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A MORE accurate term than "control of prices" to describe the activities of the various public authorities affecting the prices of commodities and the rates of services in the United States would be "price-influencing." The expression "control of prices" implies a directness of approach and preciseness of result which would certainly be misleading in a consideration of the American situation. The Interstate Commerce Commission has the specific authority to prescribe maximum, minimum, and even absolute rates for railroads. The courts may dissolve a large industrial combination lest, by making use of its dominant position in the industry, it might possibly *at some future time* charge unreasonable prices for its product. Between these extremes of regulation lie many gradations and variations of the public authority over prices.

We have reduced our topic to a discussion of the principal ways in which governmental agencies in the United States influence prices charged by privately owned concerns. Where cost accounting enters into the government price-influencing policy the fact will be noted.

The problem may be approached in several ways:

(a) By examining the various methods devised to regulate prices and their specific applications in practice. (b) By listing the commodities or groups of commodities and services influenced and inquiring into the regulation of each. (c) By scrutinizing price-influencing laws having classified them according to whom they were intended to benefit (e.g. consumer, producer, etc.). (d) By examining the broad types of legislation enacted to influence prices and the machinery set up by that legislation.

It has proved simplest to consider government price influencing in the United States by the last-mentioned approach. The enumeration of types of legislation is roughly in the order of the number of individual prices affected by each.

I. Monetary Policy and the General Price Level

On January 31, 1934, the President of the United States, acting under emergency powers granted to him by Congress, reduced the gold content of the dollar from 25.8 grains (.900 fine) to 15-5/21 grains (.900 fine), a reduction to 59.01% of its former weight. In so doing the President crystallized the policy which he had inaugurated the previous October when he authorized the Reconstruction Finance Corporation to buy gold on the open market on the theory that a positive relationship exists between changes in the price of gold and changes in the general commodity price level.

In pursuing this theory, it was the belief of the President and his advisers that by regulating the gold content of the dollar they could effect any desired change in the general price-level. Prices were thought to be too low, so the price of gold was increased from \$20+ per ounce to \$35+ per ounce in an effort to raise prices. It was held that if prices were to rise too high or too rapidly the matter could be readily adjusted by increasing the gold content of the dollar and thus lowering the price of gold.

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The subsequent history of Mr. Roosevelt's gold policy is too familiar to be more than mentioned. The anticipated rise in prices did not occur and the United States Treasury attracted more than half of the world's known gold supply to its vaults.

Here is an example of a government seeking to regulate the general price level by means of a managed currency. The particular monetary theory involved was of doubtful validity, but that does not make the attempt less significant in a consideration of price control.

In this instance the public authorities raised the price of a commodity, gold, by the expedient of buying at a figure higher than the market price (cf. Silver, *infra*).

II. The Tariff

The United States has been committed to a policy of protection to a greater or less degree for almost one hundred and fifty years. The first tariff law (1789) was primarily a revenue measure, but it also afforded protection to the country's then infant industries.

The protective tariff is a price-influencing force by definition and purpose. By means of a duty levied upon imports from abroad certain domestic products can be sold for higher prices in the home market than they could be if they were subject to foreign competition. On the other hand, the government can cause a reduction in domestic prices of previously protected articles by removing the sheltering tariff from those goods or their substitutes.

From the Civil War (1861–65) until the close of the World War the two major political parties in the United States were sharply divided on the tariff issue. The Republicans advocated protection, the Democrats wanted tariff reduction. Since the post-war decline of agricultural prices, however, the Democrats, while still offering lip service to free trade, have modified their position to the point of favoring a tariff to "equalize" the costs of production of the domestic producer and the foreign competitor. Since 1934 the President has been empowered to enter directly into trade agreements with foreign governments, a policy which has been actively pursued under the direction of the Secretary of State, Mr. Cordell Hull.

According to the Federal Constitution, Congress determines the national tariff policy through exercise of the taxing power. Congress has itself devised the means by which the tariff is made. A proposed tariff is first submitted to the ways and means committee of the House of Representatives, which holds hearings and deliberates upon the measure and reports its findings and recommendations to the House, which considers the bill and sends it to the Senate where it is again subjected to the scrutiny of a committee before reaching a final vote.

