

*Forty Centuries Of Wage And Price Controls- Robert Schuettinger*

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## I. Overview

- 1) “Attempts to control and fix prices and wages span most of recorded history. As Robert Schueeinger and Eamonn Butler record in such illuminating and interesting detail in this book, price and wage controls cover the times from Hammurabi and ancient Egypt 4000 years ago to this morning’s [1973] newspaper accounts of rent controls in New York, Boston, and other U.S. cities, the Carter Administration’s program of ‘voluntary’ price controls, the mandatory price and wage controls in Norway, Denmark, and Iran, and so forth.”
- 2) “We conclude that, while there have been some cases in which controls have at least apparently curtailed the effects of inflation for a short time, they have always failed in the long run. The basic reason for this is that they have not **addressed the real cause of inflation which is an increase in the money supply over and above the increase in productivity.**”
- 3) “Governments find many advantages in a mild inflation. **Inflation is ‘irresistibly attractive to sovereigns because it is a hidden tax that at first appears painless or even pleasant, and above all because it is a tax that can be imposed without specific legislation...** First, the additional government-created money will pay debts and finance expenditures over and above what the government collects in revenue. Secondly, government-induced inflation pushes taxpayers into higher income brackets and thus leads to taxpayers paying unlegislated tax increases.... Third, the **real amount of the national debt is reduced** since the money had been borrowed at a time when the inflation rate was lower and money was worth more.”
- 4) Random
  - A. The problems of inflation
    - a. Nobody to blame—grocer says passing on price from wholesaler, wholesaler says passing on from baker, baker from miller, miller from farmer, farmer says farmhands need higher wages to account for higher prices, etc...
      - i. **“None of them accepts the blame because none of them is blameworthy. They are merely trying to maintain their positions in an inflationary economy.”**
  - B. The change in Phillips curve (theoretical tradeoff between inflation and unemployment)
  - C. In 70s, see that stagflation (high unemployment and high inflation moving in tandem) is possible.
  - D. Transfer of power from market to regulatory bodies (e.g. everyone has eyes on fed meeting notes)

## II. The Ancient World

- 1) Babylon's Code of Hammurabi 40 centuries ago
  - A. First of written law codes imposed a rigid system of controls of wages and prices
    - a. "257. If a man hire a hired-laborer, he shall give him eight gur of corn per annum."
    - b. "258. If a man hire a herdsman, he shall give him six gur of corn per annum."
- 2) Economic doctrines of Confucius (born 552 B.C.)
  - A. The Official System of Chou is handbook of government regulations for use of mandarins of the Chou dynasty
    - a. Held that "government interference is necessary for economic life and competition should be reduced to a minimum."
    - b. "When there is any natural calamity, the merchants are not allowed to raise their price; for example, during a famine, grain should be sold at the natural price [that is, at the price believed to be 'natural' by the government]"
  - B. "The officials of the ancient Chinese empire expected to do what members of their class have perennially attempted before and since: replace the natural laws of supply and demand with their own judgment, allegedly superior, of what the proper supply and demand ought to be."
  - C. Interesting that in classical Chinese history "The economist Yeh Shih (1150-1223 A.D.), for instance, anticipated by several centuries the principle known as **Gresham's Law [bad money drives out good]** in the west. 'The men who do not inquire into the fundamental cause', he wrote 'simply think that paper should be used when money is scarce. But as soon as paper is employed, money becomes still less.'
- 3) Ancient India
  - A. Indian political philosopher Kautilya is king maker who puts Maurya Chandragupta on the throne in 331 B.C. Writes Arthashastra, a 'handbook for prices' as a guide to the king.
- 4) Ancient Greece
  - A. The Sitophylakes were an army of grain inspectors who were appointed for the purpose of setting the price of grain at a level the Athenian government thought to be just.
    - a. "Lysias was not the first and he was hardly the last politician to court popularity by promising the people lower prices in times of scarcity if only they would put an occasional merchant to the sword...Despite the high mortality rates for merchants and bureaucrats alike, the price of grain continued to rise when supplies were short and continued to fall when supply was plentiful."
- 5) The Roman Republic and Empire
  - A. The Law of Twelve Tables (449 B.C.)
    - a. "Fixes the maximum rate of interest at one uncia per libra (approximately 8%), but it is not known whether this was for a month or for a year."
    - b. "At various times after the law passed, politician found it popular to forgive debtors...A Licinian law of 367 B.C. for instance, declared that interest already paid could be deducted from the principal owed, in effect setting a maximum price of zero on interest."
  - B. Egyptian inflation
    - a. "Egypt was the province of the Empire most affected...During the fourth century, the value of the gold solidus changed from 4000 to 180 million Egyptian drachmai. Levy

