

The Fallacy of Price Controls for Food

They Don't Attack the Problem's Main Cause

By LEO MELAMED

Too little of the true nature or cause of the food price rise has risen to the surface or been properly explained. Take, for instance, the so-called meat boycott.

The power of the housewife has been extolled as if it were a new invention comparable to, say, the discovery of the wheel. The truth is that consumer price resistance is a time-honored weapon of the marketplace and is as old as the marketplace itself. It is today no more than it has been from time immemorial, the check in the balance between supply and demand.

Sooner or later, every commodity is liable to face the price resistance level of the consumer at which point the supply will begin to outweigh the demand. Price resistance is second only to supply in affecting the price of any given commodity.

The recent boycott was not, therefore, an extension of women's liberation or an invention of 1973, nor need it have been given the reverence the press seemed to attach to it.

Such glamorization of an important but normal economic function will undoubtedly produce polarization between the consumer and the producer. This will reduce the matter to a war between boycott groups and anti-boycott groups, thus further distorting the supply and demand picture, and certainly be a disservice to our economy.

What is of much more significance, however, is the irresponsible response of many of our political leaders to this dilemma. To a man, it seems they have hopped aboard this bandwagon of sentiment with cries of "The President hasn't done enough," "roll back the prices" and so on.

Such talk may make votes; it certainly doesn't make sense.

Where are our leaders who have the guts to explain the true nature of this problem? Where are our officials who would point out that the present crisis was caused by the convergence of a number of contributing factors, including severe weather, previously depressed prices and profit squeezes and an enormously increased demand for meat?

This, as a result of higher wages and more employment, changed eating habits and Government food programs.

Who explained that some of these factors are of a permanent nature, others are cyclical and still others are temporary?

Who pointed out that one of the main causes has been

the devaluation of the dollar, coupled with foreign inflation and increased world affluence, which created additional funds in foreign countries with which to increase their imports of our products; that American food products, such as grain and meat, were some of the biggest bargains available to them, and that our Government encouraged this eventually to aid our balance of payments?

And who explained that this cause and its effect was a continuing one because you could not have your commodity and eat it too?

Finally, and most importantly, why has so little been written about the low nature of our present food prices?

Food prices in recent months have risen dramatically and out of proportion with other items; the price of meat has, in the last year, risen to an extreme. In fact, food prices in the last several years have been playing catch-up.

But the price of farm products cannot be measured in terms of weeks or months or even one year. The rise and fall of farm commodities are affected by a number of complicated factors that cause a constant tug-of-war between supply and demand.

At any given moment or during any given year, the price may rise or fall dramatically (drawing exceptional public attention to it), but it is unfair to judge this rise or fall as of that moment or that duration. To judge prices of farm commodities adequately and fairly, one must look at them over a longer period of time, say 10 or 20 years. Only then can you assess their cost increases on a basis that has taken into account all of the variables, cycles and adjustments.

How often is it explained that although food prices have risen significantly, they have risen far less than most goods? Or how often is it pointed out that while prices for all consumer items rose by 88 per cent during the last 20 years and housing prices rose by 84 per cent, prices for retail food went up only 47 per cent since 1952 and the price of food eaten at home rose less than 40 per cent?

Even this 40 per cent rise (18 per cent less than the rise of other consumer items) is not the full story, since our average food bill, which took 23 per cent of our after-tax disposable income in 1952, took only 15.7 per cent of the after-tax disposable income in 1972 and is projected even lower for 1973.

Who has had the courage to point out that during this same 20-year period, while home food prices rose by 40 per cent (but took 7 per cent less of our after-tax income), the hourly wages received by laborers went up 140 per cent?

It is not my intention to be critical of laborers' increased wages, but I certainly call it unfair when labor's leaders use the rise in food prices as a reason for higher wages. Who would point out to them that if food prices had kept pace with wages since 1952, then a quart of milk today would cost 55 per



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Scene in a supermarket in Somerset, N. J., during the recent meat boycott. Price resistance is an old consumer tool.

cent more, a dozen eggs 161 per cent more, a pound of hamburger 151 per cent more and a pound of round steak 267 per cent more?