Along the complex route which a tariff bill must follow before reaching the President for his signature it is subjected to strong political influences. Congressional committee members are appointed largely on a basis of seniority rather than because of their special qualifications, and it is self-evident that the interests of the districts and individual constituencies of the members are apt to be considered before the economic health of the nation as a whole. Nor does consideration of a bill by the whole Congress tend to improve its quality.

In order to modify the situation just outlined and enable the tariff structure to be reviewed by a nonpolitical body, the Tariff Commission was set up in 1916 under the chairmanship of Professor F. W. Taussig. The Tariff Commission is authorized, among other investigative duties, to prepare *cost studies* of commodities of domestic and foreign production and make specific recommendations to the President for changes in the existing tariff if the duties do not equalize the costs of production between the domestic and the foreign article.

The President may, within specified limits, make the proposed changes in the law without consulting Congress and declare new or additional duties when he finds foreign countries discriminating against the United States.

The Secretary of the Treasury has certain powers to investigate dumping and invoke special dumping duties if foreign producers are found to be selling in the United States below their own home-market prices.

III. Public Utility Regulation

In the United States political system there is a division of powers between the federal and the state governments. The Constitution defines the powers of the Federal Government. All residual powers fall automatically to the individual states.

The Federal Government is empowered to regulate foreign and interstate commerce. In the exercise of this authority it has set up certain administrative and quasi-judicial commissions. The states, likewise, have established commissions to regulate certain business activities within their own boundaries deemed to be particularly affected with the public interest.

In general, both the federal and the state commissions regulate, in their respective spheres, the matters of initial licensing, service, consolidation, security issue and financing, rates, accounting procedure, and discrimination as they apply to public-service companies. The line between federal and state authority is not always a simple matter to determine in actual cases, a fact which has occasioned considerable uncertainty and litigation.

(a) Rate Regulation by Federal Commissions

1. *The Interstate Commerce Commission.* The Interstate Commerce Commission was created by the Interstate Commerce act of 1887 to provide federal control of the railroads. The commission obtained by 1910, through various amendments to the original act, the authority to secure just and reasonable rates in specific localities and to fit the particular rates into a larger structure to enable the carrier to earn a fair return upon the value of its property. The commission's jurisdiction has been broadened to include express companies, sleeping-car operators, part-rail part-water shipments, all the services involved in rail transportation (refrigeration, storage, etc.), motor busses and trucks, and pipe lines (oil, natural gas, etc.), but the chief concern of the commission is railroads.

The two principal rate problems just raised are: (a) What are "just and reasonable" rates to shipper, carrier, and public at large? (b) What is a "fair return" upon the properties? These are essentially accounting problems requiring a cost basis. They were early recognized as such and the I.C.C. given the power to prescribe the forms of any and all accounts, records, and memoranda of the railroads and have access to these financial records at any time. In 1914 the I.C.C. issued a uniform classification of accounts for all the railroads in the United States. By means of these data and the periodic financial statements and operating reports required of the carriers, the I.C.C. has tried to prescribe equitable rates recognizing both the "cost of service" and the "value of service" principles.

The commission has usually held that six per cent on the value of the property is a fair return for railroads. There has not been complete agreement on the commission's evaluation of railroad properties and it has proved impossible to fix rates at a level which will enable all carriers to earn the same approximate return.

2. *The Federal Power Commission.* The federal-water-power act of 1920

recognized the extent to which electric-power transmission and power-company ownership had outgrown state boundaries. A federal commission was created with power to license new concerns, limited authority to regulate, and extensive fact-finding duties.

The Federal Power Commission has control over the accounting methods of licensees. It has installed a uniform system of accounts and requires reports of expenses, earnings, and investment to provide a basis for rates and compensation for government purchases.

According to the law, the commission requires the rates of licensees to conform to the reasonable rate schedules of the states in which they operate and to be just, reasonable, and nondiscriminatory in interstate and foreign commerce.

