

Price Controls and Shortages

A. The Distinction Between Shortages and Scarcities

1. The meaning of a “shortage.”
2. Why only price controls can cause shortages.
3. Scarcities do not cause shortages but shortages cause scarcities.
4. How price controls create shortages by expanding the quantity of a good demanded and reducing the amount of it supplied.

Five ways that price controls reduce supply: a. Making the production of a good unprofitable: the examples of oil and rent control. b. Making a local market uncompetitive: application to the surge in the price of wheat and soybeans in 1972 and 1973 and to the natural gas crisis of 1977. c. Making the consumption of a commodity too rapid and thus reducing future supply. d. Making an occupation or industry unable to compete for labor. e. Making some products of a factor of production unable to compete with its other products. How price controls are equivalent to a prohibition of production.

The Effects of Price Controls and Shortages

A. The Impotence of Consumers

The consumer made worse off than if he were dealing with a protected legal monopolist. Valuelessness of the consumers’ business. Consumers reduced to the status of a nuisance and source of expense. Egoistic relation between buyer and seller replaced by altruistic relation. Reduction in quality and service. Hatred between buyer and seller: the examples of the gas shortage and rent control in New York City. How the repeal of rent control would give tenants economic power over landlords and restore harmony between them.

B. The Impetus to Higher Costs

1. The disappearance of low-priced models, corner-cutting. More on the decline of quality: effects of shortages on the methods of production. Declining quality as a cause of higher costs. Shortages themselves as a direct cause of higher costs.
2. Price controls and cost-plus pricing. The administrative problem of multiple price controls for the same good, based on different costs: the case of oil prices in the 1970’s.

C. Chaos in the Personal Distribution of Consumers’ Goods

Destruction of the free market’s principle of distribution in accordance with the combination of wealth and desire; nullification of the value of higher incomes. The rule of the random and the accidental.

D. Chaos in the Geographical Distribution of Goods Among Local Markets

How shortages prevent more supply from reducing prices. Indeterminacy in geographical distribution: the case of the gasoline shortage. Why the burden of shortages is randomly distributed, with some areas suffering relatively mild shortages and other areas suffering far more severe shortages. The significance of the time of year when gasoline controls were imposed. Potentially disruptive effects of small bureaucratic adjustments in the controls.

E. Chaos in the Distribution of Factors of Production Among Their Various Uses

Indeterminacy in the allocation of a factor among its various uses. The case of the oil shortage. Accidental nature of which products bear the burden of the shortage. The significance of the time of year when controls were imposed on oil. The instability of supply under controls. The hoarding demand.

F. Shortages and the Spillover of Demand

Shortages increase the demand for other goods and, if the other goods are not controlled, cause their prices to be higher and the profitability of producing them to be greater. Implications: a. Partial price controls (i.e., controls confined to some goods only) are contrary to purpose. b. partial price controls cannot hold down the general price level. c. partial price controls do not “save people money” in the aggregate. The bizarre sense in which they do “save people money.” How partial price controls raise the general price level. Why repeal of partial controls reduces the general price level.

Application to rent controls. Present rent controls apply to only part of housing market. Consequences of a fully controlled housing market: compulsory assignment of boarders to private homes and restriction of the internal freedom of migration; the case of the communist countries. Effects of partial rent controls on the housing subjected to them. How partial rent controls raise rents on the uncontrolled housing supply. How partial controls raise the costs of providing new housing. Why the “luxury” housing of recent decades is inferior to earlier housing. The case for the immediate repeal of rent control: the unrecognized victims of rent control: Why repeal on net balance would alleviate hardship even in the short-run. Why there are no beneficiaries of rent control in the long run.

Application to the price controls on domestically produced oil in the 1970’s. How repeal of these controls enabled American oil companies to sell at higher prices, and simultaneously reduced the price received by OPEC.

G. The Tendency Toward Universal Controls

Why partial price controls must be extended to the prices that constitute costs, to prices of alternative products of the same factors of production, to all employments of the same labor, and, finally, to all remaining prices in the economic system.

Universal Price Controls and Socialism

A. Excess Demand Under Universal Controls

The compounding of the excess demand for each good by the unsatisfied demand for all other goods; how the shortage of each good reflects the sum of the shortages of all other goods. Shortages in Soviet Russia. How excess demand exists even though incomes are controlled. The buildup of surplus, unspendable income resulting from the government’s injection of new money. Why controls do not produce their full effects immediately.

B. Universal Price Controls and the Destruction of Production Through Shortages

1. Review of the ways that shortages destroy production: (It should be recalled in this review, by the way, that anything that acts to raise costs implies a decline in production.)

- a. Shortages make buyers impotent and thereby remove the incentives of sellers to provide good quality and service. As a result, quality and service decline and the costs of maintenance and replacement increase.
- b. Shortages of means of production, such as a material, often force sellers to reduce quality and service and make it necessary to resort to more expensive substitute methods of production.
- c. Shortages encourage sellers to concentrate on the production of unnecessarily expensive models as a disguised way of raising prices.
- d. Shortages create a positive incentive to using more expensive methods of production if the government allows the pass-through of higher costs and makes the incurrence of higher costs a source of higher profits.

- e. Shortages result in delays in production.
- f. Shortages cause hoarding and the construction of additional storage facilities.
- g. Shortages cause the waste of time in searching for supplies.
- h. Shortages create chaos in the geographical distribution of a good among local markets—for example, gasoline during the oil shortage.
- i. Shortages create chaos in the distribution of a factor of production among its various uses in production—for example, crude oil in the production of the various oil products.

2. Now, under universal price controls, every industry affected and the problems of each intensified, because of the compounding of the shortage of its product and because of shortages of means of producing its product. Also, a new dimension of chaos: the shortage of capital and labor.

