- **That 70s Woe: The Last Price Controls (Episode 2)**
  - *A series on understanding the transition of the US economy in the Crisis of the 1970s: The Price Controls episode. (A Bill solo episode recorded Feb 21, 2022.)*
  - [Music cue]
  - It's Arsenal For Democracy. I'm Bill Humphrey. This is episode 415 – the second bonus episode in a roughly monthly series called "That 70s Woe", recorded on February 21, 2022. Today's episode: "The Last Price Controls." If you're not already a Patreon subscriber, we hope you will go to Patreon.com/arsenalfordemocracy and sign up for $3 per month to support this series.
  - As we discussed in episode one of our 1970s series – On August 15, 1971, US President Richard Nixon, more than halfway through his first term, addressed the nation by television for 18 minutes to announce a new economic policy for the country. Its objectives were to "create more and better jobs," to "stop the rise in the cost of living," and to "protect the dollar from the attacks of international money speculators" – or more simply: to tackle unemployment, inflation, and international speculation. Officially called the "Challenge of Peace" speech, it ended up coming to be known as "the Nixon Shock," and it included a number of specific, immediate policy actions. As we noted in the first episode, which focused on the issue of gold, it's hard to write off the speech as pure market ideology when one major component was (for the first time since World War II) a 90-day emergency invocation of nationwide price controls, which were then expanded or extended somewhat in late 1971. It was an interesting full-circle from the conservative President whose brief first federal job had come in 1942 at the Office of Price Administration, which set the wartime price controls. This month's episode explores that particular facet of the 1971 speech and the wider topic of price controls in the United States.
  - The Nixon Shock price controls announced in August 1971 can only be properly understood in the context of the end of international dollar-to-gold convertibility that we discussed in the first episode of this series. These temporary 90-day control measures, which (apart from partially later winding up as components of the oil crisis response a couple years later) were fairly paltry and relied upon the honor system more than any meaningful enforcement and monitoring action, were not really about addressing consumer price inflation that had been creeping up since the middle of the Lyndon Johnson Administration several years prior. They were merely being put into place to limit the short-term speculative or price-gouging fallout of anticipated swings in the value of the US dollar on the global currency markets until the rest of the world and institutional investors calmed down and got a better handle on the new reality. While the suspension of international gold convertibility was also supposed to be a temporary measure, it never did resume. By notable contrast, the first widespread price controls in about a quarter-century not only came to an end, but they would never be repeated on any comparable scale again. This was the final time (to date, at least) that full, economy-wide price controls were considered a valid tool in the policy toolbox of the federal government on economic affairs. In fact, it is this outlier within the Nixon Shock speech of August 1971 that helps make the speech such an important moment in the coming transition, effectively marking an end to the period before the Crisis of the 1970s and standing in stark contrast with the rest of the responses to the crisis and the economic ideology that was about to harden into place and dominate the 1980s to the present.

- To illustrate the difference from the early crisis to the late crisis, consider this Carter speech in contrast with the Nixon shock speech: In October 1978, President Jimmy Carter rejected the notion of "a complicated scheme of Federal Government wage and price controls on our entire free economic system," calling it "simple, familiar, and too extreme." He also said he would oppose "a deliberate recession, which would throw millions of people out of work" because "Both of these extreme proposals would not work, and they must be rejected." But as we know, in fact his appointee, Federal Reserve Chairman Paul Volcker, pursued the second option a year later with sharp interest-rate hikes beginning in October 1979 that would end up triggering the January 1980 recession, which basically served as the final blow to Carter in the election against Reagan later that year, together with the Iran hostage crisis that began a month after the Fed changes started.
- In December 2021, an interesting Note essay was published in the Harvard Law Review entitled, "Constitutional Law: Price and Sovereignty," offering a legal history of government price controls in the United States. Before we get into the substance of that history, I want to read two quotes that I believe aptly describe the situation ever since the last price controls were deployed in 1971 in the Nixon Shock: "the legal history of price controls exemplifies neoliberalism's most impressive achievement: to make the form of politics it opposes not illegal, but irrational…" "For faithful neoliberals, the idea of effective price controls is paradoxical: there is no redeeming a policy that stifles the informational function of the price system. For the rest of us, a more complex calculus is required."
- That is indeed one of the major points of hegemony in the neoliberal ideology that would come into power as a result of the Crisis of the 1970s: the idea that market-driven price signals are such a naturally occurring phenomenon offering otherwise impossible to obtain information about our reality that we cannot possibly tinker with or manipulate it in any way and that to do so would be the height of insanity. Of course, in point of fact, the government manipulates certain prices all the time by means of things like the strategic oil reserves or agricultural subsidies and quotas – stay tuned for an episode on government cheese or check out any documentary on corn syrup and ethanol subsidies – but the official line is that fiat controls of prices is off the table and you are a lunatic for suggesting them, even at times when price inflation is being driven by outright price-gouging and speculative bubbles. We also know, from our April 2021 episode on Project Cybersyn in Allende's Chile, which was happening at the same time as both the Nixon shock and computer research in the Soviet Union, that there was an alternative vision in the 1970s for the direction that things might have gone instead of neoliberalism and its price signals doctrine becoming the global paradigm. In an alternate timeline of places like the US and Britain, the Crisis of the 1970s ends up being resolved with significant government investments into early networked computer systems to analyze the complexities of the economy and supply chains from natural resource and labor factors all the way to consumer prices and to develop algorithms for nudging and tweaking all these elements to optimize and rationalize the economy under democratic control, as a middle ground between a new free-market orthodoxy and the blunt command-and-control interventions by the communists or the excessively imprecise interventions of the contemporary Gaullist Dirigisme planners in France. In this scenario, the problem is not whether to contemplate government interventions on prices but merely how to do so effectively and efficiently with minimal unintended consequences, by using technology. But as we know, this is