3. *The Federal Communications Commission.* Certain duties formerly undertaken by the Interstate Commerce Commission to regulate foreign and interstate telephone, telegraph, and wireless communication were given to the newly created Federal Communications Commission in 1934. The F.C.C. may determine and prescribe the maximum and minimum charges for "common carriers" (not including radio broadcasting stations) engaged in interstate and foreign communication by wire or wireless.

The commission prescribes the form of accounts, requires accounting reports, and is empowered to evaluate the properties of communications companies.

(b) Rate Regulation by State Commissions

1. *Public Service Commissions.* In almost every state in the United States the control of public utilities is vested in a state commission. The transition from local to state regulation proceeded very rapidly during the first decade of the present century.

The state commissions vary greatly as to their jurisdiction, the kind and extent of their control, and they have various titles (railroad commissions, public-utility commissions, public-service commissions, etc.). In general they have authority over operating companies in the business of furnishing gas, electricity, telephone, water, heat, intrastate and street transportation, warehousing and cold storage, grain-elevating, and cotton-ginning services.

The control of accounts is necessary for regulation of rates and services, so in many states commissions are given the power to prescribe uniform systems of accounting, make periodic audits, and require reports.

As in the case of the federal commissions, the guiding principle of public-utility rate regulation is usually that the charges should be adjusted so as to give the company a fair return on the value of its property after deducting operating expenses and provision for depreciation.

The old problems of property valuation recur again and again. It is impossible to generalize on the relative frequencies of the several bases of utility valuations: cost, capitalization, sale value, reproduction new less depreciation, or prudent investment. Every case is a special case and the "personal equation" of the utility commission is not a constant factor.

It is unfortunate that partisan politics have entered what should, in the public interest, be strictly judicial and impartial bodies.

2. *Insurance Commissioners.* State regulation of insurance companies is usually vested in a department directed by a single commissioner rather than a board or commission.

As in all state-administered controls, the scope and machinery of regulation varies widely. Some states require that insurance rates must be approved by the commissioner before going into effect. In a number of states the commissioner has the authority to fix rates with or without the aid of a special company-operated rating bureau.

The legality of a statute authorizing the Kansas superintendent of insurance to fix fire-insurance rates was upheld by the Supreme Court in 1914.

(c) Rate Regulation by Government Competition

The problems of government ownership of business enterprises and the determination of the charges made by those enterprises interest us only in special cases. Where the government has entered into active competition with private business on a price basis the result is effective control of prices. Similarly, when the government goes into a form of business largely conducted by private capital with the express purpose of establishing a "yardstick" for the future determination of charges by private concerns, it is again a matter of price control.

The Tennessee Valley Authority, created in 1933 to take over and operate the hydroelectric properties of the United States at Muscle Shoals, is an example of both of these types of price influencing.

This is not the place to debate the sociological and political philosophy of the T.V.A. The accounting and financial history of the Authority is a closed book which it is hoped a Congressional committee of investigation will soon open.

IV. Antitrust and Fair Trade Legislation

Antitrust laws seek to foster and maintain competition by preventing monopoly and agreements in restraint of trade. Fair-trade laws proscribe unequitable business practices.

The ultimate purpose of this type of legislation is to prevent financial injury to affected parties. To the extent that this injury would be occasioned by discriminatory or excessively high or low prices, this is price-influencing legislation.

The Sherman antitrust act was passed in 1890 in response to the increasing clamor against the combinations which had come to dominate certain fields of industry and commerce in the United States at that time. The act declared that contracts, combinations, and conspiracies in restraint of trade were illegal. Enforcement of the law fell on the attorney general, private litigants and the courts, and a subsequently (1903) created bureau of corporations.

In 1914 the Clayton and Federal Trade Commission acts reinforced the earlier act and provided that the enforcement agences should be assisted by a Federal Trade Commission to supplant the bureau of corporations with authority to conduct investigations, prevent monopoly, restraint of trade and unfair methods of competition, and supervise export-trade associations.

Various states enacted antitrust and fair-trade statutes applicable to their own respective conditions.

Since 1930 the trend of state fair-trade legislation has somewhat altered the complexion of the general situation. This new series of laws reflects the concern with which small retail business has watched the expansion of chain-store marketing in the United States.

