, p. 432.

2/ "Richtlinien für die Preisbildung bei öffentlichen Aufträgen," issued November 15 1938. Text in Die gesamten Preisbildungsvorschriften by Wohlhaupt, Rentrop and Bartelsmann, 2nd ed. (Berlin 1899), p. II 20.

3/ "Leitsätze für die Preisermittlung auf Grund der Selbstkosten bei Leistungen für öffentliche Auftraggeber," November 18, 1938 in RGB (1938) I:1623-1630. See also C. von Halcm, "Preispolitik bei öffentlichen Aufträgen" in DV (1938), pp. 289-90; Sellmann, "Sind noch Kriegsgewinne möglich?" in DV (1939), pp. 240-41; Preballa, "Preisbildung bei öffentlichen Aufträgen" in WD (1938), pp. 1623-27; J. Wagner, "Leistungen und Preise bei öffentlichen Aufträgen" in VJP (1938), pp. 738-9 and F. Burchardt, "German Price Policy" in Bulletin of the Institute of Statistics (Oxford, April 4, 1942).

1) Wages and salaries: man hours worked on a contract are compensated, provided that working time does not exceed standards laid down by the Reich Committee for labor studies (Refa).

2) Depreciation: rates are calculated independently of rate used for taxation or normal bookkeeping. They are based on original costs of assets and take into account real wear and tear and average useful life. All "special" depreciation -- compensation for expected reductions in asset utilization -- is subject to the approval of the Price Commissioner. No "financial" depreciation is allowed.

3) Interest on borrowed capital is not an allowable "cost"; it must be paid out of profits.

4) Patent fees and publicity costs, and some other expenses, are restricted to "reasonable" amounts. "Extraordinary" development costs may be included in current charges only by approval of the contracting agency.

5) Taxes: Treatment varies with the type of tax. The individual income tax of private firms is excluded. Sales tax, property tax and some similar taxes are considered as cost elements. The corporation tax is not. It is, however, included in controlled profits to an extent corresponding to the ratio of "owner's capital" to total capital investment.

6) Profits. "Permitted profit" is calculated as the sum of "reasonable" interest on "necessary" capital, plus a bonus for risk, the above-mentioned share of the corporation tax, some minor tax items, the export levy, and certain charitable contributions. "Necessary" capital is measured by the value of assets after deduction of such items as investment not essential to business, private dwellings, unutilized capacity, farm land, financial participations. "Reasonable" interest is equal to the yield on long-term government loans, 4.5 per cent at the time of promulgation of the decree. More recently permitted yield has been announced periodically by the Price Commissioner.

The decree makes no reference to the extent of the risk bonus. The literature seems to show that 1.5 per cent of sales value may be taken as a rough

guide.<sup>1/</sup> Deductions from profit are provided for in instances of mismanagement and inefficiency. Efficiency bonuses may be granted. It has been reported that since the outbreak of the war such bonuses are awarded only exceptional achievements.<sup>2/</sup>

The rules were eventually extended to cover subcontracting<sup>3/</sup> and, with appropriate changes, government construction contracts.<sup>4/</sup> These rules are supposed to be applied only to projects on which comparative prices are unavailable. The Price Commissioner rather than the contractor or the government agency decides whether the rules are applicable in a given case.<sup>5/</sup>

### 5. Special Types of Prices

Price control is not limited to establishing maximum prices. Other types of prices do occur in the framework of German price control, although naturally maximum prices are the backbone of the system.

a) Maximum prices. As has been pointed out, these are either individual maximum prices in accordance with the basic rules of the price stop decree, or uniform on a nationwide basis.

b) Minimum prices. These appear mainly in the cartel field. The official maximum price is, at the same time, a private minimum price, protected by the cartel agreement against competitive underselling by cartel members. As far as government purchases are concerned, it is subject to revision if it appears to be too high.<sup>6/</sup>

In the case of compulsory cartels, minimum prices have direct official sanction. Minimum prices are normally uniform for all cartel members. They may, however, vary from concern to concern; some cartels (cast iron, printing, wooden boxes, Dutch tile stove production) permit their members to quote prices on the basis of their indi-

-----  
1/ H. Lampe. "Die Zusammensetzung des LSO Gewinns," Zeitschrift für Betriebswirtschaft (1940), pp. 115-117; and Rittershausen, op.cit., p. 431.

2/ On group prices for armament products see pp. 35 and 56.

3/ RGB (1941) I:140, March 11, 1941.

4/ "LSBO" in RGB (1940) I:850. Prices for private construction contracts are regulated by a decree in RGB (1939) I:1041, again on a refined cost-plus basis.

5/ WJP (1940), p. 665

6/ DV (1937), p. 425.

vidual costs computed according to uniform rules. The cartel agreement prevents them from selling below their costs, which are periodically checked by a central cartel agency; certain legal provisions against unfair competition support the cartels.<sup>1/</sup>

c) Standard prices (Richtpreise). These are a kind of refined private minimum price such as prevailed, for instance, in the radio industry at the end of 1938. Products were classified, and price averages computed for each group with the help of controlled cost data supplied by producers. Averages were lowered by a percentage agreed on in advance. Sales below these new "basic" or "standard" prices are not permitted. Higher-cost producers may charge in accordance with their costs.<sup>2/</sup> Prices must also be in accordance with the official ceiling price.

d) Fixed Prices. In the agricultural sector, many prices are protected against changes in either direction. They are rigidly fixed at least until the Price Commissioner may decide to freeze them at another level. Some other prices were frozen before the Price Commissioner assumed his duties; e.g., prices on scrap rubber, rabbit skins, matches and some services.<sup>3/</sup> The system changed soon thereafter. Wholesale trades were strongly opposed to fixed prices and preferred maximum prices even at a relatively low level provided they permitted downward differentiation.<sup>4/</sup>

e) Price Ranges. They, too, appear mainly in the agricultural field, particularly on commodities difficult of classification. Within the given range, demand and supply remain effective as price determinants.<sup>5/</sup> Price ranges sometimes take the form of a maximum price with the provision that deviations are permitted up to a certain amount.<sup>6/</sup>

-----  
1/ See Miksch, "Kalkulationskartell und Kalkulationskontrolle" in WK (1937), pp. 208-221.

2/ Der Radio-Handler, June 8, 1938, p. 422; November 23, 1938, pp. 1065-67.

3/ Rentrop, op.cit., p. 114.

4/ DV (1940), p. 831.

5/ See price regulations for fruits in VJP (1937), p. 660, and timber, p. 614.

6/ Decree on oak bark for tanning purposes, RA, February 2, 1939.

f) Auction prices. By its very nature, the auction method hardly fits in to strict price control. Before the introduction of price regulations, auctions played a considerable part in German agriculture. Most of them have been abolished. Wherever they were permitted to continue, prices were brought under control through the setting of rather narrow price ranges. Fish auctions with fixed maximum and minimum prices were allowed until 1938, when the system was replaced by a schedule of frozen prices, differentiated by product, locality and season.<sup>1/</sup> Timber auctions were prohibited, except for some specialties.<sup>2/</sup> For other products the previously prevailing technique was greatly modified in order to conform to necessities of strict price regulation.<sup>3/</sup> A tendency to get rid of the remnants of the auction system is clearly visible. To the extent that the system still existed in 1941, the Price Commissioner fixed maximum prices in advance of auctions.<sup>4/</sup>

g) "Accounting" prices (Verrechnungspreise). This heading covers a number of fictitious prices. They are, on the one hand, those which syndicates (i.e., cartels with central sales agencies) pay provisionally to members pending the final distribution of real receipts. Secondly, the term applies to prices charged by one department of an integrated concern embracing several stages of production to next department/in the production process. At the beginning there seemed no reason to regulate this type of prices, but later some of these prices were put under a ceiling: if a subsidiary is at least partly independent, changes in such prices proved a method of price control evasion and were no longer permitted without approval. Cartel "accounting" prices remain free from price supervision.<sup>5/</sup>

h) Seasonal prices. When price control was introduced, the ceiling price for non-agricultural products with strong season price movement was simply the price of the corresponding month in the preceding year.<sup>6/</sup> In agriculture there was a tendency to smooth season price movements, to disregard them completely, or to replace them by weekly cumulative additions to a basic price in order to cover storage costs

1/ VJP (1938), p. 408; DV (1937), p. 342.

2/ RGB (1937), I:189.

3/ For tobacco, see DV (1937), p. 15; for wine, p. 72.

4/ Singer, "German War Economy V," in the Economic Journal (1942), p. 26.

5/ DV (1940), p. 651; (1941), pp. 656-8, 757-8; FZ, October 27, 1939.

6/ Field letter, January 30, 1937 in Engelung-Glissmann, loc.cit., II A 8 b; VJP (1937).

### III. EVASIONS UNDER FIXED PRICES

#### 1. Black Markets

That black markets exist is evident from numerous newspaper and radio reports on price law violations and from warnings to the public and the introduction of new and more drastic provisions against attempts to sell at unofficial prices and above the limits of ration coupons.<sup>1/</sup> From time to time there are special drives against the black markets. Newspapers report special police work and the assignment of particularly able officers to the sole task of rooting them out.<sup>2/</sup> It is obviously impossible to estimate the extent of the phenomenon. According to a report of the British Ministry of Economic Warfare German black market prices at the beginning of 1942 for some products were about five to ten times as high as legal ceiling prices.<sup>3/</sup> In March 1941, 3,975 Berlin shopkeepers were convicted of violations of price control.<sup>4/</sup> From all available information, however, it appears that the range of black market operations has not approached that of the previous war. Penalties are severe. The first price stop order provided for closing of businesses, jail or penitentiary sentences and unlimited fines; later the death penalty was to become not unusual.

The spread of barter is largely caused by attempts to avoid direct price control. When commodities of equal price are exchanged, ceiling rules are not directly violated. Official shoe exchange centers have been established in many cities. But expansion of barter might unduly increase excess monetary funds and widen the inflationary gap. Moreover, a situation in which prices are not specifically

-----  
 1/ From Goering's promise at the time of the introduction of price control to use "draconic measures...against black market operators," (VJP (1937), p.34) to the death penalty for profiteers in March 1942 (New York Times, May 19, 1942) there has been an uninterrupted flood of statements on the subject. More recently, price violations are necessarily combined with sales of rationed goods above coupon limits. See, e.g., full page stories on five cases - two involving capital punishment - in all leading German papers of April 9, 1942.

2/ DV (1939), p. 730.

3/ New York Times, March 5, 1942.

4/ Singer, op.cit., p. 26.

stated offers increased opportunity to evade price control, the more so as these transactions may be connected with such intricate devices as the "borrowing" of labor and other forms of "price" concessions. Barter must have obtained considerable scope as it appears from the advertisement page of provincial papers. According to an announcement of the Propaganda Minister on March 26, 1942, "barterers" are threatened with the extreme punishment applicable to "profiteers."<sup>1/</sup>

## 2. "Joint" Sales.

Joint sales are the immediate and obvious response to price fixing under a system of partial price control. Controlled products are offered in combination with others for which almost any price may be legally justified. An inclusion of an additional margin in the uncontrolled price would compensate for the lack of elbow room in the regulated price. Universal price regulation reduces the general usefulness of the device.