not what transpired. A visible hand of computer-assisted economic policy was rejected in favor of the invisible hand of free-market price information as part of the all-encompassing "data-driven" ideological framework of neoliberal economics and its policymaking without politics.

- And as we also know, while these hardline solutions may have restored a new kind of stability to the system sufficient to end the Crisis of the 1970s, it was also planting all the specific seeds of the coming decline of the United States that we are now experiencing in what might prove to be our final harvest era as a country. The US wobbled on an icy hill in the 1970s and decided to sit down and slide down the hill on its butt to avoid fatally wiping out right then, but now we are simply sitting at the bottom of the hill, colder than ever in a gathering gloom. The hill remains and the ice is worse than ever, and having chosen our careful downward trajectory long ago, we are stuck here now, motionless, until we either figure out a new way out of the situation or we freeze to death.
- Still, to avoid becoming too bogged down in dismal metaphor, it is worth returning to the Harvard Law Review Note from December 2021 to talk about the history of price controls in the United States up until they were removed from the toolbox after August 1971 because, as the author argues, "the precedent that made price controls legal is still good law."
    - *in the century preceding Carter's [October 1978] speech, controls were not feared, but fostered. Indeed, they were central to the American system of capitalism, offering political regulation of prices to stave off destructive periods of inflation, destabilizing drops in demand, threats of monopoly, and pervasive exploitation of workers and renters. In this way, price controls did not simply serve economic ends: they were part and parcel of new conceptions of collective power over property via price.*
    - *During the American Revolution, eight of thirteen colonies had expansive price controls in place…*
    - *Despite their ubiquity, government-imposed price controls were curiously under-theorized by economists before the early twentieth century. In 1918, less than a year after Congress instituted national controls for food and fuel in response to the inflationary pressures of World War I, Harvard Economics Professor Benjamin M. Anderson declared: "There can be no doubt that practice is ahead of theory in the present situation." Even as he noted that price controls were a common feature of economic history, he could find little sustained analysis in the canonical economic thinkers of earlier eras. When discussed by foundational economists in the nineteenth century, for example, price controls were portrayed as an exception, an adjustment, or simply exogenous to the real subject of analysis.*
    - *Whatever the risks, targeted interventions into price — railroad rate-setting, minimum wages for workers, industry-specific protections — became taken-for-granted policies, while the federal government's experiments with large-scale price controls continued.*
    - After having spent much of the Great Depression with the Roosevelt Administration worrying about falling prices becoming unsustainably low, which had prompted some price stabilization measures aimed at setting a floor, instead following the start of World War II and the US economy recovery, the concern shifted back to worrying about price inflation. Several months before the attack on Pearl Harbor, FDR signed peacetime price controls, citing the inflationary pressures of the war abroad on

international commodity markets and currency exchanges as well as the domestic inflationary pressure on the cost of materials related to the rapid US defense buildup: *Economic sacrifices there will be and we shall bear them cheerfully. But we are determined that the sacrifice of one shall not be the profit of another. Nothing will sap the morale of this nation more quickly or ruinously than penalizing its sweat and skill and thrift by the individually undeserved and uncontrollable poverty of inflation.*