The California unfair practices act of 1935 illustrates one type of law. The act prohibits local price discrimination and *sales below cost* (where the purpose is to injure competitors). Cost includes (a) In production, "the costs of raw materials, labor, and all overhead expenses of the producer," (b) In distribution, "invoice or replacement cost, whichever is lower . . . plus the cost of doing business." The "cost of doing business" comprises "labor (including salaries of executives and officers), rent, interest on borrowed capital, depreciation, selling cost, maintenance of equipment, delivery costs, credit losses, all types of licenses, taxes, insurance, and advertising." A 1937 amendment added that cost was to be the "average over all costs for any particular inventory period," and not particular costs.

By the close of 1937 twenty-eight states had laws of this general character.

A deliberate about-face from the earlier concept of restraint of trade is apparent in the California fair-trade law of 1931 and the statutes for which it has been a model (including 42 state laws and the national Tydings-Miller act of 1937). The law permits manufacturers of trade-marked and branded commodities to fix minimum resale prices at which those goods may be sold by retailers.

A recent federal statute intended to protect small business is the Robinson-Patman act (1937) to amend the Clayton act and extend its anti-price-discrimination provisions.

V. Major Legislation to Aid Specific Commodities

(a) Agricultural Relief

2. *Federal.* During the years 1909–1914 the position of the farming industry in the United States was good. Market conditions were sound; prices were stabilized at a comfortable level. The outbreak of the European War in 1914 increased the demand for agricultural products and led to a great expansion of agricultural production. With the entrance of the United States into the conflict in 1917 the demand quickened and the resulting rise in agricultural prices created a boom in farming in this country. More and more of what had been marginal or submarginal land was put under cultivation and the rich returns invested in new crop expansion. The demand for food-stuffs to feed armies and civilian populations unable to meet their own agricultural needs lasted for several months following the armistice.

In 1919 the agricultural bubble burst. The government had vast surpluses of agricultural products on hand (most of which were sent abroad in carrying out the nation's very generous foreign relief programs). Foreign nations resolved that they would not be caught with food shortages again and embarked upon programs of agricultural self-sufficiency.

Meanwhile, two quite unforeseen factors entered still further to break down the market for agricultural products in the United States. In the course of the war the eating habits of the American people underwent a change. People found that they could live just as well as they had before with lighter diets. In the process of expanding agricultural production in response to wartime demands, farms became gradually mechanized with a corresponding decline in the demand for hay and grain feed for draught animals.

Agriculture did not recover from the post-war slump when other business did. A vociferous farm bloc appeared in Congress in the 1920's to demand government aid for agriculture. The guarantee of remedial legislation for the farmer has become a political stock-in-trade ever since.

Emergency farm bills were passed in 1921, 1922, and 1923, and attempts to enact more permanent measures were made annually during the next five years. In 1929 President Hoover called a special session of Congress to consider agriculture, and on June 15th signed an act which set up the Federal Farm Board with a revolving fund of 500 million dollars to stabilize farm prices and purchase agricultural surpluses. Adverse world market conditions coupled with the board's lack of control over production worked against the success of this legislation, and the farm board was absorbed by the Federal Farm Credit Administration in 1933.

The agricultural-adjustment act of 1933, A.A.A. No. 1, was the first attempt of the Roosevelt administration to cope with the agricultural problem. The stated purpose of the A.A.A. was to restore to American farm products the purchasing power (in terms of goods regularly purchased by farmers) which they had enjoyed in the years 1909–

1914. Farm prices were to be raised by reducing the amount of agricultural production (a) voluntarily, with compensation to farmers who restricted their crops, (b) compulsorily, by means of penalties for overproduction in certain crops (cotton, tobacco) specified in separate bills. In addition, provision was made for the purchase of surplus crops. The whole was financed by a levy on agricultural products undergoing processing (e. g., milling, conversion of livestock into butcher's meat, etc.). On January 6, 1936, the A.A.A. was declared unconstitutional by the Supreme Court because of the abuse of the taxing power in the employment of the processing levy.

