

# Facts You Should Know

Statement No. 2

OFFICE OF PRICE ADMINISTRATION

November 1943

## PRICE CONTROL

### I. What is Price Control

In personal terms Price Control is an emergency measure to hold down the cost of living in wartime. It puts a limit on prices on raw materials, finished goods of all kinds, services, and rents.

In terms of our nation at war, Price Control is more far-reaching in its aims than most people recognize. Here is the way Congress stated the underlying purposes of Price Control in the Emergency Price Control Act of January, 1942.

"...to stabilize prices and to prevent speculative, unwarranted, and abnormal increases in prices and rents; to eliminate and prevent profiteering, hoarding, manipulation, speculation, and other disruptive practices resulting from abnormal market conditions or scarcities caused by or contributing to the national emergency; to assure that defense appropriations are not dissipated by excessive prices; to protect persons with relatively fixed and limited incomes, consumers, wage earners, investors, and persons dependent on life insurance, annuities, and pensions, from undue impairment of their standard of living; to prevent hardships to persons engaged in business, to schools, universities, and other institutions, and to the Federal, State, and local governments, which would result from abnormal increases in prices; to assist in securing adequate production of commodities and facilities; to prevent a post emergency collapse of values; to stabilize agricultural prices."

In terms of people's everyday lives under the abnormal conditions of war, prices must be controlled so that wages, controlled by law, are in proper relationship to prices. It is thus possible to maintain a reasonable standard of living, and assure people a fair share of the goods available at a fair price.

\* \* \* \* \*

In our daily lives Price Control affects everything we buy and sell, everything we eat, wear and use. It applies to high-priced as well as low-priced goods, to luxuries as well as necessities of life. If price-control extends only to a few principal products, the prices of all other goods will rise. Therefore, if practically everything we buy is not price controlled, the manufacturer would produce, and the seller sell, only those things which are uncontrolled. If the price of cantalope, for example, is not controlled and the price of cabbage is controlled, a farmer would not raise cabbages for a normal profit when he could raise cantalope for a much higher profit.

Price control, in effect, is an economic stabilizer for producer, seller and buyer in wartime--when pressures from all sides tend to force costs and prices up. It helps to maintain our economy on as normal a basis as possible under dangerously abnormal conditions. It protects businessman and housewife alike.

### II. Why is Price Control Necessary in Wartime

After taxes have been paid, Americans this year will have more than 126 billion dollars with which to buy only 89 billion dollars worth of goods.

Today there is a lot more money in people's pocketbooks than ever before.

Not everyone has more money. There are many people who live on fixed incomes, such as the families of our fighting men, school teachers, policemen, firemen, and those who depend on insurance payments and annuities. And then, too, there are lots of industrial workers who are getting no more than they did before the war.



But, generally, incomes are up, and more people are employed than ever before. In total, all of us together will have better than 126 billion dollars to spend this year after taxes are paid.

On top of that there are fewer things to spend that money on...less "consumer goods and services," as they say.

Industries which used to make things such as automobiles, radios, refrigerators and so on are now making tanks, guns, planes, and ammunition. So the things they used to make are not available for people to buy. What's left for the consumer amounts to about 89 billion dollars worth of those "goods and services."

Subtract that 89 billion from the 126 billion of dollars all of us will have to spend this year, and you have 37 billion dangerous dollars.

Many people in different walks of life have that extra money, and there are many who would be glad to spend it to get more of the goods that are so short today. That is why, without price control, prices all along the line would go up. As those prices rose...the prices of food, clothing and rents...the whole cost of living would move steadily upward. The cost of living doesn't have to rise very far before wages have to be increased, and wage increases put still more pressure on prices and push them up faster still. And so on and on it goes, with prices and wages racing up the spiral. No one can ever quite catch up with the rising cost of living.

### III. Who Benefits by Price Control

Everybody benefits when wartime prices are controlled. Taxpayers -- and everybody pays taxes today -- are paying for the war. If prices were allowed to rise, the cost of the war would increase, and that extra cost would have to be borne by the taxpayers.

Some may think they can get a little more for what they have to sell, and do no harm to the general price level. But if they do, that puts prices up for others who buy those goods. And so those others ask for a little more. One price rise leads to another.

So Farmer Jones, for example, who may not want the price of his potatoes controlled, must then expect Manufacturer Smith, who buys his potatoes, to charge more for the overalls he sells him. And this applies to everyone else...even the worker who objects to having his wages frozen cannot expect his landlord, who must also employ workers, to keep the rent in line.

If prices were not controlled, the cost of everything would continue to climb until eventually only the extremely wealthy could buy even the necessities of life. Savings would be wiped out in the vain attempt to keep up with soaring prices. Prices would go up and up until the whole price structure grew so top-heavy it topples to the ground. There would be panic and depression. The old saying is true: "Whatever goes up, must come down!"

### IV. The Responsibility for Controlling Prices

The Congress of the United States, acting for the people, passed a law directing that prices be controlled and established the Office of Price Administration to administer the law.