- *For twelve months we have tried to maintain a stable level of prices by enlisting the voluntary cooperation of business, and through informal persuasive control. The effort has been widely supported because far-sighted business leaders realize that their own true interest would be jeopardized by runaway inflation. But the existing authority over prices is indirect and circumscribed, and operates through measures which are not appropriate or applicable in all circumstances. It has further been weakened by those who purport to recognize the need for price stabilization yet challenge the existence of any effective power. In some cases, moreover, there has been evasion and bootlegging; in other cases the Office of Price Administration and Civilian Supply has been openly defied.*
  Faced now with the prospect of inflationary price advances, legislative action can no longer prudently be postponed. Our national safety demands that we take steps at once to extend, clarify and strengthen the authority of the government to act in the interest of the general welfare. Legislation should include authority to establish ceilings for prices and rents, to purchase materials and commodities when necessary, to assure price stability, and to deal more extensively with excesses in the field of installment credit. To be effective, such authority must be flexible and subject to exercise through license or regulations under expeditious and workable administrative procedures. Like other defense legislation, it should expire with the passing of the need, within a limited time after the end of the emergency.
- *Housing is a commodity of universal use, the supply of which cannot speedily be increased. Despite the steps taken to assure adequate housing for defence, we are already confronted with rent increases ominously reminiscent of those which prevailed during the World War. This is a development that must be arrested before rent profiteering can develop to increase the cost of living and to damage the civilian morale.*
- FDR's statement on the enactment of wartime price controls in January 1942, nearly two months after Pearl Harbor: *The Emergency Price Control Act of 1942 is an important Weapon in our armory against the onslaught of the Axis powers.*
  Nothing could better serve the purposes of our enemies than that we should become the victims of inflation. The total effort needed for victory means, of course, increasing sacrifices from each of us, as an ever larger portion of our goods and our labor is devoted to the production of ships, tanks, planes, and guns. Effective price control will insure that these sacrifices are equitably distributed.
  The Act, taken all in all, is a workable one. It accomplishes the fundamental objectives of setting up a single Administrator, and empowering him to establish maximum prices and rents over a broad field, to prohibit related speculative and manipulative practices, and to buy

and sell commodities in order to obtain the maximum production. To make price and rent control effective, the Administrator is given adequate powers to license persons subject to the Act, to investigate and enjoin attempted violations, and to bring about the commencement of criminal proceedings against violators. Civil suits for treble damages by private persons provide an additional enforcement tool.
But a price control measure must fall far short of being a democratic instrument if it fails to surround the individual with safeguards against ill-considered or arbitrary action. This Act, while granting the Administrator broad powers, imposes upon him a responsibility of equal breadth for fair play. He must, so far as is practicable, consult with industry members before issuing price regulations, and must accompany each such regulation by a statement of the considerations upon which it is based. The provisions for adjustment assure flexibility in administration. Persons adversely affected by an order have a speedy and effective remedy in the Emergency Court of Appeals.

- *The enactment of price control legislation does not mean that the battle against inflation has been won. I have doubts as to the wisdom and adequacy of certain sections of the Act, and amendments to it may become necessary as we move ahead. Moreover, price control legislation alone cannot successfully combat inflation. To do that, an adequate tax and fiscal program, a broad savings program, a sound production program, and an effective priorities and rationing program, are all needed.*
- Quoting again from the Harvard Law Review Note: *By the end of World War II, the Office of Price Administration (OPA), created by the Emergency Price Control Act of 1942 (EPCA), had issued regulations controlling prices for ninety percent of commodities and regulating rents for "practically the entire country." The three-year-old OPA was home to an enormous administrative apparatus, employing nearly 65,000 federal workers — more than the Departments of Justice, State, and Labor combined. And, as part of the combined federal and private enforcement regime instituted by the EPCA, civil and criminal actions for violations of price control regulations occupied ten percent of the federal docket; the Emergency Court of Appeals — an Article III court established by the EPCA and designed to circumvent eleven separate circuits — was routinely batting down challenges to price orders with the Supreme Court's tacit assent. In 1945, it was no exaggeration to say that the government controlled the economy through price setting and enforced its control in compliant courts.*
- *When President Nixon faced a new round of inflation in the 1970s, he too turned to price controls. Nixon's program initially relied on a slender statutory basis — the Economic Stabilization Act of 1970 provided that "[t]he President is authorized to issue such orders and regulations as he may deem appropriate to stabilize prices, rents, wages, and salaries at levels not less than those prevailing on May 25, 1970" — but it came to impact every aspect of the economy. As in World War II, executive authority to set prices was insulated from judicial review by an emergency court of appeals.*
- The Note article then returns to the beginning of modern price controls and case law around them from the start of the Second Industrial Revolution, beginning on something I think we actually discussed in an

episode years ago on the Granger Movement's advocacy for government regulations limiting the rates that railroads and grain warehouses could charge to farmers. The 1869 State Constitution of Illinois enshrined a dramatic new government authority: "[a]ll elevators or storehouses where grain or other property is stored for a compensation . . . are declared to be public warehouses." I'm now going to quote at length from the Harvard Law Review Note on the result of this state constitutional provision and the ensuing US Supreme Court ruling:

