CHAPTER II

PRICE RESTRICTION

BEFORE the 1914 war it was a general rule that prices should be left for settlement by the play of the market. There were, indeed, exceptions in respect of public utility concerns in a position to exercise monopoly power, *e.g.* railways and gas companies; also in certain instances where market imperfections put private purchasers at a special disadvantage, *e.g.* with cabs plying for hire. But the main trend of practice was plain. In contrast to this, during the course of the war a very large number of prices were regulated, or subjected to legal maxima. This was done both for goods sold to Government and for goods sold to private persons. Moreover, the range of regulation tended to expand; for it was soon seen that, if the price of a raw material or preliminary service was restricted and that of the finished article into which this material or service entered not restricted, the only result was to benefit intermediary manufacturers or dealers without doing any good to the final buyers. Nobody has ever doubted that, in principle, a wide use of authoritative price restriction was in the general interest.

Clearly, however, it was necessary, in deciding what price maxima to impose, for the authorities to guard against the risk of driving away supplies — except, of course, for commodities the consumption and manufacture of which they deliberately intended to discourage. Thus price maxima had to be fixed with careful regard to costs. In particular it would have been futile to fix for imports maxima appreciably below the prices ruling in the country of origin plus cost of transport. Hence, when it was desired to keep the price of an article to the public, or, indeed, to the Government, below cost and yet not to drive it off the market, the State was compelled to supplement its restrictive rule by the grant of a subsidy. Such subsidies were paid on wheat flour so as to enable the price of bread to be kept low, and on iron and steel to maintain price stability.

The most obvious purpose of price restriction was to prevent fortunately-situated sellers, when aggregate supplies were short, from making outrageous profits. So far as sales to the Government were concerned, to pay market prices to sellers and then to mulct them of 100 per cent Excess Profits Duty would have had much the same effect as to fix prices by authority at a level that prevented excess profits from coming into existence. But with sales to private persons the latter method alone was practicable; the former would have left the poorer classes of buyers in an intolerable position. There was also a second ground for price restriction, which applied equally whether or not the restriction had to be associated with a subsidy. For, besides serving as a means to prevent profiteering by fortunately-situated persons, it also indirectly served to check demands for wage increases, which in war-time, when no labour can be allowed to stand idle, must, if granted, lead to a rise in prices, which in turn induces further demands for wage increases; and so on in a continuing spiral. Even when, to keep down prices in the first instance, subsidies have to be paid and the funds for them raised by creations of bank money as large as would have been required to finance the first up-swing of wages had the price rise not been prevented, the secondary cumulative up-swing of wages and prices that constitute the spiral may be prevented, and inflation of income held in check.

After the war there was a general movement towards abolishing price restrictions as soon as practicable, along with the controls with which many of them were associated.

It is difficult to discover the exact dates at which the various price restrictions were removed. The following examples, which do not include munition materials, have been extracted for me from various issues of the *Board of Trade Journal*:

1919	
January 11th	Tobacco
March 24th	Tea
March 31st	Imported and home-grown timber other than pitwood
April 1st	Cakes and meals (except linseed and cotton)
April 30th	Paper
May 1st	Bones
May 7th	Motor spirit and lamp oil (maximum retail prices), petroleum products (wholesale prices)
May 8th	Silver bullion
June 1st	Chocolates and other sweetmeats
August 1st	Glass
September 11th	Caerphilly cheese
September 25th	Swedes
October 13th	Vegetables (other than imported onions)
November 13th	Stilton and Wensleydale cheese
1920	
January 8th	Pitwood
February 1st	Milk
	Canned condensed milk
March 1st	British native cattle hides
March 3rd	Home-grown pigs and pork
March 8th	Imported grain, flour and meal (importers' prices)
April 5th	Home-produced bacon, ham and lard
June 3rd	Coal
July 19th	Bacon and ham
August 2nd	Dried fruits
August 31st	Jam
September 23rd	Resumed Control of imported bacon, ham and lard *reimposed*
October 17th	Bread and flour (retail prices)

1921	
January 3rd	Eggs
February 3rd	Home-grown wheat (wholesale prices)
February 10th	Pure lard
February 28th	Sugar
March 31st	Butter

In August 1919 a Profiteering Act was passed, which made it an offence punishable by fine or imprisonment to make, on selling any article, " a profit which is, in view of all the circumstances, unreasonable ".[1] During the eighteen months of the existence of this Act the 1800 profiteering committees set up by it accomplished practically nothing; 202 prosecutions resulted in fines and costs amounting to £2241. As Sir William Beveridge observes, the Act was not business, as the controls had been, but window dressing.

In conditions of strong and effective competition, the withdrawal of price maxima need not lead to a fall in supplies, if the maxima have been judiciously arranged, nor yet to a rise in prices. It may even have the opposite effect; for, when a maximum price is imposed by law, it tends to be regarded by sellers as a minimum also. Thus, when in May 1920 the Government abolished retail price maxima for bread, " competition between grocers and bakers was relied on to protect the consumer and did so. According to an official memorandum prepared in June 1920, the removal of flour and bread price control in April benefited consumers, the current price of bread being lower than it would have been possible for the Food Controller to fix by order as a maximum price." [2]

The war, however, had brought together into close association the producers of a number of commodities in a

[1] Cf. Beveridge, *British Food Control*, p. 288.

