Wartime Price Control in the United States, 1940-1942

By Jules Backman

EDITOR'S NOTE: This is the continuation of a series dealing with Price Control which was started in the Winter issue by Stewart Bates' article "Canada Erects a Price Ceiling." In the Summer issue an article on Price Control in the Totalitarian States will appear.

THE importance of the price problem was clearly recognized from the start of the United States' defense effort in May, 940. The Advisory Commission to the Council of National Defense included two divisions which were primarily concerned with prices—the Price Stabilization Division (raw materials) and the Consumers' Division (wholesale and retail prices of consumers' goods). A little less than a year later, the Office of Price Administration and Civilian Supply (O.P.A.C.S.) was established and took over the activities of these two divisions, as well as some activities of the Agricultural Division. The O.P.A.C.S. was also authorized to provide supplies for civilian use after military needs were met and to allocate these supplies equitably. As part of a reorganization of the defense set-up in August 1941, this authority over civilian supply was transferred to the Office of Production Management and O.P.A.C.S. was renamed the Office of Price Administration (O.P.A.). During this period, there was no statutory authority for the price fixing actions taken by the O.P.A. or its predecessors. Early in August, a bill was introduced in Congress after the receipt of a special message from President Roosevelt, who outlined the factors necessitating the immediate enactment of a price control measure. After long and drawn out hearings, the House of Representatives enacted a bill in November, 1941, but it was not until the following January that the Senate also passed a bill, and the Emergency Price Control Act of 1942, providing for selective price control, was enacted into the law.

Under this law the Administrator now has statutory authority to fix prices, margins, and rents, license business and buy and sell commodities. In fixing prices, those prevailing from October 1 to 15, 1941, must be considered as well as speculative fluctuations, changes in costs, and profits in the year ending October 1, 1941. The Administrator may issue maximum price orders, similar to those issued prior to the Act, or temporary maximum price regulations which will remain in effect for 60 days and are based on prices within the five days preceding the order. The Administrator must consult with representatives of the industry and cannot change existing business practices, cost practices or methods except to prevent circumvention. Maximum prices on agricultural products cannot be fixed below the highest level determined by the following four bases: (a) 110% of parity with industrial prices, (b) market price on October 1, 1941, (c) market price on December 15, 1941, and (d) the average price from July 1, 1919 to June 30, 1929. Moreover, no agricultural price may be fixed without the approval of the Secretary of Agriculture. A special Emergency Court of Appeals has been established to provide relief to those who have objections to price control measures.

During the early months of the defense program, the authorities refrained from the imposition of formal price ceilings. Both the Consumers' Division and the Price Stabilization Division, however, took steps to limit price advances. The

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former issued the following set of principles which many retailers and wholesalers agreed to abide by:

1. Anticipated cost increases should not be made the basis for price advances.
2. Average the cost of inventories with that of new goods.
3. Traditional rates of mark up should not be used unless "costs have advanced by an equivalent amount."
4. Don't sell at the "price prevailing" at the time of shipment instead of that quoted at the time of sale.
5. Price changes should not be concealed by quality deterioration.[1]

The Price Stabilization Division entered into informal agreements with nonferrous metals producers to restrain price increases. In addition, warnings against price rises were issued for lumber, hides, sugar, oil, coffee and many other products. Suggestions and requests were issued in connection with other products.[2]

It was not until February, 1941, that the first formal price schedule (second-hand machine tools) was issued. In the following few weeks aluminum scrap, zinc scrap and iron and steel scrap were also brought under formal ceilings. By July 30th, when the President requested price control legislation, only 12 formal price ceilings had been issued. In addition to the above, the products affected were: iron and steel, pig iron, nickel scrap, combed cotton yarn, hides and skins, cotton grey goods, brass mill scrap and bituminous coal. In most of these instances, formal action was taken only after informal measures to halt price advances had proven unsuccessful. Most of these products were characterized by a large number of producers or handlers, a condition usually not conducive to successful control by informal methods.

In the later summer of 1941, the pressure for higher prices which accompanied the increasing tempo of defense activity (the Federal Reserve Board index of industrial production had increased from 116 in May 1940 to 160 in August, 1941, the highest level ever attained until that time) resulted in the imposition of an increasing number of formal price ceilings. The number of schedules becoming effective in the succeeding months were as follows:

August, 1941	12
September	4
October	9
November	4
December	21
January, 1942	20

Prior to Pearl Harbor, 44 price schedules had been imposed of which two had been revoked. Following our entrance into the war, many additional schedules were rapidly issued. By the end of January, 1942, the total had reached 82 and by the middle of February, 105.

The O.P.A. continued its efforts to prevent price rises without the imposition of formal ceilings throughout this period. Thus, in January, 1942, voluntary price agreements were reached with producers of crane and power shovels, titanium pigments and rail equipment, while requests to refrain from or rescind price advances were made to producers of ceramics, crane derricks, oilfield machinery, portable tools, borax, hearing aids, window plate glass and brass and bronze ingots.