But since this is a matter of profits rather than prices, it does not necessarily make joint sales unattractive. The inclination to rely on combination sales to keep profits up, seems marked. This fact explains the continuously repeated attempts to outlaw joint sales by decree.<sup>2/</sup> Quite generally such sales violate the spirit of the price stop order and were outlawed by its provision against any evasion. In addition, however, the matter has been dealt with in decrees regulating prices of individual products, apparently because the original rule had not been followed sufficiently scrupulously.<sup>3/</sup> One decree forbids combination sales of food products.<sup>4/</sup> The rule permits exceptions in instances of "urgent economic neces-

-----  
1/ New York Times, May 19, 1942.

2/ Even before the period of general price fixing, combination sales were looked on as suspicious practices of monopolistic exploitation. For concerns in control of municipalities, they were made unlawful by paragraph 73 of the Deutsche Gemeindeordnung (General Municipal Statute).

3/ DV (1940), p. 1828.

4/ DV, Vol. XII, p. 296. The egg price decree establishing prices according to weight makes even combination sales of different weight classes illegal. (RGB (1938 1:1564)). Even products traditionally consumed jointly must not be sold jointly; according to a decision of the Price Commissioner it is not legal to offer liverwurst and blutwurst in combination. See Die Fleischwirtschaft (1940), p. 5.

sity," mainly for perishable products which may be offered in combination with other products, provided there would otherwise be a danger of perishing.<sup>1/</sup> A field letter<sup>2/</sup> of the Price Commissioner gives details as to the form in which joint sales used to proceed: that products were grouped in such a way as to give the impression that the scarce one would be sold only in the combination; or that the seller of scarce products attempted to interest buyers unduly in a new line; or that he allocated to customers not in the usual proportion but in relation to purchases of other products. Not even the excuse that the importer was forced to make joint purchases abroad is accepted as justifying this practice on the home market. The problem is complicated by the fact that in the agricultural sector some dealers are forced by the law to buy over certain products even when they have no chance of finding buyers. Under no circumstances are they entitled to get rid of such products by means of joint sales.

In reality the method is more subtle and, through its vagueness, most difficult to attack; everybody who discovers a small quantity of a product he likes hidden somewhere in a shop and a large pile of a products he does not want, knows from experience that it is advisable to order some of each to appease the shopkeeper. The general market situation in a time of all-round scarcity recommends an attitude of normal prudence towards a monopolist, to be whose "steady customer" is a privilege. Entirely without open pressure, combination offers are transformed into combination purchases.<sup>3/</sup> The practice is apparently widespread. Public warnings against joint sales by the Berlin Chief of Police were found necessary, and "extremely high fines" were imposed.<sup>4/</sup> Special precaution had to be taken to avoid the spread of joint sales through vending machines.<sup>5/</sup>

### 3. Change of Product

Evasion of price control through alteration of product was mainly quality

-----  
1/ RGB (1937), I:1142.

2/ See Engelsing-Glissmann, op.cit., p. III, A II-13.

3/ DV (1938), p. 2375.

4/ DV (1938), p. 2375.

5/ DV (1939), p. 123.

alteration which obscured the price situation. It was sometimes unavoidable and unrelated to price evasion, as when substitutes replaced some material. Under these circumstances price increases were first regarded as legitimate and subject to little control. But abuses developed, as shown by official statements.<sup>1/</sup> It had to be made quite plain that substitutes by themselves need not necessarily be priced higher than the original products, that they are sometimes cheaper and that, in such instances, price reduction was in order. Since the beginning of 1941 substitutes and "new" products must be registered at the regional price boards which, on the basis of a submitted cost calculation, fix their prices.<sup>2/</sup>

Change in quality may be either deterioration without proportionate price reduction or increased emphasis on higher quality with higher prices. The first violates the letter of the price legislation. Since the degree of quality change is a matter of judgment, it is no wonder that the practice was widespread.<sup>3/</sup> But again quantitative information is unavailable.

The other tendency was a flight into higher quality, explained by the fact that profit margins usually increase with quality. Where a great variety of goods was produced before October 1936, withdrawal into the better grades was not in direct contradiction to the price stop law. Moreover, quality is a vague term; price discrimination on the basis of purchasers' income classes frequently consists in the introduction of superficial and meaningless variations in a standard product, with additional costs far below the additional price charged (a change of buttons, addition of chemical coloring in foods, etc.). The Price Commissioner fought with growing intensity<sup>4/</sup> against this form of evasion, but, as uninterrupted newspaper discussion shows, without full success. His action was not limited to numerous warn-

1/ FZ, February 16, 1941.

2/ RGB, (1941), I:751.

3/ L. Miksch, op.cit., WK (1939), p. 254. Sometimes the introduction of new varieties was prohibited; sausages could be produced only in qualities sold in October 1936 (RGB (1937), p. 728).

4/ FZ, February 16, 1941.

ings. Any abandonment of the production of cheap lines was officially frowned on and investigated. Abandonment following a fruitless attempt to get permission for a price increase was regarded as evasion of the price stop order and treated accordingly.<sup>1/</sup> When the milk margin in restaurants was fixed at 100 per cent, it was stated that cessation of milk dispensing would be regarded as a violation.<sup>2/</sup>

Direct measures to enforce continuous production of cheap lines were taken up as early as 1937. Chocolate producers received cocoa on the understanding that a high percentage would be processed into lower grade chocolate.<sup>3/</sup> The procedure was extended as the system of allocation spread, and was considerably strengthened in 1940 and 1941 when scarcity took more threatening forms. The china goods industry was ordered to concentrate on staple products and concerns had to get cartel approval of all sales contracts.<sup>4/</sup> The shoe industry was compelled to devote some energy to producing of cheap work shoes.<sup>5/</sup> In 1941 a special commissioner supervised the use of raw materials in the textile industry with a view to a preferential treatment of low quality products which, in addition, enjoyed some allocation privileges. Certain low-cost plants are completely reserved to "utility" products.<sup>6/</sup>

The tendency toward better quality is by no means imposed by profit-seeking producers on a helpless public which in its plight looked to the Price Commissioner for protection. Consumers actively demand higher quality.<sup>7/</sup> Standards are low at best. Moreover, rationing leads automatically to the desire to get better quality in the face of prevailing scarcities. More attention is paid to the factor of durability. The impossibility of spending money income on any but rationed goods makes price a secondary consideration.

-----  
1/ Field letter of the Price Commissioner, Nos. 16-39, June 29, 1938, published in Engelsing-Glissman, op.cit., II, A-5.

2/ DV (1938), p. 2332.

3/ DV (1937), p. 955.

4/ FZ, May 25, 1941.

5/ L. Miksch, op.cit., (1939), p. 254.

6/ FZ, April 17, 1941; April 18, 1941. The Reichsanzeiger has since 1941 contained a growing number of enforced standardizations and simplification orders designed partly to save raw materials and partly to keep prices down.

7/ FZ, April 17, 1941; DV (1938), p. 1681.

#### 4. Change of Customer

Change of customers proved to be a minor technique for price evasion. Since, in certain instances, individual customers may have been treated differently at the basic date and since the price stop order forced the seller to maintain this differentiation, the exclusion of the favored customer was to be expected. The scope of the practice was limited, since in retail trade the shop price rather than the individual price was selected as the ceiling, and since agricultural prices, cartel prices and some other categories were likewise exempted from individual price regulation. From field letters of the Price Commissioner it appears, however, that on some occasions concerns broke relations with customers in order to increase sales to others who paid higher prices. The practice was officially characterized as an illegal evasion of the price stop rule.<sup>1/</sup> The Price Commissioner also had to act against attempts to change customers merely in order to obscure prices and introduce elements of doubt as to "partners of equal standing" and other features by which one transaction differs from another in the normal course of business.<sup>2/</sup> In some instances an obligation to sell to old customers in preference to new ones has been made part of certain price decrees: scrap paper dealers are forced to offer their supply first to old customers; they cannot refuse to contract with the latter at fixed prices.<sup>3/</sup> In 1939 a number of steel concerns restricted deliveries to the State railroads because of more favorable orders of other customers. A decree of the Price Commissioner issued to the steel "group" (association) clearly states that this procedure was a violation of the price stop law, and that producers in general were required to sell to old customers in established proportions, as long as no allocation regulation was issued.<sup>4/</sup>

-----  
 1/ T. Becker, "Preisordnung und Preiswettbewerb," in WA (1938), p. 148, also stressed in Circular No. 37-40, May 3, 1940; VJP (1940), p. 380.

2/ Rentrop, op.cit., p. 103.

3/ VJP (1937), p. 167.

4/ VJP (1940), p. 379.

## 5. Inclusion of Unnecessary Middlemen

Increase in the number of middlemen and a reverse trend to exclude existing intermediate stages have played roles as evasion devices.<sup>1/</sup> The first tendency would materialize in the presence of individual price calculating rules rather than the price stop. It was finally kept in bounds by provisions that the margin fixed must be split among the various parties.<sup>2/</sup> The exclusion of middlemen was, in general, welcome and in accordance with official policy.<sup>3/</sup> Exclusion occasionally conflicted with the policy of rigid prices in agricultural production where, from time to time, warnings were issued against "direct marketing,"<sup>4/</sup> i.e., sales made by a farmer to a final consumer in order to avoid trade channels provided by the agricultural Estate. Reports of police raids on secret butter churners proved this practice to be widespread. Death sentences for illegal slaughtering and sales made outside permitted channels are reported.<sup>5/</sup>

Whenever prices are determined on a cost basis, new opportunities must arise to inflate prices despite strict supervision. Special "social funds" have been set up to maintain prices.<sup>6/</sup> Selling in small quantities in order to make several

1/ T. Bocker, op.cit., WA (1938), p. 148.

2/ For the furniture trade, a decree of June 11, 1940: RGB (1940), I:903. A 1940 amendment to the LSO - RGB I:1235, prohibited unjustified mark-ups and commissions of sellers entering on government contracts. Other instances: the fixed wholesale trade margin in caraway seeds must be shared by all wholesalers involved; RA, July 27, 1939. Coffee importers are not permitted to sell coffee to wholesalers when buying merchandise from the latter. Generally a sale of coffee back to a preceding stage is illegal; VJP (1938), Decree No. 286, p. 783. It is forbidden to refer a customer to a distributor entitled to quote higher prices than the producer; VJP (1940), p. 830. A fish importer who is also a retailer is not permitted to add for retail sales the accustomed or fixed wholesale margin. A fish wholesaler who sells at retail markets may merely add the retail trade margin for such transactions; DV (1941), p. 752.

3/ A food prices act of October 29, 1937 (RGB I:1142) orders elimination of "unnecessary" middlemen.

4/ DV (1939), p. 822.

5/ See, for instance, the New York Times, April 2, 1942, and continual references in the German press and radio during the last two years.

6/ Mentioned by the Price Commissioner as illegal (FZ, March 19, 1941). Frequently, "voluntary" social expenses were incurred merely with a view to attracting workers; such expenses are not part of "permitted" costs in LSO and similar rules; see VJP (1940), p. 380.

relatively higher service charges,<sup>1/</sup> or filling new orders only in part while supplying other new customers, with a view to cutting discounts,<sup>2/</sup> are among practices ruled illegal by the Price Commissioner.