- *After the convention concluded, the Illinois General Assembly quickly took up the Constitution's call. The resulting state law required grain warehouses in cities with more than 100,000 inhabitants to charge no more than legislatively set maximum rates — between one-half and two cents per bushel depending on the quality of the grain and the length of storage — or face criminal sanction. In 1872, Ira Munn and George Scott, two owners of a Chicago grain elevator, refused to comply: they charged prices agreed upon by their ostensive competitors, rather than those established by law. They were indicted, found guilty, fined $100, and appealed. At the Supreme Court, their local protest spurred the articulation of starkly different conceptions of price, property, and sovereign power in federal constitutional law. Writing for the Court, Chief Justice Waite admitted the prevailing view that price was a private prerogative. ("There is no doubt that the general principle is favored, both in law and justice, that every man may fix what price he pleases upon his own property, or the use of it . . . ." (quoting Allnutt v. Inglis (1810)). But, he argued, private price setting was better understood as a sort of privilege, one that adhered only to certain types of property in particular circumstances. Indeed, he insisted, it was wrong to conceptualize popularly enacted price controls as a deprivation of private property under the newly enacted Fourteenth Amendment of the U.S. Constitution. [...] Chief Justice Waite argued: "When . . . one devotes his property to a use in which the public has an interest, he, in effect, grants to the public an interest in that use, and must submit to be controlled by the public for the common good, to the extent of the interest he has thus created." Thus, property, though presumptively private, was potentially subject to public control whenever it was "used in a manner to make it of public consequence." In an impassioned dissent, Justice Field rejected this reformulation of property rights. Steeped in classical liberalism, he considered the legal status of property to be permanent, if not pre-political. As such, no emanation of popular will could transmogrify its nature; declaring property to be public did not render it so. He explained: "There is no magic in the language, though used by a constitutional convention, which can change a private business into a public one, or alter the character of the building in which the business is transacted. . . . One might as well attempt to change the nature of colors, by giving them a new designation." And, he argued, well-established protections for property in the Due Process Clause extended beyond just "title and possession": they must include "use, and the fruits of that*

use," or "the constitutional guaranty . . . does not merit the encomiums it has received." [...] If property were a person, he implied, price would be its sacred sense of self. While popular efforts to control price were dangerous on their own, Justice Field was especially troubled by the vision of government that the majority's conception of property presaged. He suspected that a rule that required a mere public interest in the use of private property to warrant control would soon be extended: "The public has no greater interest in the use of buildings for the storage of grain than it has...for the residence of families, ... cotton, woollen, and silken fabrics, ... machinery, ... the printing and publication of books and periodicals, ... utensils of every variety, useful and ornamental..." He feared that, under the majority's rule, "there is hardly an enterprise or business" that could not have its prices set by the legislature. And though, he noted, the majority did not sanction the stripping of title, its condoning of the control of price effectively made private property the subject of sovereign will: in his view, the legislation upheld by the Court was "nothing less than a bold assertion of absolute power by the State to control at its discretion the property and business of the citizen." [...] If Justice Field's vision of government sprang from the sanctity of private property, Chief Justice Waite's conception descended from the acts that established the collective sovereign. As Chief Justice Waite explained: "When one becomes a member of society, he necessarily parts with some rights or privileges which, as an individual not affected by his relations to others, he might retain." "[T]he very essence of government," he continued, is the principle that property cannot be used "unnecessarily to injure another" and thus can be regulated "for the public good." Echoing the concerns of the Illinois constitutional convention, he argued that the definition of the public good was for the public to decide [...] Less than a decade after Munn, Chief Justice Waite betrayed it, joining the majority in refusing to apply the Civil Rights Act of 1875 to private businesses. [...] In the decades that followed the decision, Munn's discussion of price, property, and power proved to be important, but inconstant, precedent. During Munn's first fifty years, the decision was stripped to its constituent parts, even as price control continued to be a limit case for defining sovereign power. [...] It was not until the Great Depression that the piecemeal power to control prices again served to expand sovereignty. In Nebbia v. New York, a slim majority of the Court upheld a 1933 New York statute that allowed a newly created Milk Control Board to fix prices for milk. [Note that this was actually a price floor, not ceiling, on milk.] *As might be expected, given the limiting of Munn throughout the Lochner era, the core complaint of retailers was that such price fixing violated due process, depriving them of their property and restricting their ability to freely contract for sales. [...] But, in the rest of the opinion, the Court elaborated on the radical conception of collective control of ostensibly private property offered in Munn [...] After cautiously noting that "neither property rights nor contract rights are absolute," the Court argued*

that the spheres of private control and public prerogative were not hermetically sealed: any action in either affected the other. When a conflict arose, the Court argued, "subject only to constitutional restraint the private right must yield to the public need." [...] The Court...resisted the idea that price was "peculiarly sacrosanct" — nothing in the Due Process Clause suggested a difference between indirect regulation that impacted prices and direct price setting. Turning the ambiguity of Munn's holding into an advantage, the Court argued that any business that might impact the public good could be regulated via price controls.