again attributed the phenomenal rise in prices which followed to the large increase of the amount of money in circulation....'if was forbidden to buy or sell coins: they had to be used for payment only. It was even forbidden to save them! The punishment for all these offenses was death. Controls were set up along roads and at ports, where the police searched traders and travelers.”

### C. Edict Of Diocletian (301 A.D.)

- a. “It would seem clear the major single cause of the inflation was the drastic increase in the money supply owing the devaluation or debasement of the coinage. In the late Republic and early Empire, the standard Roman coin was the silver denarius....in the years before Diocletian, emperors were issuing tin-plated copper coins which were still called by the name ‘denarius’. Gresham’s Law, of course, became operative; silver and gold coins were naturally hoarded and were no longer found in circulation.”
- b. **“During the fifty year interval ending with the rule of Claudius Victorinus in 268 A.D., the silver content of the Roman coin fell to one five-thousandth of its original level.”**
- c. “In an effort to bring prices down to what he considered a normal level, Diocletian did not content himself with half measures...but he boldly fixed the maximum prices at which beef, grain, eggs, clothing, and other articles could be sold....and prescribed the penalty of death for anyone who disposed of his wares at a higher figure.”
  - i. “Parts of the price-lists have been discovered in about 30 different places, mostly in the Greek-speaking portions of the Empire. There were at least 32 schedules, covering well over a thousand individual prices or wages.
  - ii. In 1920 terms, price of beer is \$0.03, farm laborer paid no more than \$0.108 a day, carpenters \$0.217 a day, teachers of reading and writing \$0.217 per pupil monthly, teachers of public speaking \$1.08 per pupil monthly, raw silk \$72.17 per pound.
  - iii. **As a desperate measure, succeeding emperors tried to tie workers to the land or to their fathers’ occupations in order to prevent workers from changing jobs as a means of evading the low wages prescribed for certain professions.**
- d. Less than 4 years after the currency reform associated with the edict, the price of gold in terms of the denarius had rise 250%. Diocletian had failed to fool the people and had failed to suppress the ability of people to buy and sell as they saw fit.
  - i. Haha “the failure of the edict and the currency reform led to a return to more conventional fiscal irresponsibility and by 305 A.D. the process of currency debasement had begun again.”

### III. Medieval to Early Modern Times

#### 1) Controls in England

##### A. Following Black Death in 1348

- a. 50% of population gone, so labor shortage follows and just as obviously wages rise
- b. “In the thirty years after the first post-Black Death statute called ‘the malice of the laboreres’ nearly nine thousand cases of wage enforcement were tried by the courts and in nearly all judgement was given in the employer’s favor’ As a result of these anti-worker laws, many workers, not unnaturally, refused to sell their labor under what they regarded as unfair terms and others went from town to town trying to obtain the best wages possible. Economic dislocation followed and, as the workers became more and more angry, **Wat Tyler’s rebellion** took place in 1381.”

#### 2) Controls in Belgium

##### A. From 1584 to 1585, Antwerp was besieged by Spanish forces led by the Duke of

Parma....Naturally, during a siege, food quickly becomes a scarce commodity and price accordingly rise. The Ciry Fathers of Antwerp reacted as many others in their position have done before and since: they passed a law fixing a maximum price for each item of food.”