The list is necessarily incomplete, as more refined techniques of evasion probably are undiscovered.<sup>3/</sup> Trading second-hand products, in itself legitimate in the framework of the price control decree, is a border-line case. The highly uncontrollable second-hand market is growing in importance. The annual sales volume for 1940 has been estimated to be ten times the normal. The growth of local newspaper advertisements of second-hand goods and the spread in Berlin residential districts of the technique of pinning such advertisements on walls witness the expansion of this market.<sup>4/</sup> The reason is only partly evasion of price control. In part it is the natural result of a growing scarcity of products, in part it is due to the fact that second-hand textile products were not rationed. But in part it is evasion of price regulation. Prices were sometimes higher than for new goods, until a decree established a ceiling at 75 per cent of the new price.<sup>5/</sup> Prices for used automobiles were estimated by official agencies. In the agriculture machine trade, the industrial "Group" fixes prices for used machinery.<sup>6/</sup>

#### IV. ADJUSTMENTS THROUGH PRICE INCREASES

Although declared policy is against price increases, they are possible under the price stop rule, and may have been allowed. The approximately 7,000 excep-

1/ D. Dickert, Die Preisüberwachung (Berlin 1937), pp. 18-19.

2/ Price Commissioner's administrative field letter No. 109-27, May 29, 1937, in WT (1938), p. 457. Confirmed at the end of 1940; VJP, p. 379.

3/ The introduction of tax certificates, which in 1939 served as partial payments for government orders and were quoted at a discount on the stock market, made some minor price rule evasions possible. See DV (1939), p. 1665.

4/ FZ, June 4, 1941.

5/ The Economist, 1942, p. 259 - decree of January 21, 1942, RGB, I:43. Secondhand prices are established at the level of ceiling prices of comparable new products minus depreciation for real wear and tear. The price must not be higher than 75 per cent of corresponding new merchandise. Newspaper advertisements must contain price lending libraries since 1938 have been directed not to sell items from stock during the first six months of use, and after that only at specified prices. DV (1938); p. 1402.

6/ VJP (1940), p. 69.

tions mentioned for 1940 did not include all changes occurring through new price regulations for specific products.<sup>1/</sup> Permitted price increases follow from "legitimate cost increases, particularly higher costs of imported raw materials and the use of substitutes. They are not granted as a matter of course. Evidence must be offered that the basis is genuine; that they are required despite economical management;<sup>2/</sup> that there is no compensation through reductions in some cost items (e.g., better utilization of plant capacity), and that continuation of work under prevailing price would endanger the firm's existence. As a general rule, cost increases must be "absorbed." This was true even before the price stop. At the beginning of 1936, a general increase in railway rates was introduced with the provision that shifting of the new burden must be avoided and that every stage of production must carry its own burden,<sup>3/</sup> again with an emergency clause similar to that of the price stop decree.<sup>4/</sup>

In particular, no loss on an individual item justifies a price increase if the loss is offset by profits on other items.<sup>5/</sup> While originally it was left to the producer to decide which product should carry the impact of cost increase, in a later period the Price Commissioner tried to bar price policies through which necessary and vital products would bear the main part of the burden where a firm was also producing other items.<sup>6/</sup> The War Economy Decree, apart from the element of danger to the existence of a firm, introduced the new element of "importance under war aspects."<sup>7/</sup> Scarcity of a product is in itself no valid reason for price increase. Payment of wage above the legal level and accumulation of reserve for expansion are not valid grounds for price increases, although the majority of applications formerly adduced these grounds.<sup>8/</sup> In such cases, during the first stage of price control the accounting of

-----  
1/ Rittershausen, "Die Staatliche Preispolitik," WA (1940), p. 421

2/ L. Miksch, "Wie arbeitet die Preisaufsicht," WK (1937), p. 313.

3/ RGB (1936), I:26.

4/ Granted for coal, lignite, gravel, stones and some other products (Porinkel, "Kartell Recht," XV:59).

5/ DV (1937), pp. 1156 and 1252.

6/ FZ, February 6, 1941.

7/ FZ, March 12, 1940.

8/ Flottmann, "Kriegspreise," in VJP (1939), p. 1061.

supervising agencies followed the traditional accounting patterns of concerns applying for relief. Procedure was later made more uniform along the lines of LSO accounting.<sup>1/</sup>

Some price increases occurred automatically. For imported commodities and some products with a high import ratio, there were special regulations. They changed greatly in the course of time. The essence is a provision through which changes in the purchasing price of materials could be reflected in changing sales prices, without, however, affecting the Reichsmark profit per unit. The procedure was called Anhangekalkulation and consisted either in the addition of the price increase in the raw material to the previous price of the final product or in a decrease of the mark-up at the same rate in which the cost increased. The two are, of course, the same. Textile and leather prices (under control before the general price stop) were long subject to this sliding price rule. The method was thoroughly disliked by the trade because it complicated established accounting techniques, but it served a useful purpose in preventing an unchanged profit rate to inflate unduly sales prices.

V. TREND IN PRICE REGULATING POLICY

From the outset price control has been comprehensive in the sense of covering virtually all prices. In the course of time its practice aimed at ever stricter centralization. Administration became, of necessity, more complicated and the rule more and more individualized. Naturally, control has been a heavy burden on businessmen, not merely because it deprived them of the possibility of setting prices according to their market opinion, but also, more technically, because official price rules in some industries finally got beyond the grasp of the average person. From time to time the unfounded hope was expressed that a change in the law might grant the businessman a "larger share of responsibility of his own."<sup>2/</sup> A one-year period

1/ Engelsing-Glissmann, op.cit., p. II A 7b.

2/ See the remarks in DV, a magazine which is the exponent of business interests, 1938, p. 964. For an example of complex price schemes see the rules on prices for oilseeds in Mitteilungsblatt, 1941, pp. 312-323.

was allowed for industry to become fully acquainted with the LSO rules.<sup>1/</sup> During the first years of price control, even government agencies as buyers did not take all rules quite seriously, according to statement of the Price Commissioner.<sup>2/</sup> Even later the LSO rules were apparently too complicated for efficiency; the system of internal subsidies and taxes set up in the soap industry was based originally on LSO profit and loss statement. In fact, taxes were levied simply in proportion to the sales volume of a concern.<sup>3/</sup> Textile price regulations required enormous administrative effort. Of the first 300 individual price-fixing rules listed in a law compendium (up to April 1938)<sup>4/</sup> 41 items concern textiles. Out of the whole confusing picture, some general trends emerge.

1. There was a tendency away from the general price stop rule towards individualized price regulation. This was in agreement with the basic idea of creating a ceiling first and making adjustments later. Adjustments consisted partly in changes of prices granted individual concerns. Since this was left largely to the discretion of regional price fixing agencies, there is no comprehensive data on the scope of such measures. Partly the change consisted in the issue of a new decree constituting price calculating rules for establishing prices at variance with the ceiling of October 1936. The number of such rules is considerable; prices of minor items like rabbit skins or pooled and unpooled willow were regulated by special legislation. The rules took in part the form of regular laws or decrees (published in the Reichsgesetzblatt and Reichsanzeiger), in part the form of administrative orders and field letters published in a special organ of the Price Commissioner (Mitteilungsblatt des Reichskommissars für die Preisbildung). The form of publication, however, does not indicate the real importance of the matter in question.

-----  
 1/ Sollmann, op.cit., DV (1939), p. 240.

2/ J. Wagner, "Leistungen und Preise bei öffentlichen Aufträgen," VJP (1938), p. 736.

3/ DV (1940), pp. 653 and 1672.

4/ Mullonstiefen-Dorinkol, "Kartellrecht," p. XV 95-110.

This shift toward individual price rules, however, does not mean that enforcement has been taken out of the hands of local agencies. Nor does it imply cessation of local price differences. Many central price regulations provide for local price differentiation. Mark-ups in the retail textile trade varied for communities with more or less than 10,000 inhabitants.<sup>1/</sup> Scrap iron prices vary regionally; if sold into another established region, the price of the region where the product is actually located is valid for sales into other regions.<sup>2/</sup> For purposes of price control, the country is divided into some twenty rye districts with varying prices. In fact, most agricultural fixed products are quoted on a regional basis.

2. There was a trend towards more specific and detailed price rules. Additional qualities and grades were introduced frequently. Textile price regulations are again conspicuous in this respect. General price rules covering the whole field were replaced by an extensive list of individual products and classes of products. A number of timber prices were exempted from the price stop rule and the products and grades in question brought together in several large lists. The number of grades of eggs and of peeled and unpeeled willows was increased in more recent price regulations. Seasonal deductions and revisions were specified. Sub-classes of broader categories of products were established.

3. On the other hand, the whole price control system contributed to economic uniformity.<sup>3/</sup> In this respect price control has effects similar to those of the creation of cartels. The assortment of output has a tendency to follow classifications of the price scheme. Intermediate stages disappear and concentration of lines takes place. The scarcity of raw materials supported this trend. Sometimes price regulation directly enforced unification. The multitude of automobile insurance policies gave way to a compulsory policy with uniform premiums.<sup>4/</sup> A general

-----  
<sup>1/</sup> RGB (1939), p. 1877.

<sup>2/</sup> TJP (1939), p. 1206.

<sup>3/</sup> See Miksch, op.cit., WK (1939), p. 255.

<sup>4/</sup> TJP (1938), pp. 150, 168; RGB (1938), I, 200.

electricity rate schedule replaced a variety of local systems. While it does not specify rates, it establishes the formal framework for rate making, in which a use rate is combined with a base rate, varying with floor space and number of rooms.<sup>1/</sup>

4. Wherever specific price regulations became necessary, there was a tendency to extend the new rules so as finally to cover every stage of production. Leather price regulation made shoe price regulation unavoidable. While at first only plain leather shoes were included, in the further course of events prices of fur-trimmed shoes and leather handicraft products were brought under control.<sup>2/</sup> Originally only selected agricultural prices were controlled, but later prices had to be fixed at all stages in order to prevent unbalancing of the agricultural price structure.<sup>3/</sup>

5. Although military products were originally subject to the same ceiling rule as civilian goods, there was a tendency to treat them differently. The LSO was devised only for projects of highly individualized character. Industry complained that military order blanks contained a clause automatically referring to LSO without regard to the type of order, thus unjustifiably extending the scope of LSO.

Since 1942 the two sectors of the economy have been governed by different price rules. The bulk of military orders is subject to the revised LSO rules, with a "uniform" price based on the costs of an efficient concern or "group" prices scaled according to the efficiency of the producers. This differentiation by no means implies a diminished pressure on prices for army and navy products. Even the original LSO rules were far from easy on industry, and they tended to become harder. One of the main changes they underwent was exclusion of the corporation tax as a permitted cost item. During the latter part of 1941, it was the decided and expressed

-----  
1/ The rate level is fixed in accordance with the principle that applies to cartel prices: cost of an average concern under the war economy decree, and of an efficient concern during the profit stop period.

2/ VJP (1937), p. 280.