- The article discusses one of the ongoing economic debates on whether emergency price controls create a boomerang problem where price inflation suddenly surges after controls suddenly end after the emergency, and whether or not phased rollbacks can manage this problem. But this debate itself highlights how much of the discussion of price controls has focused on emergency situations, rather than exploring their potential long-term deployment, a prospect that neoliberals regard with a kind of cosmic horror that doesn't allow them to even consider the idea.
- The article mentions the 1921 Supreme Court ruling in *Block v. Hirsh*, which upheld temporary emergency housing rent control in the District of Columbia related to the instability of World War I and its immediate aftermath. In 1944, the Supreme Court also upheld the 1942 wartime price controls as being similarly an appropriate emergency measure, but they defended it under the presidential War Powers of the constitution. In another case that year, once again dealing with wartime rent control, the Court sternly observed that "A nation which can demand the lives of its men and women in the waging of that war is under no constitutional necessity of providing a system of price control on the domestic front which will assure each landlord a 'fair return' on his property." The article notes that in very clear contrast to these three cases, the Nixon Shock price controls authorized in August 1970 and implemented in August 1971 did not include any official link to the Vietnam War, although the administration could have cited this as a justification, if they had wanted to. So, despite falling during a significant war, they are generally regarded as "peacetime" price controls. The courts were, nevertheless, fairly dismissive – out of hand – of challenges (from both companies and labor unions seeking pay rises) to the 1971 price controls, on the basis that the rest of the government could basically declare emergencies and enact emergency measures whenever they felt a need. Which is interesting.
- At the end of 1971, the Democratic Congress extended the 1970 authorizations for executive price controls, citing a grab bag of justifications, including but certainly not limited to Nixon's originally cited emergency situation of August 1971, which was the end of dollar-to-gold convertibility and the potential for currency market panics to affect the domestic economy: *"It is hereby determined that in order to stabilize the economy, reduce inflation, minimize unemployment, improve the Nation's competitive position in world trade, and protect the purchasing power of the dollar, it is necessary to stabilize prices, rents, wages, salaries, dividends, and interest. The adjustments necessary to carry out this program require prompt judgments and actions by the executive branch of the Government."* The reauthorization law also created a Temporary

Emergency Court of Appeals for disputes over the price controls, which ended up hanging around much longer than the price controls, because of the later recurring oil crises, and that special appeals court didn't actually fully disappear until the 1990s, long after the economy-wide controls themselves were gone.

- So, as mentioned earlier, those Nixon Shock price controls of 1971 (parts of which were extended through 1973 and then rolled into the oil crisis controls) mark the last use of wide-ranging, direct, fiat controls on prices in US government economic policy to date. But rising prices remained one of the biggest animating concerns of American politicians and presidents throughout the Crisis of the 1970s. Setting aside things like strategic oil reserves or farm subsidies, and setting aside demand-side government control attempts like those seen in the oil crisis (which we can talk about in a different episode), what is the approach taken after the resolution of the Crisis of the 1970s? What is the response from the 1980s onward, so that we can compare and contrast to the situation of the 1970s?
- The price signal theory that provides one foundation of neoliberalism's ideological commitment to opposing government interference in market prices was a theory probably most clearly articulated by the Austrian neoclassical economist F.A. Hayek (or at least as reinterpreted and riffed on later by neoclassical liberal economists like Milton Friedman in the reactionary Chicago School that was coming into dominance over the course of the 1970s). Although price signal theory had been kicking around since the 1930s, the specific writing that later neoliberals often cited was Hayek's 1945 essay – published a quarter-century before the Crisis of the 1970s and definitely published before any mainstream academic understanding of the potential power and capacity of computers and computer networks – entitled "The Use of Knowledge in Society." It was a work intended to put to bed the feasibility of rational central planning and to demonstrate the superiority of market-driven pricing (and thus production) of goods and services. From our vantage point today, as leftists in the 3rd decade of the 21st century, the essay's insistences on what is or isn't feasible seem quaint and out-dated – especially because major corporate bureaucracies ended up adopting internal computer-assisted central planning themselves. But the worldview with regard to the role of government in all of this, as articulated in the 1945 essay, unfortunately remains the basis of the hegemonic ideology that we live inside and under every day. Here are some notable passages from the essay that give the gist of Hayek's arguments:
  - *One reason why economists are increasingly apt to forget about the constant small changes which make up the whole economic picture is probably their growing preoccupation with statistical aggregates, which show a very much greater stability than the movements of the detail. The comparative stability of the aggregates cannot, however, be accounted for—as the statisticians occasionally seem to be inclined to do—by the "law of large numbers" or the mutual compensation of random changes. The number of elements with which we have to deal is not large enough for such accidental forces to produce stability. The continuous flow of goods and services is maintained by constant deliberate adjustments, by new dispositions made every day in the light of circumstances not known the day before, by B stepping in at once when A fails to deliver. Even the large and highly mechanized plant keeps going largely because of an environment upon which it can draw for all sorts of unexpected needs;*

tiles for its roof, stationery for its forms, and all the thousand and one kinds of equipment in which it cannot be self-contained and which the plans for the operation of the plant require to be readily available in the market.

This is, perhaps, also the point where I should briefly mention the fact that the sort of knowledge with which I have been concerned is knowledge of the kind which by its nature cannot enter into statistics and therefore cannot be conveyed to any central authority in statistical form. The statistics which such a central authority would have to use would have to be arrived at precisely by abstracting from minor differences between the things, by lumping together, as resources of one kind, items which differ as regards location, quality, and other particulars, in a way which may be very significant for the specific decision. It follows from this that central planning based on statistical information by its nature cannot take direct account of these circumstances of time and place and that the central planner will have to find some way or other in which the decisions depending on them can be left to the "man on the spot."