3. Total chaos in production: the expansion of any product at the expense of any other product, irrespective of the will of the consumers. How production declines in such conditions:

- a. The reduced benefit from production caused by disproportions among the different kinds of consumers' goods; this equivalent to less production.
- b. The reduced ability to produce resulting from disproportions in the individual kinds of capital goods; cumulative self-reinforcing process of less production, less capital goods, less production.
- c. The labor shortage: the excess demand for labor and the falling supply of labor; cumulative, self-reinforcing process of shortages of consumers' goods, reduced supply of labor in response, and then worse shortages of consumers' goods.

4. The prosperity delusion of price controls. Mistaken belief that World War II was a period of prosperity.

C. The Government's Response to the Chaos It Causes Through Price Controls: *De Facto* Socialism.

The government's seizure of production and distribution: It decides what and how much of each product to be produced, where, and by what methods, and to whom to be distributed. In conjunction with price controls, this represents total usurpation of powers of ownership. Hence, the government now the real owner.

Why Nazi Germany was a socialist country and why the Nazis were right to call themselves "national socialists." Why Israel and Sweden, however, are not in fact socialist countries, but simply "mixed economies." (Why the same was true of Britain under the Labour Party.)

D. The Essential Characteristic of Socialism

Government ownership of the means of production the essential feature of socialism. Socialism the same whether government ownership arrived at through price controls or open nationalization, through peaceful means or forcible means.

E. The Essential Economic Identity Between Price Controls and Socialism

Price controls and socialism essentially the same economically because both destroy the same thing: viz., private property rights and its offshoots the profit motive and the price system. Private property rights and the profit motive are the foundation and driving force of the price system and all of its laws. Their destruction, whether by price controls or by socialism, destroys the one and only source of economic order and harmony in the world and therefore results in chaos. Socialism does not go beyond destroying the system based on private ownership. It is simply an act of destruction, not a positive economic system. (For further discussion, see below.)

The Chaos and Tyranny of Socialism

A. The Myth of Socialist Planning

1. The incompatibility of collectivism and socialism—*viz.*, functioning as an indivisible unit—with a division-of-labor society: all or some must know all.

The absurdity of “central planning”

2. Socialism’s destruction of the price system destroys the possibility of economic calculation, economic coordination, and, therefore, rational economic planning. Rational planning under socialism would require the planning of the economic system as an indivisible whole—i.e., with no division of the intellectual labor involved in planning. Each planner, or *the* planner, would have to be able to see the production of each good in all of its relations to the production of all other goods. This is impossible because it would require a mind able to hold and use all the knowledge that only millions can hold and use—i.e., an omniscient deity.

3. In reality, socialism can never have a rationally integrated plan for the entire economic system. In reality, it is characterized by separate ministries and even factories all planning independently of each other, and at cross purposes. The discoordinated plans of socialism make their mutual execution impossible. Planning under socialism is also made impossible because each industry is dependent on disinterested monopoly suppliers. Socialism is not a planned economy, but an “anarchy of production”—a true one.

4. Socialist discoordination and the destruction of the division of labor; Western aid and trade prevented famine and collapse

5. Socialism’s anarchy of production illustrated by the Russian quota system. This system encouraged the maximum possible production of each good—every farm and factory encouraged to exceed its quota by as much as possible. This created same situation as universal shortages, in that ready and waiting employment existed in every field for a larger supply of factors of production. Lack of precision of quotas also illustrated lack of rational planning—e.g., quotas for screws in terms of mere number or weight. Chaotic consequences of such lack of precision.

5. Quota system an inevitable result of socialism’s lack of ability to determine costs and to trace connections among industries.

6. Socialism’s anarchy of production and its shortages of labor and consumers’ goods.

B. Further Economic Flaws of Socialism

1. The most fundamental flaw is that government’s monopolization of means of production is attempt to monopolize intelligence and initiative in production. This underlies socialism’s inability to plan and also its technological backwardness and the utter powerlessness of the plain citizen under socialism.

2. Contrast between capitalism and socialism in the introduction of improvements: capitalism has initiative, incentives, and competition. Socialism lacks all three.

3. Why socialism has no reason to maintain the standard of living inherited from capitalism, even if it had the ability. How socialism’s paralysis of initiative and incentives causes death: the case of Russia under the Communists.

4. Why the government of a socialist country is only interested in the values of its rulers. Application of this principle to technology and all production under socialism: socialism’s concentration on the technology and production of weapons, spectacles, and “monuments”; its dependence on capitalist technology even for these. Socialism as the true system of the exploitation of labor and the progressive impoverishment of the workers.

5. Socialism as a resurrection of feudalistic—i.e., servile-aristocratic—style inequality.

- a. The observed existence of “the new class”—special stores, clinics, schools, housing, and transportation for the party and government elite.
- b. The existence and servile character of inequality under socialism deducible from the leading moral-political premise of socialism that *the individual is not an end in himself* (as he is acknowledged to be under capitalism), but is *the means to the ends of “society”*—which ends the rulers interpret. It is also implied by the powerlessness of the plain citizen in his capacity as a consumer—only the values of the rulers count.

C. The Tyranny of Socialism

1. The need for force or fraud to establish socialism: why the methods of the communists are necessary.
2. The need for terror to maintain socialism: Stopping the growth of the black market; the logic under socialism of accusing black marketeers of sabotage. The impossibility of freedom of press or speech when the government owns all the presses and meeting halls and is the sole employer. Socialism as a court society. The necessity of forced labor under socialism. The rulers’ dilemma of how to stay in power while promising a life of bliss and yet by the nature of socialism being unable to deliver anything but poverty and misery. Consequent need for diversions of hysterical propaganda, periodic purges, and the ruthless suppression of all criticism. From forced labor to mass murder.