3/ Kufner, op.cit., p. 123.

opinion of the Price Commissioner to concentrate price reductions necessitated by the profit stop decree chiefly on military goods.<sup>1/</sup>

The reform does not mean a reduction in the influence of the Price Commissioner in this field. The reform is his work. Prices are fixed by a body of representatives of the Armament Ministry and the Price Commissioner. It makes full use of his organization and acts within the limits set by his legislation.

More recently, differences in pricing policy as between the two sectors have again begun to disappear, inasmuch as in the middle of 1942 it was decided gradually to apply the group price system to non-military products.

6. Finally, for a while at least, there was visible a trend away from direct price control to profit control as a subsidiary control element. When the war economy decree was issued, the emphasis shifted from ceiling to "justified" price; reasonable profits became the standard of prices. Although the objective remained price control rather than profit reduction, the approach to the problem was shifted. The profit stop in the industrial sector took into account invested "necessary" capital, the average rate of turnover in the industry, and the efficiency of a concern. In wholesale and retail trade, pre-war profits of a firm formed the basis of comparison. Excess profits above these standard figures - which may vary between branches as well as between concerns within the same industry - were taxed away and were in the future to be used for price cuts. It seems that by the end of 1941 the pressure on final consumer goods prices was somewhat relaxed.<sup>2/</sup> The scarcity of products made it inadvisable to increase idle funds by further price reduction. In 1942, however, the Price Commissioner emphasized again the necessity of lower prices in every field.<sup>3/</sup> However, the semi-automatic relation between price reduction and profit taxation was abandoned early in 1942. The tax burden was re-

1/ Mitteilungsblatt der Reichskommissars (1941), p. 654.

2/ FZ, December 25, 1941.

3/ DV (1942), pp. 766 and 797.

duced considerably, the scope of the measure was limited to concerns with more than 30,000 RM. profit, excess profits were defined as those exceeding profits of the fiscal year of 1938 by more than 50 per cent (taking into account any "extraordinary" factors affecting the profit situation). Half of the tax may be kept by the taxpayer for stated expansion, or, in some instances, because of extreme hardship.

## B. BASIC PRINCIPLES OF GERMAN PRICE REGULATING POLICY

### I. THE GENERAL PROBLEM

The immediate aim of price control was stabilization of prices at the level of October 1936. The method differed from the panacea of the twenties, which aimed solely at stabilization of price level by means of monetary policy. Rather emphatical expression has been given to the view that the final aim is to establish a "fair" price system, described somewhat vaguely as a system of price relationships guaranteeing a maximum of economic stability. The policy did not, in fact, follow that pattern. Price changes which occurred were determined by more mechanical criteria, such as unavoidable cost increases or the desire to cut profits which seemed excessive. In general, mutual price relationships were not greatly upset by every individual price change. War production proceeds on the basis of a system of price relations which was, by and large, appropriate to 1936 conditions.

If, nevertheless, the economic system functions quite efficiently, it is due, on the one hand, to the adjustment mentioned and, on the other, to the diminishing economic importance of prices in general. To the extent that the rationing of supply and the commandeering of production displace the directing of the flow of goods, any price system becomes bearable, however abstruse.

The German price administration was not worried about the difficulty alleged to confront a planned economy at the very moment of inauguration, i.e., the establishment of an initial price system out of nothing. Ceilings on prices prevailing immediately before the introduction of price control offered a workable solution.

True, many products are produced not for market but only on contract, and consequently prices could not be decreed in advance for a certain period. But this was no insurmountable obstacle. The technique of dealing with it has been treated in Chapter A (II, 4b). Finally, the impossibility of adjusting prices to every temporary and local demand shift, or to every small quality modification, turned out

to be an asset, since it favored a desired trend towards standardization of production.

## II. THE ROLE OF STATISTICS

Statistics are an obvious instrument of all planning and are, of course, widely used in directing German economy. In 1936 the Price Commissioner took over and extended the Price Study Unit of the Ministry of Economics, engaged in price-cost analysis. When a price change seems necessary, the agency makes a field investigation of the cost structure of the industry in question, examining accounting data of each concern in the most minute detail. Hence the effects of any cost change upon the price of the final products may be determined.<sup>1/</sup> It is claimed that the available information also facilitates immediate appraisal of more distant repercussions of price change, e.g., how an increase in miners' wages would affect cost of production of paper. Such cost studies, however, seem not to be as highly refined as might be assumed from citations. The real relation between cost and output has hardly been studied in Germany.<sup>2/</sup> The problem, on the other hand, loses some of its significance in times of full utilization of all resources. More sophisticated statistical techniques, such as the use of coefficients of price elasticity of demand, have apparently been restricted to exceptional instances if applied at all.<sup>3/</sup>

## III. SOCIAL COSTS

It has often been stated that a planned economy offers an opportunity to care for "social costs." The German system certainly does not make full use of this opportunity. Neither the price stop decree nor any special price regulation contains a single item classifiable under this heading. Certain cost items repre-

-----  
1/ Miksch, op.cit., WK (1939), p. 250.

2/ See the statement of one representative of the semi-official Reichs-Kuratorium für Wirtschaftlichkeit: A. Meier, in WT (1939), p. 67.

3/ In a study of the Institut für Konjunkturforschung, C. Boehm, Die Elastizität der deutschen Getreideanbauflächen (Berlin 1936), expresses (p. 9) the hope that an investigation into the relation between grain prices and area under cultivation would be employed by the price-fixing authorities. A similar remark is made by Wagemann in the introduction (p. 3). The .16 elasticity coefficient for rye, the main German crop, should not, however, lead to excessive expectations of a rise in cultivated area due to an increase in the price of rye.

senting what is regarded as social waste are sometimes suppressed. Cotton spinners were not permitted to include more than the "unavoidably necessary" special sales expenses, and even these were limited.<sup>1/</sup> The numerous references in price regulations to "economical management" and "reasonable costs" are designed to set limits to production waste. But social costs in the proper sense of the word are hardly covered by any German price legislation except by the decree concerning compulsory cartels. Competitive waste plays some part in decisions of the Price Commissioner. Cartels are frequently enforced by government action. They are supposed to introduce a Marktordnung by establishing rules of business conduct. Frequently they are permitted to increase prices above the current level and are, at the same time, requested to try to act as agents of industrial rationalization. It is argued that "chaotic" competition constitutes a strong instance of social waste, misdirects national resources and prevents the economic system from reaching a stable equilibrium. A price increase that helps establish some measure of profit for the bulk of industry is regarded as not too heavy a reward for the elimination of such waste. If it is not a compensation for social costs really incurred, it is at least a price paid to prevent some social costs from arising.

The compulsory cartel law is a creation of the Weimar Republic. It authorized the Minister of Economics to combine industries by compulsion and to restrict investment in such industries. It has been applied in about 100 instances, mainly in the period before full employment. In the course of time, the price aspect lost some of its importance, and the law became mainly an instrument of capital policy.

#### IV. ELIMINATION OF MINOR MARKET IMPERFECTIONS

The technique of obscuring true prices, particularly those to the final consumer, through inadequate description of goods is widespread. In the opinion of advocates of planned pricing, one of its minor advantages is the elimination of such

-----  
<sup>1/</sup> DV (1940), p. 546.

practices. Certain plainly unfair trade practices, such as deliberate mis-statements which persist in many otherwise highly competitive markets due to tradition and inertia, may be suppressed.

Measures had been taken against these methods long before the Price Commissioner began his work. They consisted mainly in enforcing the posting of clearly visible and unambiguous price lists in bakery, butcher and some other food shops and barber and beauty shops. They have been extended to cover a growing number of food products. The tendency was towards stricter and more comprehensive rules, frequently amended when new forms of evasions were discovered. Branded goods have come under stricter regulation to eliminate the prevailing practice of evasive references to weight and size. On some products the date of production must be stated. Some products are sold at odd weights, and in addition to actual weight and sales price the price per pound must appear on the label. A ruling of the hotel "Group Leader" established a detailed list of breakfast items which guests might expect when the quote price was as is usual in Germany for "room and breakfast."<sup>1/</sup> A price tag provision is part of the furniture price regulation of June 1940.<sup>2/</sup> No decree on price tags and lists for the whole retail trade was issued before the end of 1940.<sup>3/</sup> Obviously this whole domain can be and has been attacked in an uncontrolled as well as in a controlled price system; stringent price fixing simply makes it more urgent since it closes easy ways of evasion.

As in other respects, cartels were of help here. Rational cartel technique simply presupposes uniformity of price quotation. Machinery was thus at hand. Moreover, one group of cartels (Konditionenkartelle) was devoted exclusively to the objective of standardizing such conditions of transactions as trade discounts, packaging, terms of payment, etc., and fitted perfectly into the pattern of a government policy which aimed at getting rid of market imperfections. Occasionally the Price

-----  
<sup>1/</sup> RA, No. 138 (1937) in Engelsing, op.cit., p. III, 21.

<sup>2/</sup> RGB (1940), I:903.

<sup>3/</sup> The rule goes into great detail in differentiating between branches. It is published in RGB (1940), I:1535.

Commissioner speeded this process up; he forced the producers of steel cabinets, who formerly sold at varying and excessive discounts, to reduce list prices by about 5 per cent and to adjust trade discounts "to a justified amount."<sup>1/</sup> The 1938 unification of automobile insurance served a similar purpose.<sup>2/</sup>

Under this heading come, furthermore, a number of measures aimed at improving accounting. The tendency to replace old-fashioned traditional accounting practices with up-to-date forms is much older than price control. Since the end of the last war trade associations and cartels had made considerable effort to introduce uniformity into members' accounting procedure; certain cartel practices, such as profit pooling and the establishing of uniform prices for members required and presupposed comparable accounting. A semi-official agency established by industry and supported by government (the Reichs Kuratorium für Wirtschaftlichkeit) devoted considerable energy to studying this question, and in 1927 the highly cartelized paper industry became the first to introduce a uniform system of accounts.<sup>3/</sup> The establishment of some measure of industrial self-administration through the "groups" - compulsory trade association - gave the issue a new impetus. While in general "Group" authority was kept within narrow bounds - chiefly a harmless sort of cartel supervision and general "educational" and "representative" functions - and while they were strictly prohibited from interfering with the "market sector" of the economy, they were directed by law to revolutionize industrial accounting.

Price control itself contributed relatively little to the improvement of accounting, except in the field of government contracts through the very thorough LSO rules. A number of individual price regulations provide cost calculations. They hardly interfere, however, with the established accounting systems of the individual producer.

1/ DV (1939), p. 1166.

2/ VWP (1938), pp. 150 and 168.

3/ The reform was furthered considerably by the activities of the Department of Business Administration of Cologne University, directed by Prof. Schmalenbach, the leading authority in the campaign for better industrial accounting. See his Der Zeitplan (Leipzig 1932).