If we can agree that the economic problem of society is mainly one of rapid adaptation to changes in the particular circumstances of time and place, it would seem to follow that the ultimate decisions must be left to the people who are familiar with these circumstances, who know directly of the relevant changes and of the resources immediately available to meet them. We cannot expect that this problem will be solved by first communicating all this knowledge to a central board which, after integrating all knowledge, issues its orders. We must solve it by some form of decentralization. But this answers only part of our problem. We need decentralization because only thus can we insure that the knowledge of the particular circumstances of time and place will be promptly used. But the "man on the spot" cannot decide solely on the basis of his limited but intimate knowledge of the facts of his immediate surroundings. There still remains the problem of communicating to him such further information as he needs to fit his decisions into the whole pattern of changes of the larger economic system.

How much knowledge does he need to do so successfully? Which of the events which happen beyond the horizon of his immediate knowledge are of relevance to his immediate decision, and how much of them need he know?

There is hardly anything that happens anywhere in the world that might not have an effect on the decision he ought to make. But he need not know of these events as such, nor of all their effects. It does not matter for him why at the particular moment more screws of one size than of another are wanted,why paper bags are more readily available than canvas bags, or why skilled labor, or particular machine tools, have for the moment become more difficult to obtain. All that is significant for him is how much more or less difficult to procure they have become compared with other things with which he is also concerned, or how much more or less urgently wanted are the alternative things he produces or uses. It is always a question of the relative importance of the particular things with which he is concerned, and the causes which alter their relative importance are of no interest to him beyond the effect on those concrete things of his own environment.

It is in this connection that what I have called the "economic calculus" proper helps us, at least by analogy, to see how this problem can be solved, and in fact is being solved, by the price system. Even the single controlling mind, in possession of all the data for some small, self-contained economic system, would not—every time some small adjustment in the allocation of resources had to be made—go explicitly through all the relations between ends and means which might possibly be affected. It is indeed the great contribution of the pure logic of choice that it has demonstrated conclusively that even such a single mind could solve this kind of problem only by constructing and constantly using rates of equivalence (or "values," or "marginal rates of substitution"),i.e., by attaching to each kind of scarce resource a numerical index which cannot be derived from any property possessed by that particular thing, but which reflects, or in which is condensed, its significance in view of the whole means-end structure. In any small change he will have to consider only these quantitative indices (or "values") in which all the relevant information is concentrated; and, by adjusting the quantities one by one, he can appropriately rearrange his dispositions without having to solve the whole puzzle ab initio or without needing at any stage to survey it at once in all its ramifications.

Fundamentally, in a system in which the knowledge of the relevant facts is dispersed among many people, prices can act to coördinate the separate actions of different people in the same way as subjective values help the individual to coördinate the parts of his plan. It is worth contemplating for a moment a very simple and commonplace instance of the action of the price system to see what precisely it accomplishes. Assume that somewhere in the world a new opportunity for the use of some raw material, say, tin, has arisen, or that one of the sources of supply of tin has been eliminated. It does not matter for our purpose—and it is very significant that it does not matter—which of these two causes has made tin more scarce. All that the users of tin need to know is that some of the tin they used to consume is now more profitably employed elsewhere and that, in consequence, they must economize tin. There is no need for the great majority of them even to know where the more urgent need has arisen, or in favor of what other needs they ought to husband the supply. If only some of them know directly of the new demand, and switch resources over to it, and if the people who are aware of the new gap thus created in turn fill it from still other sources, the effect will rapidly spread throughout the whole economic system and influence not only all the uses of tin but also those of its substitutes and the substitutes of these substitutes, the supply of all the things made of tin, and their substitutes, and so on; and all this without the great majority of those instrumental in bringing about these substitutions knowing anything at all about the original cause of these changes. The whole acts as one market, not because any of its members survey the whole field, but because their limited individual fields of vision sufficiently overlap so that through many intermediaries the relevant information is communicated to all. The mere fact that there is one price for any commodity—or rather that local prices are connected in a manner determined by the cost of transport, etc.—brings about the solution which (it is just conceptually possible) might have been arrived at by one single mind possessing all the

information which is in fact dispersed among all the people involved in the process.