The Price Control law contains three broad restrictions: (1) The prices of many farm products must not be controlled until they reach certain levels; (2) Cost and profit margins established by years of normal business must be maintained; (3) The prices of goods, so far as is practical, must not be higher than they were on September 15, 1942.

### V. How Price Ceilings are Established

In order to establish a price ceiling on any given commodity, it is the policy of OPA to call a meeting (or a series of meetings) with representatives of all phases of industry and the trade for their guidance and criticism. Often there are disagreements within the ranks of industry and the trade as to how a given ceiling price should be established. However, after all evidence and opinions have been presented and evaluated, a decision is rendered on a basis as fair as possible to both public and business.

In the past, OPA has been criticized for not working closely enough with Industry. In many cases this criticism was justified. Today there are about 300 advisory committees working with OPA covering practically all commodities. Every businessman may now feel that, while he, himself, may not have the opportunity to come to Washington to present the case for his own business, his interests are being given consideration by experienced groups who know his problems.



## VI. Different Kinds of Price Ceilings

There are four principal methods for setting ceiling prices (or Top Legal Prices).

- (a) Dollars and Cents Prices — specific flat prices (sometimes on a zone basis) issued by the OPA National Office and applying in every city and town in the country. Typical examples are meat and soap.
- (b) Community Prices — specific flat prices issued by OPA District Offices for essential foods and applying only within a given community.
- (c) Fixed Mark-up Prices — determined by controlling the amount wholesalers and retailers may add to prices they are charged by the producer.
- (d) Ceilings set by General Maximum Price Regulation — based on prices charged March 1942 and covering principally clothing and household furnishings.

Because prices had in many cases already gotten out of line when the Price Control Law was passed, it was imperative that fast action be taken to slow down and stop price increases. The General Maximum Price Regulation, with its main broad decision that all prices must be frozen as of March 1942 levels, was utilized as the quickest method of slowing down runaway prices. It is the policy of OPA to substitute, as rapidly as possible, visible dollar-and-cents prices for the more or less hidden price ceilings in the General Maximum Price Regulations.

## VII. How Price Control is Working

A simple method of determining how price control is working today is to analyze two costs — the cost of producing war materials, and the cost of living.

If the price for things produced for war were controlled no more firmly than they were in World War I, it is estimated that, to date, World War II would have cost us an additional 70 billion dollars. The interest on this tremendous sum would continue for years in the form of taxes to be paid by all of us, including our returning soldiers and future generations.

The following table illustrates some differences in price increases for the two wars:

<u>Item</u>	<u>World War I</u>	<u>World War II</u>
Steel	334.6%	.0%
Copper	170.4	14.3
Tin	223.7	6.6
Pig Iron	303.6	14.6

The cost of living stands today about 5 percent above the level of September 15, 1942. That represents a reduction of about 1 percent from the peak that was reached last May before the price reduction program was put into effect to regain the ground that had been lost since September.

Of course that figure of 5 percent conceals some vastly greater increases over the September level, but progress is being made in whittling them all down. For example, over 3/5 of the rise in the cost of living between September and May was caused by the rise of fresh fruit and vegetable prices. These went up no less than 58 percent during that period.

By August 1943, however, not only had the cost of living been brought back to less than 5 percent above September 1942, but a full third of the rise in fruits and vegetables had been wiped out. This trend will continue except for small seasonal variations and, as we steadily whittle away at the cost of living, the housewife will find further very real reductions in food prices, and those are the prices which seriously affect her pocketbook.

Outside of foods, price control has been effective. Between September and May, when the cost of living rose due to the failure of control on food prices, clothing prices rose less than 2 percent; housefurnishings rose only 1½ percent; fuel, electricity and ice costs rose less than 1½ percent; all the miscellaneous items, including services, many of which are exempt from control, rose less than 4 percent; rents, as is generally known, were held absolutely stable.

It is this success with 90 percent of the cost of living which makes it possible to look forward to a complete recovery of the ground that was lost on the 10 percent represented by fruits

and vegetables. The programs which have just been announced will bring those prices back to the levels of last winter.

#### VIII. How to Make Price Control More Effective

The Price Control Law -- like every other law -- cannot be successful unless everyone concerned does his share in observing the law -- not only in letter, but in spirit. No amount of Government enforcement can maintain price levels alone. The big job of enforcement lies with the people themselves.

To make price control even more successful, every American has to make it his own personal responsibility to keep down his cost of living--and his cost of doing business--by not paying more than the legal price. The OPA recognizes that it too has a responsibility, a responsibility to aid the housewife and the businessman in knowing what the legal price is.

This means simplification of regulations that have been unnecessarily complex. It means the use of dollar-and-cents ceilings so that everyone may know exactly what price, and no other, is the OPA ceiling. The OPA is moving steadily ahead on both programs in every way it can.

But price control can never be made completely simple. It takes as its foundation the complex price structure of American business.

In spite of these complexities, if everyone appreciates the personal benefits gained by effective price control, far more support and cooperation can be obtained by the public. The result will be a lower cost of living. Wartime inflation which threatens us all will be firmly held in check.