The outgrowth of the work of the "Groups", however, is a regulation concerning a "Uniform System of Accounting" published in 1937.<sup>1/</sup> It establishes certain general rules: double entry or its equivalent, precision, "organic" coordination of all parts of bookkeeping to supply data for statistics, cost accounting and planning, a detailed breakdown of costs, systematization and completeness of records. Moreover, it contains a master chart classified along the lines of the Dewey-decimal system. It directs the "Groups" to adjust the chart to the peculiarities of the respective industries. In most industries the "Group" acted quickly, and in 1938-39 a large number of charts were prepared, approved by the Ministry of Economics, obligatorily introduced by the "Groups" and supplemented by directives for bookkeeping which, in some instances, fill a whole volume.<sup>2/</sup>

The importance of the Uniform System for price control should not be overestimated. It is useful in that it removes inequalities of accounting and creates an appropriate basis of comparison within an industry. But it does that merely in a formal way. It contains no valuation rules. It is a purely classificatory device and in that respect differs greatly from the LSO. It was supplemented early in 1939 by the "General Principles of Cost Accounting"<sup>3/</sup> which established minimum requirements of cost accounting. The war prevented their early introduction into industry by the "Groups."

#### V. EXTENSION OF PRODUCTION BEYOND THE COMPETITIVE LEVEL

The ideal distribution of resources is attained where products are sold at prices proportionate to their marginal cost of production. Marginal costs can be defined in two ways. Bookkeeping costs may be divided into two groups, according to whether they vary with output or not. Or a total cost curve may be computed on the basis of the number of observations of total costs at various degrees of

-----  
1/ Ministerialblatt für Wirtschaft (November 1937).

2/ The master chart is published in Ministerialblatt (November 1937). There is a survey of charts introduced up to the middle of 1939 in Betriebswirtschaft (1939), pp. 189-192. The matter is discussed in Linhard, "Verbesserung und Vereinheitlichung des betrieblichen Rechnungswesens" in Courads Jahrbücher (1939), pp. 270-30.

3/ Ministerialblatt für Wirtschaft (January 1939).

capacity utilization. Marginal costs are then expressed as the increment of total costs arising associated with a small increase of production.

The second method is obviously more correct. But in only one instance does an attempt seem to have been made to establish such a relationship between cost and output for German concerns.<sup>1/</sup> In the cement industry marginal costs have been found to be a straight line throughout the full range of operations, a fact in accord with observations in some American industries and one which helps explain the notorious instability of the German cement industry. No specific problem of decreasing marginal costs arises.

There remains the question as to whether the German practice of price fixing acknowledges the marginal cost principle in cost calculations or, more specifically, as to whether the pertinent LSO rules or similar provisions contain elements which lend themselves to such an interpretation. This is not the case. The LSO regulation excludes certain items, but the distinction between admissible and inadmissible costs is very different from that between marginal and price costs. First of all, purely financial costs are distinguished from costs of production. Financial costs are excluded to some extent, but this is equally true of marginal and prime costs; it refers, e.g., to interest on capital borrowed to finance additional output. Inadmissible wasteful expenditures may likewise be either marginal or overhead costs. Rational overhead costs are quite definitely a permitted cost element. Depreciation allowances are limited. The rule that they shall cover real wear and tear (verbrauchsbedingte Wertminderung der werkseigenen Einrichtungen) suggests that they should vary with output. But the fact that they are at the same time made dependent on the expected life of the assets (erfahrungsgemasse Lebensdauer der Anlagen) is proof enough that the full value of plant and equipment may be recovered over the period in which they are able to work. Obsolescence allowances are inadmissible.

-----  
1/ Etrke, Die Übererzeugung in der Deutschen Zementindustrie (Jena 1933). p. 307.

That there was no intention to let the marginal costs rule replace the average cost principle follows, thirdly, from the criteria established for changes in ceiling prices. Price reductions are enforced when profits appear unusually high and price increases are permitted when receipts do not cover legitimate costs. Total profits are the difference between total receipts and total costs. The marginal cost concept does not enter. Moreover, it was not the aim of German economic policy to increase national income, as in the case in the model economy planners. The aim was rearmament, and the economy was of secondary interest.

It is true that many plant operations are carried out to the very limit of capacity, but for very different reasons; physical capacity rather than financial considerations is the real limiting factor. Beginning by 1937, many annual corporation reports have complained that output exceeded the optimum. Each such complaint requires careful interpretation. Often it means no more than that profits did not increase despite increased production, because of tax increases, higher social security contributions and similar factors. Sometimes an increase in depreciation in excess of normal requirements is responsible.<sup>1/</sup> Sometimes decreasing profits are due to higher costs of raw materials for which price rises were granted. Sometimes it is a higher payroll due to increased overtime which is blamed;<sup>2/</sup> in itself this does not point to decreasing physical returns. Sometimes, however, it is stated definitely that production has gone beyond the technical optimum,<sup>3/</sup> indicating that the stage has been reached where total receipts might still be in excess of total costs while marginal receipts were no longer covered by marginal costs.

Because of high capacity utilization, profits stayed at an unusually high level.<sup>4/</sup> Despite complaints about rising marginal costs, as far as can be concluded

1/ See, e.g., the annual report of the Kloeckner Corp., in WA (1938), p. 303.

2/ Harpener Bergwerksgesellschaft, in WA (1938), p. 162.

3/ Gute Hoffnungshuetto, in WA (1938), p. 328.

4/ "According to the available statement for 1940, the profit situation did not deteriorate but improved further" - FZ, February 16, 1941.

from fragmentary evidence in annual statements of a number of large corporation, total profits remained rather steady at least until 1941.<sup>1/</sup> The main reason seems to have been the more favorable distribution of overhead costs over total output.<sup>2/</sup> Since repairs and expansion are treated largely as current expenditure, the postponement of such expenditures due to war necessities may have had some part in keeping down total costs.<sup>3/</sup>

But published profit and loss statements reckon depreciation far in excess of the technically necessary amount which the LSO and the Price Commissioner would sanction. Thus statements presented to the Price Commissioner would probably show an even better profit picture.<sup>4/</sup> Lack of opportunity to maintain repairs and expansion at the old level did not, of course, hinder the accumulation of depreciation allowances. In order to absorb these funds there was created a special type of government bond ("Iron Savings" for business) carrying special tax privileges after the war.

The profit situation varies from industry to industry. Some sections of heavy industry were in a less favorable position than manufacturing in general. The price stop of 1936 had been preceded by a considerably increase in uncontrolled prices, while administered prices had risen only slightly. Consequently, steel and coal prices had been stabilized by the ceiling rules on a relatively low level. In 1941 sales of steel ingots and semi-finished steel would in some instances not have covered their total costs. Since the German steel industry is strongly inte-

1/ See, e.g., NZZ, July 1, 1942.

2/ See remarks in the Frankfurter Zeitung (controlled by I.G. Farben) on the 1940 Farben statement. "It may be assumed that a new and considerable sales expansion again affected costs favorably, so that not even war price policy - of the corporation and the administration - fully prevented a desirable improvement, although it may have narrowed its margin materially." (August 1, 1941).

3/ From the 1940 annual statement of the Stahlverein; "Extreme utilization of all capacity due to wartime necessities caused a material increase in repair and renewal requirements which, in consequence of the strained production situation, could be satisfied only to a small degree. The major part had to be postponed for the time being despite its urgency." Neue Züricher Zeitung, March 11, 1941. The Frankfurter Zeitung (June 16, 1941) contains a list of concerns which in their 1940 statements refer to neglect of repair work because of these factors. It appears from national income estimates for 1941 that the amounts in question were of an order of magnitude of 5 to 10 billion Reichsmark.

4/ (see next page).

grated vertically, concerns found compensation for such losses in the more profitable prices of products of rolling mills and of their own steel-consuming subsidiaries. This situation strongly revived the tendency toward renewed vertical concentration.<sup>1/</sup> The Price Commissioner acknowledged that the situation of coal and steel producers was unsatisfactory, but in 1941 and 1942 he repeatedly barred price adjustment, citing the strategic importance of the products.<sup>2/</sup>

VI. IMITATION OF THE COMPETITIVE PROCESS

1.) As General Policy

In scientific planning discussion it is often argued that competition is, in reality, not in accord with textbook patterns, and that public control could reduce observed discrepancies, thus achieving a state of affairs quite similar to that of perfect competition. German price control offers some data on this question. Ideological talk about Leistungswettbewerb may be completely disregarded. But the policy offers conspicuous examples of attempts to imitate free competition consciously, and to achieve its goals better than could competition without interference. The scope of some monopoloid institutions has been reduced. Cartel prices are controlled. Numerous trade marks have been abolished. Some canned goods are packed under a universal label.<sup>3/</sup> Compulsory registration of all new price agreements and changes in existing agreements was decreed as early as 1934,<sup>4/</sup> and, since 1937, the Price Commissioner has been empowered to cancel price maintenance agreements covering a number of branded goods.<sup>5/</sup> The mere announcement of the decree gave rise to cuts in

<sup>1/</sup> (from preceding page) Depreciation seems to have been enormous in 1938. See the remarks in WA (1938), p. 308. "It seems certain that for quite a time there has been not only in the case of the Kloeckner Corp., but in industry in general, a tendency to emphasize strongly the reserve aspect in depreciation policy." With reference to prices in the automobile industry, see WA (1938), p. 211: "It must be stressed that the whole recovery process and in addition the whole depreciation policy has been built on the domestic automobile price policy."

<sup>1/</sup> FZ, July 6, 1941.  
<sup>2/</sup> See, however, the footnote on page 46  
<sup>3/</sup> DV (1940), p. 257.  
<sup>4/</sup> RGB (1934) I:1248. Reformulated in decree of November 25, 1940, RGB (1940) I:1573.  
<sup>5/</sup> RGB (1937) I:1139.

prices fixed by such agreements (e.g., for products of the chemical, electrical, paper, metal, textile and food industries) amounting to a total of about RM 100 million per annum.<sup>1/</sup>

Imitation of the competitive mechanism should not be understood too literally. A combination of control of monopoly prices, removal of market rigidities, and general non-interference would have been the appropriate instrument therefor. Obviously, German price control goes much farther. Price increases such as under competition usually follow a rise in business activity were not permitted. Legal rises were restricted to instances of "justified" cost increases, small in size, since successful price control is in itself a factor limiting cost increases, and since quite a number of cost increases were classified as impermissible. Under no circumstances was rising scarcity regarded as a reason for price increases.<sup>2/</sup> The normal function of prices - to limit demand to the available supply - was disregarded as soon as the ceiling, or its substitute, was reached. The alternative was rationing. The "speculative" element in price formation was suppressed. Commodity exchanges disappeared, "expectations" have no place in the system as far as prices are concerned, except in the improbable event of an anticipated oversupply. The role of expectation was reduced to determining output program and volume at given prices. Only within these limits can there arise the question of how the fair play of competition was imitated in the practice of German price control.

#### b) Voluntary Price Reductions

A price ceiling means control of prices in one direction only. Price reductions are still possible and much desired. There was never much illusion in the supervising agency as to the role of price reduction enforced by play of competitive forces in an economy nearing the point of maximum plant utilization.<sup>3/</sup> There were so-called "voluntary" price reductions.<sup>4/</sup> But from the outside one cannot judge to

1/ Kallensiefen-Dorinkal, op.cit., XV:85.

2/ See remarks of the Deputy Price Commissioner in VJP (1939), p. 306. The now Price Commissioner expressed similar views in 1942.

3/ FZ, February 16, 1941.