The soil-conservation and domestic-allotment act of 1936 was passed to supplant the A.A.A. It sought the same ends as the prior measure and differed from it materially only in the provisions for reducing redundant cultivated acreage. Reduction was on a voluntary basis financed by 500-million-dollar-a-year benefits from the Treasury. The areas withdrawn from cultivation were those indicated by the Department of Agriculture authorities to be uneconomically used in the interest of soil fertility and flood control.

The soil-conservation act has been replaced by the agricultural-adjustment act of 1938, A.A.A. No. 2. The new law goes farther than the earlier agricultural measures and in effect guarantees minimum prices to producers of five staple crops, wheat, corn, rice, cotton, and tobacco. The cynical have suggested that these are the five "political crops." The principal provisions of the act are these: (1) The Secretary of Agriculture is authorized to fix a national acreage allotment for each crop in each season based upon the production of prior years. (2) Farmers who coöperate with the allotment program may receive "loans" from the government on their crops up to a certain percentage of the "parity-price" (the price for each of the five crops yielding the same purchasing power in terms of other commodities which that crop had in the period 1909–1914, except in the case of tobacco where the base period is 1919–1929), if on a certain future date (specified for each crop) the market price falls below the "parity-price." The so-called "loans" bear no interest and have no date of repayment. They are in reality government payments in advance at fixed prices certain to be higher than the market prices. The base period may be changed by the Secretary of the Treasury. (3) Compulsory marketing quotas subject to rejection by one-third of the growers of a crop in a referendum vote and enforced by penalty taxes on surpluses may be invoked whenever the national supply of one of the given crops exceeds certain specified levels.

2. *State.* A number of the states have put "little A.A.A's" into effect to supplement the federal legislation. These laws need not be considered here. Their aims are similar to those of the national acts.

A recent development in state agricultural legislation is the increase in the number of laws providing for the fixing of minimum prices for fluid milk. By 1937 twenty-one states had statutes of this type. This legislation grew out of the unsettled conditions of the milk market in 1933–1934 when price-cutting and milk wars seriously threatened the milk supply because of the number of milk producers driven out of business. Voluntary coöperation failed to stabilize the industry, so the Secretary of Agriculture tried to stabilize individual milk markets by marketing agreements fixing minimum prices to producers, wholesalers, and retail distributors. These agreements broke down and the matter was undertaken as a local problem in the separate states.

Most of the state milk laws provide for milk boards empowered to control minimum prices paid to producers and wholesale and retail prices to consumers. In the determination of prices fixed by the boards a number of the state laws require various cost data to be taken into consideration. In the California minimum retail and wholesale milk price law of 1937 (Calif. 1937, Ch. 413) prices must be sufficient to cover all necessary costs of production including a "reasonable return on necessary capital invested" by "reasonably efficient" distributors. Similar wording is noted in the provisions for prices to include "reasonable costs and charges" in Alabama, Montana, and New York; "costs of production and distribution" in Alabama, Indiana, Maryland, New York, Ohio, South Dakota, and Virginia; and the "reasonable yield to producers and dealers" permitted in Florida, Maryland, Massachusetts, New Jersey, Oregon, and Pennsylvania. (Ref.: Culver, D. C., *An Analysis of State Milk Control Laws*, Univ. of Calif. Bur. of Pub. Admin., Jan. 4, 1937). The constitutionality of state milk-price-fixing laws was upheld by the Supreme Court in the case of *Nebbia* v. *New York* (291 U. S. 502) on March 5, 1934.

(b) Bituminous Coal

For almost twenty years there has been a decline in the consumption of bituminous coal in the United States. Hydroelectric power, fuel oils, and gas have appeared as increasingly more formidable substitutes. The displacement of bituminous coal was clearly apparent before the business depression of the '30's. Between 1919 and 1929 bituminous coal mines declined from 8,282 to 5,620, the number of miners employed in the industry from 545,798 to 458,732, and the annual wage bill from $682,601,000 to $574,800,000.

Efforts were made to stabilize the industry in 1931–1932 when a voluntary association was formed to maintain prices by restricting output. This arrangement was broken up in 1933 by the national-industrial-recovery-act-bituminous-coal code, which substituted its own provisions to the same end until the act was voided on account of its unconstitutionality.

