PRICE CONTROL

PRICE-CONTROL was introduced almost immediately the war broke out in 1939. Thus, for nearly a decade prices in Australia have been fixed by Government officials and not by those directly affected — that is, by buyers and sellers operating in a free market economy. During the war a strict and comprehensive control over the price-level was imperative. Since the end of the war the continuation of some degree of price-control has been necessary because of widespread shortages of many kinds of goods in relation to effective demand. But, despite a notable improvement in the supply of many commodities in the 2½ years of peace since August, 1945, Government price-fixing remains on an unnecessarily wide and an unnecessarily detailed basis.

The Institute of Public Affairs—Victoria, believes that a free market with prices determined by the inter-action of demand and supply is essentail to the health of the Australian economy. It is essential both to the enterprise and efficiency of the producer, and to the democratic right of the consumer, to decide for himself the goods he shall consume. The I.P.A. recommends:

(1) Government price-fixing has no permanent place in a free, democratic and enterprising economy and overall price-control should therefore be abandoned at the earliest practicable moment.

(2) Economic conditions now justify a far more rapid relaxation of control over prices than is at present occurring. On a number of important commodities control could be safely removed.

(3) On the commodities over which control should remain the methods of control should be greatly simplified and the trader or producer permitted some latitude in fixing his own prices within broad limits laid down by the Prices Commission. Control of rents should continue until the housing position has greatly improved.

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(4) A rapid and orderly removal of price-control should be accompanied by tax reductions and by financial measures to ease the inflationary situation arising from the pressure of an abundance of purchasing power on short supplies of goods.

COMMONWEALTH GOVERNMENT'S POLICY

Towards the end of 1947 the Commonwealth Government, through the Minister for Labour and the Minister for Customs, announced its intentions in regard to the future of price-control. In November the Minister for Labour stated that the Government intended to relax price-control to the position which existed before the war with Japan, when comparatively few commodities were controlled, under a formula by which traders fixed their own prices subject to periodical check by the Prices Commission. The Minister exempted rent control, which he said would be necessary for a long time to come. This statement was supported in December by the Minister for Customs, who announced the Government's policy to withdraw, progressively, price stabilisation subsidies and to eliminate all subsidies as soon as possible.

The Minister for Labour, however, made it clear that, while the Government did not desire to apply price-control continuously or in a detailed form, it wished to use price-control as a reserve power, to stabilise prices in times of threatened boom and slump, to prevent profiteering and to limit, where necessary, the prices charged by monopolistic industries and by industries receiving the benefits of tariff protection. Thus, while the Commonwealth Government apparently now intends to embark on a more positive policy of relaxation of price-fixing, it visualises the continued use of price-control for specific purposes.

PRICE-CONTROL IN WAR

During the war price-control had four main objectives:

- To prevent profiteering out of the war.
- To assist in the concentration of resources on essential wartime requirements.

- To assist in distributing the goods in short supply resulting from the war, equitably among the community.
- And last, and most fundamental, to control the inflation of prices and costs which would otherwise have followed from the extreme shortages of goods and services brought about by large-scale purchasing for war purposes.

The use of price-control for these ends, which were essential to the successful prosecution of the war, was not seriously contested by any section of the community. There were, however, from time to time sharp conflicts of opinion on the methods as distinct from the principle of price-control.

The culmination of price-control in war was reached in April, 1943, when the price stabilisation plan was introduced. This fixed prices at the levels ruling on 12th April, 1943; increases after that date had to be directly approved by the Prices Commissioner. In many cases higher costs were absorbed by means of subsidy payments to the traders or producers who had to bear them.

THE POST-WAR AFTERMATH

The abnormal economic conditions brought about by war did not cease to exist immediately at the end of hostilities. There was still a gross disparity between the supply of goods and services on the one hand and the demand for them on the other. War inevitably breeds inflation and the longer a war continues, and the greater the effort devoted to its prosecution, the greater tends to be its inflationary effect. On the one side the war created acute shortages of practically all the goods and services produced under normal peace conditions; and, on the other, it led to an immense expansion in the amount of money held by the public in cash and bank accounts.