4/ For aluminum, see VJP (1937), p. 410; for bulbs, see p. 534; for metals, see

what extent the Price Commissioner may have had a hand in the matter. On the whole, the fine differentiation among "voluntary," "suggested" and "decreed" price cuts appears rather unrealistic. It seems that the 1937 reduction of fire insurance premiums was the result of real competition without interference by the price regulating agency.<sup>1/</sup> But such cases are exceptional. For a while, a strong obstacle to price reduction existed in the prevailing uncertainty as to whether the revised price was a new ceiling or whether prices might be increased to the level of October 1936 in the event of some new change in the market situation. The final decision favored unconditional upward revision. This was reversed after the outbreak of war; thereafter prices once reduced were regarded as constituting new ceilings, and reversals were permitted only in cases of further downward changes.<sup>2/</sup>

The incentive to increased production effort attributed to rising prices cannot function in this setup. The usual answer given in German literature is that profits rather than prices are the determining factor. They originate in decreasing costs with better social effects than in price increases. The freezing of market conditions, it is claimed,<sup>3/</sup> permits businessmen to concentrate fully on the production aspect and to contribute more than before to the efficiency of the economy.

### c) Enforced Price Cuts

Most price reductions admittedly originated in the office of the Price Commissioner. It was declared policy to reduce prices wherever possible, and the war economy decree put in legal terms a tendency which, from the outset, was dominant in the Price Commissioner. Although the list of price reductions is quite impressive, it should be kept in mind that the price index nevertheless slowly rose. Price increases remained either more numerous or weighed more heavily than reductions. Both pre-war practice and wartime interpretation of the new legislation used excessive profits as criterion of price reductions. Profits were generally regarded as the

-----  
1/ See reviews of the annual statements of the Gerling Insurance Co., in WA (1938), p. 251; the Rheinische Feuer Versicherungsanstalt, ibid., p. 252, and the Colonia Insurance Corp., ibid., p. 255.

2/ WZ, February 16, 1941.

3/ H. Bente, "Führungswirtschaft und Persönlichkeit," in VJP (1939), p. 378.

4/ A survey of the first year is found in the Wochenberichte of the Institute for La Research, November 3, 1937, p. 251.

"reserve" out of which further price cuts could be financed. The decision as to how to distribute reductions in total savings among a variety of items sold by one concern - all-round price cuts versus substantial cuts in prices of selected commodities - was originally left to the concern. Later the Price Commissioner gave preference to necessities and, still later when the scarcity of consumer goods assumed greater dimensions, military goods had first call on price reductions. To be sure, real price reductions were not equivalent to those which perfect competition theoretically would effect. They were sporadic, arbitrary, probably sometimes clumsy in size and timing. But advocates of non-interference under conditions of complete market flexibility would have little ground for objections to the general tendency on this one point.

A full appraisal of this aspect of German price policy, as of all others, faces the difficulty that the facts observed do not cover a full business cycle. In a period of decreasing prices, the Price Commissioner probably would not have followed the liberal pattern. The Nazis would argue that business recession could be avoided by other control devices at their disposal, and that thus the problem would not arise. Their policy in the first years after 1933 demonstrates faith in inflation as a form of combating depression.

#### d) Transfer of Savings

It is the social function of free competition continuously to undermine the perpetuation of differential rents. The Price Commissioner acted accordingly, when, in 1937, he reduced aluminum, pulp and cellulose fibre prices.<sup>1/</sup> Here technical progress had produced new savings. He carried matters one step further by attempts to have the saving transferred through all stages to the final consumer. When

<sup>1/</sup> The cellulose fibre cut was moderate - from RM 1.60 to RM 1.45 (August 1937). It may be compared with the reduction from RM 3.50 to RM 2.70 in August, 1935 and to RM 2.60 in 1936, before the office of the Price Commissioner was created. That the situation in this industry was exceptional is indicated by the 1936 profit and loss account of the Spinnfaser A.G., which showed a profit of 1.3 million on 10.5 million RM share capital, after depreciation of 4 million RM and one million RM for special reserve. Spinnfaser was then the only producer apart from I.G. Farben (BZ, August 29, 1937).

aluminum prices were reduced, the price of radio tubes was cut by an equivalent amount,<sup>1/</sup> and it was stressed that the procedure was in the nature of general policy. Part of this<sup>was</sup> propaganda, since even considerable price reductions in primary stages of production usually amount to little in the value of the final product. In industries where special price calculating rules based on real purchase prices of raw material had been introduced, price reductions were transferred automatically. In order to give the transfer greater impetus, the amount involved was in many instances concentrated on a few products: savings gained by reductions in radio dealers' margins were supposed to effect reductions only in the cheap radio lines and surplus brewery profits were to prevent an otherwise unavoidable price increase in rye flour, etc.

#### e) Reduction of Cartel Prices

The attitude of the Price Commissioner towards cartel pricing - again in a period of rising business activity - does not differ materially from traditional liberal views. Cartels have been incorporated into the new system. Opposition to the from the radical wing of the Party was quickly repressed. Functional division of labor between "Groups" and cartels within an industry was worked out; to the cartels was reserved exclusively the price and market side of economic activities. Among other things, "Groups" were charged with "controlling" cartels, a sort of thinly disguised cartel self-control. The price stop decree took the power to establish price out of the hands of the cartels and put their experience and price-fixing machinery at the disposal of the Price Commissioner.

Cartel price policy has never been uniform and does not adhere strictly to the supposed system of keeping prices at the level of the cost of the least efficient member. Over periods of time considerations of price stability entered strongly and the desire not to disturb public opinion played a part. A compromise had to be found between the interests of the more efficient concerns, who could carry on without cartel protection, and the others who relied on their potential nuisance value as outsiders. On the whole, cartel pricing policy was not over-subtle.<sup>2/</sup> Prices were na-

-----  
1/ VJP (1937), p. 410.

2/ Verfahren der Preispolitik (Berlin 1927), p. 144.

turally higher than under free competition at the same level of technical efficiency. Cartels claim some superiority in this last respect which would offset their practices of raising prices. There are instances of cartel prices determined by the cost of the highest cost member. In some branches of china goods, the method is known to have been in use for a long period.<sup>1/</sup> Averaging of costs prevailed in other cases, with due consideration for less efficient members.<sup>2/</sup> Subsidies were sometimes paid to marginal cartel members, more frequently in the form of a purchase of their "quota" than by profit sharing. Reference was made above to "cost computing cartels" which used to fix standard prices on the basis of a cost averaging process and permitted lower cost-members to deviate from that standard after submitting proof of costs.<sup>3</sup>

Whatever the price setting rules of cartels were, the price stop decree first froze all existing uniform prices at the reference date level. Later the Price Commissioner reduced certain cartel prices, including several (but not all) coal prices,<sup>4/</sup> and after the war economy decree the principles of cartel price determination were fundamentally altered. Cartel prices are now supposed to be based on the costs of a concern of "average efficiency" (mittelguter Betrieb), a notion pretty close to Marshall's "representative firm." It is an arithmetic abstraction, the average cost of working concerns, excluding those declared to be sub-marginal. The fate of concerns with higher costs depends on the concrete situation. For a while, they may continue on reserves or by postponing repairs. "The measures to be taken against an uneconomical concern - closing down, merger, subsidy - will be decided on in the individual case by the authorities," the Deputy Price Commissioner points out.<sup>6/</sup> The mechanism is not quite the same as competitive price formation, even if one overlooks all differences arising from the change of costs at various

-----  
1/ W. Tröemel, Kartelle in der deutschen Geschirr- und Luxusporzellanindustrie (Jena 1926), pp. 78 and 131.

2/ The steel industry is an example; see A. Klotzbach, Der Roheisenvorband (Düsseldorf 1926), p. 273.

3/ See p. 12, above.

4/ WP (1937), p. 142.

5/ Flottmann, "Kriegspreise," in VJP (1939), p. 1060.

7/ 1937 - 1941

levels of plant utilization. The cost average of the better class of concern is not necessarily identical with the marginal costs of a competitive system in industry. Moreover, for the sake of uniformity of cartel prices, which makes price control easy and handy, savings arising in one concern are distributed over the whole industry instead of being used for a substantial price cut on the goods of the concern in which they originate. But by and large the matter brings cartel prices more in agreement with the competitive ideal than the former practice.

The profit stop decree went one step further. Costs of an efficient concern (guter Betrieb) were substituted for costs of an average concern. The price includes an "efficiency premium" for low-cost producers. This safety margin prevents medium-cost producers from being automatically driven out of business because of losses. Under certain conditions, the principle of price uniformity - the cornerstone of cartel price policy - has been abandoned in favor of "group" prices. Less efficient concerns are permitted to charge a higher price at the risk of being neglected to some degree when it comes to orders and the allocation of labor and raw materials.<sup>1/</sup>

On four occasions, at least, the Price Commissioner tried to force cartel prices down. The action in 1937 was already mentioned. In 1940 a decree was introduced<sup>2/</sup> to make future price agreements and changes of existing agreements dependent on the consent of the Price Commissioner. It covers both agreements of the cartel type and resale price-maintenance contracts. Within the framework of the profit stop decree of 1941, cartels were again subjected to special treatment. In order to preserve price uniformity, they were exempted from general profit stop regulations, which called for individual price adjustments of each concern on the basis of profits. Instead, cartels were asked to submit to the Price Commissioner pro-

-----  
1/ NZZ, August 12, 1942. Actually very few cartels made use of this possibility until the end of 1942.

2/ RGB (1940), I:1573. See also VJP (1941), p. 286, and W. Schutz, "Neuregelung der Preisbindungen," in DV (1941), pp. 656-660. The decree consolidates the existing legislation which goes back to 1934 and 1935.

posals for industry-wide price reductions. A new attack was opened on cartels by a decree of July 1942, which threatened with the expiration of their contracts such cartels as failed to reduce prices by the end of the year. Isolated price reductions are known to have come about as a result of each of these four actions. But the large scale effect which was sought seems not to have been realized,<sup>1/</sup> and the potential value of the decrees seems greater than the real. Price changed less than the sequence of decrees would suggest. This is true not only of cartel prices, but of others as well.

It is remarkable how many single components of the official wholesale price index (if the agricultural sector is excluded) remained virtually stable. Wirtschaft und Statistik carries a monthly list of wholesale price quotations. Between November 1936 (institution of the price stop) and February 1941 (the latest available data) its composition underwent some changes attributable partly to the disappearance of a number of items from the market, partly to the inclusion of substitutes, partly to an alteration in quotations (change of qualities; shift in basing points, etc.). The list of non-agricultural products as of November 1936 contains 111 items, the later list eighty-five, of which nineteen are now or altered; of the sixty-six items which are directly comparable, twenty-nine were unchanged over the whole period under observation, among them some steel, cement and coal prices, all quite vital. Every steel product price was stable. A list of prices of some fifty products<sup>2/</sup> at the beginning of 1941 corresponds item by item to that

1/ The main victim of the action of 1942 seems to have been the electrical industry which supposedly sacrificed "several hundred million" RM through price reductions.

