Drastic measures
A history of wage and price controls in the United States
STUDIES IN ECONOMIC HISTORY AND POLICY:
THE UNITED STATES IN THE TWENTIETH CENTURY

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Drastic measures
A history of wage and price controls in the United States

Hugh Rockoff
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Editors’ preface

The problem of inflation in America has been recurrent since early colonial days, and the history of governmental attempts to cope with this problem by imposing direct controls is equally long. Today, as this is being written, our most recent inflation is abating, each month bringing news that the rate of price increase is still lower than that of the month before. But it is too much to hope that the problem has permanently receded. We will encounter inflationary pressures again and again in the years ahead, and during the current interval of relative price stability it behooves us to learn as much as possible about the nature of inflation and the devices for keeping it under control.

Hugh Rockoff’s book is thus timely and important. The author tells the story of American price controls from colonial times up to the Nixon price freeze. He describes the systems of control, placing each in its special historical setting. He appraises carefully the degree of success attained in bringing prices under control and weighs the benefits of each experience against the probable costs. Rockoff includes the direct and obvious costs, such as those associated with the government’s administrative apparatus and private compliance; the less obvious costs, such as those incurred in the policing of the laws and in handling the added judicial burdens generated by noncompliance; and the indirect and pervasive costs of the misallocation of resources arising out of the suppression of the normal operations of the price system. His treatment of these issues is lucid and analytically rigorous. He provides us with a balanced rendition, free of the ideological commitment that characterizes much of the writing on this important subject.

Rockoff’s book has lessons for today and tomorrow. We, the editors, are pleased that it has taken its place as the second volume in the series Studies in Economic History and Policy: The United States in the Twentieth Century.

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Preface

This book began with a conversation I had some years ago with the distinguished social psychologist Solomon Asch. His classic experiments on the response of individuals to group pressure flowed directly, or so I interpreted his remarks, from his attempt to resolve a crucial debate within his discipline. Economic historians, it seemed to me, also worked with experimental data, although in our case the data came from “natural experiments” – episodes of rapid and extensive change that threw the operation of economic principles into sharp relief. But too often we concentrated on minor problems suggested by fashion or the availability of data. The right thing to do, it seemed to me, was to follow Solomon Asch’s example and search for the natural experiments that were relevant to the crucial issues. This line of thought led me to the decision to explore the effects of wartime price controls. For within the discussion of macroeconomic policy, the main alternative to current reliance on monetary and fiscal policy appears to be some form of controls. The judgment shared by many economists, moreover, that controls would always do more harm than good, derives in part from the proposition, properly qualified, which still lies at the heart of modern economics: Unfettered competition will produce maximum economic efficiency. Clearly, the wartime experiences provide evidence on a crucial debate.

The judgment that controls will always fail also derives from the erroneous belief that economic historians have exhaustively examined past experiments with controls and pronounced them a universal failure. Perhaps the importance of the issue has led people to assume that the work has been done and that the results support their preconceptions. In fact, these episodes have not received the attention they deserve.

The complete analysis of these episodes will be the work of many scholars over many years. Here I have taken the first two steps. First, I have tried to construct narratives of America’s experiments with controls that pull together the available statistical and qualitative evidence, narratives that can serve as a starting point for others, as well as myself, for pursuing more specialized lines of inquiry. For the general reader,
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however, my second purpose is more important. I have also tried to
form a tentative judgment concerning the typical costs and benefits of
controls, and the circumstances that affect the ultimate balance of costs
and benefits.

The voyage launched in response to Asch’s remarks did not lead to
the point I had expected. I began with the conviction that a close reading
of the historical record would show what people thought it showed:
that controls were always harmful. My intention was to place conventional
opinion on a firmer basis and to convince the minority who still advocated
controls (perhaps in the hope that future experiences will be different)
to give greater weight to the lessons of history. But what I found made
me more sympathetic to controls. I did not reverse my attitude toward
controls 180 degrees; but I did come to the conclusion that there is a
role for controls in certain inflationary emergencies. At times it becomes
obvious that restrictive monetary and fiscal policies are necessary to
bring inflation down to a tolerable level. But restrictive policies imply
high rates of unemployment and reduced output – costs that often force
us to abandon restrictive policies before they have worked a permanent
cure. This was obvious even before our most recent attempt to control
inflation, despite the claim in some quarters that if only the government
could be sufficiently resolute in its adherence to its anti-inflationary
policy, excessive costs might be avoided. In these circumstances temporary
controls, if properly managed, can speed up the process of adjusting
prices and wages to the restrictive policy, and so can reduce the pain
associated with disinflation to bearable levels. In the chapters that follow
I lay out the evidence that leads to this conclusion. Any sort of medicine
may be abused, but the point is that this fact should not blind us to
the potential benefits of a medicine when used in the proper circumstances.

The bulk of this manuscript was written in the academic year 1977–8
when, through the graciousness of Robert Fogel, I was on sabbatical
at Harvard University. Although I have incorporated the results of
more recent work in the narrative at various points, it has proved
impossible to take account of all of the work bearing on these episodes
published since then. My impression is that if the book were to be
rewritten today, I would have to change many of the particulars, but
that I would not be forced to alter the general thrust.

To many of my colleagues in economic history the methods employed
in this book will appear to be something of a departure from current
fashions. While there are some regressions hidden away here and there,
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the main emphasis has been on simpler forms of inference. This departure was dictated by the belief that these episodes can be viewed as natural experiments. If things change a lot in a short period of time, we can hope to understand the major consequences of those changes without recourse to econometric methods designed to deal with the essentially ambiguous messages of calmer periods. The hope, in other words, is that by choosing the right body of data we can avoid what appears to be the sterile path of repeating the same intellectual wars over the postwar experience with increasingly sophisticated econometric weapons.

I have incurred a heavy debt in writing this book that can be discharged only to a small extent by merely listing names. Stanley Engerman read the entire manuscript, including multiple drafts of certain chapters, and several related papers. His numerous suggestions have substantially improved the final product. A number of colleagues read the whole manuscript or at least several chapters and gave me many useful suggestions, which I have generally taken to heart. This group includes Peter Asch, Hope Corman, Stuart Bruchey, Robert Fogel, Claudia Goldin, Ian Hirst, John James, Geoffrey Mills, Maury Randall, Richard Sylla, and Michael Taussig. They cannot be held responsible for the quality of the final manuscript – I did not always take their advice – but with their help the end result has become far better.

Several people made special contributions. Jeffrey Morse read several chapters from the point of view of the “intelligent layman” and forced me to dispense with much unnecessary jargon. John J. McCusker read the chapter on colonial and revolutionary controls. His great knowledge of these periods saved me from several mistakes. John Kenneth Galbraith took time out from a busy schedule to discuss his unique perspective on controls. Finally, my editors Robert Gallman and Louis Galambos did a superb job. The reader has much for which to thank them.

Librarians at Harvard, the National Archives (especially John Howlerton), the New York Public Library, Princeton, and Rutgers (especially Leslie Ota) gave generously of their time. Three graduate students, Robert Henninger, Steven Shilling, and Paulette Straum, did much of the computational work. The Rutgers University Research Council provided financial assistance for which I am extremely grateful.

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