OVER

PRICE-CONTROL DOES NOT PREVENT INFLATION

It is important to bear in mind that price-control does not prevent this inflationary situation developing. It merely prevents the inflation showing itself in a rapidly rising spiral of costs and prices, and thus avoids the economic disequilibrium and chaos which would otherwise inevitably result. But the inflation is still there.

EXTENT OF INFLATION SINCE 1938-39

At the end of the war the volume of money, as measured by the notes in the hands of the public, bank deposits and savings accounts amounted to £1,356 million, compared with £612 million in 1938-39—an increase of 122 per cent. By contrast the supply of goods and services for civilian use had fallen by something of the order of 20 per cent. Here is the basic reason why the continuation of price-control was necessary after hostilities ceased. There was an extreme scarcity of goods and services on which people could spend their incomes and savings, and an immense volume of money available for spending. The war brought about a famine of peace-time goods and services, but created a super-abundance of purchasing power in the hands of businesses and individuals.

By 1946-47, two years later, the position had changed somewhat for the better. The inflationary pressure was not now so intense. While the volume of money continued to expand—it was 14 per cent. greater at the end of 1946-47 than at the end of 1944-45—the supply of goods and services for civil consumption had increased in a greater proportion—roughly of the order of 20 per cent. to 30 per cent. During the last financial year, 1946-47, the position improved fairly rapidly. The volume of money increased by only 2 per cent., while real national production, excluding production for defence purposes, rose by approximately 20 per cent. This increase was largely due to the transference of resources of labour and materials from war to civilian production.

Compared with the situation before the war, however, the inflationary pressure is still considerable. At the end of

1946-47 the volume of money available for spending was 152 per cent. greater than 1938-39, whereas the total supply of civil goods and services was little above the pre-war level.*

MORE POSITIVE POLICY OF DECONTROL

Although substantial progress has been made since the end of the war in overcoming shortages and in increasing the supplies of civil goods and services available for purchase, the inflationary pressure is still severe. There is no case as yet for the total abolition of control of prices. Nevertheless, some improvement has been made; in many directions a noteworthy improvement. With many goods still in short supply, the shortage is not nearly so acute as two years ago. Where supply is now sufficient to cater for the demand—such as, for instance, many lines of hardware, kitchen utensils, furnishing materials, certain items of clothing, and millinery—there are strong grounds for the abolition of control and a return to the free market.

If price-control is ever to be removed, then at some stage or other a worthwhile beginning must be made. But the fact is that, since the end of the war—despite the improvement in the general supply position in relation to the demand—practically no noticeable measure of decontrol has occurred. More pricing orders are in operation today than at the end of the war. For 1946-47, price stabilisation subsidies amounted to £22.6 million compared with £13 million for the previous year and £10.8 million for 1944-45. The budget estimate to cover prices subsidies for the current financial year is £19 million. There is every reason why, on grounds of business common sense and of economic logic, the excessively timorous attitude to decontrol, since the end of the war, should be replaced by a courageous and imaginative policy. Such a policy would breathe fresh life into the business community and would be of positive economic benefit to the nation.

* These measures, whilst very approximate estimates only, provide a broad picture of the inflationary development since 1938-9. The actual increase in the inflationary pressure has, however, to some extent been absorbed in the rise in prices that has already occurred. Since it includes savings, the volume of money represents potential purchasing power and not the actual rate of spending. Production trends were derived from the National Income Estimates prepared by the Commonwealth Statistician. In order to assess changes in volume, as distinct from changes in values, gross national production (excluding war expenditure) was deflated by the "C" Series Index Number to 1938-9 price levels.