2/ Published monthly in Stahl und Eisen. It should be added, however, that the basing point system was slightly modified on October 1, 1940. In order to alleviate the burden of the steel consumer in eastern districts, the maximum freight addition to the basic price was limited to 25 RM per ton. As compensation for subsequent losses, an all-round "special gratification" addition to basing prices was permitted. See VJP, November 5, 1940, p. 945. That steel prices remained unchanged until 1942 is confirmed by statements in the NZZ of July 14, 1942. Only if costs had risen so as to shift the cost level of the efficient concern in 1941 and the average concern in 1939 exactly to that of the marginal concern in 1936/1937 could the various price rules be said to have been observed at least formally. In August 1942 it was decided that some, but not all, steel claimant agencies (Kontingenträger) had to pay a 5% sur premium of RM 6.50 per ton on list prices. Thus there exists in the steel industry a dual price system. However, prices are scaled not according to the of-

of November 1936.

The "group" price system for military orders is but one application of this purified cartel price principle. First of all, instead of individual ceiling prices it creates a set of nationwide uniform prices. Secondly, it tends to abolish surplus profits since each concern is made a member of a price group which leaves it only a grossly reduced profit. In addition, it embodies incentives for a concern to seek to enter a lower cost group. Thus the set-up contains all the dynamic advantages attributed to competitive efficiency. Cartel price formation and group price formation are substantially gleichgeschaltet, and the only question remaining to be answered is whether the price pressure has not been overdone. The number of permit groups is usually very small and the whole set up tends to leave the majority of concerns in danger as long as the "efficiency premium" for the best concerns is small and the number of efficiency groups is as limited as at present.

f) Provisions to Replace Actual by "Reasonable" Costs

For obvious reasons there is a strong disinclination to go back to costs as a price determining factor. It is often unavoidable if comparable prices are unavailable or if ceiling prices of a far-away period begin losing their contact with reality. In such instances attempts are often made to substitute bulk line costs, reasonable costs, costs of the representative concern, or actual costs. A list of devices in this field - by no means exhaustive and providing only one or two examples in each group - must include the following items:

1. In some cases actual costs were permitted without further adjustment. In the first textile price regulations actual cost increases in raw materials were supposed to be automatically reflected in commensurately higher prices of the product.

2. As stated above, cartel price regulations refer to costs of the concern with average efficiency. Under the profit stop rules, the basis was shifted to an efficient concern. The efficiency clause plays a growing role in German

price regulation. The profit stop of 1941 determines appropriate prices of each individual producer with the help of "basic" profits. They are a combination of interest on "necessary" capital and a percentage of annual sales, differentiated according to the rate of capital turnover in each industry. These "basic" earnings apply only to concerns with average efficiency. High cost producers must be satisfied with smaller earning rates, while low cost concerns are rewarded by additions to the basic rate. The efficiency grade and the size of additions and deductions is fixed by negotiations between the concern and the Price Commissioner. Concerns are again classified by efficiency groups in the decree of February 1942 on prices for government contracts which replaced the old LSO regulations. The rule of averaging individual bids was originally recognized as one of the most progressive details in the setup covering the sector of government orders. According to a statement in the Frankfurter Zeitung, it was, however, utilized hardly anywhere.<sup>1/</sup> This admission is remarkable, signifying lack of conformity between the text of German price control laws and economic reality.

3. Granting price increases was from the beginning made dependent on economical management. The LSO rules and related rules apply to firms observing standards of economical management; they order profit deductions in cases of inefficiency. The war economy decree permits price reductions below any ceiling price when actual costs, as measured by "standards of economical management," appear unjustifiable. Only legal rates are admissible as wage rates in building contracts, and the productivity of labor must meet certain objective standards laid down by the Reich Committee for Labor Studies.

4. Many rules limit single cost elements. As early as 1935 inclusion of the compulsory industrial export levy in costs of production was forbidden.<sup>2/</sup> The LSO restricts depreciation to well-defined "necessary" amounts, and permits inclusion of only "reasonable" expenditures for patent fees, publicity costs, commissions to agents or charitable contributions.<sup>3/</sup> Construction price regulations con-

-----  
<sup>1/</sup> FZ, November 12, 1941.

<sup>2/</sup> The ruling was issued long before the price stop decree; see Engelsing II, 11, <sup>3/</sup> 1941 Letter No. 812 (1935) of the Price Commissioner, who was then in charge.

tain a list of permissible depreciation rates for machinery and equipment used in the construction industry. They keep margins for overhead costs within "fair" limits, to be fixed by the authorities. Cotton spinners were allowed to include special selling costs, amounting to no more than five per cent of the final price if "necessary and recorded."<sup>1/</sup>

5. Many price regulations contain maximum mark-ups. They are usually differentiated. The coffee importers' margin in 1938 was 10 per cent for Colombian coffee and 12 per cent for all other kinds. Sharing of profits with the subsequent economic stage was forbidden.<sup>2/</sup> In 1940 maximum mark-ups for furniture wholesalers were fixed at 25 per cent for plain and 30 per cent for varnished furniture. The most elaborate scheme of this kind is contained in the textile retail price regulation of 1939; lists comprising some fifteen groups of textile goods constituted an appendix of the decree, with maximum margins for a large number of individual items.<sup>3/</sup> They ranged from 25 to about 100 per cent, and were in accordance with the real pricing policy of the industry, higher for high cost products than for cheap goods.

A more individual technique consisted in fixing the maximum margin on the basis of the real margin of a former period. This is the essence of the average profit method of an EPT as used in the profit stop regulation for wholesale and retail trade.<sup>4/</sup> In 1940, wholesale trade margins in the textile industry were determined according to the same principle.<sup>5/</sup> They were for every concern identical with those valid in the first eight months of the preceding years for equivalent products. They were slashed in a number of instances by a new decree about a year later.

6. Some maximum trade margins are fixed not merely as a percentage but also in terms of reichmarks. In 1939 silk importers were permitted to add no more

-----  
1/ DV (1940), p. 546.

2/ VJP (1938), Decree No. 286.

3/ RGB (1938), I:877.

4/ FZ, July 27, 1941.

5/ RGB (1940), I:981.

to their costs per kilogram of sales than the same amount in RM which they had received on the average from similar sales between January and September, 1936.<sup>1/</sup>

Wholesalers of caraway seed were to add to their purchase price, in addition to freight, no more than fifteen RM, while the retailer could add a maximum of 30 per cent to the purchase price, sales prices to be no higher than RM 1.20 per pound.<sup>2/</sup>

In a general way, the Anhangekalkulation of the early textile price regulation boils down to the same principle.

### g) The Risk Factor

Under the price stop, no special treatment of the element of risk was required, since the ceiling was determined by the reference date market price rather than by the addition of cost elements of a concern. No instance is known outside the insurance business in which, under the emergency clause of the price stop order a price increase was permitted because of increased risk. Risk is one of the profit factors permitted by the LSO. But only general risk arising from a change in demand condition is meant. Special risks covered by insurance (or by "self-insurance") are admitted cost items, "extraordinary" risk additions need special approval. In the opinion of the Price Commissioner, "general" risk is less than in a free market system, since State activities guarantee continuous full employment of resources and orders from public agencies eliminate all "personal" risk.<sup>3/</sup> This justification may be dubious: complaints are frequent with regard to slow payment habits of government agencies, and the method of payment during one phase of the second Four Year Plan - 40 per cent in bonds (tax certificates), with a variable stock market price certainly introduced a new risk element. But such statements are as good as law. Government orders were, in fact, frequently tied up with long-term sales guarantees and to this extent market risk was undoubtedly diminished.<sup>4/</sup>

The War economy decree went still further.<sup>5/</sup> War risk is acknowledged

1/ VJP (1938), Decree No. 163.

2/ FR, July 27, 1939; VJP (1939), Decree No. 453.

3/ J. Wagner, op.cit., VJP (1938), p. 739.

4/ Lampe, op.cit., p. 163.

5/ Flottmann, "Kriegspreise" in VJP (1939), p. 1061.

neither in general nor for such special episodes as destruction by the enemy nor for such wider risks as may arise from the necessity of readjusting production after the war. The office of the Price Commissioner even suggested that the war had reduced risks of a loss of plant utilization and that "individual cases would have to be investigated to determine whether conversion to war economy has not considerably diminished business risk."<sup>1/</sup>

In computing justified rent, it was the practice of price controlling agencies not to acknowledge risk items associated with the event of non-payment of rent.<sup>2/</sup>

## VII. FLEXIBILITY

### 1. Price Policy as a Means of Influencing Consumer Demand

Flexibility is understood to be the ability to fix prices without being restricted by the cost-price principle or other limitations of price formation characteristic of a free market. Just as a department store is able to charge prices for individual products regardless of costs, as long as total costs are covered by total receipts, a controlled economy would be free to set prices independently of individual costs as long as total sales prices were equal to total costs. Individual losses can be compensated by a transfer of profits. Under this heading of flexibility come all the elements of conscious planning including increase of prices for reasons other than approved cost increases, and reductions which are not merely reflections of a competitive mechanism.

Although there is no lack of instances of real price planning, it would be wrong to characterize German price policy in its totality as planning through prices. Prices were a passive item in the German planning set up. There were stabilized at the level of the reference date, reduced where the profit situation would permit it, increased when it could not be helped, but rarely used as tools

-----  
<sup>1/</sup> DV (1938), p. 245.

<sup>2/</sup> Sellmann, op.cit., p. 241.

to direct production into desired channels or to reallocate resources. Direct action was preferred for these ends: enforced or prohibited production, enforced use of or allocation of materials, occasional enforced or forbidden investment, enforced direction of labor supply, and the whole pattern of devices affecting size and composition of total output.

The aim of absorbing consumer demand through price increases was at variance with the main objective of German price control, i.e., keeping prices down. Consumer demand was restricted through rationing and similar measures. On the outbreak of war some excise taxes were increased, and in 1941 taxes on certain alcoholic drinks and tobacco were revised upward.<sup>1/</sup> The Price Commissioner was satisfied with keeping the price (excluding the tax) at the original level, although from the consumer's point of view an increase occurred.<sup>2/</sup> It is, however, hard to find instances of real price increases ordered merely for the sake of absorbing demand. The nearest approach is some hesitancy in reducing prices of consumers goods to the fullest possible extent at a time when output was becoming progressively smaller.<sup>3/</sup> There is little evidence to support the statement of the Economist that the Price Commissioner suggested that prices should be allowed to rise for the purpose of skimming off excess purchasing power.<sup>4/</sup> In 1942, strong efforts of agricultural interests - the Agrarian Office of the Party - as well as of heavy industry, to incline the Price Commissioner more toward price concessions, failed.

Similarly, there was a relatively small number of instances in which price increases were introduced chiefly to stimulate supply although, of course, this consideration is present in every case. The milk and butter price increases for the harvest year 1939-1940 were motivated by expectation of increased<sup>6/</sup> output.

-----  
1/ KZZ, November 17 and 21, 1941.

2/ DV (1939), p. 226. On the other hand, taxes were sometimes reduced as compensation for other unavoidable cost increases; in 1941, the slaughter house tax was cut to keep meat prices down despite the increase in hog prices. FZ, May 25, 1941. The tax was abolished in 1942.