- Granted, not everything Hayek says here is wrong or useless. There are indeed some undeniable advantages to the decentralization of decision-making in the economy based on price signals. The theorists of cybernetics and the democratic-socialist team working on the conceptual design for the Cybersyn computer system in Chile all basically agreed with the idea that economic planning systems needed to be made responsive and nimble through the decentralization and automated self-correcting of certain elements of the system. Price signal theory is, in that sense, not a completely different approach. Hayek describes this aspect in the essay as follows:
    - *"The marvel is that in a case like that of a scarcity of one raw material, without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly; i.e., they move in the right direction."*
- But the problem is that Hayek's disciples or re-interpreters then concluded, which a democratic socialist planner would disagree with, that there is therefore no role whatsoever for government intervention into these price signals because that would distort what he believes is objectively "correct" information resulting from prices. A leftist designing a government economic planning algorithm would probably counter that it is sometimes in the interest of the people to make interventions into these price signals, for example by significantly raising the price of pollutant components in production of goods or by taxing the resulting emissions of the consumption of these goods, as a price signal to producers to cut back sharply on these things. (Indeed, we actually see many liberal economists today advocating the same thing as a solution to environmental degradation.) Or to give another example, the followers of Hayek would probably reject out of hand the leftist planner's notion that sometimes it is socially beneficial to step in to increase production of some good or service in a way that might be viewed as an "overproduction" distortion.
- We also see in the works of Milton Friedman, for example, that the fixation on price signals being such a valuable and magical source of information in the economy logically leads to a fundamentalist obsession with containing inflation at basically any cost (except, crucially, via any measures that would also lead to the "contamination" of price signals, such as government price caps or price floors). Actions of the late 1970s and beyond to attack US federal price regulations – such as airline, rail, bus, trucking, and utility deregulation that we've covered in past episodes – emerge directly out of this same overriding obsession with ending unnatural interference in the price signals, no matter what other policy objectives might be tied to those regulations. In Friedman's 1976 Nobel prize lecture, he claims that the "effect of increased volatility of inflation is to render market prices a less efficient system for coordinating economic activity" and then references Hayek's 1945 description of this self-coordinating system. Friedman says that "If the price level is on the average stable or changing at a steady rate, it is relatively easy to extract the signal about relative prices from the observed absolute prices. The more volatile the rate of general inflation, the harder it becomes to extract the signal about relative prices from the absolute prices: the broadcast about relative prices is, as it were, being jammed by the noise coming from the inflation broadcast..." As a result, for Friedman and followers, whose

ideas more or less completely dominate economic (or at least monetary) policy in the US from the end of the 1970s to basically present-day, erratic price inflation is utterly unacceptable and it doesn't matter how many people have to be thrown out of work to slam on the brakes and get price stability back and price signals cleaned up. This was justified, conveniently, by saying that price uncertainty probably also causes unemployment and hiring would probably resume with clearer price signals. Plus airline tickets might get cheaper from deregulation, so that's something nice, right?

    - From the Note article: *"the coincident rise of a neoliberal consensus and fall of widespread price controls takes on a new significance. Price controls represent[ed] not just an inadequate solution to inflation and other social problems, they also signal[ed] the success of a conception of popular sovereignty [over private property or capital] anathema to the freedom of and through the market prized by neoliberalism. Friedman, in his most famous [1960s] polemic [said]: 'Price controls, whether legal or voluntary, if effectively enforced would eventually lead to the destruction of the free enterprise system...And [they] would not even be effective in preventing inflation.'"*
    - In another section of the Note article, the author writes that, "*the conception of sovereignty the Court's price control jurisprudence described has all but disappeared. Instead of conceiving of the economy as something always subject to sovereign control, the free market has been posited as the superior method of achieving just outcomes, of distributing resources, of governing."*
  - Another problem is that the price signal theories assume (or at least pretends to assume) a greater decentralization in the source of the price signals through free-market competition of various unrelated and uncoordinated enterprises, large and small, or even in Hayek's mind down to the level of "individuals." There is one particular section of the essay that is worth quoting from, as an illustration of the absurdly unrealistic premise underlying the laissez-faire neoclassicism of just letting prices adjust themselves without interference – but also as an admission of the current leftist observation that economic planning is a question of by whom, not whether it will be undertaken:
    - *The various ways in which the knowledge on which people base their plans is communicated to them is the crucial problem for any theory explaining the economic process, and the problem of what is the best way of utilizing knowledge initially dispersed among all the people is at least one of the main problems of economic policy—or of designing an efficient economic system. The answer to this question is closely connected with that other question which arises here, that of who is to do the planning. It is about this question that all the dispute about "economic planning" centers. This is not a dispute about whether planning is to be done or not. It is a dispute as to whether planning is to be done centrally, by one authority for the whole economic system, or is to be divided among many individuals. Planning in the specific sense in which the term is used in contemporary controversy necessarily means central planning—direction of the whole economic system according to one unified plan. Competition, on the other hand, means decentralized planning by many separate persons.*
  - In this scenario, resting on an idealized fantasy of systemic competition among, and aggregate decision-making in the market by, individuals (and Hayek