[2] *Ibid.* p. 300. " Retail prices of bread and flour were controlled again from 25th August to 16th October 1920, but only as a temporary expedient to prevent the increase of prices due to the abolition of the subsidy being made too soon " (*ibid.*).

way that tended to promote informal price agreements among them. In these circumstances the removal of price restrictions might well lead to the exercise of monopoly power in a form threatening diminished output and augmented prices to the detriment of purchasers. It has been alleged that this happened with certain materials used in building; but I have not been able to investigate that charge.[1]

The removal of price restrictions did not carry with it the disappearance of subsidies. Thus the subsidy on wheat flour was maintained for two years after the Armistice, for fear lest its sudden withdrawal should lead to a sharp rise in the price of bread. It was abolished in November 1920 after the harvest, when wheat prices were declining.

The problem presented by subsidies left standing at the end of a war, which it is not desired to continue into peace, is well illustrated in the iron and steel industry. During the war, when the State was the ultimate user of most of the steel produced, and when a rise of prices must have led, under the sliding-scale system to an upward movement of wages, and under the cost-plus-percentage-profit system to a similar movement of profits, to stabilise iron and steel prices was obviously in the general interest. To this end a system of subsidies was introduced to offset increases in production costs, of which some were real "war" costs (*e.g.* high freights on imported ore), while others were due to the fact that the policy of price stabilisation was not universal. By the end of the war the cumulative amount of the subsidy on heavy steel — such as ship plates — was approximately £5 a ton, which was over 40 per cent of the price; and of this over one-quarter represented subsidies to cover increases in wages and in the

[1] It is an easy exercise in economic analysis to show that in conditions of rising supply price (diminishing returns) the imposition of an effective maximum price limit is likely to reduce output under conditions of competition, but to increase it under monopoly. (Cf. my article in *Economic Journal*, December 1918.)

price of coal. After the Armistice the National Federation of Iron and Steel Manufacturers wished the subsidies to be continued for fear that a sudden rise in prices should check demand and decrease employment " at a critical moment ", and further increase wage costs. A Committee of the Ministry, on the other hand, advised that subsidies should be dropped at once to prevent economic development being affected by " artificial prices ", and to enable public expenditure to be reduced. The course actually followed was a compromise. It was decided that the fixing of maximum prices should be continued till June 1919, that the direct subsidy on steel should be removed at the end of January, and the subsidy on pig-iron (which was an indirect subsidy on steel) at the end of April, subject to the proviso that, if costs had not fallen by that date, the question might be reopened. Export prices were fixed, the prices being specific, not merely maxima, to cover prices plus subsidy, with a view to meeting American objections to subsidised competition and allaying the suspicions of some Allies that others might get special advantages.

It was seen that to delay the raising of prices and then to raise them in two jumps " might result in two evils — an unfair distribution among consumers during the period of subsidies, and the undue accumulation of stocks by those who had the means of storing material ". In order to cope with the former difficulty a Committee of the industry, composed of one representative of the makers in each area, was set up, with area committees representing both the iron- and steel-makers and the consumers. These bodies were to consider complaints of unfair distribution and advise the Minister of Munitions; but no record of what they did has come to hand. As regards the latter difficulty, an order was issued forbidding anyone to increase stocks by more than 100 tons above a datum line (viz. the stocks held by him in October 1915 or October 1918, whichever were higher) without a permit from the Minister, the permit to be given readily, but on condition that a sum equal to the subsidy was paid by the stockholder to the Government. This must have been a difficult policy to implement, but again no report about it has been found.

The Official History suggests that the price policy adopted had the effect of encouraging a quick placing of orders for peace-time products. It may be that this was so, but it was certainly not a matter of much significance. Demand for steel was high in relation to supply at this time; for the scope for investment in capital goods to make up for the wastage of war was very obvious. The Continental industries were suffering either from the destruction of their works in the war or the dismemberment of their firms by the peace; and the difficulties to be encountered by them in returning to a peace economy were very great. In such conditions rising prices would normally be found in a free market, and, once control was removed, the steel-makers, who had at first argued that it was desirable to keep prices down, were quickly successful in raising them to levels not touched before or since. Had there been no general inflation and had steel prices not been under such strong pressure, the delaying policy might have proved to be a sound means of readjustment, preventing prices from being raised to cover the remnants of transitory increases of cost due to war contingencies, *e.g.* high costs of imported ore, which were bound to disappear quickly though not immediately. The State's policy as regards subsidies was not, however, part of an effective integrated price policy, and it is doubtful whether on balance it was beneficial. It did, indeed, delay the inflationary effect of increases in steel prices operating through the sliding-scale system of wage adjustments. But in April, when prices did rise, the upward movement of wages, now once again fully hitched to the pre-war scale, was *pro tanto* larger.

It has to be added that, after peace had been restored, *new* subsidies were introduced. The Sugar Commission deliberately sold below cost, making a large loss. "When the war ended the fear of industrial unrest filled the minds of the Government; the consumer was placated by receiving sugar, meat, bacon and cheese below cost. Here an argument against State trading comes at last to light. The officials could and would have conducted State trading at a profit after the war, as during it, but were overruled. The wartime courage of political leaders dependent on popular support declined in peace, and perhaps must always do so."[1] The post-war housing subsidies, discussed in Part III, Chapter III, were on a different footing from the others.

[1] Beveridge, *British Food Control*, pp. 331-2.