3/ Flottmann in VJP (1939), p. 1331.

4/ The Economist (1942), p. 610.

5/ FGB (1940) I:422 and 466.

6/ FZ, May 25, 1941.

At the beginning of 1942, farmers accepting contracts to increase soy bean acreage were permitted a price 25 per cent above that theretofore prevailing in order to enlarge the supply of fat.<sup>1/</sup> There was an occasional dual price setup: I.G. Farben, which had spent vast funds on experiments to develop a new vanadium process was permitted to charge a somewhat higher price for its products until these costs were recovered through the price differentials.<sup>2/</sup> In most instances of this type, however, price increase can be associated with cost increase, so that stimulation of production cannot be regarded as the only element involved.

Quite generally, the incentive aspect gained weight in 1942. Farmers were offered premiums for delivery of additional milk, butter, eggs, poultry and honey (above standard quotas such as sixty eggs per hen per year). Producers received higher prices for potatoes, hogs and oilseed. The action, however, took the form of a straight budgetary subsidy. At the end of 1942, the wage system was completely overhauled, again with emphasis on incentive, by the establishment of a scale of "efficiency wages" (Leistungslohn) in every industry. Since wages are not subject to the control of the Price Commissioner, the general parallel rather than the details is of interest here.

There exist also some premiums for saving of material. Farmers used to concentrate on the production of hogs with a slaughter weight below 100 pounds on account of their good quality and the relatively high price which they yielded. The fodder investment required to produce the same bacon quantity from heavy hogs is smaller than that from a larger number of less heavy hog. Thus a new price schedule established some time ago favored the production of hogs with a slaughter weight of about 150 pounds.

Since 1942 industrial plants receive "coal premiums" for reduction of coal consumption due to its more efficient use in form of preferred treatment in coal allocations.

-----  
1/ New York Times, March 16, 1942. As early as 1939, they had been given a government subsidy for increased production; see DV (1939), p. 1929. Since 1933 subsidies are paid to oil crushing mills and margarine producers for the use of home produced rape seed, mustard seed and oil seed in order to close the "fat gap." (Karl Brandt, "The German Fat Plan" (Stanford University Press, 1938).  
2/ NW (1940), p. 672.

Price decreases, on the other hand, were in general favorably regarded as such, whether they meant a substantial or a small increase in consumption. Again the factor of stimulation was secondary. There was, however, at least one important exception to that rule. In 1937 a material reduction in fertilizer prices took place, borne largely by the chemical, to a smaller degree by the coal industry. The declared aim was not only financial support to agriculture but very definitely "a decisive increase in consumption of fertilizers which could be obtained only by price reduction."<sup>1/</sup> The counterpart is a price reduction with the expressed aim of discouraging the production of undesired goods by establishing prices which eliminate all incentive. At the time of the setting up of the agricultural estate, prices of unstamped eggs and farmers' products which did not at all fit into the agricultural market order were reduced to a level insuring perfect unprofitability.<sup>2/</sup>

Price discrimination as a social policy plays but an occasional role in German price control. Hospitals and similar institutions may obtain mineral water at a price below the normal ceiling.<sup>3/</sup> Margarine is, to some extent, made cheaper to lower income groups by a kind of food stamp system.<sup>4/</sup> The general electricity rate scheme provides for a base rate differentiated according to industrial floor space and size of apartment.<sup>5/</sup> The effort to reduce prices for agricultural equipment through a contribution imposed on electricity concerns in proportion to output<sup>6/</sup> comes under this heading.

## 2. "Appropriate" Price Relations

The concept is meaningful only if some standard can be found to measure relative fairness of prices. In a competitive system equalization of marginal profit rate is such a standard. Price control obviously requires an additional yardstick. In the agricultural sector it is the stable farmer income. Thus in

1/ As pointed out by the Price Commissioner. See J. Wagner "Preispolitik und Landwirtschaft" in VJP (1937), p. 206.

2/ G. Keiser, "Wie der Nahrstand arbeitet" in WK (1936), p. 124.

3/ VJP (1939), p. 988.

4/ Eucke, "Neuregelung des Fettverbrauchs" in VJP (1937), p. 8.

5/ RGB (1938), I:915.

6/ VJP (1939), p. 892.

1937, ryo was declared "undervalued" in comparison with other agricultural products. One year later the situation of cattle and milk producers called for adjustment. The cattle price increase was financed by a reduction of the various trade margins and a small increase in retail meat prices. Milk producers received two pfennigs per liter more, partly in form of a government subsidy and partly out of the trader's margin.

No problem of large-scale "vertical" price adjustments has arisen. If the trader's margin was squeezed, it was frequently a matter of convenience and due to the relative weakness of dealer as compared with "producer" pressure groups. Since only five weeks elapsed between the date of publication of the price stop decree and the reference date, the situation of the more advanced stages of production and the retail trade was not greatly endangered by price increases after the reference date. There is agreement that the long term price relationship between agriculture and industry is far from ideal, but officially the issue has recently been pushed into the background. Agriculture made new demands for higher prices in 1941 and 1942.<sup>1/</sup> This time they were based mainly on the argument that consumers had sufficient money to increase their expenditures on agricultural products. The Price Commissioner rejected requests for sweeping adjustments on such grounds. He declared that "establishing just price relations must be postponed to the post-war period," for the agricultural as well as for other sectors of the economy.

### 3. Subsidies

The bulk of price planning occurred in the field of agriculture, and the bulk of agricultural price planning antedated before the introduction of the price stop decree in 1936. After some experiments, agricultural prices were stabilized on a long-term basis to accord with the basic rhythm of agricultural production.

These prices were, in the main, rigidly fixed, permitting no deviation in either direction. They were protected against cost increases by an "inter-

-----  
 1/ NZZ, May 7, 1941 and July 14, 1942. They were repeated at the beginning of 1943.

Estate" agreement between agriculture and industrial cartels for fertilizers and similar products, and against competitive imports by a system of sliding import duties and the rudiments of an import monopoly. The aim was to make agricultural prices uniform.

The term "uniform price" requires interpretation. Prices are uniform with regard either to all consumers, all producers, or some neutral center. The problem is much older than the price step decree or the agricultural Estate system. Cartels had to deal with it for decades. In their higher forms, they made prices uniform with reference to a basing point. But whether a basing point system is introduced, or equal prices are quoted at the point of origin, or of delivery (all these forms are in agreement with the cartel system and occur under it), there always remains the question of whether and to what extent local advantages of individual concerns should be preserved or redistributed. Freight equalization differs from cartel to cartel. In many instances freight equilibrating accounts have been established, through which part or all freight burden differences are spread over the whole group. Equalization funds have become an important instrument of German price planning.

Subsidies are paid from industry to industry. Surplus profits of one group of producers cover deficits of another group. The method was first suggested by Von Laur for the Swiss milk industry sometime before the World War. In fact, the technique is one of the most common devices of any business. Depreciation allowances are usually higher in prosperous periods than technical considerations would demand, in order to make up for unduly small allowances in time of depression - which is a form of profit equalization over time. One concern may market several products with different profit margins; inter-departmental profit equalization. One product produced in several plants of one concern with different plant costs, may be sold at one price; inter-plant profit equalization. The "equalization account" between industries or within an industry is no different in principle.

German subsidies in the field of price control frequently take the form of inter-industrial or intra-industrial transfer payments rather than State subsidies. Which type is less inflationary obviously depends upon the method of financing. The social danger which supposedly accompanies German transfer subsidies may easily be exaggerated. It has been argued that compulsory shift in income from one to another group would be misused in the interest of industrial concentration. To the extent that subsidies within an industry are financed by a levy on profitable concerns and paid to concerns which at prevailing prices fail to balance their books, no harm is done to the weaker units of an industry. Complications may arise in the case of a transfer of funds between industries, since some measure of arbitrariness is involved in the decision as to which industry is, on the whole, prosperous enough to contribute to one less profitable. Traders' margins were for that purpose probably more exploited than justifiable on the basis of "ability to pay" of these trades. But if there had been no subsidies the same trader would indubitably have been forced to "absorb" agricultural cost increases directly.

German subsidies are not limited to those for price control. In fact, compulsory transfer of private funds substantially constitutes a secondary tax system. The Winterhilfe, the enforced contributions of heavy industries to the financing of the Goering Works, and "industrial community help" (contributions of active concerns to plants made idle by the war) are conspicuous examples. These phenomena have no immediate bearing on the price control problem and consequently are not discussed here. On the other hand, subsidies within the framework of the price control system often take the form of a straightforward contribution from the Reich budget. They offer no special problem. The following survey presents a number of examples of the equalization fund system.

1. Transfers from low cost to high cost producers within an industry. In 1934 a "voluntary" levy was made on large cigarette producers in proportion to their output in order to subsidize smaller cigarette concerns.<sup>1/</sup> Later an enforced concentration

-----  
<sup>1/</sup> KR (1934), p. 548.

tion process deprived the measure of its significance.

2. Transfers within an industry to cheapen specific products. The radio trade, distinguished by disorganization and a series of mismanaged cartelizations, was reorganized in 1937. Trade margins of certain dealer groups were substantially reduced. Instead of shifting savings to the final consumer in the usual way, the differences were transferred to a special account for "purpose of price reduction."<sup>1/</sup> Price cuts were concentrated on cheap radios.

3. Transfers within an industry to equalize local differences. These have played an important part in agricultural price policy, where price uniformity, at least over large regions, has been the aim. The milk industry offers many examples.<sup>2/</sup> Wholesalers received or paid subsidies to equalize costs of transportation varying from an average. Liquid milk sales were reserved to milk producers in the immediate vicinity of consumer centers, while other producers were restricted to butter and cheese. The latter were compensated by a subsidy paid by liquid milk producers in proportion to the volume sold; the total annual subsidy came to 35 million RM. The levy served several additional purposes. It aided unfavorably located farmers in the district of the subsidy-payer and farmers in more distant districts where no liquid sales were permitted. It was also used for "efficiency premiums" for cows with a particularly high yield, rationalization of creameries and creation of reserves for milk oversupply.

4. Funds to equalize costs over time. At the beginning of the war, soap prices were fixed with a provision that ninety per cent of profits computed according to LSO principles be kept in concern as an "efficiency premium." The purpose of this fund was to cushion oscillations in costs of imported raw materials and thus hold down future soap prices. The Price Commissioner reserved the right to use the funds for a variety of purposes. Such contributions were made for at least one year but no information is available as to how the funds were finally used.

1/ Radl. Händler (1937), p. 792.

2/ G. Kaiser, "Milchmarktordnung" in FZ, August 22, 1937.

5. Transfers between branches in this practice prevailed mainly in agriculture and gained some in order to keep down prices to the final consumer, prosperous branches part of unavoidable price increases of less prosperous branches. The branches involved are usually inter-related, i.e., they occupy adjacent stages in the production process or use identical raw materials. If agricultural producers receive price adjustments dealer margins are squeezed. Thus, revision of milk prices in 1938 was mainly at the expense of milk dealers.<sup>1/</sup> At the same period a meat price rise was similarly obviated. The most conspicuous example is the payment to rye flour mills of about 70 million RM per annum from a tax imposed on the sugar and brewing industries.