Who would explain that while out of every \$100 of after-tax income the average person spends 48 per cent more for medical care; 18 per cent more for his automobile, transportation, gas and oil; 14 per cent more for housing, furniture and household operations than he did 20 years ago, he spends 32 per cent less (yes, less) for food?

Little wonder that the rest of the world, with few exceptions, is envious of our food prices and has come to our counter for our cheap commodities. Has everyone made the comparison between our retail meat prices and the dollar equivalent in foreign countries?

How much has been written about the reasons for our plentiful breadbasket and that a paramount cause for its success has been a relatively free-enterprise system guided mainly by supply, demand and profit motivation; that price and market controls, ceilings and five-year plans (as some have suggested), have been tried in every other corner of the globe (and here, too) with disastrous results, and that we are still the only nation

that has produced food commodities on a scale that is generally higher than we can consume?

Instead of facts, we have heard the demands that Government put more controls into this system; that we roll back prices, and that we install some magic bureaucratic system to guide and guard rather than allow it to adjust itself as in the past or as world economic conditions dictate.

The old successful way isn't good enough in these modern times, so let's adopt the unsuccessful policies of other nations. That way we can look forward to the same results that they have achieved and soon we can together lack the same commodities.

Controls, ceilings and such are wonderful ideas, but there are a number of basic things wrong with them:

They don't affect the fundamental cause of the problem in the first place. Increases in prices can be predominantly attributed to lack of supply, or put another way, demand in excess of supply.

An increase of supply or decrease of demand are the only real means of reducing prices. Controls on prices will in no way affect greater supply or lower demand.

They are counterproductive. For the producer, controls induce the psychology that no matter what he does for his product's quality, he cannot get a better price; no matter how hard he works or how much money he spends to produce more, his potential profit per item will remain the same, so his incentive to produce more or better quality diminishes.

For the consumer, controls induce the psychology that no matter how much he buys of the product, the price will not rise and probably won't go down. So his demand for the product has no reason to diminish, in fact it increases. Controls have always, thereby in the final analysis, produced shortages.

Price controls create a political and public mass psychology that is dangerous. Just like any pacifier, it creates the impression that the problem is solved. Therefore, the real and underlying causes of the problem tend to go unattended. Even worse, often as not, such psychology leads directly to programs and attitudes that increase the basic problem.

Price controls are inherently inflationary. In order to regulate and enforce them, new Government agencies must be created; this is costly.

Such additional Government expenditures can be paid for by higher taxes but usually are not. Instead, the Government pays for it with borrowed or created funds.

Price controls create unforeseen complexities and, in the long run, are self-defeating. No control system has yet been devised that can foresee at the outset all the effects and countereffects on the nation's economy. New rules and interpretations must be constantly added.

Thus controls, in time, become an incomprehensible morass of rules and exceptions riddled with loopholes and conflicting interpretations. Furthermore, human nature will, in the long run, prompt many consumers to circumvent or violate control prices to get better quality or more of a given product. This, in essence, means that prices continue to rise—albeit unofficially.

Price controls tend to become "alive" once installed. Controls are most difficult to be done away with. The psychology that created them and the psychology that they in turn create seem to make them independent of their creator. Like opium or any artificial stimulant, once you have it, you think you can't live without it—regardless of the harm it causes.

If I have oversimplified these issues, it was for emphasis, but the facts remain for anyone to draw his own conclusions.

It is indeed sad that now we have meat ceilings in response to the public clamor for a pacifier. Should the price of meat recede, it will be attributed to the effectiveness of these controls. Forgotten will be the fact that any reduction in meat prices will unquestionably have been caused by stiff consumer price resistance, coupled with a continuing increase in meat supplies, and not at all by the artificial magic of the ceiling.

But, alas, no lesson will have been learned—just the opposite—an erroneous impression will have been created.

Food commodities are our biggest bargain even now and controls, ceilings or other artificial means won't help their production. If our food prices are rising, then it is caused by eventualities over which our farmers had little control. Penalizing them won't help.

It could be that our food prices won't ever come back down—they may even continue to rise—but the answer to this problem, as in the past, lies in production, production incentives and overall national economic management and not in politically inspired rhetoric or artificial price adjustments or controls. And certainly emotionally charged accusations and demands by consumer groups won't do anything except confuse the issues and delay the remedies.

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