The bituminous coal act of 1935 revived the price-fixing provisions of its predecessor and established a National Coal Commission with power to fix wages and hours of labor as well as the prices of coal. The Supreme Court found the labor sections of the bill to be an invasion of states' proper authority, and therefore unconstitutional and invalid.

In the fall of 1937 a new bituminous coal act (the so-called "Guffey-Vinson bill" from the names of its official sponsors in the Senate and House of Representatives) was signed. According to the terms of this act, the United States is divided into 23 producing districts and 10 minimum-price areas. Local coal boards working under the central bituminous coal commission secure cost of production data for each type and grade of coal from each operator in their districts. The local boards determine the average operating costs of individual mines for the various classifications of coal and calculate a weighted average cost for the district based upon the number of tons of coal produced and the direct cost of production for a given period. The findings are forwarded to the central authority and a weighted average cost of production for each minimum price area is computed by coördinating the weighted averages of the producing districts in each area.

On the basis of these findings and computations the commission fixes prices for each area below which coal may not be sold. The first set of minimum prices was published by the commission in the last week of December, 1937, for each quality and size of coal in the first three of the ten minimum-price areas (i.e., all of the states east of the Mississippi River and Iowa, an area including 80% of the bituminous coal consumption in the United States).

It is too soon to be able to comment on the efficacy of this law. The problem is further clouded by the legal and political difficulties in which the bituminous coal commission has become involved since the release of the first minimum-price schedules.

(c) Silver

Since 1873 silver has been used in the United States monetary system merely for subsidiary coinage. The Secretary of the Treasury has been empowered from time to time to buy silver in the open market for monetary purposes. These silver-purchase acts of 1878, 1890, 1918, and 1934 have gone beyond the nation's needs and have amounted to subsidies to the sparsely populated silver-producing states of Idaho, Utah, Montana, Nevada, Colorado, and Arizona.

In December, 1933, following the ratification of the silver agreement of the London Economic Conference, the United States Treasury undertook to purchase 24,421,000 ounces (roughly the average annual domestic output) of silver a year for the four years ended December 31, 1937. Under this agreement the domestic price was pegged at 50 cents an ounce. The Treasury price was twice increased thereafter, and on April 24, 1935, was fixed at 77.57 cents an ounce.

Meanwhile, the silver-purchase act of 1934 was passed to instruct the Secretary of the Treasury to buy silver abroad at market prices in order to force up the world price of silver. Purchases were to continue until the market price reached $1.29 an ounce or silver constituted one-fourth of the total United States metallic monetary supply. Shortly after the domestic price was raised to 77.57 cents an ounce speculators drove the world market price up to 81 cents an ounce. The Secretary of the Treasury stopped buying silver and the market price fell abruptly. Pressure from the silver-producing states forced the government to continue buying, but in December, 1935, the purchases again slowed down and the price collapsed. By February, 1936, the world market price was down to 45 cents an ounce, only slightly above where it had been before the silver interests induced the Treasury to "stabilize" the world price for silver. The domestic producers, however, were protected by the pegging of the domestic price. But in the meantime the world market had been totally disorganized, the internal finances of other nations seriously complicated, and China, the principal silver-using country, forced off the silver standard by the overvaluation of the metal.

Today, after the expiration of the silver-purchase act, the United States Treasury is still buying silver and artificially maintaining the silver market.

Conclusion

The attempt to control prices by governmental agencies in the United States is not a new economic phenomenon. The tariff, public-utility regulation, antitrust, and fair-trade legislation all antedate the present century. The scope of government price control has steadily expanded with the increasing development of the industrial arts and the added complexity of modern economic life, though by no means *pari passu.* In the years since 1929, however, government price-regulating efforts have been greatly accelerated.

It would be a matter for considerable gratification if it could be reported that the progressive increase of governmental influence in the nation's internal economy was accompanied by a similar increase in the wisdom and disinterestedness of the legislation enacted to that end and its administration by public servants. Such has not been the case.