- a. Consequence 1: “Long time before the Duke of Parma succeeded in blockading the Scheldt as to prevent ships coming in from below. Corn and preserved meats might have been hurried into the beleaguered city by the thousands of tons. But no merchant would run the risk of having his ships sunk by the Duke’s batteries merely for the sake of finding a market no better than many others which could be reached at no risk at all....**the city, by its own stupidity, blockaded itself far more effectually than the Duke of Parma could have done.**”
- b. Consequence 2: “The enforced lowness of prices prevented any general retrenchment on the part of the citizens. **Nobody felt it necessary to economize.**”
- c. In 1585, Antwerp surrendered and was occupied by the forces of Spain.

## IV. Early America, Canada, And The French Revolution

- 1) During the 1750s, regulations were imposed upon the price of fresh codfish. But the legislators of New France had learned that imposing a set price was not enough, and the regulation explicitly forbade fishermen to refuse to sell their fish at the posted price, provided only that the buyer was solvent.”
- 2) After the disastrous winter at Valley Forge when Washington’s army nearly starved to death (thanks largely to these well-intentioned but misdirected laws), the ill-fated experiment in price controls was finally ended. The Continental Congress on June 4, 1778, adopted the following resolution: ‘whereas...it hath been found by experience that limitations upon the prices of commodities are not only ineffectual for the purposes proposed, but likewise productive of very evil consequences to the great detriment of the public service and grievous oppression of individuals...’
  - A. “Public jawboning, private threats, boycotts, fines—all provide useless against the flood of paper money. The price of common labor in Boston, which was fixed at three shillings a day, in 1777, had risen to 60 shillings by mid 1779. In April 1779, George Washington complained that ‘a wagon-load of money will scarcely purchase a wagon-load of provisions.’ In 1779, when the Continental Congress again endorsed price controls, the request was for state laws limiting wage and price increases ‘not to exceed twenty fold the levels of 1774’. Not even that modest goal was attainable, however, and Congress allowed controls to expire when it met again in February 1780.”
- 3) “During the twenty months between May 1793 and December 1794, the revolutionary government of the new French Republic tried almost every experiment in wage and price controls which had been attempted before or since....The first of these laws....was passed by the Committee of Public Safety on May 3, 1793, together with a progressive tax on the rich and forced loans. This first Law of the Maximum, as it was called, provided that the price of grain and flour in each district of France should be the average of local market prices which were in effect from January to May 1793.....local governments were given the right to compel farmers to bring their grain to markets and to sell it at the fixed price.”
  - A. “Finally, in December 1794, the extremists in the Convention were defeated and the price control law was officially repealed. When Robespierre and his colleagues were being carried through the streets of Paris on their way to their executions, the mob jeered their last insult: **‘there goes the dirty Maximum!’**”
  - B. “Of course, since people needed wheat, the regulation was easily circumvented. By selling equal quantities of wheat and oats at the same time, it was easy to sell wheat at the regulation price by overcharging for the oats.”