In the early stages of control, mainly basic raw materials and scrap and waste materials were subject to formal ceilings. But after our entrance into the war ceilings were also established for many consumers goods, including wool floor coverings, flashlights, cigarettes, tires and tubes, domestic cooking stoves, radios, phonographs, washers, ironers, bed sheets, automobiles, and refrigerators. Except for automobiles, flashlights and tires and tubes, for which retail prices were fixed, too, only manufactured or wholesale prices were fixed. However, the

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1. Emmanual Stein and Jules Backman, *War Economics*, Farrar and Rinehart, 1942, p. 247.
2. For a list of the actions and the products affected during this early period of control, see *Price Control Bill*. Hearings before the Committee on Banking and Currency, House of Representatives, on H R 5479, Washington: Government Printing Office, 1941 Part 1, Pp 280-284

trend is clearly toward a larger amount of price fixing for finished goods and in many instances, retail prices will be fixed as well. This should be especially true for those consumers' goods which are rationed.

Payment of subsidies and purchases abroad by government corporations have also been used to prevent price advances. Thus, a special subsidy scheme was adopted under which copper, lead and zinc mines were given quotas and premium prices were paid on output in excess of those quotas. By this device, it was possible to prevent the price rises which would have increased the cost of possibly 90 per cent of the output and yet it was possible to obtain the high cost supplies so urgently needed. The Metals Reserve Company also bought copper abroad at 9½ to 10 cents a pound and resold it domestically at the ceiling price of 12 cents. If private parties had to import this copper and pay the 4 cent tariff a domestic price of 13½ to 14 cents a pound would have been necessary to stimulate imports. The import of all crude rubber throughout the Rubber Reserve Company was effective in restraining a rise in the price of that product.

Steps were also taken to limit speculation on the various commodity exchanges. At the suggestion of the Price Administrator, margin requirements were increased for pepper, coffee, rubber, cocoa and other commodities and market letters sent out by brokers were carefully scrutinized. In addition, the Securities and Exchange Commission was asked to report any evidence of speculative activity on the commodities markets to the O.P.A. Because of the fixing of maximum prices and disruptions to supplies, trading in commodity futures was suspended for sugar, tin, rubber, copper, silk and other products. Restrictions were also placed on all speculative activities in fats and oils.

Price ceilings have been established for a variety of reasons. The basic underlying purpose, however, has been to prevent those rises which were not justified by higher costs or which would not result in greater production. Thus, the preamble to Price Schedule No. 44 for Douglas Fir doors stated that "The cumulated price increases cannot be justified either on the basis of the increased costs of production or on the assumption that higher prices bring out appreciably more production." In connection with scrap rubber (Schedule No. 87), on the other hand, relatively high prices were fixed because "Our purpose is to encourage the fullest possible flow of scrap rubber to reclaiming plants at prices consistent with costs of collection and accumulation and with reasonable profit." A corollary objective has been to restrict any advances which would increase the cost of the war effort. A typical statement of this objective was that made in Price Schedule No. 69, for primary lead: "The combination of increased demand and insufficient supply threatens a bidding up of the price of lead, which will materially increase the cost of the war effort and tend to create an inflationary spiral."

Prices have also been fixed to discourage the withholding of supplies by those who anticipated higher prices (Price Schedule No. 73, fish meal); to protect consumers against increased costs (Price Schedule No. 61, leather); to prevent price rises because of reductions in output ordered by the government to conserve raw materials (Price Schedule No. 86, domestic washing machines and ironers); to eliminate speculative practices (Price Schedule No. 25, fats and oils); to prevent pressure on prices fixed at later stages of production (Price Schedule No. 29, coke); and to prevent price rises because of disruptions of foreign sources of supply (Price Schedule No. 50, green coffee).

In many cases, the O.P.A. has fixed prices at an earlier stage of production or distribution with the suggestion that prices at subsequent stages of production or resale should therefore remain stable. Thus, when wholesale prices of Nylon hosiery were fixed (Price Schedule No. 95) the Administrator stated, "The public has every right to expect that the benefits of this move will be passed on to it." In connection with cotton textile products, he threatened to fix finished goods prices if they did not become stabilized after various semi-finished goods were price fixed. This threat was carried out when the prices of cotton bed sheets and pillowcases were fixed in February, 1942, (Price Schedule No. 89).

Wherever possible, existing pricing practices have been maintained in the schedules promulgated. Thus, the basing point system of quoting prices was retained in several schedules with the statement that the O.P.A. action was not to be construed as either approval or disapproval of the practice. (Price Schedule No. 100, cast iron soil pipe). Recognizing that price fixing can be evaded by changes in style or quality, the O.P.A. has restricted product changes in several instances. For example, Price Schedule No. 64 for domestic cooking and heating stoves provided that "In order to prevent nullification of the Schedule, changes in specification are restricted as an emergency measure."