immediately thereafter explicitly handwaves away as obviously condemnable the opposite market actor, industrial monopolies), prices magically reflect some kind of objective and intrinsic reality about how much things cost – especially things at the beginning of the supply chain like raw material factors or labor costs, but also all the component costs, labor costs, and transportation costs along the chain of production to consumers. *We* know this is untrue, and *we* cannot handwave it away. Capitalism, it must be emphasized before we go any further, is not synonymous with the concept of markets, which long predate the emergence of capitalism. But capitalism makes the scenario untrue. Capitalism, by definition, already builds in an extra padding and markup at every stage to provide a carveout for profits to the ownership class. We also know that the capitalist class coordinates extensively, against the competitive impulse, to manipulate prices from one end of the chain of production to the other. At the consumer end, these companies explicitly or implicitly form cartels with each other (if they have not already achieved monopoly status) to jack up prices based on nothing other than their ability to do so without significantly suppressing consumer demand for their inelastically needed products and based on a greed for higher profits to shareholders per unit. Think, for example, of a medical insurance bill to a patient being priced at hundreds of thousands or millions of dollars until a reporter calls to ask about it and suddenly the quoted price of the procedure evaporates to a few hundred bucks, almost as if it never really reflected anything substantive. These gross instances of price-gouging would be the likeliest candidates to be targeted by government price control regimes, if we as a society believed in such a tool anymore. (And indeed we see it feebly implemented in Medicare, with great kicking and screaming from the medical industry and economists.) In the middle of the chain of production, we know that companies like Apple and Google work with each other to coordinate salaries for white-collar workers and avoid poaching employees in a way that could drive up labor prices. They are vastly stronger than any labor unions that could potentially counter-negotiate these trends in wage price suppressions. And at the beginning of the chain, we see the raw and brutal force of the multinational corporations hiring people to violently attack workers and their organizers or to attack villagers and indigenous communities living on the site of natural resources. We see workers forced by poverty or outright enslavement into the harvesting of petroleum and precious metals, and so on, backed by or ignored by the American courts, in a manner that necessarily suppresses the prices of the inputs so that any cost of a resulting good would never been seen in its natural state and thus never trigger all the Hayekian decision-making to alter supply chains to account for objective price changes. The reality is that the prices of inputs, labor, logistics, and finished goods do not magically fluctuate in a competitive environment under the non-governmental and unplanned auspices of the invisible hand representing an aggregate of the day-to-day decisions of billions of individuals. Instead, we understand that we live under the unaccountable central planning and price-setting of a very small number of individuals running a few thousand corporations and allied private banking institutions around the world, i.e. the consolidated, highly-developed, and fully financialized industrial and post-industrial capitalist system as it exists in 2022 and for many decades before now. Which, again to be clear, is not the same as the existence of a marketplace and is actually its own kind of all-powerful distortion of markets and market prices. Any economic policy theory that pretends this force does not exist is promoting the perpetuation and deepening of this situation by pretending it is the

naturally occurring default reality, which the state must leave untrammeled. It is a pretextual justification against any ideology suggesting that the state, on behalf of the people, has an interest in intervening by enacting policies to promote social goods, social welfare, and social benefit. And it is a drum being banged louder and louder to drown out the left's observations on corporate central planning and the technological advances since 1945 that could make possible sophisticated and semi-automated computer-assisted economic policy decisions on behalf of and accountable to the public and their interests without the inefficiencies of an interwar government central planner.

    - The left's argument that economic central planning and price manipulation are a question of who does it, not whether or not to do it, is also not by any means a new observation, even though it has been proven truer and truer with each passing decade. To quote again from the Harvard Law Review Note last year: *the constitutionality of price control raises more fundamental questions about the scope of political debate and popular power. As Professor Morris Cohen forcefully explained almost a century ago, the question is not whether there will be control of people via property, but who will decide how that control is exercised and to what ends. The constitutionalization of price controls indicates the extent to which the power to set prices can be held by the sovereign, rather than the boss or the baron. In supporting this largely legislative effort to bring prices under popular control, the Court underlined the extent to which central aspects of private property — their exchange value, their market worth — can bend to the public's interest. And, in providing this legal justification for price controls, the Court effectively expanded the sovereign power to control the entire economy. [...] Price controls … offer one way to lessen inflation's impacts — by directly intervening in the market, they can make necessities affordable, even if only on a temporary basis; by propping up wages, they can ensure that higher nominal costs don't result in lower purchasing power. Perhaps such an approach would spell economic calamity; perhaps it would produce perilous political backlash; perhaps it simply wouldn't work. If nothing else, it would remind Americans that even the most sacred signals of the market are well within their collective control.*

- Well, it's time to leave our series there for this week, but some of these critiques – of the ideologically convenient shorthand conflation of capitalism with markets and price theory and of the question of whom government economic policy should serve – might call to mind for listeners a little something called "Socialism with Chinese characteristics," which brings us logically to our next episode on Nixon's trip to China, which began 50 years ago this week in February 1972. So, stay tuned for that.
- Thanks for listening to this episode and consider subscribing at Patreon.com/ArsenalForDemocracy for $3/month to support the show and more special episodes like this. This series has a special theme song called "Cold War Echo" by Kai Engel from the 2017 album "Sustains," and I curated and added on top of it the political speech clips myself. As usual, the notes are posted in a PDF accompanying the episode. Stay tuned for more soon.
- Additional materials not used in this episode: https://www.npr.org/2022/01/14/1072980454/as-prices-rise-some-debate-whether-price-controls-should-be-reinstated