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PRICE-CONTROL AND PROFIT-CONTROL

In addition to the extreme tardiness with which decontrol is taking place the business community is strongly critical of the present system on several other grounds. The criticism most frequently heard is that price-control is being used as a means of profit-control. In one sense this criticism is misplaced. Strictly speaking, price-control is impossible without a measure of profit-control. Profits are merely the difference between costs and prices. If prices are controlled it is impossible to avoid some degree of profit-restriction since the prices permitted inevitably determine the profit that can be made at a given level of costs. But in another sense the criticism is well founded. The present methods of control are in essence a continuation of the wartime methods. These involved a rigid and detailed control of prices and their adjustment in accordance with the profits being made as revealed by the periodical financial statements of the businesses concerned. It was the practice of the Prices Commission to scrutinise carefully the annual accounts of businesses in order to ascertain whether the profit made would permit of some reduction in the prices being charged. This system was much criticised during the war, but it was on the whole justified at that time. Then there was the strongest moral reason why anything faintly savouring of profiteering should be prevented. National unity and stable industrial relations were a first concern and both would have been seriously endangered by any suggestion that businesses were profiting unduly out of the war. Increased profits, which resulted from high turnovers caused by wartime conditions, could not be fairly claimed as the rewards of efficient management and enterprise. Above all, the need for a financial incentive was rendered less strong because of the predominance of patriotic motives.

But in peace-time there is no such powerful justification for these rigid methods of price and profit control. It then becomes important to restore and expand the production of civil goods as rapidly as possible. The patriotic motive weakens and it needs to be replaced by some financial incentive. Expanding physical turnovers are due less to abnormal circumstances such as those prevailing in war, and more to efficient administration and enterprise. Over-rigid methods of price-control in peace-time defeat their own purpose. They obstruct the rapid restoration of the economy to normal conditions, reduce production, and delay the ultimate return to a free market.

MORE FLEXIBLE METHOD

While there is no case for the immediate abolition of price-control, there is an irresistible case for relaxation of control, and for a much more flexible and less detailed system under which the trader or producer would be permitted some latitude in fixing his own prices within limits laid down by the Prices Commissioner. The present methods of control are in many respects almost unbelievably detailed, involving immense wastes in time and staff both by the Prices Branch and by business organisations. Since April, 1943, when the price stabilisation plan was introduced, approximately 2,250 prices orders have been issued. These orders specify ceiling margins or actual prices often covering hundreds of items, down to the most insignificant articles. Rather than by specifying separate ceilings for each individual item, there is no reason why the price-level could not be adequately controlled during the transition to a free market under a system of ceiling margins covering only broad categories of goods. This could be combined with a maximum ceiling over the gross profits of the business concerned. To control the general price-level it is not necessary to control the prices of each individual commodity. In other words, what is wanted is a few master controls rather than a multiplicity of small controls. A flexible system of this kind would help to overcome one of the main disadvantages of the present system, namely, the dangerously restrictive effects on production and sales of delays in getting new price rulings. It would, in addition, make possible the administration of price-control with less waste in unproductive staffs on the part of both the controllers and the controlled.

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RESTORATION OF EQUILIBRIUM

The continuation of price-control, in some degree and over some commodities, will be necessary until the inflationary disequilibrium caused by the war has been corrected, and until supply is more closely equated to potential demand as measured by the volume of purchasing power. This is the key to the situation. The sooner the pressure of inflationary forces on short supplies of goods can be overcome the sooner will it be possible to dispense with control of prices. In reducing the intensity of this pressure, decontrol of prices has itself an important part to play.

There are three main methods by which the necessary deflation can be brought about:—

First, by increasing the flow of goods and services through greater production; second, by measures of financial control to reduce—or at least prevent from increasing—spending power as measured by the total volume of money; and third, by allowing prices to rise under an orderly and controlled process.

The last-mentioned would automatically follow under a more courageous and positive policy of decontrol involving the rapid removal of subsidies, the release from control of those commodities now in reasonably adequate supply, and by a method of control which would pay less strict regard to profits than the present method. A more rapid decontrol of prices will inevitably mean, in the near future, higher living costs. But with the reduction of subsidies it would be possible for real incomes to be maintained to some extent through corresponding reductions in taxation. In other words, we would no longer have to pay the Taxation Commissioner to keep down our own costs of living—for that is what subsidies mean. An orderly rise in prices would not therefore have disastrous effects on the purchasing power of incomes and, in fact, the real income of the wage-earner—a large part of which is tied to the price-level—would not be noticeably affected at all.