## V. National Socialist Germany And WWII

- 1) “The great inflation in post World War I Germany was one of the most significant events of this century, since it was one of the main factors, and possibly the principal factor, that led to the rise of Adolph Hitler. Currency in circulation rose from 6 billion marks in 1913 to 92 quadrillion marks in November 1923”
- 2) Nazi price control was more rigorous and elaborate than anything seen earlier in Germany or in any other nation
  - A. In the first period [1933-36, when administrative bureaucracy and enforcement mechanism still in infancy] the Reich Price Commissioner were used to the full...Three decrees in 1934 made it illegal to increase prices or to change customary payment periods or discounted/credits. Punishment was an unlimited fine and/or prison sentence. Further decrees in the same year compelled all cartels and trade associations to file full lists of their administered prices with the Price Commissioner.”
  - B. The dividing line between 1<sup>st</sup> and 2<sup>nd</sup> [war economy] phases of price control was the creation of the New Office of Price Formation
    - a. The Reich Price commissioner was the final arbiter of whether a price was just. E.g. if a price yielded an above ‘normal’ (defined as rate of return on long-term federal bonds) profit to producer.
    - b. ‘Price Stop’ of November 26, 1936 froze all prices at their October 17<sup>th</sup> levels.
      - i. “When Hitler imposed the price stop in 1936, **he froze the n-dimensional constellation of related prices in a unique and arbitrary historical pattern. For, while the underlying determinants of economic parameters (such as tastes, weather, time itself, the state of the war, foreign prices, and so forth) were all changing continually**, the economy of Germany had been suspended. No longer did prices perform their crucial role as signals of discrepancies between supply and demand which would be corrected by entrepreneurs altering their plans to meet unforeseen needs.”
    - c. Following price stop, get close to 7000 decrees directing the alteration of individual prices.
      - i. Funnily enough, “the only items for which flexible prices were permitted were imports on which Germany was crucially dependent.”
  - C. On May 2, 1933, close all trade union offices and institute German Labor Front, a compulsory national labor organization
    - a. Unemployment insurance still took 6% of the wage packet even after unemployment had been (officially) abolished
  - D. Interestingly “The official price index rose by only 7% between 1936 and 1944. By comparison British prices rose 76% in the same period and by 22% between 1940 and 1944. However, there is good evidence to show that real prices doubled between 1937 and 1944, **the difference being manifested, as usual, through product changes, quality reductions, and black markets.**”
- 3) In Canada ‘The government, with the overwhelming support of the people, was committed to an all-out war effort...’

- A. “There is an element of self-contradiction in these two remarks. Surely, the very best test for the first of these statements would have been the government’s reliance on people’s free choice in the marketplace rather than on coercion as a means of carrying on the war.
- B. Interestingly, in allied countries, “Wartime price controls proved to be relatively effective [e.g. in comparison to more free-floating WWI] (at least on the surface) principally due to the immense patriotism which shored them up.”

## VI. Postwar Rent Controls And Other Price Freezes

- 1) British rent controls
  - A. “In recent years the situation has become more and more complicated. In the first place, public housing has become so heavily relied upon as a means of meeting the inevitable shortage which followed the controls that some 42% of the population of the UK now live in publicly-owned housing. In Scotland, the proportion is 48%”
- 2) Egyptian bread
  - A. “A staple of the Egyptian diet is a rough loaf of bread made with coarse flour that sells for a few pennies because it is heavily subsidized by the government, Its weight and price are fixed by law. Some bakers are cheating by shorting the weight without cutting prices and using the extra flour to make higher-profit items like pastries. In rural villages, according to newspaper reports, peasants who in the past baked their own bread are buying in markets because the subsidy makes it cheaper. **But the real problem is that the subsidized bread is so cheap that cattle breeders are using it for fodder. It’s about a third of the price of hay, which is so expensive it has been driving up the price of meat, and since bread can be purchased in unrestricted amounts, it’s going to the animals instead of to the people.**”
- 3) “From August 15, 1971 through April 30, 1974, government officials in the United States attempted to suppress the rise in prices by imposing varying degrees of controls. During this period, the Wholesale Price Index (WPI) increased at an annual rate of 12% and the CPI increased at an annual rate of 7.2%. In contrast, during the 12 months before the start of the controls, WPI increased 3.3% and CPI increased 4.3%. An observer from Mars could be forgiven for committing the fallacy of post hoc ergo propter hoc and suggesting that the price controls caused the inflation”
- 4) “Another example is afforded by the common postwar policy of interest rate manipulation, particularly the attempts by the governments on both sides of the Atlantic to keep the interest rate down so that small borrowers would be able to afford loans. This policy, however, made it impossible for monetary restraint to be exercised through the usual device of selling low-price (and therefore high rate) Treasury securities on the open market. **On the contrary, the interest rate policy required the Federal Reserve to buy securities in order to keep buying prices high and, therefore, interest rates low.**”