That the O.P.A. has played a major role in restraining price increases is evident from an examination of the available price data. (See Table I) From low point in August, 1940, until February, 1941, the Bureau of Labor Statistics' wholesale price index advanced about 4 per cent. Advances in major groups were all relatively small, with the largest increase of 7.2 per cent recorded by farm products. A larger advance in this group is typical behavior in the early stages of a general price advance. After February, 1941, the general price index advanced substantially and just prior to Pearl Harbor had reached a level almost 20 per cent above that in August, 1940. As compared with an average monthly increase of .7 per cent up to February, in the following 9 months the average advance was 1.7 per cent monthly. The rapid advance in farm products, foods, and textile products was due largely to favorable legislation enacted by Congress and the absence of restraining actions by O.P.A. Paradoxically, some of these sharp price advances, as in the case of cotton and wheat, took place for products of which large surplus stocks were available. For the groups other than those mentioned above, only a moderate advance in prices occurred prior to Pearl Harbor, despite the high rate of business activity and the many shortages which developed. This relatively small advance was due to the various actions taken by O.P.A. It is clear that for many products, especially metals, prices would have been substantially higher, had it not been for the formal and informal ceilings established by that agency. The major rises occurred in groups of products over which O.P.A could exercise little or no control because of political factors.

Additional evidence of the effectiveness of O.P.A. price actions is found in Table II, which shows the prices in the first 27 months of World War I and in the present conflict.

It is interesting to note that farm products which recorded the smallest relative increase in the early part of the first war, showed by far the largest advance in this war. On the other hand, metals and metal products which had the second largest increase in 1914-1916, recorded the smallest advance in 1939-1941, despite the tremendous demand for these products. The sharp increase in chemical prices in the World War reflected the effects of the curtailment of supplies formerly obtained in Germany. This difference in price behavior in the two wars may be attributed primarily to the actions instituted by the O.P.A. In the earlier conflict, no price control measures were instituted until the summer of 1917. In the absence of these price controls, the general price index would undoubtedly have been substantially higher when the United States formally entered the present war, than was actually the case.

TABLE I

Changes in United States Wholesale Prices 1940-1942

(August, 1940—100)

	Aug., 1940	Feb., 1941	Nov., 1941	Feb. 14, 1942
All Commodities	100	104.1	119.5	124.3
Farm Products	100	107.2	138.1	153.5
Foods	100	104.9	127.4	134.1
Hides and Leather	100	104.8	117.8	119.9
Textiles	100	105.7	126.0	129.4
Fuel and Lighting	100	101.4	110.8	110.7
Metals and Metal Products	100	102.9	108.9	109.2
Building Materials	100	106.4	115.2	117.7
Chemicals and Allied Products	100	102.4	117.8	126.3
House Furnishings	100	100.7	113.7	117.5
Miscellaneous	100	100.3	113.8	116.0

TABLE II

Increases in Wholesale Prices in First 27 Months

World Wars I and II

	July, 1914, to October, 1916	August, 1939, to November, 1941
All Commodities	35.4%	23.3%
Farm Products	31.4	48.5
Foods	32.8	32.9
Hides and Leather	42.5	23.0
Textiles	37.3	34.4
Building Materials	31.7	20.0
Chemicals and Drugs	90.0	20.4
Metals and Metal Products	48.7	10.8

The more important types of action taken by the O.P.A., its powers, and its policies have been outlined above. However, effective price control involves a number of other measures which could not be discussed fully because of space limitations. These include coordination of purchasing activities of the several government agencies and our Allies; planning and timing of purchases; stimulation of output wherever possible; reduction or elimination of tariffs; prevention of general wage increases; power to control farm prices; and reduction of civilian purchasing power by means of taxes, voluntary saving and forced saving. Effective steps have been taken in connection with purchasing activities and plans have been made to increase supplies in many lines. However, up to this writing, no adequate wage policy or farm price policy has been instituted. Although taxes have been increased and the sale of defense bonds and stamps stimulated, the fiscal measures do not yet effect the necessary diversion of purchasing power from civilians to the government. Under conditions of increasing purchasing power and decreasing supplies of civilian goods,[3] the pressure for higher prices will be irresistible unless price control is supplemented by a more drastic fiscal policy and wage and farm price policies designed to prevent increases in those areas.

3 Price Administrator Henderson estimated that in 1941 the output of consumers' goods and services totalled $74 billion and the total national income $90 billion and that in 1942 the totals would be $65 and $102 billion respectively. Total savings and taxes were estimated at $22 billion in 1942, thus leaving $80 billion to bid for $65 billion worth of goods. The difference of $15 billion was described as "rattling around with no place to go if we let it alone." *The New York Times*, February 22, 1942, p. 17.