A rise in prices would be in line with the classical pattern by which the disequilibrium of inflation is corrected and the balance between supply and demand restored. Under today's conditions it would have several positive advantages. It would help to bring about the increased production which is essential to the eventual removal of price-control. It would bring Australian costs and prices more into line with overseas costs and prices. By draining away surplus spending power, a rise in prices would contribute to the restoration of monetary stability. There are, of course, several new inflationary forces —notably the 40-hour week and the dollar shortage—which will in any case make imperative some increase in prices during 1948. But from the standpoint of economic policy it would be unwise to attempt to limit the increase in prices to the direct effects of these new forces. Sooner or later Australia will have to accept the need for a higher level of values and prices to restore monetary equilibrium. The longer we delay in allowing this unavoidable rise to take place the longer will be the duration of the transition to a normal peace-time economy, and the longer will controls be necessary.

This is not to say that a rise in prices will be sufficient by itself to restore the position. For one thing, in Australia a large proportion of all incomes are linked to the price level, and this to some extent nullifies the effect of rising prices in producing a balance between demand and supply. To be really effective a controlled increase in prices should be accompanied by an active government policy aimed at reducing the volume of potential spending power. This can be achieved by curtailing new government expenditure and economising in existing government expenditure, by governments budgeting for a surplus and by the more rapid retirement of outstanding Treasury Bills. Concurrently, the Commonwealth Bank, in co-operation with the trading banks, should take such action to avoid increases in bank advances as the circumstances warrant; needless to say, this action should be based on financial considerations and not on political exigencies. There are strong reasons why all these measures should be pursued vigorously at the present time.

INSTRUMENT OF ECONOMIC MANAGEMENT

There remains to be considered the question of price-control as a permanent instrument of economic management as proposed in the statement by the Minister for Labour mentioned at the beginning of this article. The Minister suggested that permanent powers of price-control were necessary if the Commonwealth Government were to be successful in preventing profiteering, and in maintaining full employment and economic stability by ironing out the steep upward and downward swings in the price-level which occur in times of boom and slump. It must be seriously questioned whether price-control in a peace economy could ever be a really effective weapon for the prevention of profiteering. In fact, there are strong grounds for believing that the profiteer thrives more vigorously under a system of controlled prices than in the competitive markets of the free economy. The profiteer is of the breed which sidetracks the effects of price-control by resorting to the black market.*

It is also highly doubtful whether price-fixing would prove to be an effective weapon in regulating boom and slump conditions. There are ample other weapons in the field of broad financial control for the Government to prevent the development of unhealthy boom conditions. The modern and now well-recognised methods of credit and budgetary management should be sufficient to enable the Government to control boom conditions.

The use of price-control as a means of preventing a slump in prices would very likely be quite ineffective. It is an infinitely more difficult thing to fix and maintain minimum prices than it is to maintain maximum prices. With maximum prices only one party, the producer, has an interest in the black market. The interest of the other party, the consumer or the purchaser, lies in the official price being observed. But with minimum prices both parties—the buyer and the seller—

* This is a first-rate instance of the general truth that excessive control leads to evasion within and without the law and thus to the debasement of ethical standards and the deterioration of the moral tone of the community.

may stand to gain through resort to the black market. To enforce observance of price-control under these conditions might prove impossible.

The free market with prices moving freely in response to competitive activity and to the constant changes, some large and some small, in supply and demand, is the central feature of private enterprise. It is through the free price market that the public is able to express its preferences for the kinds and quantities of goods it wishes to have, and the producer is enticed to meet the public's desires. When prices are fixed by the State, the State, not the public, is in a position to determine what shall be produced and therefore what shall be consumed; the State becomes the final arbiter and the public loses its right of free choice. In fact, it is the free price market which distinguishes free enterprise from the planned and controlled economy.

Price-fixing is in essence a denial of democratic free enterprise, and can be justified only in conditions of acute economic emergency. It is a slovenly, inefficient, dictatorial and remote method of controlling the nation's economy, because it places in the hands of a few government officials the authority to determine costs and prices throughout the entire economic structure. It is a system of back-seat driving. There are manifest advantages to a nation's economy in having costs and prices determined on the spot by the decisions of tens of thousands of buyers and sellers instead of by the "remote control" of a few hundred officials.

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